



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

ANNUAL FINANCIAL REPORT

for the period ended

DECEMBER 31, 2022

YEAR ENDED DECEMBER 31, 2022

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INDEPENDENT AUDITOR'S REPORT

To the Shareholder and Board of Directors of CH Energy Group, Inc.

Opinion

We have audited the consolidated financial statements of CH Energy Group Inc. and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2022 and 2021, and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2022, and the related notes to the consolidated financial statements (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2022 in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material

misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Information Included in the Annual Financial Report

Management is responsible for the other information included in the annual financial report. The other information comprises the information included in the annual financial report but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audits of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Deloitte & Touche LLP

Hartford, Connecticut

February 9, 2023



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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholder and Board of Directors of Central Hudson Gas & Electric Corporation

Opinion on the Financial Statements

We have audited the accompanying balance sheets of Central Hudson Gas & Electric Corporation (the "Company") as of December 31, 2022 and 2021, the related statements of income, comprehensive income, equity, and cash flows, for each of the three years in the period ended December 31, 2022, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2022, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2022, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated February 9, 2023 expressed an unqualified opinion on the Company's internal control over financial reporting.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the auditing standards of the PCAOB and in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current-period audit of the financial statements that was communicated or required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Impact of Rate-Regulation on Various Account Balances and Disclosures —Refer to Notes 1 and 4 to the financial statements

Critical Audit Matter Description

The Company is a regulated electric and natural gas transmission and distribution utility in the state of New York and is subject to regulation by the New York Public Service Commission (“Commission”). The Company defers 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 the Company, 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 Commission, through an approved surcharge mechanism or through incorporation in the determination of the revenue requirement used to set new rates. Management has determined it meets the requirements under accounting principles generally accepted in the United States of America to prepare its financial statements applying the specialized rules to account for the effects of cost-based rate regulation.

Rates are generally designed for but do not guarantee the recovery of the Company’s cost of service, including a return on equity. Regulatory decisions can have an impact on the recovery of costs, refunds to customers, the rate of return earned on investment, and the timing and amount of assets to be recovered or liabilities to be refunded through rates. Future recovery of costs and refunds that may be required are dependent upon factors, such as (1) changes in the regulatory environment, (2) the ability to recover costs through regulated rates, (3) recent rate orders to the Company and other regulated entities, and (4) the status of any pending or potential deregulation legislation. While the Company has indicated it expects to recover costs from customers through regulated rates, there is a risk that the Commission will not approve full recovery of such costs or approve recovery on a timely basis in future regulatory decisions. The Commission can reach different conclusions about the recovery of costs, which can have a material impact on the Company’s financial statements.

We identified the impact of rate-regulation as a critical audit matter due to the significant judgments made by management to support its assertions about the impact of regulatory orders on various account balances and disclosures. Management judgments include assessing the likelihood of (1) recovery of regulatory assets through future rates, and (2) whether a regulatory liability is due to customers. Given that management’s accounting judgments are based on assumptions about the outcome of future decisions by the Commission, auditing these judgments requires specialized knowledge of accounting for rate regulation and the rate setting process due to its inherent complexities.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to the impact of regulatory orders on various account balances and disclosures included the following, among others:

- We tested the effectiveness of internal controls over the initial recognition of amounts as regulated utility plant and as regulatory assets and liabilities, the monitoring and evaluation of regulatory developments that may affect the likelihood of recovering costs in future rates or of a future reduction in rates, and the related disclosures in the notes to the financial statements.
- We evaluated the Company’s disclosures related to the impacts of rate regulation, including regulatory developments.

- We read and evaluated relevant regulatory orders issued by the Commission for the Company, regulatory statutes, interpretations, procedural memorandums, filings made by intervenors, and other publicly available information to assess whether this information was properly considered by management in concluding upon the financial statement impacts of rate regulation.
- We obtained and evaluated an analysis from management describing the orders and filings that support management's assertions regarding the probability of recovery for regulatory assets or refund or future reduction in rates for regulatory liabilities to assess management's assertion that amounts are probable of recovery or a future reduction in rates.
- For regulatory matters in process, we inspected associated documents and testimony filed with the Commission for any evidence that might contradict management's assertions.
- We read and evaluated the minutes of the Board of Directors of the Company for discussions of changes in legal, regulatory, or business factors which could impact management's conclusions with respect to the impact of rate regulation on various account balances and disclosures.

Deloitte & Touche LLP

Hartford, Connecticut

February 9, 2023

We have served as the Company's auditor since 2017.



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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholder and Board of Directors of Central Hudson Gas & Electric Corporation

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Central Hudson Gas & Electric Corporation (the "Company") as of December 31, 2022, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2022, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States) (PCAOB) and in accordance with auditing standards generally accepted in the United States of America, the financial statements as of and for the year ended December 31, 2022, of the Company and our report dated February 9, 2023, expressed an unqualified opinion on those financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Report of Management on Internal Control over Financial Reporting – Central Hudson. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the auditing standards of the PCAOB and in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal

control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Deloitte & Touche LLP

Hartford, Connecticut
February 9, 2023

REPORT OF MANAGEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING – CENTRAL HUDSON

The management of Central Hudson Gas & Electric Corporation (“management”) is responsible for establishing and maintaining adequate internal control over financial reporting for Central Hudson Gas & Electric Corporation (the “Corporation”) as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. Internal control over financial reporting includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Corporation;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America and that receipts and expenditures of the Corporation are being made only in accordance with authorization of management and directors of the Corporation; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of assets that could have a material effect on the consolidated financial statements.

Internal control over financial reporting includes the controls themselves, monitoring (including internal auditing practices), and actions taken to correct deficiencies as identified.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Corporation’s internal control over financial reporting as of December 31, 2022. Management based this assessment on criteria for effective internal control over financial reporting described in “*Internal Control - Integrated Framework*” issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management determined that, as of December 31, 2022, the Corporation maintained effective internal control over financial reporting.

The effectiveness of the Corporation’s internal control over financial reporting as of December 31, 2022, has been audited by Deloitte and Touche LLP, an independent registered public accounting firm, as stated in their report which appears herein.

	
Charles A. Freni, Jr. President and Chief Executive Officer	Lora Gescheidle Chief Financial Officer and Treasurer

February 9, 2023

CH ENERGY GROUP

CONSOLIDATED STATEMENT OF INCOME

(In Thousands)

	Year Ended December 31,		
	2022	2021	2020
Operating Revenues			
Electric	\$ 797,612	\$ 623,823	\$ 552,002
Natural gas	220,744	172,425	159,893
Total Operating Revenues	<u>1,018,356</u>	<u>796,248</u>	<u>711,895</u>
Operating Expenses			
Operation:			
Purchased electricity	323,503	178,737	136,130
Purchased natural gas	79,074	48,260	37,221
Other expenses of operation - regulated activities	361,265	323,707	306,845
Other expenses of operation - non-regulated	136	176	208
Depreciation and amortization	80,016	72,715	66,863
Taxes, other than income tax	78,247	72,837	67,854
Total Operating Expenses	<u>922,241</u>	<u>696,432</u>	<u>615,121</u>
Operating Income	<u>96,115</u>	<u>99,816</u>	<u>96,774</u>
Other Income and Deductions			
Income from unconsolidated affiliates	2,547	1,969	1,151
Interest on regulatory assets and other interest income	3,204	2,925	2,421
Regulatory adjustments for interest costs	(85)	(891)	(211)
Non-service cost components of pension and other post-employment benefits ("OPEB")	39,165	20,903	17,744
Other - net	268	2,648	2,033
Total Other Income	<u>45,099</u>	<u>27,554</u>	<u>23,138</u>
Interest Charges			
Interest on long-term debt	40,137	34,231	32,778
Interest on regulatory liabilities and other interest	764	2,370	2,769
Total Interest Charges	<u>40,901</u>	<u>36,601</u>	<u>35,547</u>
Income Before Income Taxes	100,313	90,769	84,365
Income Tax Expense	21,180	16,816	15,262
Net Income	<u>\$ 79,133</u>	<u>\$ 73,953</u>	<u>\$ 69,103</u>

CH ENERGY GROUP

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(In Thousands)

	Year Ended		
	2022	2021	2020
Net Income	\$ 79,133	\$ 73,953	\$ 69,103
Other Comprehensive Income:			
Employee future benefits, net of tax expense	147	180	238
Comprehensive Income	<u>\$ 79,280</u>	<u>\$ 74,133</u>	<u>\$ 69,341</u>

The Notes to Financial Statements are an integral part hereof.

CH ENERGY GROUP

CONSOLIDATED STATEMENT OF CASH FLOWS

(In Thousands)

	Year Ended December 31,		
	2022	2021	2020
Operating Activities:			
Net income	\$ 79,133	\$ 73,953	\$ 69,103
Adjustments to reconcile net income to net cash (used in) provided from operating activities:			
Depreciation	62,580	58,910	54,558
Amortization	17,436	13,805	12,305
Deferred income taxes - net	21,118	16,653	15,182
Uncollectible expense	8,170	6,074	10,010
Distributed (undistributed) equity in earnings of unconsolidated affiliates	41	(1,844)	(340)
Pension (credit) expense	(7,507)	(400)	2,340
OPEB credit	(7,057)	(6,048)	(6,355)
Regulatory liability - rate moderation	(4,371)	(8,543)	(13,748)
Regulatory asset - revenue decoupling mechanism ("RDM") recorded	2,868	12,806	22,617
Changes in operating assets and liabilities - net:			
Accounts receivable, unbilled revenues and other receivables	(114,231)	(53,956)	(14,603)
Fuel, materials, and supplies	(7,122)	(439)	2,534
Special deposits and prepayments	(6,498)	(3,997)	(5,401)
Income and other taxes	229	(198)	311
Accounts payable	20,729	3,703	9,554
Accrued interest	2,500	571	581
Customer advances	(1,152)	2,812	389
Other advances	(10,622)	3,738	235
Coronavirus Aid, Relief, and Economic Security ("CARES") Act	(2,603)	(2,603)	5,206
Pension plan contribution	(1,468)	(1,475)	(1,130)
OPEB contribution	(528)	(812)	(1,081)
Regulatory asset - RDM refunded	(6,341)	(34,069)	(12,450)
Regulatory asset - major storm	(37,067)	(7,404)	(19,640)
Regulatory asset - site investigation and remediation ("SIR")	6,815	5,083	(2,514)
Regulatory asset - arrears management program ("AMP")	(3,039)	-	-
Regulatory asset - uncollectible write-offs	(4,144)	-	-
Regulatory liability - energy efficiency programs including clean energy fund ("CEF")	(16,375)	(21,103)	(17,776)
Regulatory asset - rate adjustment mechanisms ("RAM")	13,121	10,651	9,452
Regulatory asset - deferred natural gas and electric costs	(35,037)	(17,454)	4,172
Other - net	(3,870)	12,491	7,518
Net cash (used in) provided from operating activities	(34,292)	60,905	131,029
Investing Activities:			
Additions to utility plant	(224,842)	(231,582)	(252,857)
Proceeds from sale of assets	4,574	-	-
Other - net	(4,331)	(8,687)	(3,975)
Net cash used in investing activities	(224,599)	(240,269)	(256,832)
Financing Activities:			
Repayment of long-term debt	(25,364)	(45,987)	(41,718)
Proceeds from issuance of long-term debt	220,000	130,000	130,000
Net change in short-term borrowings	(2,000)	92,000	15,000
Capital contribution	54,300	9,396	15,000
Other - net	(1,164)	(723)	(747)
Net cash provided from financing activities	245,772	184,686	117,535
Net Change in Cash, Cash Equivalents, and Restricted Cash	(13,119)	5,322	(8,268)
Cash, Cash Equivalents, and Restricted Cash at Beginning of Period	18,129	12,807	21,075
Cash, Cash Equivalents, and Restricted Cash at End of Period	\$ 5,010	\$ 18,129	\$ 12,807
Supplemental Disclosure of Cash Flow Information:			
Interest paid, net of amounts capitalized	\$ 37,132	\$ 32,528	\$ 30,967
Federal and state income taxes paid, net	\$ 2,671	\$ 2,387	\$ 52
Cash Paid for Amounts Included in the Measurement of Lease Liabilities:			
Operating cash flows used in operating leases	\$ (409)	\$ (542)	\$ (668)
Non-Cash Operating Activities:			
Right-of-use assets obtained in exchange for new operating lease liabilities	\$ 85	\$ 387	\$ -
Non-Cash Investing Activities:			
Accrued capital expenditures	\$ 16,472	\$ 21,683	\$ 21,241

The Notes to Financial Statements are an integral part hereof.

CH ENERGY GROUP

CONSOLIDATED BALANCE SHEET

(In Thousands)

	December 31, 2022	December 31, 2021
ASSETS		
Utility Plant (Note 3)		
Electric	\$ 1,768,092	\$ 1,687,291
Natural gas	788,978	734,165
Common	448,796	425,970
Gross Utility Plant	3,005,866	2,847,426
Less: Accumulated depreciation	698,940	649,513
Net	2,306,926	2,197,913
Construction work in progress	146,661	118,182
Net Utility Plant	2,453,587	2,316,095
Non-utility property & plant	524	524
Net Non-Utility Property & Plant	524	524
Current Assets		
Cash and cash equivalents (Note 1)	3,237	7,339
Accounts receivable from customers - net of allowance for uncollectible accounts of \$11.0 million and \$9.7 million, respectively (Note 2)	216,680	120,600
Accounts receivable - affiliates (Note 18)	441	1,390
Accrued unbilled utility revenues - net of allowance for uncollectible accounts of \$0.2 million and \$1.5 million, respectively (Note 2)	27,823	25,378
Other receivables	25,906	17,421
Fuel, materials, and supplies (Note 1)	31,238	24,116
Regulatory assets (Note 4)	125,980	78,849
Income tax receivable	502	671
Fair value of derivative instruments (Note 16)	315	1,768
Special deposits and prepayments	42,706	36,208
Total Current Assets	474,828	313,740
Deferred Charges and Other Assets		
Regulatory assets - other (Note 4)	226,069	174,483
Prefunded pension costs (Note 12)	59,365	70,222
Prefunded OPEB costs (Note 12)	31,462	30,480
Investments in unconsolidated affiliates (Note 6)	23,523	15,252
Other investments (Note 17)	54,179	56,875
Other	10,497	18,988
Total Deferred Charges and Other Assets	405,095	366,300
Total Assets	<u>\$ 3,334,034</u>	<u>\$ 2,996,659</u>

The Notes to Financial Statements are an integral part hereof.

CH ENERGY GROUP

CONSOLIDATED BALANCE SHEET (CONT'D)

(In Thousands, except share amounts)

	December 31, 2022	December 31, 2021
CAPITALIZATION AND LIABILITIES		
Capitalization (Note 10)		
CH Energy Group Common Shareholders' Equity		
Common Stock (30,000,000 shares authorized; \$0.01 par value; 15,961,400 shares issued and outstanding)	\$ 160	\$ 160
Paid-in capital	488,102	433,802
Retained earnings	584,434	505,301
Accumulated other comprehensive income	166	19
Total Equity	<u>1,072,862</u>	<u>939,282</u>
Long-term debt (Note 11)		
Principal amount	1,124,046	906,146
Unamortized debt issuance costs	(5,838)	(5,139)
Net long-term debt	<u>1,118,208</u>	<u>901,007</u>
Total Capitalization	<u>2,191,070</u>	<u>1,840,289</u>
Current Liabilities		
Current maturities of long-term debt (Note 11)	2,100	25,364
Short-term borrowings (Note 9)	105,000	107,000
Accounts payable	81,110	64,722
Accounts payable - affiliates (Note 18)	624	-
Accrued interest	10,685	8,185
Accrued vacation and payroll	10,861	11,590
Customer advances	16,953	18,105
Customer deposits	6,846	7,539
Regulatory liabilities (Note 4)	75,053	63,456
Fair value of derivative instruments (Note 16)	14,034	7,563
Accrued environmental remediation costs (Note 14)	3,717	5,900
Other current liabilities	31,926	37,294
Total Current Liabilities	<u>358,909</u>	<u>356,718</u>
Deferred Credits and Other Liabilities		
Regulatory liabilities - deferred pension costs (Note 4)	74,898	90,934
Regulatory liabilities - deferred OPEB costs (Note 4)	24,652	31,032
Regulatory liabilities - other (Note 4)	262,735	272,555
Operating reserves	2,892	5,006
Accrued environmental remediation costs (Note 14)	70,156	65,753
Other liabilities	32,361	48,373
Total Deferred Credits and Other Liabilities	<u>467,694</u>	<u>513,653</u>
Accumulated Deferred Income Tax (Note 5)	<u>316,361</u>	<u>285,999</u>
Commitments and Contingencies		
Total Capitalization and Liabilities	<u>\$ 3,334,034</u>	<u>\$ 2,996,659</u>

The Notes to Financial Statements are an integral part hereof.

CH ENERGY GROUP
CONSOLIDATED STATEMENT OF EQUITY

(In Thousands, except share amounts)

	CH Energy Group Common Shareholders					
	Common Stock Shares Issued	Common Stock Amount	Paid-In Capital	Retained Earnings	AOCI*	Total Equity
Balance at December 31, 2019	15,961,400	\$ 160	\$ 409,406	\$ 363,445	\$ (399)	\$ 772,612
Accounting Standard Adoption – cumulative effect adjustment (Note 1)				(1,200)		(1,200)
Net income				69,103		69,103
Capital contributions			15,000			15,000
Employee future benefits, net of tax					238	238
Balance at December 31, 2020	<u>15,961,400</u>	<u>\$ 160</u>	<u>\$ 424,406</u>	<u>\$ 431,348</u>	<u>\$ (161)</u>	<u>\$ 855,753</u>
Contribution from Parent - tax sharing agreement			4,996			4,996
Net income				73,953		73,953
Capital contributions			4,400			4,400
Employee future benefits, net of tax					180	180
Balance at December 31, 2021	<u>15,961,400</u>	<u>\$ 160</u>	<u>\$ 433,802</u>	<u>\$ 505,301</u>	<u>\$ 19</u>	<u>\$ 939,282</u>
Net income				79,133		79,133
Capital contributions			54,300			54,300
Employee future benefits, net of tax					147	147
Balance at December 31, 2022	<u>15,961,400</u>	<u>\$ 160</u>	<u>\$ 488,102</u>	<u>\$ 584,434</u>	<u>\$ 166</u>	<u>\$ 1,072,862</u>

*Accumulated other comprehensive income (loss)

The Notes to Financial Statements are an integral part hereof.

CENTRAL HUDSON STATEMENT OF INCOME

(In Thousands)

	Year Ended December 31,		
	2022	2021	2020
Operating Revenues			
Electric	\$ 797,612	\$ 623,823	\$ 552,002
Natural gas	220,744	172,425	159,893
Total Operating Revenues	<u>1,018,356</u>	<u>796,248</u>	<u>711,895</u>
Operating Expenses			
Operation:			
Purchased electricity	323,503	178,737	136,130
Purchased natural gas	79,074	48,260	37,221
Other expenses of operation	361,265	323,707	306,845
Depreciation and amortization	80,016	72,715	66,863
Taxes, other than income tax	78,068	72,795	67,821
Total Operating Expenses	<u>921,926</u>	<u>696,214</u>	<u>614,880</u>
Operating Income	<u>96,430</u>	<u>100,034</u>	<u>97,015</u>
Other Income and Deductions			
Interest on regulatory assets and other interest income	3,204	2,924	2,415
Regulatory adjustments for interest costs	(85)	(891)	(211)
Non-service cost components of pension and OPEB	39,192	20,932	17,768
Other - net	229	2,652	2,046
Total Other Income	<u>42,540</u>	<u>25,617</u>	<u>22,018</u>
Interest Charges			
Interest on long-term debt	39,583	33,550	31,978
Interest on regulatory liabilities and other interest	764	2,370	2,769
Total Interest Charges	<u>40,347</u>	<u>35,920</u>	<u>34,747</u>
Income Before Income Taxes	98,623	89,731	84,286
Income Tax Expense	20,531	16,108	15,145
Net Income	<u>\$ 78,092</u>	<u>\$ 73,623</u>	<u>\$ 69,141</u>

CENTRAL HUDSON STATEMENT OF COMPREHENSIVE INCOME

(In Thousands)

	Year Ended December 31,		
	2022	2021	2020
Net Income	\$ 78,092	\$ 73,623	\$ 69,141
Other Comprehensive Income:			
Employee future benefits, net of tax expense	147	180	238
Comprehensive Income	<u>\$ 78,239</u>	<u>\$ 73,803</u>	<u>\$ 69,379</u>

The Notes to Financial Statements are an integral part hereof.

CENTRAL HUDSON STATEMENT OF CASH FLOWS

(In Thousands)

	Year Ended December 31,		
	2022	2021	2020
Operating Activities:			
Net income	\$ 78,092	\$ 73,623	\$ 69,141
Adjustments to reconcile net income to net cash (used in) provided from operating activities:			
Depreciation	62,580	58,910	54,558
Amortization	17,436	13,805	12,305
Deferred income taxes - net	20,541	16,107	15,163
Uncollectible expense	8,170	6,074	10,010
Pension credit	(7,507)	(400)	2,340
OPEB credit	(7,057)	(6,048)	(6,355)
Regulatory liability - rate moderation	(4,371)	(8,543)	(13,748)
Regulatory asset - RDM recorded	2,868	12,806	22,617
Changes in operating assets and liabilities - net:			
Accounts receivable, unbilled revenues and other receivables	(115,321)	(53,769)	(14,288)
Fuel, materials, and supplies	(7,122)	(439)	2,534
Special deposits and prepayments	(6,489)	(3,997)	(5,424)
Income and other taxes	(2)	(31)	(273)
Accounts payable	20,673	4,487	9,019
Accrued interest	2,506	575	587
Customer advances	(1,152)	2,812	389
Other advances	(10,622)	3,738	235
CARES Act	(2,603)	(2,603)	5,206
Pension plan contribution	(1,468)	(1,475)	(1,130)
OPEB contribution	(528)	(812)	(1,081)
Regulatory asset - RDM refunded	(6,341)	(34,069)	(12,450)
Regulatory asset - major storm	(37,067)	(7,404)	(19,640)
Regulatory asset - SIR	6,815	5,083	(2,514)
Regulatory asset - arrears management program	(3,039)	-	-
Regulatory asset - uncollectible write-offs	(4,144)	-	-
Regulatory liability - energy efficiency programs including CEF	(16,375)	(21,103)	(17,776)
Regulatory asset - RAM	13,121	10,651	9,452
Regulatory asset - deferred natural gas and electric costs	(35,037)	(17,454)	4,172
Other - net	(773)	11,904	7,646
Net cash (used in) provided from operating activities	<u>(34,216)</u>	<u>62,428</u>	<u>130,695</u>
Investing Activities:			
Additions to utility plant	(224,842)	(231,582)	(252,857)
Proceeds from sale of assets	4,574	-	-
Other - net	3,878	(4,626)	(3,983)
Net cash used in investing activities	<u>(216,390)</u>	<u>(236,208)</u>	<u>(256,840)</u>
Financing Activities:			
Repayment of long-term debt	(23,400)	(44,150)	(40,000)
Proceeds from issuance of long-term debt	220,000	130,000	130,000
Net change in short-term borrowings	(2,000)	92,000	15,000
Capital contribution	46,000	6,000	12,000
Other - net	(1,164)	(723)	(747)
Net cash provided from financing activities	<u>239,436</u>	<u>183,127</u>	<u>116,253</u>
Net Change in Cash, Cash Equivalents, and Restricted Cash	<u>(11,170)</u>	<u>9,347</u>	<u>(9,892)</u>
Cash, Cash Equivalents, and Restricted Cash - Beginning of Period	14,541	5,194	15,086
Cash, Cash Equivalents, and Restricted Cash - End of Period	<u>\$ 3,371</u>	<u>\$ 14,541</u>	<u>\$ 5,194</u>
Supplemental Disclosure of Cash Flow Information:			
Interest paid, net of amounts capitalized	\$ 36,573	\$ 31,842	\$ 30,162
Federal and state income taxes paid, net	\$ 2,172	\$ 2,021	\$ 501
Cash Paid for Amounts Included in the Measurement of Lease Liabilities:			
Operating cash flows used in operating leases	\$ (409)	\$ (542)	\$ (668)
Non-Cash Operating Activities:			
Right-of-use assets obtained in exchange for new operating lease liabilities	\$ 85	\$ 387	-
Non-Cash Investing Activities:			
Accrued capital expenditures	\$ 16,472	\$ 21,683	\$ 21,241

The Notes to Financial Statements are an integral part hereof.

CENTRAL HUDSON
BALANCE SHEET

(In Thousands)

	December 31, 2022	December 31, 2021
ASSETS		
Utility Plant (Note 3)		
Electric	\$ 1,768,092	\$ 1,687,291
Natural gas	788,978	734,165
Common	448,796	425,970
Gross Utility Plant	3,005,866	2,847,426
Less: Accumulated depreciation	698,940	649,513
Net	2,306,926	2,197,913
Construction work in progress	146,661	118,182
Net Utility Plant	2,453,587	2,316,095
Non-Utility Property and Plant	524	524
Net Non-Utility Property and Plant	524	524
Current Assets		
Cash and cash equivalents (Note 1)	1,598	3,751
Accounts receivable from customers - net of allowance for uncollectible accounts of \$11.0 million and \$9.7 million, respectively (Note 2)	216,680	120,600
Accrued unbilled utility revenues - net of allowance for uncollectible accounts of \$0.2 million and \$1.5 million, respectively (Note 2)	27,823	25,378
Other receivables	26,121	17,493
Fuel, materials, and supplies (Note 1)	31,238	24,116
Regulatory assets (Note 4)	125,980	78,849
Fair value of derivative instruments (Note 16)	315	1,768
Special deposits and prepayments	42,697	36,208
Total Current Assets	472,452	308,163
Deferred Charges and Other Assets		
Regulatory assets - other (Note 4)	226,069	174,483
Prefunded pension costs (Note 12)	59,559	70,454
Prefunded OPEB costs (Note 12)	31,462	30,480
Other investments	53,294	55,896
Other	10,495	18,988
Total Deferred Charges and Other Assets	380,879	350,301
Total Assets	<u>\$ 3,307,442</u>	<u>\$ 2,975,083</u>

The Notes to Financial Statements are an integral part hereof.

CENTRAL HUDSON
BALANCE SHEET (CONT'D)

(In Thousands, except share amounts)

	December 31, 2022	December 31, 2021
CAPITALIZATION AND LIABILITIES		
Capitalization (Note 10)		
Common Stock (30,000,000 shares authorized: \$5 par value; 16,862,087 shares issued and outstanding)	\$ 84,311	\$ 84,311
Paid-in capital	326,452	280,452
Accumulated other comprehensive income	166	19
Retained earnings	650,113	572,021
Capital stock expense	(4,633)	(4,633)
Total Equity	<u>1,056,409</u>	<u>932,170</u>
Long-term debt (Note 11)		
Principal amount	1,119,400	899,400
Unamortized debt issuance costs	(5,810)	(5,102)
Net long-term debt	<u>1,113,590</u>	<u>894,298</u>
Total Capitalization	<u>2,169,999</u>	<u>1,826,468</u>
Current Liabilities		
Current maturities of long-term debt (Note 11)	-	23,400
Short-term borrowings (Note 9)	105,000	107,000
Accounts payable	82,288	65,332
Accrued interest	10,666	8,160
Accrued vacation and payroll	10,861	11,590
Customer advances	16,953	18,105
Customer deposits	6,846	7,539
Regulatory liabilities (Note 4)	75,053	63,456
Fair value of derivative instruments (Note 16)	14,034	7,563
Accrued environmental remediation costs (Note 14)	3,717	5,900
Other current liabilities	<u>30,792</u>	<u>34,924</u>
Total Current Liabilities	<u>356,210</u>	<u>352,969</u>
Deferred Credits and Other Liabilities		
Regulatory liabilities - deferred pension costs (Note 4)	74,898	90,934
Regulatory liabilities - deferred OPEB costs (Note 4)	24,652	31,032
Regulatory liabilities - other (Note 4)	262,735	272,555
Operating reserves	2,892	5,006
Accrued environmental remediation costs (Note 14)	70,156	65,753
Other liabilities	<u>31,299</u>	<u>45,491</u>
Total Deferred Credits and Other Liabilities	<u>466,632</u>	<u>510,771</u>
Accumulated Deferred Income Tax (Note 5)	<u>314,601</u>	<u>284,875</u>
Commitments and Contingencies		
Total Capitalization and Liabilities	<u>\$ 3,307,442</u>	<u>\$ 2,975,083</u>

The Notes to Financial Statements are an integral part hereof.

CENTRAL HUDSON
STATEMENT OF EQUITY

(In Thousands, except share amounts)

	Central Hudson Common Shareholders						
	Common Stock Shares Issued	Common Stock Amount	Paid-In Capital	Capital Stock Expense	Retained Earnings	AOCI*	Total Equity
Balance at December 31, 2019	16,862,087	\$ 84,311	\$ 262,452	\$ (4,633)	\$ 430,457	\$ (399)	\$ 772,188
Accounting Standard Adoption – cumulative effect adjustment (Note 1)					(1,200)		(1,200)
Net income					69,141		69,141
Capital contributions			12,000				12,000
Employee future benefits, net of tax						238	238
Balance at December 31, 2020	16,862,087	\$ 84,311	\$ 274,452	\$ (4,633)	\$ 498,398	\$ (161)	\$ 852,367
Net income					73,623		73,623
Capital contributions			6,000				6,000
Employee future benefits, net of tax						180	180
Balance at December 31, 2021	16,862,087	\$ 84,311	\$ 280,452	\$ (4,633)	\$ 572,021	\$ 19	\$ 932,170
Net income					78,092		78,092
Capital contributions			46,000				46,000
Employee future benefits, net of tax						147	147
Balance at December 31, 2022	16,862,087	\$ 84,311	\$ 326,452	\$ (4,633)	\$ 650,113	\$ 166	\$ 1,056,409

*Accumulated other comprehensive income (loss)

The Notes to Financial Statements are an integral part hereof.

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 December 31, 2022, there has been no activity in CHGT. CHEC has ownership interests in certain non-regulated subsidiaries that are less than 100% owned.

Basis of Presentation

This Annual Financial Report is a combined report of CH Energy Group and Central Hudson. The Notes to the Consolidated Financial Statements apply to both CH Energy Group and Central Hudson. CH Energy Group’s Consolidated Financial Statements include the accounts of CH Energy Group and its wholly owned subsidiaries, which include Central Hudson, CHET, CHGT and CHEC. All intercompany balances and transactions have been eliminated in consolidation. CHEC’s investments in limited partnerships and limited liability companies and CHET’s investment in Transco are accounted for under the equity method.

The 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.

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 year ended December 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 impacts on Central Hudson’s service territory and customers resulting from legislative mandates and policies, 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 14 - “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 PSC, through an approved surcharge

mechanism or through incorporation in the determination of revenue requirement used to set new rates. Changes in regulatory assets and liabilities are reflected in the Consolidated Statement of Income either in the period in which the amounts are recovered through a surcharge, are reflected in rates or when the 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"). On October 4, 2021, the Federal Energy Regulatory Commission ("FERC") approved Facilities Charge for System Deliverability Upgrades ("SDU") under Rate Schedule 12 of the New York Independent System Operator ("NYISO") to be collected via the Open Access Transmission Tariff ("OATT"). See Note 4 – "Regulatory Matters" for additional information regarding regulatory accounting.

Management periodically assesses whether the regulatory assets are probable of future recovery by considering factors, such as changes in the applicable regulatory and political environments, the ability to recover costs through regulated rates, recent rate orders to Central Hudson and other regulated entities and the status of any pending or potential deregulation legislation. Based on this assessment, management believes the existing regulatory assets are probable for 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 could materially impact earnings. Regulatory agencies can provide flexibility in the manner and timing of recovery of regulatory assets.

Rates, Revenues, and Adjustment Mechanisms

Central Hudson's electric and natural gas retail rates are regulated by the PSC. Wholesale transmission rates, facilities charges, and rates for electricity sold for resale in interstate commerce are regulated by the FERC and are collected via the OATT administered by the NYISO or directly by the Company.

Central Hudson's tariffs for retail electric and natural gas service include purchased electricity and purchased natural gas cost adjustment mechanisms, by which electric and natural gas rates are set to recover the actual purchased electricity and purchased natural gas costs, including hedging costs, incurred in providing these services. In addition, the tariffs include adjustment mechanisms to recover from or refund to customers certain revenues and costs that have been deferred such as RDMs, Rate Moderators, incentives earned, or other Earnings Adjustment Mechanisms ("EAMs") and other specified accumulated deferred balances recovered via the RAM as defined in the Rate Orders. See Note 4 – "Regulatory Matters" for definitions. RDMs generally provide the ability to record revenue equal to revenue targets authorized by the PSC and used for the development of rates for most of Central Hudson's customers.

Revenue Recognition

Revenue from Contracts with Customers

Central Hudson records revenue as electric 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. Customers simultaneously receive and consume the benefits provided by Central Hudson. Revenue consists of a fixed customer charge and a charge per kilowatt hour ("kWh") or 100 cubic feet ("Ccf"), that is fixed at the time of delivery. Additionally, certain non-residential electric service customers pay a per KW demand charge which is also fixed at the time of delivery. All performance obligations are satisfied for tariff sales at the time of delivery. Amounts billed to customers are due within 20 days from the date the bill was rendered, and any payment not

received by the due date is considered delinquent and incurs a late payment fee. Effective April 1, 2020, Central Hudson temporarily suspended finance charges on past due balances to help mitigate the impacts of the Coronavirus pandemic (“COVID-19”) on our customers. The 2021 Rate Order provided authorization to defer for future recovery from customers any over or under collection of finance charges, including retroactive recovery of the amounts from 2020. As such, this suspension of finance charges did not have an impact on earnings.

Central Hudson records an estimate of unbilled revenue for service rendered to customers after their billing date and through the end of the month. Unbilled revenues are dependent on several factors that require management’s judgment, including estimates of retail sales and customer usage patterns.

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

Central Hudson provides discounts through certain customer assistance programs intended to help low to moderate income families manage their energy burden as prescribed in the 2021 Rate Order with a full deferral mechanism. Discounts available under these programs are determined at the time the performance obligation is satisfied and are recorded as an expense to match revenue collected in rates for the benefit of eligible customers.

Alternative Revenues

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

Other Revenues

Other revenues, which are not contract revenues, consist of pole attachment rents, finance charges, miscellaneous fees, and other revenue adjustments. Included in other revenue adjustments is the reversal of previously recognized deferrals as they are billed (collected/refunded to customers) pursuant to PSC Orders.

Cash and Cash Equivalents

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

Restricted Cash

Restricted cash primarily consists of cash collected from developers and held in escrow related to a SDU project pursuant to terms and conditions of the NYISO 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)

	December 31, 2022	December 31, 2021
Cash and cash equivalents	\$ 3,237	\$ 7,339
Restricted cash included in other long-term assets	1,773	10,790
Total Cash, Cash Equivalents, and Restricted Cash as shown in the Statement of Cash Flows	<u>\$ 5,010</u>	<u>\$ 18,129</u>

Central Hudson

(In Thousands)

	December 31, 2022	December 31, 2021
Cash and cash equivalents	\$ 1,598	\$ 3,751
Restricted cash included in other long-term assets	1,773	10,790
Total Cash, Cash Equivalents, and Restricted Cash as shown in the Statement of Cash Flows	<u>\$ 3,371</u>	<u>\$ 14,541</u>

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. Finance charges 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 legislative mandates instituted during the COVID-19 pandemic on finance 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. On December 31, 2022 and December 31, 2021, there were no expected credit losses on financial instruments other than those on accounts receivable and unbilled utility revenues.

Fuel, Materials, and Supplies

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

	December 31, 2022	December 31, 2021
Fuel used in electric generation	434	491
Materials and supplies	30,804	23,625
Total	<u>\$ 31,238</u>	<u>\$ 24,116</u>

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 natural 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.

Utility Plant - Central Hudson

The regulated assets of Central Hudson include electric, natural gas, and common assets, which are listed under the heading “Utility Plant” on CH Energy Group’s Consolidated Balance Sheet and Central Hudson’s Balance Sheet. The accumulated depreciation associated with these regulated assets is also reported on the Balance Sheets.

The cost of additions to the utility plant and replacements of retired units of property are capitalized at original cost. Capitalized costs include labor, materials and supplies, indirect charges for items such as transportation, certain administrative costs, certain taxes, service cost components of pension and other employee benefits, and allowances for funds used during construction (“AFUDC”), less contributions in aid of construction.

AFUDC is defined as the net cost of borrowed funds used for construction purposes and a reasonable rate on other funds when so used. The concurrent credit for the amount so capitalized is reported in the Consolidated Statement of Income as follows: the portion applicable to borrowed funds is reported as a reduction of interest charges, while the portion applicable to other funds (the equity component) is reported as other income. AFUDC rates are determined in accordance with FERC and PSC regulations. The AFUDC rates were 3.7% in 2022, 6.2% in 2021, and 5.95% in 2020.

The replacement of minor items of property is included in operating expenses. The original cost of property, together with removal cost less salvage, is charged to accumulated depreciation at the time the property is retired and removed from service as required by the PSC.

For additional information see Note 3 – “Utility Plant – Central Hudson.”

Depreciation and Amortization

Central Hudson’s depreciation and amortization provisions are computed on the straight-line method using PSC-approved rates. The anticipated costs of removing assets upon retirement are generally provided for over the life of those assets as a component of depreciation expense and, for regulatory reporting purposes, are reflected in accumulated depreciation until the costs are incurred, which is consistent with industry practice. Current accounting guidance related to asset retirement precludes the recognition of expected future retirement obligations as a component of depreciation expense or accumulated depreciation. Central Hudson, however, is required to use depreciation methods and rates approved by the PSC under regulatory accounting. Central Hudson reclassifies the cost of removal recovered more than amounts incurred to date from accumulated depreciation to regulatory liabilities for presentation in its Balance Sheet in accordance with GAAP.

Central Hudson performs depreciation studies periodically and, upon approval by the PSC, adjusts the depreciation rates of its various classes of depreciable property. Central Hudson’s composite rates for depreciation, inclusive of intangible amortization, were 2.99% in 2022, 2.92% in 2021, and in 2020 was 2.90% of the original average cost of depreciable property. The ratio of the amount of accumulated depreciation to the original cost of the depreciable property at December 31, 2022, 2021, and 2020 was 23.5%, 23.0%, and 23.3%, respectively.

Asset Retirement Obligations

Central Hudson records Asset Retirement Obligations (“AROs”) for the incremental removal costs, resulting from legal and environmental obligations associated with the retirement of certain utility plant assets, as a liability at fair value with a corresponding increase to utility capital assets, in the period in which the costs are known and estimable. The fair value of AROs is based on an estimate of the present value of expected future cash outlays, discounted at a credit-adjusted risk-free interest rate. AROs are adjusted at the end of each reporting period to accrete the liability for the passage of time and record any changes in the estimated future cash flows of the incremental obligation. Accretion and depreciation expenses associated with AROs are recorded as regulatory assets. Actual costs incurred reduce the liability. The regulatory assets for accretion and depreciation are recovered through the accumulated depreciation reserve upon the retirement of the asset.

Impairment of Long-Lived Assets

Central Hudson reviews long-lived assets for impairment at least annually. Asset-impairment testing at the regulated utilities is carried out at the enterprise level to determine if assets are impaired. The recovery of regulated assets’ carrying value, including a fair rate of return, is provided through customer electricity and natural gas delivery rates approved by the PSC. The net cash flows for regulated entities are not asset-specific but are pooled for the entire regulated utility.

Leases

Beginning on January 1, 2019, when a contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration, a right-of-use asset and lease liability are recognized. Central Hudson measures the right-of-use asset and lease liability at the present value of future lease payments, excluding variable payments based on usage or performance. Central Hudson calculates the present value using a lease-specific secured borrowing rate based on the remaining lease term. Central Hudson has elected the practical expedient to combine lease components (e.g. rent, real estate taxes, and insurance costs) and non-lease components (e.g. common area maintenance costs) and account for them as a single lease component. Central Hudson includes options to extend a lease in the lease term when it is reasonably certain that the option will be exercised. Leases with a term, including renewal options, of twelve months or less are not recorded on the balance sheet.

Research and Development

Central Hudson is engaged in the conduct and support of research and development (“R&D”) activities that are focused on the improvement of existing energy technologies and the development of new technologies for the delivery and customer use of energy. R&D expenditures are provided for in Central Hudson’s rates charged to customers for electric and natural gas delivery service, with any differences between actual R&D expense and the rate allowances deferred for future recovery from or return to customers. See Note 7 – “Research and Development” for additional details.

Debt Issuance Costs

Expenses incurred in connection with CH Energy Group’s or Central Hudson’s debt issuance and any discount or premium on debt are deferred and amortized over the lives of the related issues. When long-term debt is reacquired or redeemed, regulatory accounting permits the deferral of related unamortized debt expense and reacquisition costs to be amortized over the remaining original life of the debt retired. The amortization of debt costs for reacquired debt is incorporated in the revenue requirement for delivery rates as authorized by the PSC. See Note 11 – “Capitalization – Long-Term Debt” for additional details.

Income Tax

CH Energy Group and its subsidiaries file consolidated federal income tax returns with FortisUS Inc. ("FortisUS") and, depending on the state, either standalone or consolidated state income tax returns. Income taxes are deferred for all temporary differences between the financial statement and the tax basis of assets and liabilities, under the asset and liability method in accordance with current accounting guidance for income taxes. Certain deferred income taxes are recorded with offsetting regulatory assets or liabilities by Central Hudson to recognize that income taxes will be recovered or refunded through future rates. For federal and state income tax purposes, CH Energy Group and its subsidiaries use an accelerated method of depreciation and generally use the shortest life permitted for each class of assets. Central Hudson follows the normalization method of accounting, which spreads the tax benefits associated with utility assets over the same time period that the costs of those assets are recovered from customers. Normalization is required as a prerequisite for utilities claiming accelerated depreciation and certain tax credits. Deferred investment tax credits are amortized over the estimated life of the properties giving rise to the credits. For state income tax purposes, Central Hudson uses book depreciation for property placed in service in 1999 or earlier in accordance with transition property rules under Article 9-A of the New York State Tax Law. See Note 5 – "Income Tax" for additional information regarding income taxes and the Tax Cuts and Jobs Act.

Post-Employment and Other Benefits

Central Hudson sponsors a noncontributory Retirement Income Plan ("Retirement Plan") for all management, professional, and supervisory employees hired before January 1, 2008 and for all Union employees hired before May 1, 2008. Benefits are based on years of service and compensation. Additionally, Central Hudson maintains a Supplemental Executive Retirement Plan ("SERP") for certain members of management. Central Hudson also provides OPEB plans, which include certain health care and life insurance benefits for retirees hired within the same time periods as stated above.

Central Hudson recognizes the funded status of the Retirement Plan and SERP (collectively "Pension") and OPEB defined benefit plans on its balance sheet. The funded status is measured as the difference between the fair value of qualified plans' assets and the projected benefit obligation ("PBO") for the plans. The Pension funded status includes the SERP PBO although it does not take into consideration the SERP trust assets. The SERP is a non-qualified plan under the Employee Retirement Income Security Act guidelines and therefore, although funded annually to achieve 110% of the plan's accumulated benefit obligation, the trust assets of this plan are not included in the calculation of the funded status for accounting purposes. Central Hudson recognizes a regulatory liability or asset for the portion of the over or underfunded amount that is probable of return to or recovery from customers in future rates. The amounts reported as a component of other comprehensive income, net of tax, relate to a former Central Hudson officer who transferred to an affiliated company. The related amounts are charged to and reimbursed by the affiliated company.

Pension and OPEB benefit expenses are determined by actuarial valuations based on assumptions that Central Hudson evaluates annually. Central Hudson capitalizes a portion of the service cost component. The PSC has authorized deferral accounting treatment for any variations between actual Pension and OPEB expenses and the amount included in the current delivery rate structure.

Any unamortized balances related to net actuarial gains and losses, past service costs, and transitional obligations, which are recoverable from Central Hudson customers and would otherwise be recognized in accumulated other comprehensive income, are subject to deferral accounting treatment.

Central Hudson also sponsors a contributory 401(k) retirement plan (“401(k) plan”) for its employees. The 401(k) plan provides for employee tax-deferred salary deductions for participating employees as well as employer contributions.

For more information see Note 12 – “Post-Employment Benefits”.

Additionally, Central Hudson sponsors a contributory Deferred Compensation Plan (“Deferred Compensation Plan”) for certain members of management and members of the Central Hudson Board of Directors. Although the Deferred Compensation Plan is a non-qualified plan, Central Hudson has established a trust for funding the associated liability to participants. For more information, see Note 17 – “Other Fair Value Measurements”.

Equity-Based Compensation

Officers of CH Energy Group and Central Hudson were granted Share Unit Plan shares (“SUPs”) under various plans as part of the officers’ long-term incentives. Compensation expense and the related liability associated with the SUPs are recorded based on the fair value at each reporting date until settlement, reflecting expected future payout and time elapsed within the terms of the award, typically at the end of the three-year vesting period. The fair value of the SUPs’ liability is based on Fortis’ common share 5-day volume weighted average trading price at the end of each reporting period. CH Energy Group and Central Hudson have elected to recognize forfeitures when they occur due to the limited number of participants in the equity-based compensation plans. For more information, see Note 13 – “Equity-Based Compensation”.

Common Stock Dividends

CH Energy Group’s ability to pay dividends is affected by the ability of its subsidiaries to pay dividends. The Federal Power Act limits the payment of annual dividends by Central Hudson to its retained earnings. More restrictive is the PSC’s limit on the dividends Central Hudson may pay to CH Energy Group. See Note 10 – “Capitalization-Common and Preferred Stock” for additional information. CH Energy Group’s other subsidiaries do not have express restrictions on their ability to pay dividends.

Derivatives

From time to time, Central Hudson enters into derivative contracts in conjunction with the Company’s enterprise risk management program to hedge certain risk exposures related to its business operations. Central Hudson uses derivative contracts to reduce the impact of volatility in the supply prices of natural gas and electricity and to hedge exposure to volatility in interest rates for its variable rate long-term debt. Central Hudson records all derivatives at fair value with certain exceptions including those derivatives that qualify for the normal purchase exception. The fair value of derivative instruments are estimates of the amounts that Central Hudson would receive or have to pay to terminate the outstanding contracts at the balance sheet dates. Unrealized gains and losses on Central Hudson’s derivative contracts have no impact on earnings since the energy contracts are subject to regulatory deferral.

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 and all associated costs are reported as part of purchased natural gas and purchased electricity in CH Energy Group’s and Central Hudson’s Statements of Income as the

corresponding amounts are either recovered from or returned to customers through fuel cost adjustment mechanisms in revenues. See Note 16 – “Accounting for Derivative Instruments and Hedging Activities” for further details.

Normal Purchases and Normal Sales

Central Hudson enters into forward energy purchase contracts, including options, with counterparties that have generating capacity to support current load forecasts or counterparties that can meet Central Hudson’s load serving obligations. Central Hudson has elected the normal purchase exception for these contracts, which are not required to be measured at fair value and are accounted for on an accrual basis. See Note 14 – “Commitments and Contingencies” for further details.

Reclassification

Certain amounts shown in Note 4 – “Regulatory Matter” and Note 5 – “Income Tax” related to the prior year, have been reclassified to conform to the 2022 presentation. These reclassifications had no effect on the reported results of operations.

Recently Adopted Accounting Pronouncements

Income Taxes

Effective January 1, 2021, CH Energy Group and Central Hudson adopted Accounting Standards Update (“ASU”) No. 2019-12, *Simplifying the Accounting for Income Taxes*, which simplifies the accounting for income taxes by eliminating certain exceptions to the guidance in ASC 740, *Income Taxes*, related to the approach for intra-period tax allocation, the methodology for calculating income taxes in an interim period and the recognition of deferred tax liabilities for outside basis differences. The new guidance also simplified aspects of the accounting for franchise taxes and enacted changes in tax laws or rates and clarifies the accounting for transactions that result in a step-up in the tax basis of goodwill. CH Energy Group and its subsidiaries’ earnings, financial position, cash flows, and disclosures were not impacted by this adoption.

Note 2 - Revenues and Receivables

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

Revenue from Contracts with Customers

Central Hudson records revenue as electricity and natural gas is delivered based on either the customers’ meter read or estimated usage for the month. For full-service customers, this includes delivery and supply of electricity and natural gas. For retail choice customers, this includes delivery only as these customers purchase supply from a retail marketer. Sales and usage-based taxes are excluded from revenues. Consideration received from customers on a billing schedule is not adjusted for the effect of a significant finance component because the period between a transfer of goods or services will be one year or less.

Alternative Revenues

Central Hudson’s alternative revenue programs include electric and natural gas RDMs, the electric and natural gas make whole provision, and lost finance charges, as established in the 2021 Rate Order, Gas Merchant Function Charge lost revenue, revenue requirement effect for incremental Leak Prone

Pipe (“LPP”) miles replaced above the PSC targets and the revenue requirement effect for Gas Safety Ruling compliance. In addition, Central Hudson records alternative revenues related to Positive Revenue Adjustments (“PRA”) and 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):

Electric	Year Ended December 31,		
	2022	2021	2020
Revenues from Contracts with Customers (ASC 606)	\$ 787,340	\$ 596,007	\$ 547,586
Alternative Revenues (Non-ASC 606)	(2,967)	(10,887)	(18,268)
Other Revenue Adjustments (Non-ASC 606)	13,239	38,703	22,684
Total Operating Revenues Electric	\$ 797,612	\$ 623,823	\$ 552,002
Natural Gas			
Revenues from Contracts with Customers (ASC 606)	\$ 218,238	\$ 170,233	\$ 155,391
Alternative Revenues (Non-ASC 606)	7,394	8,484	9,281
Other Revenue Adjustments (Non-ASC 606)	(4,888)	(6,292)	(4,779)
Total Operating Revenues Natural Gas	\$ 220,744	\$ 172,425	\$ 159,893

The year over year increase in electric and natural gas revenues from contracts with customers was primarily driven by higher billed purchased commodity costs. Further impacting these increases were higher delivery rates effective July 1, 2022, and higher surcharges when compared to 2021. The increases in billed purchased electric and natural gas do not impact earnings due to full deferral of commodity costs. However, these increases have contributed to increases in accounts receivable balances from customers, which is further discussed below.

The increase in electric and natural gas alternative revenue programs year over year is due to lower RDM deferral recorded for the difference between the actual billed revenues compared to the Rate Order prescribed targets. Also contributing to the increase in electric alternative revenue programs are higher incentives earned for achieving certain targets and milestones associated with energy efficiency programs.

The year over year decrease in other electric revenue adjustments is due to the lower amount refunded to customers for previously deferred revenues in excess of prescribed targets. Further impacting the year over year decrease are bill credits provided to customers in the first half of 2022 when compared to bill credits in 2021.

The year over year increase in other natural gas revenue adjustments is due to lower recovery for previously deferred revenues below prescribed targets, partially offset by lower gas bill credits in 2022 when compared to 2021.

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 (In Thousands):

	Year Ended December 31,	
	2022	2021
Balance at Beginning of Period	\$ (11,200)	\$ (10,400)
Uncollectible expense	(8,170)	(6,075)
Uncollectible write-off deferral	(4,130)	-
Uncollectible write-offs - net	12,300	5,275
Balance at End of Period	<u>\$ (11,200)</u>	<u>\$ (11,200)</u>

Accounts receivable balances from customers overall have continued to increase in the current period, not only in the current and 30-day past due categories, but also within arrears that are greater than 60 days past due. Growth in arrears began with the suspension of collection efforts required during COVID-19, which has impacted customers' payment behavior. This has been further compounded by increased commodity prices and higher seasonal winter energy usage in the first and fourth quarters. Management conducted quantitative and qualitative assessments of the allowance, including consideration of the differences in the current customers with arrears compared to past history, differences in payment behaviors of customers, including past economic factors impacting payment behavior compared to the current economic environment, as well as legislative and governmental actions 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 and to advise them of financial assistance programs available and is also working with local agencies and municipalities to obtain funding for its customers through federal and state programs. On June 16, 2022, the PSC approved Phase 1 of the AMP, in which residential utility customers who receive income-qualified government assistance for utility bills and other expenses and have past-due balances for service through May 1, 2022, will have those balances forgiven. For further details of this program see Note 4 – "Regulatory Matters-PSC Proceedings." On January 19, 2023, the PSC approved Phase 2 of the AMP providing arrears relief for certain residential and small commercial customers with arrears balances as of May 1, 2022, which were not eligible in Phase 1. The arrears amounts will be filed with Staff by February 18, 2023, together with Phase 2 Outreach and Education Plans. Central Hudson has begun collection efforts for certain customers with large arrears balances through communications, urging payment, and notifying customers that finance charges and termination efforts will be forthcoming. These efforts have generated some success with payments or payment arrangements. Central Hudson will continue its collections outreach, expanding the number of customers and commencing finance charges and termination efforts in 2023. Under the terms of the 2021 Rate Order, Central Hudson is authorized to defer bad debt write-offs if they exceed 10 basis points above the amounts billed to customers through delivery rates and applicable surcharges. For the year ended December 31, 2022, accounts written off as uncollectible exceeded the 10 basis points prescribed in rates and, as such, Central Hudson has deferred \$4.1 million in uncollectible write-offs. Based on the analysis and taking all qualitative factors into consideration, the Company concluded that the reserve of \$11.2 million should be maintained as of December 31, 2022. Clarity on Phase 2 AMP impacts, along with the continued collection efforts, particularly termination for non-payment, will provide visibility as to the timeframe over which the arrears growth will be resolved. The increase in arrears has resulted in a corresponding growth in working capital needs to support the business through additional borrowings as further discussed in Note 9 - "Short-Term Borrowing Arrangements" and Note 11 - "Capitalization - Long-Term Debt".

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	
		December 31, 2022	December 31, 2021
Electric:			
Production	25-95	\$ 43,767	\$ 43,719
Transmission	30-90	469,800	449,054
Distribution	8-80	1,247,465	1,187,608
Other	40	7,060	6,910
Total		\$ 1,768,092	\$ 1,687,291
Natural Gas:			
Transmission	19-85	\$ 64,679	\$ 63,284
Distribution	28-95	723,857	670,439
Other	N/A	442	442
Total		\$ 788,978	\$ 734,165
Common:			
Land and structures	50	\$ 114,656	\$ 113,200
Office and other equipment, radios, and tools	8-35	87,303	85,404
Transportation equipment	10-12	82,520	78,349
Other	3-15	164,317	149,017
Total		\$ 448,796	\$ 425,970
Gross Utility Plant		\$ 3,005,866	\$ 2,847,426

The borrowed component of funds used during construction and recorded as a reduction of interest expense was \$2.9 million for the year ended December 31, 2022 and \$1.5 million for each of the years ended December 31, 2021 and 2020. There was no equity component reported as other income for the year ended December 31, 2022 and \$3.0 million for the years ended December 31, 2021, and 2020, respectively.

Included in the Net Utility Plant balance of \$2.5 billion and \$2.3 billion at December 31, 2022 and 2021 was \$195.0 million and \$181.0 million of intangible utility plant assets, comprised primarily of computer software costs, land, transmission, water, and other rights and the related accumulated amortization of \$95.9 million and \$78.5 million, respectively. Amortization expense for the years 2023-2027 is estimated to be \$16.3 million, \$13.1 million, \$9.0 million, \$7.2 million and \$5.4 million, respectively.

As of December 31, 2022 and 2021, Central Hudson has reclassified from accumulated depreciation \$47.4 million and \$42.8 million, respectively, of cost of removal recovered through the rate-making process in excess of amounts incurred to date as a regulatory liability.

AROs for Central Hudson were approximately \$3.1 million for the years ended December 31, 2022 and 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):

	December 31, 2022	December 31, 2021
Regulatory Assets:		
Deferred purchased electric costs (Note 1)	\$ 43,490	\$ 17,319
Deferred purchased natural gas costs (Note 1)	16,923	8,057
Deferred unrealized losses on derivatives - electric and natural gas (Note 16)	14,034	7,563
RAM - electric	16,109	15,258
RAM - natural gas	1,560	3,397
EAM - electric	7,140	3,570
RDM and carrying charges - electric	2,064	84 ⁽²⁾
RDM and carrying charges - natural gas	4,511	2,942
Energy efficiency programs	28,829	16,819
Demand management programs	7,359	8,809
Deferred and accrued costs - SIR (Note 14)	71,436	76,032
Deferred storm costs	41,846	13,742
Deferred vacation pay accrual	9,010	9,753
Income taxes recoverable through future rates	42,704	35,784
Tax reform - unprotected impacts (Note 5)	23,733	23,733
Lost finance charge revenue	2,746	-
AMP and carrying charges	3,102	-
Uncollectible write-offs	4,130	-
Other	11,323 ⁽¹⁾	10,470 ⁽¹⁾⁽²⁾
Total Regulatory Assets	\$ 352,049	\$ 253,332
Less: Current Portion of Regulatory Assets	\$ 125,980	\$ 78,849
Total Long-term Regulatory Assets	\$ 226,069	\$ 174,483
Regulatory Liabilities:		
Rate moderator - electric	\$ 16,376	\$ 19,371
Rate moderator - natural gas	8,739	10,115
Deferred unrealized gains on derivatives - electric and natural gas (Note 16)	315	1,768
CEF and carrying charges	49,027	52,584
Tax reform - protected deferred tax liability (Note 5)	176,075	179,900
Deferred cost of removal (Note 3)	47,357	42,794
Deferred pension costs (Note 12)	74,898	90,934
Income taxes refundable through future rates	10,711	9,027
Deferred OPEB costs (Note 12)	24,652	31,032
Energy affordability program	4,428	5,289
Fast charging infrastructure program and carrying charges	5,516	5,455
NRAs	2,597	-
Deferred unbilled revenue	5,082	5,082
Utility asset sale to Transco	4,338	-
Other	7,227 ⁽¹⁾	4,626 ⁽¹⁾
Total Regulatory Liabilities	\$ 437,338	\$ 457,977
Less: Current Portion of Regulatory Liabilities	\$ 75,053	\$ 63,456
Total Long-term Regulatory Liabilities	\$ 362,285	\$ 394,521
Net Regulatory Liabilities	\$ (85,289)	\$ (204,645)

(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/RAM.

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

The significant regulatory assets and liabilities include:

RAM: Mechanism prescribed in the 2018 Rate Order and continued in the 2021 Rate Order to recover from or refund to customers previously deferred balances related to major storms, energy efficiency programs, and environmental site investigation and remediation costs in excess of the three-year cumulative rate allowance, incentives earned, unencumbered NRAs, deferred property taxes and accrued carrying charges.

RDM and carrying charges: Mechanism prescribed in the 2018 Rate Order and continued in the 2021 Rate Order to recover from or refund to customers difference between actual revenues and forecasted revenues.

EAMs: Earnings adjustment mechanisms to be recovered from customers for incentives earned related to energy efficiency targets met as prescribed in the 2018 Rate Order and continued in the 2021 Rate Order.

Energy Efficiency Programs: This regulatory asset/liability represents amounts spent on Central Hudson's internally administered programs either below or in excess of amounts collected in rates.

Demand Management Programs: This regulatory asset represents deferred balances for costs incurred and incentives earned in excess of amounts collected related to Central Hudson's Non-Wires Alternative and Dynamic Load Management initiatives.

Deferred Storm Costs: Central Hudson's rates include a collection of funds for a major storm reserve, which are deferred as an offset against incremental costs incurred for major storm restoration. Incremental costs incurred in excess of the reserve funds are authorized to be collected via the RAM, to the extent sufficient.

Lost Finance Charge Revenue: This regulatory asset represents finance charge and reconnection fee revenues below the levels included in rates due to the impacts of the COVID-19 pandemic as prescribed in the 2021 Rate Order.

AMP and carrying charges: This regulatory asset represents the deferral of amounts credited to low-income customers, net of funding from New York State, which is being collected through a surcharge effective August 1, 2022, as approved by the PSC in the under Case 20-M-0479.

Uncollectible Write-Offs: This regulatory asset represents the deferral of uncollectible write-offs above levels included in rates as they exceeded the threshold prescribed in the 2021 Rate Order.

Deferred Vacation Pay Accrual: In accordance with Rate Order 84-2 a regulatory asset has been established to offset the accrued vacation liability since the accrued compensation is included in future allowable costs on an as paid basis and there is reasonable assurance of recovery.

Income Taxes Recoverable: This regulatory asset has been established to offset certain deferred tax liabilities because Central Hudson believes it is probable that they will be recoverable from customers.

Rate Moderator – Electric and Natural Gas: This regulatory liability balance represents the net balance after offset under the terms of the 2018 and 2021 Rate Orders, which were and will be used for future customer rate moderation, as well as deferred Danskammer Generating Station delivery revenues for future natural gas rate moderation.

CEF: This regulatory liability represents amounts collected from customers primarily under the CEF, the Renewable Portfolio Standards and System Benefit Charge (as prescribed in the CEF, 2018 and 2021

Rate Orders), in excess of amounts remitted to the New York State Energy Research and Development Authority (“NYSERDA”) to fund its energy efficiency programs.

Income Taxes Refundable: This regulatory liability was established to offset certain deferred tax assets because Central Hudson believes it is probable that the related balances will be refundable to customers.

Energy Affordability Program: This regulatory liability represents deferred balances for amounts collected in excess of credits provided for energy affordability programs.

Net Plant and Depreciation Targets: This regulatory liability represents a deferral of the revenue requirement effect of net plant in service and depreciation expense below the defined targets as prescribed in the 2018 Rate Order.

Fast Charging Infrastructure Program and carrying charges: This regulatory liability represents amounts provided by NYSERDA and collected from customers to fund the fast-charging stations’ annual incentive payments, as prescribed in the related Order.

Utility Asset Sale to Transco: This regulatory liability represents the gain on the sale of a utility asset to Transco, which has been deferred for the benefit of customers in accordance with Case 22-E-0077.

Deferred Unbilled Electric and Natural Gas Revenue: On July 20, 2016, the PSC issued the “Order Approving Accounting Change with Modification”, allowing Central Hudson to realize unbilled revenue as revenue on the income statement, but required that \$5.1 million of unbilled revenues remain as a regulatory liability.

In terms of the expected timing for recovery, regulatory asset balances reflect the following amounts (In Thousands):

	December 31,	
	2022	2021
Balances with offsetting accrued liability balances recoverable when future costs are actually incurred:		
Income taxes recoverable through future rates	\$ 42,704	\$ 35,784
Deferred unrealized losses on derivatives - electric	13,075	7,563
Deferred unrealized losses on derivatives - natural gas	959	-
Accrued SIR costs	69,832	71,653
Deferred ARO	823	583
Deferred vacation pay accrual	9,010	9,753
Other	-	404
	<u>\$ 136,403</u>	<u>\$ 125,740</u>
Balances earning a return via inclusion in rates and/or the application of carrying charges:		
Energy efficiency programs	\$ 28,829	\$ 16,819
Uncollectible write-offs	4,130	-
Deferred storm costs	41,846	13,742
Deferred SIR costs, net of recoveries	1,604	4,379
Deferred debt expense on re-acquired debt	1,246	1,508
Tax reform - unprotected impacts	23,733	23,733
Other	6,072	4,814
	<u>\$ 107,460</u>	<u>\$ 64,995</u>
Subject to current recovery:		
Deferred purchased electric costs	\$ 43,490	\$ 17,319
Deferred purchased natural gas costs	16,923	8,057
RAM - electric and natural gas	17,669	18,655
EAM - electric and natural gas	7,140	4,102
RDM - electric and natural gas	6,575	3,027

Demand management programs ⁽¹⁾	7,359	8,809
Lost finance charge revenue	2,746	-
AMP and carrying charges	3,102	-
Other	4,562	2,830
	\$ 109,566	\$ 62,799
Accumulated carrying charges:		
Carrying charges balancing	\$ (1,380)	\$ (218)
Other	-	16
	\$ (1,380)	\$ (202)
Total Regulatory Assets	\$ 352,049	\$ 253,332

(1) These amounts are subject to recovery over prescribed PSC timeframes unique to each program (most over 5 or 10 years). Balances subject to recovery over a period greater than 1 year are authorized to earn carrying charges at the pre-tax weighted average cost of capital.

PSC Proceedings

2018 Rate Order / 2021 Rate Order

The 2018 Rate Order was effective July 1, 2018, with Rate Year (“RY”) 1 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 increases 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:

Description	2018 Rate Order (Dollars in Millions)			2021 Rate Order (Dollars in Millions)		
	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.

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.

FERC SDU 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 SDUs being installed on Central Hudson’s transmission facilities, which are required to provide four large generating facility developers with capacity resource interconnection service. This charge provides Central Hudson with full recovery of all reasonably incurred costs related to the development, construction, operation, and maintenance of the SDU and a reasonable return on its investment. Project costs to be recovered by Central Hudson and allocated to the Load Serving Entities (“LSEs”) pursuant to Rate Schedule 12 of the NYISO OATT

are expected to be approximately \$2.6 million plus operation, maintenance, and other applicable costs and will be updated annually. On October 4, 2021, the FERC approved an ROE of 9.4% plus a 50 basis point adder for a total ROE of 9.9% associated with this project.

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 ("Storm 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. Central Hudson has fulfilled its obligation under the Settlement Agreement.

Energy Affordability & COVID-19 Proceeding

On June 11, 2020, the PSC 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 PSC jurisdiction or permitting authority. The proceeding included, but is not limited to, impacts on rate-setting, rate design, utility financial strength, energy affordability 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 PSC's clean energy programs should be maintained or accelerated.

On April 7, 2022, \$250 million was approved in the New York State budget to provide funding for utility arrears relief for customers eligible for energy affordability programs. The Energy Affordability Policy ("EAP") Working Group developed and filed a report on May 23, 2022, which proposed a comprehensive arrears relief program for customers to be rolled out in two phases. Phase 1 would address all existing low-income customers' arrears and Phase 2 would be a broader program focused on arrears relief for residential customers that did not meet the definition of low-income, as well as some non-residential customers. On June 16, 2022, the PSC approved Phase 1 of the AMP, whereby residential utility customers who receive income-qualified government assistance for utility bills and other expenses and have past-due balances for service through May 1, 2022, will have those balances forgiven. The Phase 1 program was funded in part through the \$250 million in New York State relief, \$2.8 million of which was dispersed to Central Hudson. The remainder of the program cost is being recovered through a temporary surcharge on utility bills not to exceed a 0.5% bill impact for residential customers. As of December 1, 2022, Central Hudson had distributed approximately \$7.1 million in relief via bill credits to roughly 5,600 eligible customers. Additional bill credits may be processed in early 2023 related to Phase 1 as new customers have the ability to become eligible for relief through the end of 2022.

On January 19, 2023, the PSC approved Phase 2 AMP providing arrears relief for certain residential and small commercial customers with arrears balances as of May 1, 2022, which were not eligible for Phase 1. The arrears amounts will be filed with Staff by February 18, 2023, together with the Phase 2 Outreach and Education Plans. The Company was directed to utilize deferred economic development balances to offset a portion of the program cost.

Customer Information System (“CIS”) Show Cause Order

During the March 2022 PSC session, the PSC directed DPS Staff, and subsequently instituted Case 22-00666, to investigate billing issues subsequent to the implementation and to publicly track comments and other related documents. The Company has answered several data requests regarding the CIS implementation and continues to collaborate with DPS Staff. On December 15, 2022, the PSC issued its Order to Commence Proceeding and Show Cause (“CIS Show Cause Order”), under Case 22-M-0645. This Order discussed issues related to the CIS project, including system defects, training, testing, staffing, and cited alleged apparent violations of Public Service Law (“PSL”), New York Codes, Rules and Regulations, and prior PSC Orders. Central Hudson filed its response on January 17, 2023, acknowledging the unintended disruptive impact on customers, and stating that the Company did not violate the PSL, rules, or Commission Orders and neither penalties nor a prudence review is warranted. Central Hudson cited in its response its legal position that the Office of Investigations and Enforcement report misinterpreted, or misapplied specific sections of statutes, rules, and PSC Orders. The outcome of this investigation cannot be predicted at this time.

Agway Energy Services LLC (“Agway”)

On February 25, 2022, 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 requested that the PSC 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 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 PSC 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 PSC’s jurisdiction to provide. Agway has submitted a filing requesting to enter mediation on this matter, including recurring meetings with both parties and Department of Public Service (“DPS”) Staff. On June 24, 2022, the Company entered mediation with Agway and continues to hold weekly meetings to discuss, investigate, and resolve issues.

Sale of Utility Asset to Transco

On June 21, 2022, the PSC issued Order Authorizing the Transfer of Transmission Property and Easement Interest under Case 22-E-0077. The Order was approved to increase the power transfer capability from upstate to downstate New York. In the Order, the PSC authorized the transfer of easement interest covering real property associated with a 12-mile overhead 115 kV electric transmission line (“SL Line”) and certain transmission property and equipment related to the Sugarloaf Switching Station and the SL Line, from Central Hudson to New York Transco LLC and the recognition

of any gains realized upon the transfer for the benefit of customers. On July 11, 2022, Central Hudson completed the sale of transmission property and easement interest for approximately \$4.6 million with a realized gain of \$4.4 million which was deferred as a regulatory liability for the benefit of customers with carrying charges at the Company's pre-tax weighted average cost of capital as prescribed by the Order.

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 CH Energy Group's and Central Hudson's activity related to the uncertain tax position (In Thousands):

	CH Energy Group		Central Hudson	
	Year Ended		Year Ended	
	December 31,		December 31,	
	2022	2021	2022	2021
Unrecognized tax benefits balance, beginning of the period	\$ 10,640	\$ 9,164	\$ 10,640	\$ 9,146
Additions related to the current year	\$ 1,336	\$ 1,476	\$ 1,336	\$ 1,476
Decreases related to the prior year	\$ (1,438)	\$ -	\$ (1,438)	\$ -
Unrecognized tax benefits balance, end of the period	\$ 10,538	\$ 10,640	\$ 10,538	\$ 10,640
Offset per ASU No. 2013-11 ⁽¹⁾	\$ (10,538)	\$ (10,640)	\$ (10,538)	\$ (10,640)
Tax reserve balance, end of the period	\$ -	\$ -	\$ -	\$ -

(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*.

Income Tax Examinations

Jurisdiction	Tax Years Open for Audit
Federal	2019 – 2021
New York State	2019 – 2021

Components of Tax Reform Regulatory Balances

As a result of the Tax Cuts and Jobs Act, the Company was required to revalue its deferred tax assets and liabilities at the federal corporate income tax rate of 21%. Central Hudson recorded a regulatory liability due to the revaluation of plant related deferred tax liabilities, which are protected under tax normalization rules. The regulatory liability is adjusted monthly to reflect the amortization of the balance to the income statement under the tax normalization rules. The Company also recorded a regulatory

asset due to the revaluation of all other deferred tax balances, which are not subject to the normalization rules.

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

	December 31, 2022	December 31, 2021
Protected Regulatory Liability, beginning of the period	\$ 179,900	\$ 183,915
Amortization of protected tax liability	(3,825)	(4,015)
Protected Regulatory Liability, end of the period	<u>\$ 176,075</u>	<u>\$ 179,900</u>

The following is a summary of Central Hudson's activity in its regulatory asset balance related to the unprotected impacts (In Thousands):

	December 31, 2022	December 31, 2021
Unprotected Regulatory Asset, beginning of the period	\$ 23,733	\$ 13,464
Change in unprotected tax asset	-	10,269
Unprotected Regulatory Asset, end of the period	<u>\$ 23,733</u>	<u>\$ 23,733</u>

The unprotected regulatory tax asset consisted of an excess deferred tax asset balance, which was partially offset by a regulatory liability resulting from the overcollection of tax from the effective date of the Tax Cuts and Jobs Act and the date delivery rates were reset. The increase of \$10.3 million in 2021 resulted from the utilization of the overcollection for rate moderation per the 2021 Rate Order. The remaining excess deferred tax balance of \$23.7 million will be addressed in the Company's next rate case filing.

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 was 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 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, which was paid in December 2022.

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 ("NOL") 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 years ended December 31, 2022 and 2021, Central Hudson recorded \$1.8 million and \$1.7 million of capital base tax, respectively. Capital base tax 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.

Reconciliations

The following are reconciliations between the amount of federal income tax computed on income before taxes at the statutory rate and the amount reported in CH Energy Group's Consolidated Statement of Income and Central Hudson's Statement of Income (In Thousands):

CH Energy Group

	Year Ended December 31,		
	2022	2021	2020
Net income	\$ 79,133	\$ 73,953	\$ 69,103
Current federal income tax expense (benefit)	64	(62)	(20)
Current state income tax (benefit) expense	(2)	225	100
Deferred federal income tax expense	15,334	11,897	9,930
Deferred state income tax expense	5,784	4,756	5,252
Income Before Income Taxes	<u>\$ 100,313</u>	<u>\$ 90,769</u>	<u>\$ 84,365</u>
Computed federal tax at 21%	\$ 21,066	\$ 19,061	\$ 17,717
State income tax net of federal tax benefit	4,568	3,935	4,224
Amortization of protected deferred tax liability ⁽¹⁾	(2,356)	(3,093)	(4,339)
Depreciation flow-through	349	(552)	(706)
Cost of removal	(2,348)	(2,220)	(1,926)
Other	(99)	(315)	292
Total Income Tax Expense	<u>\$ 21,180</u>	<u>\$ 16,816</u>	<u>\$ 15,262</u>
Effective tax rate - federal	15.3%	13.0%	11.7%
Effective tax rate - state	5.8%	5.5%	6.4%
Effective Tax Rate - Combined	<u>21.1%</u>	<u>18.5%</u>	<u>18.1%</u>

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

Central Hudson

	Year Ended December 31,		
	2022	2021	2020
Net income	\$ 78,092	\$ 73,623	\$ 69,141
Current federal income tax benefit	(10)	-	(18)
Deferred federal income tax expense	14,988	11,313	9,952
Deferred state income tax expense	5,553	4,795	5,211
Income Before Income Taxes	<u>\$ 98,623</u>	<u>\$ 89,731</u>	<u>\$ 84,286</u>
Computed federal tax at 21%	\$ 20,711	\$ 18,844	\$ 17,700
State income tax net of federal tax benefit	4,387	3,788	4,117
Amortization of protected deferred tax liability ⁽¹⁾	(2,356)	(3,093)	(4,339)
Depreciation flow-through	349	(552)	(706)
Cost of removal	(2,348)	(2,220)	(1,926)
Other	(212)	(659)	299
Total Income Tax Expense	<u>\$ 20,531</u>	<u>\$ 16,108</u>	<u>\$ 15,145</u>
Effective tax rate - federal	15.2%	12.6%	11.8%
Effective tax rate - state	5.6%	5.4%	6.2%
Effective Tax Rate - Combined	<u>20.8%</u>	<u>18.0%</u>	<u>18.0%</u>

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

For the years ended December 31, 2022, 2021, and 2020, the combined effective tax rate for CH Energy Group and Central Hudson is lower than the combined statutory rate due to tax normalization rules and the timing of flow through tax items related to capital expenditures. For the year ending December 31, 2022, the increase in the effective tax rate in relation to the comparable prior periods is driven by higher income before taxes, which is subject to the statutory rate and unrealized book losses excluded for tax purposes.

The following is a summary of the components of deferred taxes as reported in CH Energy Group's Consolidated Balance Sheets (In Thousands):

	December 31,	
	2022	2021
Accumulated Deferred Income Tax Asset:		
Unbilled revenues	\$ 6,603	\$ 3,300
Federal R&D credit carryforward ⁽¹⁾	1,058	840
Plant-related	-	2,712
Tax reform - protected deferred tax liability	46,606	47,468
Pension costs	-	1,539
Income taxes refundable through future rates	10,711	9,027
Federal NOL carryforwards	28,504	10,595
New York State NOL carryforwards, net of federal benefit ⁽¹⁾	12,854	7,263
CEF	5,075	9,192
Rate moderator	6,564	7,706
Contributions in aid of construction	10,154	9,407
Directors and officers deferred compensation	13,263	15,102
Deferred payroll taxes	-	680
Cost of removal	6,209	946
Utility asset sale to Transco	1,134	-
R&D credit	696	-
Fast charging infrastructure	1,442	1,426
SIR costs and recovery	637	-
Energy affordability program	1,134	1,671
Other ⁽¹⁾	1,932	3,748
Accumulated Deferred Income Tax Asset	\$ 154,576	\$ 132,622
Accumulated Deferred Income Tax Liability:		
Depreciation	\$ 273,857	\$ 259,986
Repair allowance	3,718	3,927
Repair deduction	120,815	104,519
EAM ⁽¹⁾	1,862	1,072
OPEB ⁽¹⁾	2,073	150
Income taxes recoverable through future rates	21,030	17,269
Tax reform - unprotected deferred tax asset	6,203	6,203
Deferred SIR costs	-	1,144
RDM	1,718	790
Demand management programs	1,923	2,301
Purchased electric costs	11,366	4,526
Purchased natural gas costs	4,423	2,106
Storm costs	10,936	3,591
RAM	4,618	4,875
Transco investment ⁽¹⁾	1,735	1,641
Other ⁽¹⁾	4,660	4,521

Accumulated Deferred Income Tax Liability	\$ 470,937	\$ 418,621
Net Deferred Income Tax Liability	\$ 316,361	\$ 285,999

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

The following is a summary of the components of deferred taxes as reported in Central Hudson's Balance Sheet (In Thousands):

	December 31,	
	2022	2021
Accumulated Deferred Income Tax Asset:		
Unbilled revenues	\$ 6,603	\$ 3,300
Federal R&D credit carryforward ⁽¹⁾	1,058	840
Plant-related	-	2,712
Tax reform - protected deferred tax liability	47,048	47,828
Pension costs	-	1,539
Income taxes refundable through future rates	10,711	9,027
Federal NOL carryforwards	28,866	11,327
New York State NOL carryforwards, net of federal benefit ⁽¹⁾	12,989	7,330
CEF	5,075	9,192
Rate moderator	6,564	7,706
SIR cost and recovery	637	-
Contributions in aid of construction	10,154	9,407
Directors and officers deferred compensation	12,932	13,902
Cost of removal	6,209	946
Fast charging infrastructure	1,442	1,426
Deferred payroll taxes	-	680
Energy affordability program	1,134	1,671
Utility asset sale to Transco	1,134	-
Research and development credit	696	-
Other ⁽¹⁾	1,586	3,403
Accumulated Deferred Income Tax Asset	\$ 154,838	\$ 132,236
Accumulated Deferred Income Tax Liability:		
Depreciation	\$ 273,555	\$ 259,624
Repair allowance	3,718	3,927
Repair deduction	120,815	104,519
EAM ⁽¹⁾	1,862	1,072
OPEB ⁽¹⁾	2,073	150
Income taxes recoverable through future rates	21,030	17,269
Tax reform - unprotected deferred tax asset	6,203	6,203
Deferred SIR costs	-	1,144
RDM	1,718	790
Demand management programs	1,923	2,301
Purchased electric costs	11,366	4,526
Purchased natural gas costs	4,423	2,106
Storm costs	10,936	3,591
RAM	4,618	4,875
Other ⁽¹⁾	5,199	5,014
Accumulated Deferred Income Tax Liability	\$ 469,439	\$ 417,111
Net Deferred Income Tax Liability	\$ 314,601	\$ 284,875

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

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 Alternating Current 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 this project in Transco is expected to be \$19.4 million. As of December 31, 2022, CHET has made capital contributions of \$16.5 million to Transco to fund a portion of the Segment B project costs. At December 31, 2022 and 2021, CHET’s investment in Transco was approximately \$23.5 million and \$15.0 million, respectively.

In November 2018, the Transco limited liability company agreement was amended (“Transco Amendment”) to allow Transco to pursue additional projects that might result from future NYISO Public Policy Transmission Planning Processes (“PPTP Processes”). Under the Transco Amendment, CHET would have a 10% ownership stake in transmission solutions related to future projects that result from future PPTP Processes. CHET would also be allocated 10% of future development costs for any new transmission projects as part of future PPTP Processes. 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 first half of 2023. In the event that a Transco-NYPA proposal is accepted by NYISO, CHET would own and fund the equity investment associated with Transco’s portion of the project.

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 was \$0.0 and \$0.2 million at December 31, 2022 and 2021, respectively.

NOTE 7 – Research and Development

Central Hudson’s R&D expenditures were \$3.6 million in 2022, \$4.1 million in 2021, and \$3.7 million in 2020. These expenditures were for internal research programs and for contributions to research administered by NYSERDA, the Electric Power Research Institute and other industry organizations.

NOTE 8 – Leases

At December 31, 2022, CH Energy Group did not have any leases other than leases from Central Hudson. Central Hudson’s leasing activities accounted for as operating leases include office facilities and equipment with remaining terms of approximately one to eight years and communication tower space with remaining terms of approximately three to 18 years including options to renew existing leases for an additional 10 to 15 years. Most leases include one or more options to renew, with renewal terms that may extend the lease term from 15 to 20 years. Certain lease agreements include periodic escalation clauses based on an index or fixed rate or require Central Hudson to pay real estate taxes, insurance, maintenance, or other operating expenses associated with the lease premises.

The following table details supplemental balance sheet information related to CH Energy Group and Central Hudson's operating leases (In Thousands):

Leases	Classification	December 31, 2022	December 31, 2021
Operating Lease Assets	Other Assets	\$ 3,082	\$ 3,488
Current operating lease liabilities	Other Current Liabilities	\$ 470	\$ 433
Noncurrent operating lease liabilities	Other Liabilities	2,759	3,155
Total Lease Liabilities		\$ 3,229	\$ 3,588

Operating and variable lease costs, as well as short-term lease cost for the years ended December 31, 2022, 2021, and 2020, were not material to CH Energy Group or Central Hudson's results of operations.

As of December 31, 2022, CH Energy Group and Central Hudson had the following minimum future maturities of operating lease liabilities (In Thousands):

Year Ending December 31,	Operating Leases
2023	\$ 564
2024	525
2025	469
2026	422
2027	414
Thereafter	1,294
Total Lease Payments	\$ 3,688
Less: imputed interest	459
Total Lease Liabilities	\$ 3,229
Less: current portion	470
Total Non-Current Lease Liabilities	\$ 2,759

The following table includes supplemental information related to CH Energy Group and Central Hudson's operating leases:

	December 31, 2022	December 31, 2021
Weighted-Average Remaining Lease Term (years)	9	8.4
Weighted-Average Discount Rate	3.10%	3.11%

NOTE 9 – Short-Term Borrowing Arrangements

Committed Credit Facilities

On April 4, 2022, Central Hudson entered into a first amendment increasing lender supplement to the March 2020 Central Hudson credit agreement with five commercial banks. The amendment replaces LIBOR with a benchmark replacement interest 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. 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 December 31, 2022, Central Hudson was in compliance with all financial debt covenants.

Uncommitted Credit

At December 31, 2022, CH Energy Group and Central Hudson had \$10 million and \$60 million respectively, in uncommitted short-term credit arrangements with four commercial banks totaling \$70 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.

On November 4, 2022, CH Energy Group entered into a \$10 million, short-term uncommitted credit agreement with a commercial bank to provide liquidity to meet short term cash needs.

On December 15, 2022, Central Hudson entered into a \$30 million, short-term uncommitted credit agreement with a commercial bank not included in its current credit facility to provide additional liquidity to its existing portfolio. Proceeds received from the new credit agreement are to be used for working capital needs and general corporate purposes.

At December 31, 2021, there were no short-term credit arrangements for CH Energy Group. Central Hudson had uncommitted short-term credit arrangements with two commercial banks totaling \$30 million.

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

	CH Energy Group		Central Hudson	
	December 31, 2022	December 31, 2021	December 31, 2022	December 31, 2021
Committed Credit	\$ 90,000	\$ 100,000	\$ 90,000	\$ 100,000
Uncommitted Credit	15,000	7,000	15,000	7,000
Total	\$ 105,000	\$ 107,000	\$ 105,000	\$ 107,000
Weighted Average Interest Rate	5.17%	0.99%	5.17%	0.99%

NOTE 10 – Capitalization – Common and Preferred Stock

Capital Contributions

During 2022, CH Energy Group received capital contributions of \$54.3 million from its parent FortisUS. Additionally, during 2022, Central Hudson received capital contributions of \$46.0 million from its parent CH Energy Group and CHET received capital contributions of \$7.9 million from its parent CH Energy Group in order to fund capital expenditures related to the Transco AC Project.

During 2021, CH Energy Group received a contribution of approximately \$5.0 million under the tax sharing agreement with its parent FortisUS. Additionally, during 2021, CH Energy Group received capital contributions of \$4.4 million from FortisUS and Central Hudson received a capital contribution of

\$6.0 million from its parent company CH Energy Group. During 2021, CHET received capital contributions of \$4.0 million from its parent CH Energy Group in order to fund capital expenditures related to the Transco AC Project.

During 2020, CH Energy Group received capital contributions of \$15.0 million from its parent FortisUS and Central Hudson received capital contributions of \$12.0 million from its parent company CH Energy Group. Additionally, during 2020, CHET received a \$0.3 million capital contribution from its parent CH Energy Group.

These contributions were recorded as paid in capital, see CH Energy Group's and Central Hudson's Consolidated Statements 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 \$76.0 million, \$71.0 million, and \$67.0 million in dividends to CH Energy Group for the periods ended December 31, 2022, 2021, and 2020, respectively. Central Hudson's ability to pay dividends would be reduced to 75% of its average annual income in the event of a downgrade of its senior debt rating below "BBB+" by more than one rating agency, if the stated reason for the downgrade is related to any of CH Energy Group's or Central Hudson's affiliates. Further restrictions are imposed for rating downgrades below this level. In addition, Central Hudson would not be allowed to pay dividends if its average common equity ratio for the 13 months prior to a proposed dividend was more than 200 basis points below the ratio used in setting rates. CH Energy Group's other subsidiaries do not have express restrictions on their ability to pay dividends.

During 2022, 2021, and 2020 CH Energy Group did not pay any dividends to FortisUS, the sole shareholder of CH Energy Group.

Central Hudson did not pay any dividends to its parent CH Energy Group in 2022, 2021, and 2020.

During 2022, CHET paid dividends to its parent CH Energy Group of \$1.0 million. CHET did not pay dividends to its parent CH Energy Group during 2021 and 2020.

CHEC did not pay any dividends to its parent CH Energy Group during 2022. CHEC paid dividends of \$1.0 million to its parent CH Energy Group in 2021. CHEC did not pay any dividends to its parent CH Energy Group during 2020.

Preferred Stock

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

NOTE 11 – Capitalization – Long-Term Debt

The majority of the long-term debt instruments are redeemable at the discretion of CH Energy Group and Central Hudson, at any time, at the greater of par or a specified price as defined in the respective long-term debt agreements, together with accrued and unpaid interest.

A summary of CH Energy Group's and Central Hudson's long-term debt is as follows (In Thousands):

Series	Maturity Date	December 31, 2022		December 31, 2021	
		Principal	Unamortized Debt Issuance Costs	Principal	Unamortized Debt Issuance Costs
Central Hudson:					
Promissory Notes:					
2006 Series E (5.76%) ⁽⁴⁾	Nov. 17, 2031	\$ 27,000	\$ 153	\$ 27,000	\$ 171
1999 Series B ^{(1),(2)}	Jul. 01, 2034	33,700	199	33,700	216
2005 Series E (5.84%) ⁽⁴⁾	Dec. 05, 2035	24,000	129	24,000	139
2007 Series F (5.804%) ⁽⁵⁾	Mar. 23, 2037	33,000	197	33,000	211
2009 Series F (5.80%) ⁽⁵⁾	Nov. 01, 2039	24,000	183	24,000	193
2010 Series B (5.64%) ⁽⁶⁾	Sep. 21, 2040	24,000	89	24,000	94
2010 Series G (5.716%) ⁽⁶⁾	Apr. 01, 2041	30,000	188	30,000	199
2011 Series G (3.378%) ⁽⁶⁾	Apr. 01, 2022	-	-	23,400	7
2011 Series G (4.707%) ⁽⁶⁾	Apr. 01, 2042	10,000	83	10,000	88
2012 Series G (4.776%) ⁽⁶⁾	Apr. 01, 2042	48,000	408	48,000	429
2012 Series G (4.065%) ⁽⁶⁾	Oct. 01, 2042	24,000	246	24,000	259
2013 Series D (4.09%) ⁽⁷⁾	Dec. 2, 2028	16,700	62	16,700	72
2014 Series E ^{(7),(11)}	Mar. 26, 2024	30,000	24	30,000	45
2015 Series F (2.98%) ⁽⁷⁾	Mar. 31, 2025	20,000	35	20,000	51
2016 Series H (2.56%) ⁽⁸⁾	Oct. 28, 2026	10,000	35	10,000	44
2016 Series I (3.63%) ⁽⁸⁾	Oct. 28, 2046	20,000	112	20,000	117
2017 Series J (4.05%) ⁽⁸⁾	Aug. 31, 2047	30,000	158	30,000	164
2017 Series K (4.20%) ⁽⁸⁾	Aug. 31, 2057	30,000	166	30,000	171
2018 Series L (4.27%) ⁽⁸⁾	Jun. 15, 2048	25,000	162	25,000	169
2018 Series M (3.99%) ⁽⁸⁾	Oct. 28, 2026	40,000	117	40,000	149
2018 Series N (4.21%) ⁽⁸⁾	Oct. 28, 2033	40,000	179	40,000	196
2019 Series O (3.89%) ⁽⁹⁾	Oct. 28, 2049	50,000	250	50,000	259
2019 Series P (3.99%) ⁽⁹⁾	Oct. 28, 2059	50,000	257	50,000	264
2020 Series Q (3.42%) ⁽⁹⁾	May 14 2050	30,000	160	30,000	166
2020 Series R (3.62%) ⁽⁹⁾	Jul. 14, 2060	30,000	165	30,000	169
2020 Series S (2.03%) ⁽⁹⁾	Sep. 28, 2030	40,000	169	40,000	192
2020 Series T (2.03%) ⁽⁹⁾	Nov. 17, 2030	30,000	139	30,000	157
2021 Series U (3.29%) ⁽⁹⁾	Mar. 16, 2051	75,000	392	75,000	406
2021 Series V (3.22%) ⁽⁹⁾	Oct. 30, 2051	55,000	295	55,000	305
2022 Series W (2.37%) ⁽¹⁰⁾	Jan. 27, 2027	50,000	215	-	-
2022 Series X (2.59%) ⁽¹⁰⁾	Jan. 27, 2029	60,000	273	-	-
2022 Series Y (5.07%) ⁽¹⁰⁾	Sept. 28, 2032	100,000	504	-	-
2022 Series Z (5.42%) ⁽¹⁰⁾	Sept. 28, 2052	10,000	66	-	-
Total Central Hudson		\$ 1,119,400	\$ 5,810	\$ 922,800	\$ 5,102
Less: current portion of long-term debt		-	-	(23,400)	-
Central Hudson Net Long-term Debt		\$ 1,119,400	\$ -	\$ 899,400	\$ -
CH Energy Group:					
Promissory Notes:					
2009 Series B (6.80%) ⁽³⁾	Dec. 15, 2025	\$ 6,746	\$ 28	\$ 8,710	\$ 37
Less: current portion of long-term debt		(2,100)	-	(1,964)	-
CH Energy Group Net Long-term Debt		\$ 1,124,046	\$ 5,838	\$ 906,146	\$ 5,139

(1) Promissory Notes issued in connection with the sale by NYSEERDA of tax-exempt pollution control revenue bonds.

(2) Variable (auction) rate notes.

(3) The maturity date represents the final repayment date, principal repayments are due semi-annually.

(4) Issued pursuant to a 2004 PSC Order approving the issuance by Central Hudson prior to December 31, 2006, of up to \$85 million of unsecured medium-term notes.

(5) Issued pursuant to a 2006 PSC Order approving the issuance by Central Hudson prior to December 31, 2009, of up to \$120 million of unsecured medium-term notes.

(6) Issued pursuant to a 2009 PSC Order approving the issuance by Central Hudson prior to December 31, 2012, of up to \$250 million of unsecured medium-term notes or other forms of long-term indebtedness.

(7) Issued pursuant to a 2012 PSC Order approving the issuance by Central Hudson prior to December 31, 2015, of up to \$250 million of unsecured medium-term notes or other forms of long-term indebtedness.

- (8) Issued pursuant to a 2015 PSC Order approving the issuance by Central Hudson prior to December 31, 2018, of up to \$350 million of unsecured medium-term notes or other forms of long-term indebtedness.
- (9) Issued pursuant to a 2018 PSC Order approving the issuance by Central Hudson prior to December 31, 2021, of up to \$425 million of unsecured medium-term notes or other forms of long-term indebtedness.
- (10) Issued pursuant to a 2021 PSC Order approving the issuance by Central Hudson prior to December 31, 2024, of up to \$412 million of unsecured medium-term notes or other forms of long-term indebtedness.
- (11) Variable rate notes.

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. On September 28, 2022, Central Hudson issued \$100 million of Series Y, 10-year Senior Notes with an interest rate of 5.07% per annum and a maturity date of September 28, 2032 and \$10 million of Series Z, 30-year Senior Notes with an interest rate of 5.42% per annum and a maturity date of September 28, 2052. Central Hudson used the proceeds from the sale of the Senior Notes for general corporate purposes, including the repayment of \$23.4 million of maturing debt on April 1, 2022 and the repayment of short-term borrowings.

During 2021, Central Hudson issued \$130 million of 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 December 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. Central Hudson received an immaterial payout during the year ended December 31, 2022. There were no payouts on these interest rate caps during the year ended December 31, 2021.

The principal amount of Central Hudson's outstanding 1999 Series B NYSERDA Bonds totaled \$33.7 million at December 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 three-year interest rate cap, which expired on April 1, 2022. The rate cap had a notional amount equal to the outstanding principal amount of the Series B bonds and was 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 exceeded 4% for a given month. There were no payouts on these interest rate caps in 2021. During 2022, Central Hudson purchased a one-year interest rate cap. The rate cap has a notional amount equal to the outstanding principal amount of the Series B bonds and expires on April 1, 2023. The cap is based on the monthly weighted average of Securities Industry and Financial Markets Association ("SIFMA") index, multiplied by 1.75. Central Hudson would receive a payout if the adjusted index exceeds 5% for a given month. During the fourth quarter of 2022, following Federal Reserve interest rate increases during the year, the adjusted SIFMA rate index exceeded the 5% cap. As a result, Central Hudson received an immaterial payout during the year ended December 31, 2022.

See Note 16 – "Accounting for Derivative Instruments and Hedging Activities" for fair value disclosures related to these interest rate cap agreements.

In its 2021 Rate Order, the PSC extended the continued deferral accounting treatment for variations in the interest costs of the 1999 Series B NYSERDA Bonds and the Series E 10-year notes. As such, variations between the actual interest rates on these bonds and the interest rate included in the current

delivery rate structure for these bonds are deferred for future recovery from or refund to customers and therefore do not impact earnings. The regulatory asset or liability related to the variable rate note is included in the “other” category, See Note 4 – “Regulatory Matters”.

Long-Term Debt Maturities

See Note 17 – “Other Fair Value Measurements” for a schedule of long-term debt maturing or to be redeemed during the next five years and thereafter.

Financing Petition

By Order issued and effective November 22, 2021, the PSC authorized Central Hudson to enter into multi-year credit agreements in an aggregate amount not to exceed \$250 million; and to issue and sell new long-term debt in an aggregate amount not to exceed \$412 million through December 2024. The Order also allows Central Hudson to refinance \$33.7 million of existing variable debt obligations prior to December 31, 2024. The approval to issue and sell up to \$412 million of long-term debt provides Central Hudson with additional means to fund operational needs, continued capital investments, and repay maturing debt.

Debt Covenants

CH Energy Group’s \$6.8 million of privately placed notes require compliance with certain covenants including maintaining a ratio of total consolidated debt to total consolidated capitalization of no more than 0.65 to 1.00 and not permitting certain debt, other than the privately placed notes, associated with the unregulated operations of CH Energy Group to exceed 10% of total consolidated assets.

Central Hudson, under the terms of the various note purchase agreements, is subject to similar financial covenants and restrictions to those of CH Energy Group, including restrictions with respect to Central Hudson’s indebtedness and assets. As of December 31, 2022, CH Energy Group and Central Hudson were in compliance with all covenants.

NOTE 12 – Post-Employment Benefits

In its Orders, the PSC has authorized deferral accounting treatment for any variations between actual Pension and OPEB expense, and the amount included in the current delivery rate structure. As a result, variations in expenses for post-employment benefit plans at Central Hudson do not have any impact on earnings.

Pension Benefits

Central Hudson has a non-contributory Retirement Plan covering substantially all of its employees hired before January 1, 2008 and a non-qualified SERP for certain executives. The Retirement Plan is a defined benefit plan, which provides pension benefits based on an employee’s compensation and years of service. In 2007, Central Hudson amended the Retirement Plan to eliminate these benefits for managerial, professional, and supervisory employees hired on or after January 1, 2008. The Retirement Plan for unionized employees was similarly amended for all employees hired on or after May 1, 2008. As of December 31, 2022, 28% of all active employees were eligible to participate in the Retirement Plan. The Retirement Plan’s assets are held in a trust fund. Central Hudson has provided periodic updates to the benefit formulas stated in the Retirement Plan.

Central Hudson’s funded status for Pension benefits was \$57.8 million at December 31, 2022 and \$68.7 million at December 31, 2021. The fluctuation in Central Hudson’s prefunded status of approximately \$10.9 million was the result of a decrease in the plan assets of approximately \$220.4 million, partially offset by the decrease of \$209.5 million in PBO liabilities. The decrease in plan assets

was driven by investment losses and the decrease in liabilities was primarily driven by an increase in the discount rate.

The funded status includes the difference between the PBO 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 \$39.7 million and \$40.1 million of SERP trust assets at December 31, 2022 and 2021.

The cumulative amount of net periodic benefit cost in excess of employer contributions at December 31, 2022 and December 31, 2021 was \$9.6 million and \$26.1 million, respectively. This does not include any cumulative contributions to the SERP as it is a non-qualified plan.

The difference between these amounts and the prefunded assets, totaling \$67.3 million at December 31, 2022 and \$94.8 million at December 31, 2021, represents the required funded status adjustment and will be recognized in Central Hudson's future expense. 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. Therefore, these funded status adjustments have been recorded as a regulatory asset for the portion recoverable from Central Hudson customers in accordance with the 1993 PSC Policy and as OCI for the portion, net of tax, that relates 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.

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

	December 31, 2022 ⁽¹⁾⁽²⁾	December 31, 2021 ⁽¹⁾⁽²⁾
Prefunded pension costs	\$ 57,769	\$ 68,728

- (1) Includes approximately \$0.2 million at December 31, 2022 and December 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 \$1.6 million and \$1.5 million at December 31, 2022 and December 31, 2021, respectively, that is reflected in the Balance Sheet under other current liabilities for pension payments expected to be made over the next twelve months.

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):

	December 31, 2022 ⁽¹⁾⁽²⁾	December 31, 2021 ⁽¹⁾⁽²⁾
Accrued pension costs prior to funding status adjustment	\$ (9,559)	\$ (26,068)
Funding status adjustment required	67,328	94,796
Prefunded Pension Costs	<u>\$ 57,769</u>	<u>\$ 68,728</u>
Offset to Funding Status Adjustment - Regulatory Liability - Pension Plan	<u>\$ (67,109)</u>	<u>\$ (94,773)</u>
Offset to Funding Status Adjustment - Accumulated OCI, Net of Tax of (\$61) and (\$6), respectively	<u>\$ (158)</u>	<u>\$ (17)</u>

- (1) Includes approximately \$0.2 million at December 31, 2022 and December 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 \$1.6 million and \$1.5 million at December 31, 2022 and December 31, 2021, respectively, that is reflected in the Balance Sheet under other current liabilities for pension payments expected to be made over the next twelve months.

Decisions to fund Central Hudson’s Retirement Plan are based on several factors including, but not limited to, the funded status, corporate resources, projected investment returns, actual investment returns, inflation, 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.

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

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

	Year Ended December 31,		
	2022	2021	2020
Retirement Plan	\$ -	\$ -	\$ -
SERP	\$ -	\$ 8,115	\$ 6,998

Retirement Plan Discount Rate

The valuation of the current and prior year PBO was determined using discount rates of 5.21% and 2.76% for December 31, 2022 and 2021, respectively, as determined from the Mercer Pension Discount Yield Curve reflecting projected pension cash flows. A 1.0% increase in the discount rate would decrease the projection of the pension PBO by approximately \$54.0 million. Central Hudson accounts for pension activity in accordance with PSC-prescribed provisions, which among other things, requires a ten-year amortization of actuarial gains and losses.

The 2018 and 2021 Rate Orders include rate allowances for pension and OPEB expense which approximate the recent cost of providing these benefits. Authorization remains in effect for the deferral of any differences between rate allowances and actual costs under the 1993 PSC Policy to counteract the volatility of these costs.

Retirement Plan Expected Long-Term Rates of Return

The expected long-term rate of return on the Retirement Plan assets utilized in the calculation of the net periodic benefit cost, net of investment expense for December 31, 2022 and 2021 is 4.73% and 4.60%, respectively. In determining the expected long-term rate of return on plan assets, Central Hudson considered forward-looking estimated returns evaluated in light of current economic conditions and based on internally consistent economic models. The expected long-term rate of return is a weighted average based on each plan's investment mix and the forward-looking estimated returns for each investment class. Central Hudson monitors actual performance against target asset allocations and adjusts actual allocations and targets in accordance with the Retirement Plan strategy. A 1.0% decrease in the expected long-term rate of return would have increased the 2022 net periodic benefit cost by approximately \$8.6 million.

Retirement Plan Policy and Strategy

Central Hudson’s Retirement Plan investment policy seeks to reduce the plan’s funded status volatility while targeting a rate of growth equivalent to that of the liability within reasonable risk tolerance levels. In addition to traditional risk and return measures, the policy reflects liability-based considerations, including the Retirement Plan’s funded status, contribution requirements, and financial statement items.

Due to market fluctuations, Retirement Plan assets require rebalancing from time to time to maintain the asset allocation within target ranges.

Asset allocation targets in effect as of December 31, 2022, as well as actual asset allocations as of December 31, 2022 and December 31, 2021 expressed as a percentage of the market value of Retirement Plan assets, are summarized in the table below:

Asset Class	Minimum	Target Average	Maximum	December 31, 2022	December 31, 2021
Equity Securities	45%	50%	55%	52.0%	53.2%
Debt Securities	45%	50%	55%	45.3%	45.3%
Other ⁽¹⁾	0%	0%	10%	2.7%	1.5%

⁽¹⁾ Consists of temporary cash investments, as well as receivables for investments sold and interest and payables for investments purchased, which have not settled as of that date.

Management uses outside consultants and outside investment managers to aid in the determination of the Retirement Plan's asset allocation and to provide the management of actual plan assets, respectively.

Retirement Plan Investment Valuation

The Retirement Plan assets consist primarily of investment funds which are valued using Net Asset Value, which is not considered fair value. For those assets that are valued under the current fair value framework, the inputs or methodology used are not necessarily an indication of the risk associated with investing in those securities. See Note 16 – "Accounting for Derivative Instruments and Hedging Activities" for further discussion regarding the definition and levels of fair value hierarchy established by accounting guidance.

Below is a listing of the major categories of plan assets held as of December 31, 2022, and 2021, that are reported at net asset value or fair value, as indicated (Dollars in Thousands):

Investment Type	Value at 12/31/22	% of Total	Value at 12/31/21	% of Total
At Net Asset Value:				
Investment funds - equities	\$ 341,011	52.0%	\$ 466,054	53.2%
Investment funds - fixed income	99,281	15.1	135,040	15.4
At Fair Value:				
Level 2:				
Cash equivalents	15,680	2.4	11,203	1.3
Investment funds - fixed income	197,603	30.2	261,887	29.9
Other investments	2,058	0.3	1,875	0.2
	<u>\$ 655,633</u>	<u>100.0%</u>	<u>\$ 876,059</u>	<u>100.0%</u>

Other Post-Retirement Benefits

Central Hudson also provides certain health care and life insurance benefits for certain retired employees through its post-retirement benefit plans. Substantially all of Central Hudson's unionized employees and managerial, professional and supervisory employees ("non-union") hired prior to January 1, 2008, may become eligible for these benefits if they reach retirement age while employed by Central Hudson. Central Hudson amended its OPEB programs for existing non-union and certain retired employees effective January 1, 2008, which eliminated post-retirement benefits for non-union employees hired on or after January 1, 2008. OPEB plans were also amended to eliminate post-retirement benefits for union employees hired on or after May 1, 2008. Benefits for retirees and active

employees are provided through insurance companies whose premiums are based on the benefits paid during the year.

The significant assumptions used to account for these benefits are the discount rate, expected long-term rate of return on plan assets, and health care cost trend rate. Central Hudson currently selects the discount rate using the Mercer Pension Discount Yield Curve reflecting projected cash flows. The expected long-term rates of return and the investment policy and strategy for these plan assets are similar to those used for pension benefits previously discussed in this Note. The estimates of health care cost trend rates are based on a review of actual recent trends and projected future trends.

Central Hudson fully recovers its net periodic post-retirement benefit costs in accordance with the 1993 PSC Policy. Under these guidelines, the difference between the amounts of post-retirement benefits recoverable in rates and the amounts of post-retirement benefits determined by an actuarial consultant in accordance with current accounting guidance related to OPEB is deferred as either a regulatory asset or a regulatory liability, as appropriate.

Central Hudson’s prefunded asset for OPEB was \$31.5 million and \$30.5 million at December 31, 2022 and 2021, respectively. The increase in the over-funded status of approximately \$1.0 million resulted from a decrease in plan liabilities of approximately \$39.0 million, partially offset by a decrease in plan assets of \$38.0 million. The decrease in plan liabilities was primarily driven by an increase in the discount rate. The decrease in plan assets was primarily driven by investment losses.

The cumulative amount of net periodic benefit cost in excess of employer contributions at December 31, 2022 and December 31, 2021 was \$9.6 million and \$0.6 million, respectively. The difference between these amounts and the over-funded asset balance, totaling \$21.7 million at December 31, 2022 and \$31.1 million at December 31, 2021, will be recognized as a credit in Central Hudson’s future expense and has been recorded as a regulatory liability in accordance with the 1993 PSC Policy.

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.

Contributions to the Central Hudson OPEB Plans were as follows (In Thousands):

	Year Ended December 31,		
	2022	2021	2020
OPEB Plans	\$ 528	\$ 812	\$ 1,081

OPEB Healthcare Cost Trend Rate

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plan. A 1.0% change in assumed health care cost trend rates would have the following effects (In Thousands):

	One Percentage Point	
	Increase	Decrease
Effect on total of service and interest cost components for 2022	\$ 784	\$ (621)
Effect on year-end 2022 post-retirement benefit obligation	\$ 9,044	\$ (7,587)

OPEB Discount Rate

The PBO for Central Hudson’s obligation for OPEB costs was determined using a discount rate of 5.21% and 2.74% for December 31, 2022 and 2021, respectively. This rate was determined using the

Mercer Pension Discount Yield Curve reflecting projected cash flows. A 1.0% increase in the discount rate for 2022 would have decreased the projection of the OPEB obligation by approximately \$10.7 million.

OPEB Expected Long-Term Rates of Return

The expected long-term rate of return on OPEB assets utilized in the calculation of the net periodic benefit cost, net of investment expense for December 31, 2022 and 2021 is 5.14% and 5.01%, respectively. In determining the expected long-term rate of return on plan assets, Central Hudson considered forward-looking estimated returns for each asset class evaluated in light of current economic conditions. The expected long-term rate of return is a weighted average based on each plan's investment mix and the forward-looking estimated returns for each investment class. A 1.0% decrease in the expected long-term rate of return would have increased the 2022 net periodic benefit cost by \$1.8 million. Central Hudson monitors actual performance against target asset allocations and adjusts actual allocations and targets, as deemed appropriate, in accordance with the OPEB plan's strategy.

OPEB Policy and Strategy

Central Hudson currently funds its union OPEB obligations through a voluntary employee's beneficiary association ("VEBA") and funds its management OPEB liabilities through a 401(h) plan. The VEBA and 401(h) plan are both a form of trust fund. Central Hudson's VEBA investment policy seeks to achieve a rate of return for the VEBA over the long term that contributes to meeting the VEBA's current and future obligations, including interest and benefit payment obligations. The policy also seeks to earn long-term returns from capital appreciation and current income that at least keep pace with inflation over the long term. Central Hudson's 401(h) plan is invested with the previously mentioned Retirement Plan's investments. However, there are no assurances that the OPEB plan's return objectives will be achieved.

The asset allocation strategy employed in the VEBA reflects Central Hudson's return objectives and what management believes is an acceptable level of short-term volatility in the market value of the VEBA's assets in exchange for potentially higher long-term returns. The mix of assets are broadly diversified by asset class and investment styles within asset classes, based on the following asset allocation targets, expressed as a percentage of the market value of the VEBA's assets, summarized in the table below:

Asset Class	Minimum	Target Average	Maximum	December 31, 2022	December 31, 2021
Equity Securities	55%	65%	75%	66.9%	68.7%
Debt Securities	25%	35%	45%	32.5%	30.9%
Other	- %	- %	- %	0.6%	0.4%

Due to market value fluctuations, the OPEB plan's assets require periodic rebalancing from time to time to maintain the asset allocation within target ranges.

Management uses outside consultants and outside investment managers to aid in the determination of the OPEB plan's asset allocation and to provide the management of actual plan assets, respectively.

OPEB Investment Valuation

The OPEB plan's assets consist primarily of investment funds that are valued using Net Asset Value, which is not considered fair value. For those assets that are valued under the current fair value framework, the inputs or methodology used are not necessarily an indication of the risk associated with investing in those securities. See Note 16 – "Accounting for Derivative and Hedging Activities" for further discussion regarding the definition and levels of fair value hierarchy established by guidance.

Below is a listing of the major categories of plan assets held as of December 31, 2022 and 2021, that are reported at net asset value or fair value, as indicated (Dollars in Thousands):

401(h) Plan Assets

Investment Type	Market Value at 12/31/22	% of Total	Market Value at 12/31/21	% of Total
At Net Asset Value:				
Investment funds - equities	\$ 13,308	52.0%	\$ 18,429	53.2%
Investment funds - fixed income	3,875	15.1	5,340	15.4
At Fair Value:				
Level 2:				
Cash equivalents	605	2.4	439	1.3
Investment funds - fixed income	7,712	30.2	10,356	29.9
Other investments	87	0.3	78	0.2
	<u>\$ 25,587</u>	<u>100.0%</u>	<u>\$ 34,642</u>	<u>100.0%</u>

Union VEBA Plan Assets

Investment Type	Market Value at 12/31/22	% of Total	Market Value at 12/31/21	% of Total
At Fair Value:				
Level 1:				
Cash equivalents	\$ 723	0.6 %	\$ 628	0.4 %
Investment funds - equities	77,686	66.9	99,598	68.7
Investment funds - fixed income	37,671	32.5	44,849	30.9
	<u>\$ 116,080</u>	<u>100.0 %</u>	<u>\$ 145,075</u>	<u>100.0 %</u>

Detail of the change in Central Hudson's Pension and OPEB benefit obligations, fair value of plan assets, and funded status as of and for the periods ended December 31, 2022 and 2021 are as follows (In Thousands):

	Pension Benefits ⁽¹⁾		Other Post Retirement Benefits	
	2022	2021	2022	2021
Change in Benefit Obligation:				
Benefit Obligation at beginning of year	\$ 807,331	\$ 854,983	\$ 149,237	\$ 157,141
Service cost	12,938	15,053	1,588	1,875
Interest cost	22,033	19,849	3,989	3,568
Participant contributions	-	-	1,506	1,332
Plan amendments	-	-	896	-
Benefits paid	(37,808)	(36,012)	(8,620)	(7,609)
Actuarial gain	(206,630)	(46,542)	(38,391)	(7,070)
Benefit Obligation at end of year	<u>\$ 597,864</u>	<u>\$ 807,331</u>	<u>\$ 110,205</u>	<u>\$ 149,237</u>
Change in Value of Plan Assets:				
Fair Value of Plan Assets at beginning of year	\$ 876,059	\$ 828,170	\$ 179,717	\$ 163,638
Actual return on plan assets	(182,163)	84,281	(31,363)	21,848
Employer contributions	1,488	1,476	528	812
Participant contributions	-	-	1,506	1,332
Benefits paid	(37,808)	(36,012)	(8,620)	(7,609)
Other	(1,943)	(1,856)	(101)	(304)
Fair Value of Plan Assets at end of year	<u>\$ 655,633</u>	<u>\$ 876,059</u>	<u>\$ 141,667</u>	<u>\$ 179,717</u>
Funded Status at end of year	<u>\$ 57,769</u>	<u>\$ 68,728</u>	<u>\$ 31,462</u>	<u>\$ 30,480</u>

(1) The plan assets as presented in this chart do not include approximately \$39.7 million and \$40.1 million of SERP trust assets at December 31, 2022 and 2021.

The following table summarizes the employee future benefit assets and liabilities and their classifications on the Consolidated Balance Sheets and Statements of Comprehensive Income at December 31 (In Thousands):

	Pension Benefits ⁽¹⁾		Other Post Retirement Benefits	
	2022	2021	2022	2021
Amounts Recognized on Balance Sheet:				
Noncurrent assets	\$ 59,365	\$ 70,222	\$ 31,462	\$ 30,480
Current liabilities	(1,596)	(1,494)	-	-
Funded Status at end of year	<u>\$ 57,769</u>	<u>\$ 68,728</u>	<u>\$ 31,462</u>	<u>\$ 30,480</u>
Regulatory asset:				
Net actuarial gain	\$ (68,452)	\$ (96,441)	\$ (21,224)	\$ (29,264)
Prior service costs (credit)	\$ 1,124	\$ 1,645	\$ (518)	\$ (1,841)
Other comprehensive income:				
Net actuarial gain, net of tax	\$ (158)	\$ (18)	\$ (6)	\$ (2)
Prior service costs, net of tax	\$ (2)	\$ 1	\$ -	\$ -

(1) The funded status in this chart does not reflect approximately \$39.7 million and \$40.1 million of SERP trust assets at December 31, 2022 and 2021.

Central Hudson's net periodic benefit costs for its Pension and OPEB plans for the periods ended December 31, 2022 and 2021 are as follows (In Thousands):

	Pension Benefits		Other Post Retirement Benefits	
	2022	2021	2022	2021
Components of Net Periodic (Benefit) Cost:				
Service cost	\$ 12,938	\$ 15,053	\$ 1,588	\$ 1,875
Interest cost	22,033	19,849	3,989	3,568
Expected return on plan assets	(39,412)	(36,168)	(8,970)	(7,944)
Amortization of prior service cost (credit)	521	527	(427)	(456)
Amortization of recognized actuarial net (gain)/loss	(11,102)	2,532	(5,726)	(2,601)
Net Periodic (Benefit) Cost	<u>\$ (15,022)</u>	<u>\$ 1,793</u>	<u>\$ (9,546)</u>	<u>\$ (5,558)</u>

The following table provides the components recognized in net periodic benefit cost and as regulatory assets, which otherwise would have been recognized in comprehensive income, as well as the weighted average assumptions used in the periods (Dollars In Thousands):

	Pension Benefits ⁽¹⁾		Other Post Retirement Benefits	
	2022	2021	2022	2021
Other Changes in Plan Assets and Benefit Obligation Recognized in Regulatory Assets:				
Net loss (gain)	\$ 16,888	\$ (92,801)	\$ 2,313	\$ (20,431)
Amortization of actuarial net gain (loss)	11,102	(2,532)	5,726	2,601
Plan amendments ⁽²⁾	-	-	896	-
Amortization of prior service (cost) credit	(521)	(527)	427	456
Total recognized in regulatory asset	<u>\$ 27,469</u>	<u>\$ (95,860)</u>	<u>\$ 9,362</u>	<u>\$ (17,374)</u>
Total Recognized in Net Periodic Cost (Benefit) and Regulatory Asset	<u>\$ 12,447</u>	<u>\$ (94,067)</u>	<u>\$ (184)</u>	<u>\$ (22,932)</u>
Weighted-average assumptions used to determine benefit obligations:				
Discount rate	5.21%	2.76%	5.21%	2.74%
Rate of compensation increase (average)	3.90%	3.90%	3.90%	3.90%
Measurement date	12/31/22	12/31/21	12/31/22	12/31/21
Weighted-average assumptions used to determine net periodic benefit cost for years ended December 31:				
Discount rate	2.76%	2.34%	2.74%	2.32%
Expected long-term rate of return on plan assets	4.73%	4.60%	5.14%	5.01%
Rate of compensation increase (average)	3.90%	3.90%	3.90%	3.90%

Assumed health care cost trend rates at December 31:

Health care cost trend rate assumed for next year	N/A	N/A	6.84%	6.00%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	N/A	N/A	4.00%	4.00%
Year that the rate reaches the ultimate trend rate	N/A	N/A	2047	2046
Accumulated Benefit Obligation	\$ 570,905	\$ 756,806	N/A	N/A

(1) The fair value of plan assets presented in this chart does not include approximately \$39.7 million and \$40.1 million of SERP trust assets at December 31, 2022 and 2021.

(2) The plan amendment represents the new post-retirement Health Reimbursement Account negotiated for certain union employees as part of the Union Agreement and also extended to certain management employees.

Estimated net loss of \$10.5 million and prior service cost of \$0.5 million for the defined benefit pension plans will be amortized from regulatory asset and OCI respectively, into net periodic benefit cost over the next fiscal year. Estimated net gain of \$5.0 million and prior service credit of \$0.4 million for the other defined benefit post-retirement plans will be amortized from regulatory asset and OCI respectively, into net periodic benefit cost over the next fiscal year. The amount of transitional obligation to be amortized from regulatory asset and OCI is immaterial.

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service as appropriate, are expected to be paid (In Thousands):

Year	Pension Benefits - Gross	Other Benefits - Gross	Other Benefits - Net ⁽¹⁾
2023	\$ 39,580	\$ 8,203	\$ 7,663
2024	39,944	8,527	7,976
2025	40,619	8,684	8,116
2026	41,505	8,984	8,405
2027	42,102	9,037	8,437
Next five years	211,673	42,763	39,498

(1) Estimated benefit payments reduced by estimated gross amount of Medicare Act of 2003 subsidy receipts expected.

401(k) Retirement Plan

Central Hudson sponsors a 401(k) plan for its employees. The 401(k) plan provides for employee tax-deferred salary deductions for participating employees and employer matches. The matching benefit varies by employee group. Central Hudson's matching contributions for the years ended December 31, 2022, 2021, and 2020 were \$6.0 million, \$5.8 million, and \$5.6 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 \$3.2 million, \$2.8 million, and \$2.7 million for 2022, 2021, and 2020, respectively.

NOTE 13 – 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 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 and 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 also granted 25,562 Units under the Central Hudson 2022 Share Unit Plan ("2022 SUP"), representing a portion of the officers' long-term incentives. The 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.

In January 2021, officers of Central Hudson were granted Units under the 2021 Fortis Restricted Share Unit Plan ("2021 RSUP"), representing a portion of the officers' long-term incentives. The 2021 Restricted Units granted were time-based and vest at the end of the three-year period without regard to performance. Each 2021 RSUP Unit granted has an underlying value equivalent to the value of one common share of Fortis and, if earned and vested, is paid in cash, unless a participant does not satisfy their share ownership requirements or chooses to settle in shares. The settlement in shares by a participant will result in the modification from a liability award to an equity award and an election to settle in shares cannot be made later than 30 days prior to the awards vesting. The foreign exchange rate utilized for cash payout in the US dollar equivalent for each plan corresponds to the exchange rate on the business day prior to the date of that 2021 RSUP Unit grant. Each 2021 RSUP Unit accrues notional dividend equivalents equal to the dividends declared by the Fortis Board of Directors on Fortis common shares.

In January 2021, officers of Central Hudson were granted Units under the Central Hudson 2021 Share Unit Plan ("2021 SUP"), representing a portion of the officers' long-term incentives. The 2021 SUP Units granted were performance based and vest at the end of the three-year performance period upon achievement of specified cumulative performance goals. Each 2021 SUP Unit granted has an underlying value equivalent to the value of one common share of Fortis and, if earned and vested, is paid in cash. The foreign exchange rate utilized for cash payout in the US dollar equivalent for each plan corresponds to the exchange rate on the business day prior to the date of that 2021 SUP Unit grant. Each 2021 SUP Unit accrues notional dividend equivalents equal to the dividends declared by the Fortis Board of Directors on Fortis common shares.

In 2020, officers of CH Energy Group and Central Hudson were granted Units under the 2020 Fortis Restricted Share Unit Plan ("2020 RSUP"), representing a portion of the officers' long-term incentives. The 2020 Restricted Units granted are time-based and vest at the end of the three-year period without regard to performance. Each 2020 RSUP Unit granted has an underlying value equivalent to the value of one common share of Fortis and, if earned and vested, is paid in cash, unless a participant does not satisfy their share ownership requirements or chooses to settle in shares. The settlement in shares by a participant will result in the modification from a liability award to an equity award and an election to settle in shares cannot be made later than 30 days prior to the awards vesting. The foreign exchange rate utilized for cash payout in the US dollar equivalent for each plan corresponds to the exchange rate on the business day prior to the date of the 2020 RSUP Unit grant. Each 2020 RSUP Unit accrues notional dividend equivalents equal to the dividends declared by the Fortis Board of Directors on Fortis common shares.

In prior periods, CH Energy Group granted Units to an officer of CH Energy Group under Performance Share Unit Plans, the (“2020 PSUP”) in 2020 and the (“2019 PSUP”) in 2019, (collectively “PSUP”). The PSUP Units granted under these plans are primarily performance based and vest upon achievement of specified performance goals over the applicable three-year performance period. The 2019 PSUP also included the grant of time-based awards that vest at the end of the three-year period without regard to performance. Each PSUP Unit has an underlying value equivalent to the value of one common share of Fortis and, if earned and vested, is paid in cash. The foreign exchange rate utilized for cash payout in the US dollar equivalent corresponds to the exchange rate on the business day prior to the date of the PSUP Unit grant. Each PSUP Unit accrues notional dividend equivalents equal to the dividends declared by the Fortis Board of Directors on Fortis common shares.

Officers of Central Hudson were granted Units under the Central Hudson 2020 (“2020 SUP”), and the 2019 (“2019 SUP”) Share Unit Plans, collectively the (“SUP plans”), representing a portion of the officers’ long-term incentives. The 2020 SUP Units granted are performance based and vest at the end of the three-year performance period upon achievement of specified cumulative performance goals. Two-thirds of the SUP Units granted under the 2019 SUP are performance based and vest at the end of the respective three-year performance period upon achievement of specified cumulative performance goals. The remaining SUP Units that were granted under the 2019 SUP, are time-based and vest at the end of the respective three-year period without regard to performance. For all grants issued under the SUP plans, each SUP Unit is equivalent to the value of one common share of Fortis and, if earned and vested, is paid in cash. The foreign exchange rate utilized for cash payout in the US dollar equivalent for each plan corresponds to the exchange rate on the business day prior to the date of that SUP Unit grant. Each SUP Unit accrues notional dividend equivalents equal to the dividends declared by the Fortis Board of Directors on Fortis common shares.

Awards granted under the 2019 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		Performance Based	
			Granted	Outstanding ⁽⁵⁾	Granted	Outstanding ⁽⁵⁾
2020 RSUP ⁽²⁾⁽³⁾	January 1, 2020	\$ 41.55	7,257	-	-	-
2020 PSUP ⁽²⁾	January 1, 2020	\$ 41.55	-	-	21,770	24,317
2019 PSUP ⁽¹⁾	January 1, 2019	\$ 33.10	8,838	-	26,514	-

Central Hudson:	Grant Date	Grant Date Fair Value	Time Based		Performance Based	
			Granted	Outstanding ⁽⁵⁾	Granted	Outstanding ⁽⁵⁾
2022 RSUP ⁽⁴⁾	January 1, 2022	\$ 48.18	12,781	12,384	-	-
2022 SUP	January 1, 2022	\$ 48.18	-	-	25,562	26,526
2021 RSUP ⁽⁴⁾	January 1, 2021	\$ 41.12	14,249	14,374	-	-
2021 SUP	January 1, 2021	\$ 41.12	-	-	28,497	30,704
2020 RSUP ⁽²⁾⁽⁴⁾	January 1, 2020	\$ 41.55	12,655	13,164	-	-
2020 SUP ⁽²⁾	January 1, 2020	\$ 41.55	-	-	25,311	28,272
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⁾In the third quarter of 2022, per the 2020 RSUP agreement, time-based units were paid out related to an Officer retirement at 7,811 shares at \$61.08 per unit.

⁽⁴⁾In the fourth quarter of 2022, as a result of a separation of employment, 962 units of 2020 RSUP, 968 units of 2021 RSUP and 870 units of 2022 RSUP were forfeited.

⁽⁵⁾Includes notional dividends accrued as of December 31, 2022.

Compensation Expense

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

	Year Ended December 31,		
	2022	2021	2020
CH Energy Group	\$ 44	\$ 2,617	\$ 2,434
Central Hudson	\$ 44	\$ 2,618	\$ 2,435

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.

Employee Share Purchase Plan

Effective May 17, 2017, the Company adopted the Fortis Amended and Restated 2012 Employee Share Purchase Plan ("ESPP"). Fortis authorized 600,000 of its common shares to be offered under the ESPP. The ESPP allows eligible employees of Fortis and adopting subsidiaries to contribute during any investment period an amount not less than 1% and not more than 10% of their eligible compensation to purchase Fortis' common shares. Under the ESPP, employees are entitled to fund contributions through interest free loans from the Company. At December 31, 2022 and 2021, employee loans due to the Company related to the ESPP were approximately \$0.3 million and \$0.2 million, respectively.

The ESPP provides that the Company will contribute as additional salary, an amount equal to 10% of an employee's contribution up to a maximum contribution of 1% of eligible compensation. The Company will also contribute an amount equal to 10% of all dividends payable by Fortis on all common stock allocated to an employee's ESPP account. Common shares are purchased under the ESPP concurrent with the quarterly dividend payment dates of March 1, June 1, September 1, and December 1.

NOTE 14 – Commitments and Contingencies

Electricity Purchase Commitments

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

Energy Credit Purchase Obligations

In August 2016, the PSC issued Order 15-E-0302 adopting a Clean Energy Standard (“CES”) that outlined a LSE obligation for Renewable Energy Credits (“RECs”) and Zero-Emissions Credit (“ZECs”) requirements to meet New York State clean energy goals. This Order charged NYSEERDA to work with the DPS Staff to develop an Implementation Plan for each CES Program for approval by the PSC. Tier 1 and Tier 2 Competitive RECs and Tier 3 ZECs are “pay-as-you-go” based on Central Hudson’s monthly full-service customer load volume as defined by NYISO billing data and a load modifier adjustment factor. Presently, there are four Tiers comprising five different LSE obligations:

Tier 1 RECs: The 2016 CES Order, for which Central Hudson’s obligations began in January 2017, directed NYSEERDA to perform annual Divergence Tests to monitor CES program performance. LSEs, which include Central Hudson, have been required to obtain Tier 1 RECs in amounts determined by the PSC. Beginning in January 2021, NYSEERDA introduced Indexed Tier 1 RECs to replace the fixed REC pricing model. Tier 1 REC pricing is set through quarterly competitive auctions and a weighted average of vintage fixed and new indexed RECs. An Alternative Compliance Payment (“ACP”) is set in advance of each compliance year. In March 2022, the PSC issued a Modifying Order that revised the Tier 1 REC obligations through calendar year 2024. LSEs may satisfy their Tier 1 REC obligation by purchasing Tier 1 RECs acquired through central procurement from NYSEERDA, direct purchase of tradable Tier 1 RECs on the secondary market, through Value Stack offset or by making ACPs. Central Hudson has satisfied Tier 1 REC obligations from Value Stack offset through December 2022. At December 31, 2022, the forward Tier 1 obligations for Central Hudson full-service customers is estimated to be approximately \$5.2 million through December 31, 2024.

Tier 2 Maintenance RECs: Obligations are assessed to an electric transmission territory for any Renewable Portfolio Standard program generator with proven financial hardship. Presently, Central Hudson has no Tier 2 Maintenance REC obligations in its service territory.

Tier 2 Competitive RECs: In October 2020, the PSC issued a Modifying Order that set requirements for Tier 2 Competitive RECs through calendar year 2025 with a New York State-wide cap of \$200 million. Central Hudson’s full-service customer load-ratio share of the cap is \$4 million. Tier 2 REC pricing is administratively set by NYSEERDA based on Tier 2 auction results. No awards were made by NYSEERDA in the last two Requests For Proposals (“RFPs”) and as of November 2022, calendar year 2023, will be the last year of the current Tier 2 Competitive program. NYSEERDA is soliciting industry comments for ideas on how to modify the program. At this time, Central Hudson’s Tier 2 Competitive REC obligations have been materially reduced from \$4 million to less than \$0.05 million. Central Hudson’s full-service customer obligation will be immaterial through December 31, 2023.

Tier 3 ZECs: Obligations began in April 2017 and the CES contemplated six two-year tranches for a total of 12 years of obligations through March 2029. ZEC requirements are based on an administratively determined, annually defined, price to support the financial health of three nuclear plants in upstate New York. At December 31, 2022, Central Hudson’s estimated Tier 3 ZEC obligation through March 31, 2023 is estimated to be approximately \$2.9 million.

Tier 4 RECs: Future obligations for Tier 4 RECs are outlined in the October 2021 CES Modifying Order. These RECs will be tied to deliverability requirements into New York City NYISO Zone J. Central Hudson has no Tier 4 REC obligations defined at this time.

The estimated cost projections listed above are recoverable from full-service customers through electric cost adjustment mechanism and, therefore, do not impact earnings.

Commitments

The following is a summary of commitments for CH Energy Group and its affiliates as of December 31, 2022 (In Thousands):

	Projected Payments Due By Period						Total
	Year Ending 2023	Year Ending 2024	Year Ending 2025	Year Ending 2026	Year Ending 2027	Thereafter	
Recorded Contractual Obligations:							
Operating leases	\$ 564	\$ 525	\$ 469	\$ 422	\$ 1,708	\$ -	\$ 3,688
Repayments of long-term debt	2,100	32,245	22,400	50,000	50,000	969,401	1,126,146
Current installments of credit facilities	105,000	-	-	-	-	-	105,000
Stock-based compensation obligations	2,782	1,048	844	-	-	-	4,674
Unrecorded Contractual Obligations:							
Purchased electric contracts ⁽¹⁾	14,378	3,247	143	143	143	143	18,197
REC purchase agreements ⁽¹⁾	5,476	2,704	-	-	-	-	8,180
Purchased natural gas contracts ⁽¹⁾	38,385	15,453	8,322	6,780	3,611	10,335	82,886
Interest obligations on long-term debt	46,561	45,126	44,243	43,822	41,378	582,687	803,817
Total	<u>\$ 215,246</u>	<u>\$ 100,348</u>	<u>\$ 76,421</u>	<u>\$ 101,167</u>	<u>\$ 96,840</u>	<u>\$ 1,562,566</u>	<u>\$ 2,152,588</u>

(1) Purchased electric, purchased natural gas costs, and REC purchase agreements for Central Hudson are fully recovered via their respective regulatory cost adjustment mechanisms.

The following is a summary of commitments for Central Hudson as of December 31, 2022 (In Thousands):

	Projected Payments Due By Period						Total
	Year Ending 2023	Year Ending 2024	Year Ending 2025	Year Ending 2026	Year Ending 2027	Thereafter	
Recorded Contractual Obligations:							
Operating leases	\$ 564	\$ 525	\$ 469	\$ 422	\$ 1,708	\$ -	\$ 3,688
Repayments of long-term debt	-	30,000	20,000	50,000	50,000	969,400	1,119,400
Current installments of credit facilities	105,000	-	-	-	-	-	105,000
Stock-based compensation obligations	1,658	1,048	844	-	-	-	3,550
Unrecorded Contractual Obligations:							
Purchased electric contracts ⁽¹⁾	14,378	3,247	143	143	143	143	18,197
REC purchase agreements ⁽¹⁾	5,476	2,704	-	-	-	-	8,180
Purchased natural gas contracts ⁽¹⁾	38,385	15,453	8,322	6,780	3,611	10,335	82,886
Interest obligations on long-term debt	46,137	44,848	44,120	43,822	41,378	582,687	802,992
Total	<u>\$ 211,598</u>	<u>\$ 97,825</u>	<u>\$ 73,898</u>	<u>\$ 101,167</u>	<u>\$ 96,840</u>	<u>\$ 1,562,565</u>	<u>\$ 2,143,893</u>

(1) Purchased electric, purchased natural gas costs, and REC purchase agreements for Central Hudson are fully recovered via their respective regulatory cost adjustment mechanisms.

Other Commitments

Capital Expenditures

Central Hudson is a regulated utility and, as such, is obligated to provide service to customers within its service territory. Central Hudson's capital expenditures are largely driven by the need to ensure the continued and enhanced reliability and safety of the electric and natural gas systems for the long-term benefit of customers.

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 2023, Central Hudson made an immaterial contribution to the 401(h) Plan to fund the OPEB plan, in accordance with Central Hudson's OPEB policy and strategy.

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. At December 31, 2022, the SERP was fully funded for 2022, 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 \$182.0 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 December 31, 2022, the amount of the outstanding parental guarantee is \$54.5 million. CH Energy Group is currently not aware of any existing condition that would require any payments under this guarantee.

Contingencies

Environmental Matters

Central Hudson

- Site Investigation and Remediation Program

Central Hudson has been notified by the New York State Department of Environmental Conservation ("DEC") that it believes Central Hudson or its predecessors, at one time, owned and/or operated manufactured gas plants ("MGP") to serve their customers' heating and lighting needs, at seven sites in Central Hudson's franchise territory. The DEC has further requested that Central Hudson investigate and, if necessary, remediate these sites. In addition, Central Hudson is also performing environmental SIR at two non-MGP sites within its service territory, Little Britain Road, and Eltings Corners.

Central Hudson accrues for remediation costs based on the amounts that can be reasonably estimated at a point in time. At December 31, 2022, Central Hudson has accrued \$73.9 million with respect to all SIR activities, including operation, maintenance, and monitoring costs ("OM&M"), of which \$3.7 million is anticipated to be spent in the next twelve months.

SIR can be divided into various stages of completion based on the milestones of activities completed and reports reviewed. The types of costs accrued during the various stages include:

1. *Investigation* – Begins with preliminary investigations and is completed upon filing and approval by DEC of a Remedial Investigation (“RI”) Report. Central Hudson accrues for estimated investigation costs.
2. *Remedial Alternatives Analysis (“RAA”)* – Engineering analysis of alternatives for remediation based on the RI is compiled into a RAA Report. Management accrues for an estimate of remediation costs developed and quantified in the RAA based on DEC approved methods, as well as an estimate of post-remediation OM&M. These amounts represent a significant portion of the total costs to remediate and are subject to change based on further investigations, final remedial design and associated engineering estimates, regulatory comments and requests, remedial design changes/negotiations, and changed or unforeseen conditions during the remediation or additional requirements following the remediation. Prior to the completion of the RAA, management cannot reasonably estimate what cost will be incurred for remediation or post-remediation activities.
3. *Remedial Design* - Upon approval of the RAA and final decision of remediation approach based on alternatives presented, a Remedial Design (“RD”) or Remedial Action Work Plan is developed and filed with the DEC for approval.
4. *Remediation* – Completion of the work plan as defined in the approved RD. Upon completion, final reports are filed with the DEC for approval and may include a Construction Completion Report, Final Engineering Report, or other reports required by the DEC based on the work performed.
5. *Post-Remediation Monitoring* – Entails the OM&M as directed by the DEC based on the approved final report of remediation. The activities are typically defined in a Site Management Plan, which is approved by the DEC. The extent of activities during this phase may increase or decrease based on the results of ongoing monitoring being performed and future potential usage of the property.
6. *No Action Required* – No further investigation or remedial action is currently required. No further costs are expected, and no amounts are accrued related to this site.

These stages, the costs accrued and the sites currently in each stage include (Dollars in Millions):

Stage	Sites	Total Accrued Cost at December 31, 2022	Estimated spend in the next twelve months
Investigation	Little Britain Road	\$ 2.0	\$ 0.1
Remedial alternatives analysis		-	-
Remedial design		-	-
Remediation	North Water Street	67.6	3.5
Post-remediation monitoring	Newburgh Areas A, B & C, Laurel Street, Catskill, Kingston, and Eltings Corners	4.3	0.1
No action required	Beacon and Bayeaux Street	-	-
Total		\$ 73.9	\$ 3.7

There were no significant updates during the twelve months ended December 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.
- An Air Bubble Curtain (“ABC”) lab pilot test work plan was provided to the NYSDEC for informational purposes on January 11, 2022. Central Hudson has kept the NYSDEC informed as the study progressed and will provide a summary report upon conclusion. The field portion of the ABC bench scale pilot test activities were completed on December 10, 2022. Modeling and reporting will continue into the first quarter of 2023. Depending on the results of the laboratory testing and modeling, in-river testing may be conducted beginning in 2023.

- On April 8, 2022, Central Hudson received a response from the NYSDEC with regard to the November 2021 FRAA. Central Hudson sent a response to the comments on May 24, 2022. Overall, the comment letter indicated that the tests of alternate containment methods (i.e., ABC 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 December 31, 2022. Furthermore, management believes that the alternatives included in the FRAA continue to be the best potential remedial options going forward and, as such, continues to accrue for the cost at the low end of the range.
- The total accrual for remediation as of December 31, 2022, for this site of \$67.6 million reflects management's estimate of the low end of a predictive cost estimate range of potential alternatives, including an adjustment for inflation of \$3.2 million 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 December 31, 2022, for the next 12 months of approximately \$3.5 million is primarily based on anticipated efforts to complete analysis, modeling, and reporting of the results of the laboratory bench scale testing of an ABC, and dependent upon results, conduct in-river testing, and continue discussions regarding alternative remedial approaches following completion of the ABC test(s).

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 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 \$11.8 million recovered through December 31, 2022. The 2018 Rate Order included cash recovery of \$25.7 million through the rate plan period ended June 30, 2021, all of which had been fully recovered.
- The total spending related to site investigation and remediation for the years ended December 31, 2022 and 2021 was approximately \$1.2 million and \$3.3 million, respectively.

- The regulatory asset balance as of December 31, 2022 and December 31, 2021 was \$71.4 million and \$76.0 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 years ended December 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 December 31, 2022, of the 3,387 asbestos cases brought against Central Hudson, 1,164 remain pending. Of the cases no longer pending against Central Hudson, 2,058 have been dismissed or discontinued without payment by Central Hudson and Central Hudson has settled 164 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 15 – 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)

Year Ended December 31, 2022

	Segments		Other		Total
	Central Hudson		Businesses and		
	Electric	Natural Gas	Investments	Eliminations	
Revenues from external customers	\$ 797,612	\$ 220,744	\$ -	\$ -	\$ 1,018,356
Intersegment revenues	56	1,159	-	(1,215)	-
Total operating revenues	797,668	221,903	-	(1,215)	1,018,356
Energy supply costs	323,558	80,234	-	(1,215)	402,577
Operating expenses	354,747	84,586	315	-	439,648
Depreciation and amortization	60,624	19,392	-	-	80,016
Operating income (loss)	58,739	37,691	(315)	-	96,115
Other income, net	33,803	8,737	2,559	-	45,099
Interest charges	27,945	12,402	554	-	40,901
Income before income taxes	64,597	34,026	1,690	-	100,313
Income tax expense	12,084	8,447	649	-	21,180
Net Income Attributable to CH Energy Group	\$ 52,513	\$ 25,579	\$ 1,041	\$ -	\$ 79,133
Segment Assets at December 31, 2022	\$ 2,399,549	\$ 907,893	\$ 27,371	\$ (779)	\$ 3,334,034
Capital Expenditures	\$ 158,897	\$ 65,945	\$ -	\$ -	\$ 224,842

CH Energy Group Segment Disclosure

(In Thousands)

Year Ended December 31, 2021

	Segments		Other		Total
	Central Hudson		Businesses and		
	Electric	Natural Gas	Investments	Eliminations	
Revenues from external customers	\$ 623,823	\$ 172,425	\$ -	\$ -	\$ 796,248
Intersegment revenues	59	243	-	(302)	-
Total operating revenues	623,882	172,668	-	(302)	796,248
Energy supply costs	178,795	48,504	-	(302)	226,997
Operating expenses	320,246	76,256	218	-	396,720
Depreciation and amortization	55,234	17,481	-	-	72,715
Operating income (loss)	69,607	30,427	(218)	-	99,816
Other income, net	20,344	5,273	1,937	-	27,554
Interest charges	25,384	10,536	681	-	36,601
Income before income taxes	64,567	25,164	1,038	-	90,769
Income tax expense	10,700	5,408	708	-	16,816
Net Income Attributable to CH Energy Group	\$ 53,867	\$ 19,756	\$ 330	\$ -	\$ 73,953
Segment Assets at December 31, 2021	\$ 2,169,728	\$ 805,355	\$ 22,458	\$ (882)	\$ 2,996,659
Capital Expenditures	\$ 156,918	\$ 74,664	\$ -	\$ -	\$ 231,582

CH Energy Group Segment Disclosure

(In Thousands)

	Year Ended December 31, 2020				
	Segments		Other		
	Central Hudson		Businesses and		
	Electric	Natural Gas	Investments	Eliminations	Total
Revenues from external customers	\$ 552,002	\$ 159,893	\$ -	\$ -	\$ 711,895
Intersegment revenues	52	209	-	(261)	-
Total operating revenues	552,054	160,102	-	(261)	711,895
Energy supply costs	136,182	37,430	-	(261)	173,351
Operating expenses	302,534	72,132	241	-	374,907
Depreciation and amortization	50,847	16,016	-	-	66,863
Operating income (loss)	62,491	34,524	(241)	-	96,774
Other income, net	17,000	5,018	1,120	-	23,138
Interest charges	25,099	9,648	800	-	35,547
Income before income taxes	54,392	29,894	79	-	84,365
Income tax expense	9,058	6,087	117	-	15,262
Net Income (Loss) Attributable to CH Energy Group	\$ 45,334	\$ 23,807	\$ (38)	\$ -	\$ 69,103
Segment Assets at December 31, 2020	\$ 1,886,780	\$ 737,757	\$ 20,805	\$ (1,218)	\$ 2,644,124
Capital Expenditures	\$ 170,931	\$ 81,926	\$ -	\$ -	\$ 252,857

NOTE 16 – 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 ("OTC") instruments. The primary risks the Company seeks to manage by using derivative instruments are interest rate risk, commodity price risk, and adverse or unexpected weather conditions. Central Hudson uses derivative contracts to reduce the impact of volatility in the prices of natural gas and electricity and to hedge exposure to volatility in interest rates for its variable rate long-term debt. Derivative transactions are not used for speculative purposes. Central Hudson's derivative activities consist of the following:

- Interest rate caps are used to minimize interest rate risks and to improve the matching of assets and liabilities. An interest rate cap is an interest rate option agreement in which payments are made by the seller of the option when the reference rate exceeds the specified strike rate (or the set rate at which the option contract can be exercised). The purpose of these agreements is to reduce exposure to rising interest rates while still having the ability to take advantage of falling interest rates by putting a "cap" on the interest rate Central Hudson pays on debt for which such caps are purchased. See Note 11 - "Capitalization – Long-Term Debt" for further details regarding Central Hudson's interest rate cap agreements.
- Natural gas futures are used to mitigate commodity price volatility for natural gas purchases. A natural gas futures contract is a standardized contract to buy or sell a specified commodity (natural gas) of standardized quantity at a certain date in the future, at a market determined price (the futures price). Central Hudson's reason for purchasing these contracts is to moderate price fluctuations for natural gas and the impact of volatility in the commodity markets on its customers.

- Electricity swaps are used to mitigate commodity price volatility for electricity purchases for Central Hudson’s full-service customers. A swap contract or a contract for differences is the exchange of two payment streams between two counterparties where the cash flows are dependent on the price of the underlying commodity. In an effort to moderate commodity price volatility, Central Hudson enters into contracts to pay a fixed price and receive a market price for a defined commodity and volume. These contracts are aligned with Central Hudson’s actual commodity purchases at market price, resulting in a net fixed price payment.
- Weather derivative contracts are used to hedge the effect of significant variances in weather conditions from normal patterns on purchased electricity and natural gas costs, and on the related revenues. Heating Degree Days (“HDD”) are used to measure winter temperature risk where an HDD index is calculated by subtracting the average of the daily high and low temperatures from 65 degrees fahrenheit, representing the point where space heating is typically switched on. In recent years these daily HDD values are accumulated over the seasonal period of December 1st to March 31st where a strike price is triggered to protect the Company from price volatility when the HDD value is 45 degrees below the stated 65 degree starting point. Prior to 2021, premiums were paid for these weather-related instruments and they were amortized based on the pattern of normal purchases of electricity or natural gas over the term of the contract and any payouts earned were recorded as a reduction of the cost. In 2021, instead of paying an upfront premium for weather derivative contracts, Central Hudson added an additional feature to pay the financial institution, if and when, weather is warmer than normal during the winter seasonal period. While customers are protected by price volatility at 45 degrees below 65 degrees fahrenheit, there is now a trigger to pay the financial institution when the HDD daily calculation does not fall 20.5 degrees below its 65 degree starting point. These values are accumulated daily and any payouts earned will continue to be netted with costs on a monthly basis over the term of the contract.

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 December 31, 2022 are as follows:

Central Hudson	% of Requirement Hedged ⁽¹⁾
Electric Derivative Contracts:	0.6 million MWh
January 2023 – August 2023	33.9%
Natural Gas Derivative Contracts:	0.3 million Dth
January 2023 – March 2023	6.9%

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

In 2022, OTC derivative contracts covered approximately 30.8% of Central Hudson’s total electricity supply requirements as compared to 29.6% in 2021.

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 December 31, 2022, five open contracts with credit risk contingent features were in a liability position. The aggregate fair value of the open derivative contracts that contain contingent features and the amount that would be required to settle these instruments on December 31, 2022, if the contingent features were triggered, are described below.

Contingent Contracts

(Dollars In Thousands)

Triggering Event	As of December 31, 2022		
	# of Contracts in a Liability Position Containing the Triggering Feature	Gross Fair Value of Contract	Cost to Settle if Contingent Feature is Triggered (net of collateral)
Central Hudson:			
Credit Rating Downgrade	5	\$ (13,545)	\$ (13,545)
Total Central Hudson	5	\$ (13,545)	\$ (13,545)

Derivative Contracts

CH Energy Group and Central Hudson have elected gross presentation for their derivative contracts under master netting agreements and collateral positions. On December 31, 2022 and December 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 December 31, 2022 ⁽¹⁾						
Derivative Contracts:						
Central Hudson - electric	\$ 315	\$ -	\$ 315	\$ 315	\$ -	\$ -
Total CH Energy Group and Central Hudson Assets	\$ 315	\$ -	\$ 315	\$ 315	\$ -	\$ -

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	<u>\$ 1,768</u>	<u>\$ -</u>	<u>\$ 1,768</u>	<u>\$ 380</u>	<u>\$ -</u>	<u>\$ 1,388</u>

(1) Interest rate cap agreements are not shown in the above chart. As of December 31, 2022 and 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 December 31, 2022 ⁽¹⁾						
Derivative Contracts:						
Central Hudson - electric	\$ 13,389	\$ -	\$ 13,389	\$ 315	\$ -	\$ 13,074
Central Hudson - natural gas	645	-	645	-	-	645
Total CH Energy Group and Central Hudson Liabilities	<u>\$ 14,034</u>	<u>\$ -</u>	<u>\$ 14,034</u>	<u>\$ 315</u>	<u>\$ -</u>	<u>\$ 13,719</u>
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	<u>\$ 7,563</u>	<u>\$ -</u>	<u>\$ 7,563</u>	<u>\$ 380</u>	<u>\$ -</u>	<u>\$ 7,183</u>

(1) Interest rate cap agreements are not shown in the above chart. As of December 31, 2022 and 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 December 31, 2022 and 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 December 31, 2022 ⁽¹⁾				
Assets:				

Derivative Contracts:					
Central Hudson - electric	\$	315	\$	-	\$ 315 \$ -
Central Hudson - natural gas		-		-	- -
Total CH Energy Group and Central Hudson Assets	\$	315	\$	-	\$ 315 \$ -
Liabilities:					
Derivative Contracts:					
Central Hudson - electric	\$	13,389	\$	-	\$ 13,389 \$ -
Central Hudson - natural gas		645		645	- -
Total CH Energy Group and Central Hudson Liabilities	\$	14,034	\$	645	\$ 13,389 \$ -
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 \$ -

(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 December 31, 2022 and 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 years ended December 31, 2022, 2021 and 2020, neither CH Energy Group nor Central Hudson had derivatives designated as hedging instruments. The following table summarizes the effects of CH Energy Group's and Central Hudson's derivatives on the Statements of Income (In Thousands):

	Amount of Gain(Loss) Recognized as Increase/(Decrease) in the Statements of Income			Location of Gain (Loss)
	Year Ended December 31,			
	2022	2021	2020	
Central Hudson:				
Electricity swap contracts	\$ (3,934)	\$ (1,687)	\$ (14,379)	Deferred purchased electric costs ⁽¹⁾
Natural gas swap contracts	430	404	(866)	Deferred purchased natural gas costs ⁽¹⁾
Total CH Energy Group and Central Hudson	\$ (3,504)	\$ (1,283)	\$ (15,245)	

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

Other Hedging Activities

Central Hudson – Electric

In October 2022, Central Hudson entered into an HDD costless collar weather option for the period December 1, 2022 through March 31, 2023, to hedge the effect of significant variances in weather conditions on electricity costs. The aggregate limit on the contract is \$5 million. No premium was paid for the HDD costless collar weather option and there was no associated net payout at the end of December 2022. Central Hudson's expense recorded to purchased electric cost was not material through December 31, 2022.

In 2021, Central Hudson entered into an HDD costless collar weather option for the period December 1, 2021 through March 31, 2022, with an aggregate limit of \$5 million. There was no associated net payout at the end of the contract. Central Hudson recorded \$0.3 million of expense incurred as an increase to purchase electric cost. In 2020, Central Hudson entered into premium based weather options for the periods of December 1, 2020 through March 31, 2021. The aggregate limit per contract was \$5 million. Premiums paid were amortized to purchased electricity over the term of the agreements. The payout earned of \$0.6 million was recorded as a reduction to purchased electricity in the Statements of Income in the periods earned.

Central Hudson – Natural Gas

In October 2022, Central Hudson entered into an HDD costless collar weather option for the period December 1, 2022 through March 31, 2023, 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 was no net associated payout at the end of December 2022. Central Hudson's expense recorded to natural gas cost was not material through December 31, 2022.

In 2021, Central Hudson entered into an HDD costless collar weather option for the period December 1, 2021 through March 31, 2022, with an aggregate limit of \$5 million. There was no associated net payout at the end of the contract. Central Hudson recorded \$0.3 million of expense incurred as an increase to natural gas cost. In 2020, Central Hudson entered into premium based weather options for the periods of December 1, 2020 through March 31, 2021. The aggregate limit per contract was \$5 million. Premiums paid were amortized to purchased natural gas over the term of the agreements. The payout earned of \$0.1 million was recorded as a reduction to purchased natural gas in the Statements of Income in the periods earned.

NOTE 17 – Other Fair Value Measurements

Other Assets Recorded at Fair Value

In addition to the derivatives reported at fair value discussed in Note 16 – “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 December 31, 2022:				
Other investments	\$ 20,645	\$ 20,645	\$ -	\$ -
As of December 31, 2021:				
Other investments	\$ 21,624	\$ 21,624	\$ -	\$ -

As of December 31, 2022 and 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 December 31, 2022 and 2021, the total cash surrender value of trust-owned life insurance held by these trusts was approximately \$33.5 million and \$35.3 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 is 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 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 tables summarize the long-term debt maturing or to be redeemed during the next five years and thereafter, as well as 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

Expected Maturity Date	Fixed Rate		Variable Rate		Total Debt Outstanding	
	Amount	Estimated Effective Interest Rate	Amount	Estimated Effective Interest Rate	Amount	Estimated Effective Interest Rate
As of December 31, 2022:						
2023	\$ 2,100	7.00%	\$ -	-%		
2024	2,245	7.00%	30,000	5.76%		
2025	22,400	3.43%	-	-%		
2026	50,000	3.73%	-	-%		
2027	50,000	2.60%	-	-%		
Thereafter	935,701	4.14%	33,700	6.65%		
Total	\$ 1,062,446	4.05%	\$ 63,700	6.23%	\$ 1,126,146	4.17%

Fair Value	\$	896,255		\$	63,700		\$	959,955
As of December 31, 2021:								
2022	\$	25,364	3.70%	\$	-	-%		
2023		2,100	6.95%		-	-%		
2024		2,245	6.95%		30,000	1.22%		
2025		22,401	3.43%		-	-%		
2026		50,000	3.73%		-	-%		
Thereafter		765,700	4.14%		33,700	0.14%		
Total	\$	867,810	4.10%	\$	63,700	0.65%	\$	931,510 3.86%
Fair Value								
	\$	1,012,654		\$	63,700		\$	1,076,354

Central Hudson

Expected Maturity Date	Fixed Rate		Variable Rate		Total Debt Outstanding			
	Amount	Estimated Effective Interest Rate	Amount	Estimated Effective Interest Rate	Amount	Estimated Effective Interest Rate		
As of December 31, 2022:								
2023	\$	-	-%	\$	-	-%		
2024		-	-%		30,000	5.76%		
2025		20,000	3.00%		-	-%		
2026		50,000	3.73%		-	-%		
2027		50,000	2.60%		-	-%		
Thereafter		935,700	4.14%		33,700	6.65%		
Total	\$	1,055,700	4.03%	\$	63,700	6.23%	\$	1,119,400 4.15%
Fair Value								
	\$	889,524		\$	63,700		\$	953,224
As of December 31, 2021:								
2022	\$	23,400	3.42%	\$	-	-%		
2023		-	-%		-	-%		
2024		-	-%		30,000	1.22%		
2025		20,000	3.00%		-	-%		
2026		50,000	3.73%		-	-%		
Thereafter		765,700	4.14%		33,700	0.14%		
Total	\$	859,100	4.07%	\$	63,700	0.65%	\$	922,800 3.83%
Fair Value								
	\$	1,003,268		\$	63,700		\$	1,066,968

NOTE 18 – 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):

	Year Ended December 31,		
	2022	2021	2020
CH Energy Group (Thompson Hine LLP)	\$ 2,474	\$ 2,031	\$ 2,264
Central Hudson (Thompson Hine LLP)	\$ 2,445	\$ 1,993	\$ 2,233
Central Hudson (LaBella Associates D.P.C.)	\$ 546	\$ 786	\$ 710

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.

Furthermore, Central Hudson performs work and incurs expenses on behalf of Transco, a company in which CHET has a 6.1% equity interest. Central Hudson bills Transco for such work and expenses in accordance with established policies, which are reported under “Other Affiliates” in the chart below.

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

	December 31, 2022		December 31, 2021	
	Fortis		Fortis	
CH Energy Group ⁽¹⁾				
Accounts Receivable	\$	441	\$	1,390
Accounts Payable	\$	624	\$	-

	December 31, 2022			December 31, 2021		
	CHEG	Fortis	Other Affiliates	CHEG	Fortis	Other Affiliates
Central Hudson ⁽¹⁾⁽²⁾						
Accounts Receivable	\$ 10	\$ 183	\$ 195	\$ 36	\$ 7	\$ -
Accounts Payable	\$ 1,365	\$ -	\$ -	\$ 823	\$ -	\$ 1

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

⁽²⁾ Other Affiliates amounts include CHEC, CHET, and Transco.

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

	December 31, 2022		December 31, 2021		December 31, 2020	
	CHEG	Fortis ⁽¹⁾	CHEG	Fortis ⁽¹⁾	CHEG	Fortis ⁽¹⁾
CH Energy Group	\$ -	\$ 4,886	\$ -	\$ 4,055	\$ -	\$ 3,692
Central Hudson	\$ 5,409	\$ -	\$ 4,442	\$ -	\$ 4,172	\$ -

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

NOTE 19 – Subsequent Events

An evaluation of subsequent events was completed through February 9, 2023, the date these Consolidated Financial Statements were available to be issued, to determine whether circumstances warranted recognition and disclosure of events or transactions in the Consolidated Financial Statements as of December 31, 2022.

On January 20, 2023, Fitch affirmed the (A-) rating of Central Hudson’s senior unsecured debt and changed its rating outlook from stable to negative. Fitch indicated Central Hudson’s rating reflects the low-risk nature of its regulated electric and gas utility operations. However, the negative outlook reflects Fitch’s concerns regarding the credit supportiveness of the PSC, with particular regard to the outcome

of the Company's next rate case to support future credit metrics consistent with Central Hudson's current rating.

On January 30, 2023, the Transco Board of Managers gave notice to CHET that it will be required to make a \$3.4 million capital contribution to Transco during the first quarter of 2023 to fund capital expenditures related to the Transco AC Project.

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

For the Year Ended December 31, 2022

This Management Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the 2022 Financial Statements and the notes thereto.

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 joint venture 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 2022 revenue of CAD\$11.0 billion and total assets of CAD\$64 billion as of December 31, 2022. Fortis and its subsidiaries' 9,200 employees serve 3.4 million utility customers in five Canadian provinces, nine U.S. states, and three Caribbean countries.

Central Hudson purchases and sells energy in both wholesale and retail markets and distributes electricity and natural gas to customers in retail markets in portions of New York State. Central Hudson is subject to regulation by the New York Public Service Commission ("PSC" or "Commission") and the Federal Energy Regulatory Commission ("FERC").

CH Energy Group Strategy Execution

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.

Management continues to focus on investment in Central Hudson's electric and natural gas infrastructure as the core of its strategy. Central Hudson invested approximately \$225 million in 2022, and its five-year forecast includes an average of approximately \$280 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 related to the Alternating Current 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. At December 31, 2022, CHET's investment in Transco was approximately \$23.5 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 megawatts ("MW") 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 first half of 2023. 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 Purpose and Strategy Execution

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***

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 has developed a range of strategic objectives that, once achieved, will address the technology and policy changes faced by New York utilities; meet or exceed the increasing expectations of our customers and provide creative solutions in anticipation of evolving customer need in the mid-Hudson Valley; influence the regulatory and political landscape in a manner that provides value to our key stakeholders; and position the Company for continued success with a flexible, diverse, talented, and engaged workforce.

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 is committed to continuing the transition to a low carbon and sustainable future for our customers and the communities we serve. Sustainability and strong social responsibility are at the core of Central Hudson's plans and actions and are integrated throughout all facets of the business. Central Hudson appreciates the need to continuously improve and is, therefore, taking the actions needed to ensure a successful future: fortifying and protecting its delivery systems, embracing new technologies,

managing aggressive energy policy goals, and actively supporting evolving customer needs. The Company remains dedicated to the safety, health, and well-being of every employee and contractor, as well as the community and customers we serve.

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, utilized for fast-start electric generation, to enable intermittent renewable resources and used as a low-carbon alternative to petroleum-derived fuels used in heating and manufacturing 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 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 has continued its journey to transform the customer experience. Having navigated the challenges and difficulties of replacing a decades-old Customer Billing System ("CIS") and implementing a new state-of-the-art system, we are looking forward to the benefits that the new system will provide to our customers. We aim to satisfy our customers by being proactive, responsive, dependable, and timely when they need service. We want to reach each customer on a variety of service channels and provide them the level of support they need, including self-service options. We are committed to the reliability that customers expect, even when more frequent severe weather events impact our service territory. We have taken a proactive approach to harden our electric and natural gas systems accordingly and participated in a climate assessment to evaluate the resilience of our business in different potential climate-related futures. At Central Hudson, we value our customers and our employees, and we strive to support a sustainable environment for all.

Human Capital Resources

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 our Purpose Statement we make it clear that our people are absolutely essential to our success. As of December 31, 2022, we had 1,130 employees, with approximately 55% covered by collective bargaining (“union”) agreements. 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, including contact center overflow, storm restoration, capital construction, tree trimming, and other field operations. We strive to maintain good relationships with both our union and suppliers of contracted services.

Safety is of the utmost importance for our employees and is a priority for our Company. We value continuous improvement in everything we do, including safety, and we have devoted additional resources, including external consultation services and collaboration with our union on a grass roots effort to improve our safety performance and culture.

We believe that our compensation and benefit programs are appropriately designed to attract and retain first-class talent. We provide our employees competitive compensation, a comprehensive benefits package, and extensive training and professional development opportunities.

We strive to provide a safe, inclusive and diverse environment for all. We want our employees to know that their individual input and contribution is valued and to feel that they can be their authentic selves at work. We believe that by recognizing and valuing each employee for who they are, we make our shared goals possible. We also place great focus on veteran recruiting. Veterans currently comprise approximately 6% of our current workforce and contribute to the organization as some of our most skilled and productive employees. In addition to our internal commitments to inclusion and diversity, we also have a supplier diversity program that is committed to developing an inclusive supplier base through the selection of businesses owned by minorities, women, and veterans when all other considerations are equal.

Opportunities and Risks

Central Hudson invests significant capital on an annual basis. Central Hudson’s investments enhance safety and reliability through solutions, which are intended to improve customer satisfaction and reduce risk. Opportunities to enhance transmission and distribution systems and information systems technologies are evaluated and prioritized based on their expected benefits, projected costs, and estimated risks. On November 18, 2021, the PSC issued an Order Approving Rate Plan in Cases 20-E-0428 and 20-G-0429 (“2021 Rate Order”), which included a request for continued funding of Central Hudson’s capital investment program.

The economy in Central Hudson’s service territory affects the growth of utility rate base and earnings through a direct relationship to customer affordability, customer additions and peak demand growth, as well as affecting Central Hudson’s ability to collect receivables. Management believes the economy in Central Hudson’s service territory has reasonable long-term growth prospects, but unexpected prolonged downturns could inhibit its ability to meet long-term business objectives. Central Hudson has an economic development program intended to increase job growth and income in its service territory. Management believes Central Hudson’s commitments to providing safe and reliable service, customer satisfaction, operational excellence, and promoting positive customer and regulatory relations are important for supportive regulatory relationships and obtaining full cost recovery and competitive returns on invested capital.

The key risks management sees in achieving its overall strategy are operating risks related to effectively executing its capital program, managing costs and customer bill pressure, maintaining customer satisfaction, navigating the current political and regulatory environment, as well as ensuring adherence to compliance requirements as further discussed below. Central Hudson has policies, procedures, and controls in place which Central Hudson believes allows it to address these risks.

COVID-19

Central Hudson has taken measures to support our customers, employees, and communities impacted by COVID-19 and to support the economic recovery in our service territory. For all of its customers, Central Hudson suspended certain collection activities, including terminating service for non-payment; waived finance charges; and doubled its contribution to its last resort grant program. For small businesses, the Company accelerated certain energy efficiency programs and committed up to \$1 million of Economic Development funding through our Back to Business program. Central Hudson has been and continues to be proactively contacting customers regarding past due balances to advise them of certain financial assistance programs available to them and to proactively engage with them in managing these balances with deferred payment arrangements. Central Hudson is also working with local agencies and municipalities to obtain funding for its customers, which has been made available through several federal and state programs.

Central Hudson had increased its reserve for uncollectible accounts during 2021 by \$0.8 million based on a quantitative and qualitative assessment of the growing customer past due balances and management's best estimate of forecasted economic conditions related to COVID-19. No further increase to the reserve has been recorded throughout 2022, based on the potential available funding from federal and state programs to assist customers financially impacted by COVID-19 pay off their utility arrears balances.

Additionally, Central Hudson's 2021 Rate Order incorporated reductions from the initial planned rate increase request to mitigate the bill impact on customers. These reductions included delays in certain planned investments and reductions to operations and maintenance ("O&M"), which management believes could be accomplished without impacting safety and reliability. Additionally, in this approved Rate Order, the Company received authorization for the deferral and recovery of significant COVID-19-related costs, net of any savings, including incremental O&M, write-off of uncollectible customer balances, and lost finance charges.

Regulatory/Compliance Risks:

- **Compliance/penalty risks:** Central Hudson needs to comply with several agencies which include PSC, FERC, North American Electric Reliability Corporation ("NERC"), Department of Environmental Conservation ("DEC"), The Pipeline and Hazardous Materials Safety Administration ("PHMSA"), and NYISO. These entities have the authority to impose penalties on Central Hudson for violations of the Federal Power Act, the Natural Gas Act, or related rules, including reliability and cyber security rules. Environmental agencies could seek penalties for failure to comply with laws, regulations, or permits. Central Hudson may be subject to new laws, regulations, or other requirements or the revision or reinterpretation of such requirements, which could adversely affect the Company.
- **Regulatory Environment:** PSC rates are generally designed for, but do not guarantee the recovery of, Central Hudson's cost of service, including a return on equity. Central Hudson's ability to meet its financial objectives is largely dependent on approval of the Company's rate proposals and the continuation of supportive ratemaking practices by the PSC. Risks related to these practices include: (1) reduced allowed returns on equity, (2) PSC-allowed revenues that result in less than full recovery of the legitimate costs of providing service, resulting in earned

returns below authorized returns, (3) declining PSC support for strong capital structures and credit ratings, (4) New York State energy policy, (5) changes in deferral accounting that increase the volatility of earnings and/or defer cash recovery of costs, and (6) elimination of Revenue Decoupling Mechanisms (“RDMs”) or Rate Adjustment Mechanisms (“RAMs”). The PSC can initiate proceedings to prohibit Central Hudson from recovering from our customers the cost of service (including energy costs) that the regulators determine to have been imprudently incurred. In addition, the PSC could seek to impose substantial penalties on the Company for any violations of state utility laws, regulations, or orders.

- **Political Environment:** The political environment, at the local, national, and global level, may impact energy laws, governmental energy policies, or regulatory decisions. Political pressure or intervention to address rising energy prices and customer affordability concerns may impact regulatory decisions, as well as the period over which the Company may recover allowed costs. Political, economic, or social instability or events, trade disputes, increased tariffs, changes in laws, or the imposition of onerous regulations applicable to existing operations and the impacts of changes in political leadership could lead to an increase in commodity prices, impact the availability and cost of energy, or generally affect global economic condition.
- **Policy/External Business Environment:** The PSC announced the commencement of its Reforming the Energy Vision (“REV”) initiative that aims to improve the efficiency of the electric system; reduce emissions; encourage greater development of clean generation, fuel diversity, and energy efficiency measures; and provide customers with knowledge and tools for more effective management of their total energy use through the adoption of new technologies on both the utility and customer side of the meter. Central Hudson expects to continue its efforts of working with the other New York electric utilities and various stakeholders in the energy industry to develop policy positions in order to facilitate the implementation of REV. In addition, CLCPA was passed by the New York State Senate and the New York State Assembly and includes renewable energy and emission reduction goals in New York State, which are among the most aggressive in the nation. The outcome of REV and the CLCPA and the many related proceedings cannot be predicted at this time, but they could result in an increased scope of regulated activities, potential for decreased earnings, and other risks.

Operational Risks:

- **Facilities failure and/or damage:** Central Hudson provides electricity and natural gas service to customers in its territory. Failure of, or damage to, facilities, or an error in operation or maintenance could result in bodily injury or death, property damage, the release of hazardous substances, or extended service interruptions. A natural disaster, such as a major storm, could impact Central Hudson’s ability to access supplies and utilize critical facilities. Central Hudson’s response to such events may be perceived to be below customer expectations. Central Hudson could incur substantial costs that may not be covered by Central Hudson’s insurance policies or recovered through other regulatory mechanisms for storm preparation, to repair or replace facilities, compensate others for injury or death, or other regulatory penalties imposed by state utility regulators or other regulatory agencies. The occurrence of such events could also adversely affect the cost and availability of insurance.
- **Cyber-attack:** Central Hudson, as an operator of critical energy infrastructure, may face a heightened risk of cyber-attack. The Company, in addition to internal efforts, also engages third-party service providers to help facilitate the management of information security systems, communication tools, and data processing. In the event of a cyber-attack that Central Hudson and/or its third-party service providers were unable to defend or mitigate, operations could be disrupted, financial and other information systems could become impaired, property could be damaged, and customer and employee information could be stolen. Central Hudson could incur

substantial cost for response, including repair to systems, litigation, and reputational damage, which may not be recoverable from customers.

- Processes/employee/contractor failure: the ability to effectively manage costs, is a key component of Central Hudson's strategy. The continued use of Lean Six Sigma techniques – a data-driven approach to develop processes that are faster, higher quality and less costly – to streamline existing business processes and foster innovation will play a critical role in managing the costs of doing business in a sustainable manner. The Company has developed business processes and uses information and communication systems and enterprise platforms for operations, customer service, legal compliance, personnel, accounting, planning, and other matters. Failure of the Company and/or its contractors to follow these business processes or information and communication systems, their unsafe actions, errors, or intentional misconduct, cyber incidents or attacks, or work stoppages could adversely affect the Company's operation and liquidity and result in substantial liability, higher costs, and increased regulatory requirements. The violation of laws or regulations by employees or contractors for personal gain may result from contract and procurement fraud, extortion, bribe acceptance, fraudulent related-party transactions, and serious breaches of corporate policy or standards of business conduct.

Environmental Risks:

- Environmental risks: Central Hudson is exposed to risks from the environmental consequences of its operations and the operations of its predecessors. Hazardous substances, such as asbestos, polychlorinated biphenyl ("PCB"), and coal tar have been used or produced in the course of Central Hudson's operations and are present on properties or in facilities and equipment currently or previously owned. To the extent not covered by insurance or recovered through rates, remediation costs, fines, judgments, and settlements could reduce earnings and cash flows.

Financial Risks:

- Supply Chain: Failure to eliminate or manage the constraints in the supply chain may impact the availability of items that are necessary to support normal operations as well as materials that are required for continued infrastructure growth and could have a material adverse effect on the Company.
- Interest Rate/Access to Capital: The Company has incurred material amounts of indebtedness. Ongoing access to cost-effective capital is required to fund capital expenditures and the repayment of maturing debt. Operating cash flow may not be sufficient to fund the repayment of all outstanding liabilities when due or fund anticipated capital expenditures. The ability to meet long-term debt repayments is dependent upon obtaining sufficient and cost-effective financing to replace maturing indebtedness. The ability to arrange financing is subject to numerous factors, including the results of operation, regulatory environments including regulatory decisions regarding capital structure and allowed Return on Equity ("ROE"), capital market conditions, general economic conditions, credit ratings, and the environmental, social and governance profile of the Company. Rising interest environment impact new debt issuances and although interest costs are recovered through customer rates, they are impacted by regulatory lag. Higher finance costs could reduce earnings and significantly impact cash flow.
- Tax Laws: Earnings could be impacted by changes in income tax rates and other tax legislation. The nature, timing, or impact of changes in tax laws cannot be predicted and could have a material adverse effect. Although income taxes are generally recovered in customer rates, tax-related regulatory lag can result in recovery delays or non-recovery for certain periods.

Other Risks:

- Reputational risk: There can be no assurance that internal policies, controls, or audits will ensure compliance with the Company's internal policies, including its Code of Conduct, or anti-bribery and anti-corruption laws. Employees, affiliates, independent contractors, or agents may violate such policies and laws, which may potentially lead to reputational damage, in addition to potential fines, penalties, or litigation. External stakeholders are increasingly challenging companies regarding climate change, sustainability, diversity, returns (including ROE and Return on Assets ("ROA")), executive compensation and other matters. Failure to effectively manage or respond to these risks could reduce earnings and significantly impact cash flow.
- Natural Gas Competitiveness: Government policy like the Draft Scoping Plan issued by the New York State Climate Action Council, could impact the competitiveness of natural gas business by developing policies to address climate change, in particular via the penetration of natural gas into new housing to address carbon intensity of the energy source. Local governments may also use various tools at their disposal, such as franchise agreements, permits, building codes, and zoning bylaws to impose limitations on energy sources permitted in new and existing developments. Municipalities can also provide incentives, such as higher density allowance, or builders to adopt carbon free energy options for their developments. These actions and policies may hinder the Company's ability to attract new natural gas customers or retain existing customers.

CH Energy Group - Regulated Operations - Central Hudson

Financial Highlights

Period Ended December 31

	Year to Date		
	2022	2021	Change
Electricity Sales (GWh) ⁽¹⁾	5,002	5,000	2
Natural Gas Sales (PJ) ⁽²⁾	25.1	22.9	2.2
<i>(In Millions)</i>			
Revenues	\$ 1,018.4	\$ 796.2	\$ 222.2
Energy supply costs - matched to revenues	402.6	227.0	175.6
Operating expenses - matched to revenues	116.6	100.3	16.3
Operating expenses - other	322.7	296.2	26.5
Depreciation and amortization	80.0	72.7	7.3
Other income, net	42.5	25.6	16.9
Interest charges	40.3	35.9	4.4
Income taxes	20.5	16.1	4.4
Net Income	\$ 78.1	\$ 73.6	\$ 4.5

(1) GigaWatt hours ("GWh")

(2) Petajoule ("PJ")

Earnings: Central Hudson's earnings growth year over year is primarily due to the approved increase in delivery rates, which provides a return on additional capital invested in the business and recovery of operating and financing expenses. The earnings growth was partially offset by higher expenses and performance below customer service levels prescribed in the 2021 Rate Order related to the new CIS and financing costs above the amounts provided in rates associated with higher levels of working capital. Additionally, the Company recorded higher earnings adjustment mechanisms and earned incentives in the current year based on achieving certain targets and milestones associated with energy efficiency programs. Furthermore, 2021 earnings reflected the recording of regulatory deferrals for the

future benefit to customers as a result of the failure to meet PSC prescribed targets for the System Average Interruption Frequency Index (“SAIFI”) and Customer Average Interruption Duration Index (“CAIDI”).

Energy supply costs reflect higher electric and natural gas commodity prices. This did not have a direct impact on earnings due to the full deferral of commodity costs. 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.

During 2022, the suspension of collection activities since the beginning of the COVID-19 pandemic, coupled with the significant increase in electric and natural gas commodity costs in 2022, have resulted in a significant growth in our accounts receivable, thus increasing the level of working capital needed to currently support the business. The financing costs associated with this working capital are in excess of the amounts provided in rates and are not recoverable. 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 June 16, 2022, the PSC approved Phase 1 of the Arrears Management Program in which residential utility customers who receive income-qualified government assistance for utility bills and other expenses and have past-due balances for service through May 1, 2022, had those balances forgiven. On January 19, 2023, the PSC approved Phase 2 AMP which applies to customers that were not eligible in Phase 1. Central Hudson has begun collection efforts for certain customers with large arrears balances through communications, urging payment and notifying customers that finance charges and termination efforts will be forthcoming. These efforts have generated some success with payments or payment arrangements. Central Hudson will continue its collection outreach efforts, expanding the number of customers and commencing finance charges and termination efforts in 2023. Under the terms of the 2021 Rate Order, Central Hudson is authorized to defer bad debt write-offs if they exceed 10 basis points above the amounts billed to customers through delivery rates and applicable surcharges. Therefore, uncollectible expense is not expected to have a significant impact on earnings. As of December 31, 2022, Central Hudson has deferred \$4.1 million in uncollectible write-offs. While this deferral mechanism provides protection regarding the impact of bad debt expense on earnings, the growth in working capital associated with significantly higher accounts receivable arrears balances is causing liquidity pressure and has resulted in increased financing to support operations, which is not recoverable from customers. Regulatory action regarding Phase 2 arrears relief, along with Central Hudson’s continued collection efforts, particularly final termination and notices and locking service for non-payment, will provide visibility as to the timeframe over which the arrears growth will be resolved.

Electricity Sales

Electricity sales were relatively flat when compared to 2021. Higher retail sales to non-residential and interruptible customers were offset by lower sales to residential customers as customers transitioned back to pre-COVID consumption patterns. Year over year sales were also impacted by lower sales for resale.

Natural Gas Sales

Natural gas sales were higher year over year due to increases in sales to firm and interruptible customers resulting from colder winter weather. These increases were partially offset by lower sales for resale.

Depreciation and Amortization: Depreciation increased due to the increased investment in Central Hudson's electric and gas infrastructure and investments in information technology and common facilities 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 increase in the combined effective tax rate is due to the timing of flow through tax items related to capital expenditures and unrealized book losses excluded for tax purposes. In addition, the increase in the effective tax rate for 2022 when compared to 2021 is primarily attributed to higher income before taxes at the statutory rate.

Central Hudson Revenues - Electric

Period Ended December 31

(In Millions)

	Year to Date		
	2022	2021	Change
Revenues with Matching Expense Offsets:⁽¹⁾			
Recovery of commodity purchases	\$ 283.7	\$ 161.1	\$ 122.6
Sales to others for resale	39.8	17.6	22.2
Other revenues with matching offsets	72.5	72.9	(0.4)
<i>Subtotal</i>	396.0	251.6	144.4
Revenues Impacting Earnings:			
Customer sales	389.0	387.5	1.5
RDM and other regulatory mechanisms	(0.6)	(24.5)	23.9
Recovery of suspended COVID-19 finance charges	4.3	7.3	(3.0)
SAIFI & CAIDI	-	(5.0)	5.0
Incentives earned	5.7	2.3	3.4
Net plant and depreciation targets	(2.2)	(1.8)	(0.4)
Other revenues	5.4	6.4	(1.0)
<i>Subtotal</i>	401.6	372.2	29.4
Total Electric Revenues	\$ 797.6	\$ 623.8	\$ 173.8

(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 December 31

(In Millions)

	Year to Date		
	2022	2021	Change
Revenues with Matching Expense Offsets:⁽¹⁾			
Recovery of commodity purchases	\$ 67.7	\$ 40.6	\$ 27.1
Sales to others for resale	11.5	7.8	3.7
Other revenues with matching offsets	4.7	6.4	(1.7)
<i>Subtotal</i>	83.9	54.8	29.1
Revenues Impacting Earnings:			
Customer sales	128.1	110.7	17.4
RDM and other regulatory mechanisms	4.4	0.3	4.1

Recovery of suspended COVID-19 finance charges	1.2	1.6	(0.4)
Incentives earned	0.5	1.2	(0.7)
Net plant and depreciation targets	(1.2)	(1.7)	0.5
Other revenues	3.8	5.5	(1.7)
<i>Subtotal</i>	136.8	117.6	19.2
Total Natural Gas Revenues	\$ 220.7	\$ 172.4	\$ 48.3

- (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 year over year increase in electric revenues is primarily due to increased commodity prices which are recovered from customers, as well as higher sales for resale. The year over year revenue increase also reflects the increases in delivery rates approved by the PSC effective July 1, 2022 and 2021, as well as, higher incentives earned for achieving certain targets and milestones associated with energy efficiency programs. 2021 revenues were reduced by regulatory deferrals recorded for SAIFI and CAIDI, which were above PSC prescribed targets. These reliability targets were both met in 2022. Additionally, 2021 revenues reflect a higher recovery of suspended finance charges due to the timing of the PSC approval of the 2021 Rate Order in the fourth quarter of 2021, which provided the retroactive recovery of these amounts through that date. In 2022, the recovery of suspended finance charges is recorded monthly up to the amounts included in the determination of delivery rates.

Natural Gas Revenues:

The year over year increase in natural gas revenues is primarily due to higher recovery of purchased commodity costs resulting from an increase in both sales volume and commodity price as well as higher sales for resale. Further impacting the year over year revenue increase is higher delivery rates effective July 1, 2022 and 2021. Partially offsetting these increases were lower amounts recorded for the recovery of suspended finance charges in 2022 when compared to prior year due to the timing of the related PSC approval.

Central Hudson Operating Expenses

Period Ended December 31

(In Millions)

	Year to Date		
	2022	2021	Change
Expenses Currently Matched to Revenues:⁽¹⁾			
Purchased electricity	\$ 323.5	\$ 178.7	\$ 144.8
Purchased natural gas	79.3	48.6	30.7
Pension & OPEB	24.4	12.8	11.6
New York State energy efficiency programs	42.5	41.0	1.5

Major storm reserve	17.7	14.2	3.5
Energy affordability programs	10.1	11.0	(0.9)
Other matched expenses	21.7	21.0	0.7
<i>Subtotal</i>	519.2	327.3	191.9
Other Operating Expenses:			
COVID-19 related uncollectible reserve	-	0.8	(0.8)
Depreciation and amortization	80.0	72.7	7.3
Property and school taxes ⁽²⁾	66.1	61.2	4.9
Weather related service restoration	5.4	8.2	(2.8)
Incremental resilience expense - Storm Isaias	-	1.5	(1.5)
Call center expense	8.4	4.6 ⁽³⁾	3.8
Information technology ("IT")	24.4	16.3	8.1
Labor and related benefits	98.6	100.5	(1.9)
Uncollectible expense	8.2	5.3 ⁽³⁾	2.9
Tree trimming	26.9	25.3	1.6
Other expenses	84.7 ⁽³⁾	72.5 ⁽³⁾	12.2
<i>Subtotal</i>	402.7	368.9	33.8
Total Operating Expenses	<u>\$ 921.9</u>	<u>\$ 696.2</u>	<u>\$ 225.7</u>

- (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 twelve months ended December 31, 2021 have been reclassified to "Call center expense" and "Uncollectible expense" to conform to the current period presentation.

Operating Expenses:

The year over year increase in operating expenses is primarily the result of higher commodity costs for both electric and natural gas. The increase in other operating expenses is attributed to increases in certain expenses as provided for in delivery rates including depreciation, property and school taxes, tree trimming and uncollectible expense. Further impacting the increase in operating expenses were higher IT and customer service expenses related to the new Customer Information System ("CIS"). These increases were partially offset by lower weather-related restoration costs and lower labor-related expenses in the current year.

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 twelve months ended December 31, 2022

(In Millions)

Balance Sheet Account	Increase (Decrease)	Explanation
Accounts receivable, net of allowance for uncollectible accounts	\$96.1	Increase is primarily due to the suspension of collection efforts required during the COVID pandemic, which impacted customers' payment behavior, increased commodity prices, and higher seasonal winter energy usage in the fourth quarter.

Other receivables	8.6	Increase is primarily related to billings for attachments rents, mutual aid efforts, and contributions in aid of construction.
Fuel, materials, and supplies	7.1	Increase is due to rising costs and purchases of materials and supplies in an effort to minimize impacts of supply chain interruptions.
Regulatory assets - current	47.1	Increase is primarily driven by higher electric and natural gas commodity costs and higher unrealized mark-to-market losses on derivative contracts. Further contributing to the increases are higher credits provided to customers in 2022 upon the approval of AMP Phase 1 which will be recovered through a surcharge in 2023 and higher electric and natural gas RDMS for actual billed revenues below the prescribed targets.
Special deposits and prepayments	6.5	Increase is primarily due to the prepayment of a natural gas storage agreement.
Regulatory assets - long term	51.6	Increase is primarily related to costs incurred for major storm restoration in excess of the rate allowance along with an increase in spending associated with the energy efficiency heat pump programs and higher deferred taxes recoverable through future rates attributable to plant, partially offset by rate allowance billed in excess of amounts spent for environmental remediation in 2022.
Prefunded pension costs	(10.9)	Decrease is primarily driven by the significant trust asset investment losses in 2022, partially offset by the impact of the increase in the discount rate on plan liabilities.
Other assets - long term	(8.5)	Decrease reflects amounts drawn from restricted cash held in escrow for work performed related to a System Deliverability Upgrade ("SDU") project.
Long term debt, including current maturities	196.6	Increase is due to issuances of long-term debt in 2022, partially offset by the repayment of matured debt.
Accounts payable	17.0	Increase is primarily driven by higher costs associated with purchased natural gas and electric commodity costs driven by both price and volume towards the end of the year.
Regulatory liabilities - current	11.6	Increase is primarily due to higher bill credits to be provided to customers per the 2021 Rate Order, partially offset by payments to NYSEERDA for the Clean Energy Fund ("CEF") initiatives in excess of amounts collected.
Fair value of derivative instruments - current liabilities	6.5	Increase in liabilities is due to higher unrealized mark-to-market losses related to open electric and natural gas derivative contracts.
Regulatory liabilities - long term	(9.8)	Decrease is primarily due to bill credits provided to customers per the 2021 Rate Order and to the amortization of plant related deferred tax liabilities as a result of the Tax Cuts and Jobs Act.
Regulatory liabilities- related to pension and OPEB costs	(22.4)	Decrease is primarily due to a net decrease in the projected benefit obligation resulting from an increase in the discount rate, partially offset by net investment losses on the pension and OPEB plan assets.
Other liabilities - long term	(14.2)	Decrease is primarily due to a reduction of amounts held in escrow for a SDU project along with reduced liability resulting from participant investment losses in the directors' and officers' deferred compensation plan.
Accumulated deferred income taxes	29.7	Increase is primarily due to the accounting requirement to recognize deferred taxes for the difference between tax basis of assets and liabilities and the book basis. These amounts are fully deferred for future return to or recovery from customers.

Liquidity and Capital Resources

CH Energy Group - Regulated, Non-regulated and Holding Company Summary of Cash Flow Period Ended December 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	98.2	158.4
Working capital	(132.5)	(97.5)
Operating Activities	(34.3)	60.9

Investing Activities	(224.6)	(240.3)
Financing Activities	245.8	184.7
Cash, cash equivalents and restricted cash - end of period	\$ 5.0	\$ 18.1

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. Additionally, 2021 cash from operations pre-working capital included cash received in other advances and held in escrow for a future project while 2022 reflects the use of this cash for work completed. The decrease in pre-working capital was partially offset by the increase in delivery rates, which provided earnings on rate base growth and lower spending on related heat pump programs. The decrease in cash flow related to working capital in 2022 was primarily attributable to an increase in accounts receivable balances as previously discussed, coupled with higher electric energy and natural gas commodity costs, partially offset by a reduction in the amount returned to customers through the RDM in 2022, as compared to 2021.

Investing Activities: Cash used in investing activities during 2022 were lower than 2021 due to lower software investments following the implementation of Central Hudson's new CIS system in September 2021. Other investing activity in 2022 includes proceeds from the sale of utility assets to Transco, offset by CHET's increased investment in Transco. In 2021, other investing activity consisted of Central Hudson's contributions to the Supplemental Executive Retirement Plan Trust, as required by the Trust Agreement, of \$8.1 million. No such funding requirement was needed in the current year.

Financing Activities: The increase in cash from financing activities was primarily related to the issuance of \$110 million of long-term debt and \$45 million in capital infusions to supplement the cash from operations and fund the capital investment program. Short term borrowings have remained at elevated levels due to the sustained higher levels of working capital.

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.

Central Hudson utilizes short-term debt to fund seasonal and temporary variations in working capital requirements. Delays in collections of accounts receivable from customers, combined with increased wholesale energy prices and higher seasonal winter energy consumption experienced this year, have all contributed to the significant increase in working capital in 2022. Central Hudson has begun collection efforts for certain customers with large arrears balances. Continued collection efforts, along with potential future state initiatives, are expected to provide visibility into the resolution of the arrears issue. At this time, it is uncertain what level of arrears will be paid by customers through collection efforts, what portion of customers will enter into deferred payment arrangements and what portion may be determined to be uncollectible and recorded as a regulatory asset under the terms of our current rate agreement. The time period associated with the collection of the regulatory assets or deferred payment arrangements will be factored into our future financing plans. Short-term debt will be used to supplement liquidity until customer payment behaviors and commodity prices stabilize.

Central Hudson's secondary sources of funds are its cash reserves and credit facilities. 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 2023 or the foreseeable future.

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 during 2022, and has no concerns over accessing capital markets in the foreseeable future. Central Hudson's 2021 Rate Order was effective July 1, 2021 and 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 first year of the 2021 Rate Order 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 Central Hudson's 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 the foreseeable future to meet working capital needs, fund Central Hudson's capital program, fund CHET's current investment obligations in Transco and meet Central Hudson's public service obligations and growth objectives.

Committed Credit Facilities

The PSC issued a Financing Order, effective 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 to the March 2020 Central Hudson credit agreement with five commercial banks. The amendment replaces LIBOR with a benchmark replacement interest 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. 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 December 31, 2022, there were \$90 million in borrowings outstanding under Central Hudson's committed credit arrangements. At December 31, 2021, there were \$100 million in borrowings outstanding under Central Hudson's committed credit arrangements.

Uncommitted Credit

At December 31, 2022, CH Energy Group and Central Hudson had \$10 million and \$60 million respectively, in uncommitted short-term credit arrangements with four commercial banks, with outstanding borrowings of \$15 million under Central Hudson's uncommitted credit agreements.

On November 4, 2022, CH Energy Group entered into a \$10 million, short-term credit agreement with a commercial bank to provide liquidity to meet short term cash needs.

On December 15, 2022, Central Hudson entered into a new \$30 million, short-term uncommitted credit agreement with a commercial bank not included in its current credit facility to provide additional liquidity to its existing portfolio. Proceeds received from the new credit agreement are to be used for working capital needs and for general corporate purposes.

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

Central Hudson's Bond Ratings

	December 31, 2022		December 31, 2021	
	Rating ⁽¹⁾	Outlook	Rating ⁽¹⁾	Outlook
S&P	BBB+	Stable	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 20, 2023, Fitch affirmed the (A-) rating of Central Hudson's senior unsecured debt and changed its rating outlook from stable to negative. Fitch indicated Central Hudson's rating reflects the low-risk nature of its regulated electric and gas utility operations. However, the negative outlook reflects Fitch's concerns regarding the credit supportiveness of the PSC, with particular regard to the outcome of the Company's next rate case to support future credit metrics consistent with Central Hudson's current rating.

On December 1, 2022, S&P lowered the rating of Central Hudson's senior unsecured debt from (A-) to (BBB+) and changed its rating outlook from negative to stable. S&P indicated that the downgrade reflects the weakening of the Company's financial measures driven by the effects of rising inflation and higher interest rates, as well as the company's elevated capital expenditure and increasing operating expenses. In addition, S&P cited that Central Hudson's 2021 Rate Order is restraining to cash flows, which further weakens the Company's financial measures. 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 debt securities with maturities greater than 12 months.

On September 28, 2022, Central Hudson issued \$100 million of Series Y, 10-year Senior Notes with an interest rate of 5.07% per annum and a maturity date of September 28, 2032 and \$10 million of Series Z, 30-year Senior Notes with an interest rate of 5.42% per annum and a maturity date of September 28, 2052. Central Hudson used the proceeds from the sale of the Senior Notes for general corporate purposes, including the repayment of short-term debt.

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 used the proceeds from the sale of the Senior Notes for general corporate purposes, including the repayment of \$23.4 million of maturing debt on April 1, 2022.

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

	December 31, 2022		December 31, 2021	
		%		%
Long-term Debt ⁽¹⁾	\$ 1,126.1	48.9	\$ 931.5	47.1
Short-term Debt	105.0	4.5	107.0	5.4
Common Equity	1,073.0	46.6	939.3	47.5
Total	\$ 2,304.1	100.0	\$ 1,977.8	100.0

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

Central Hudson

	December 31, 2022		December 31, 2021	
		%		%
Long-term Debt ⁽¹⁾	\$ 1,119.4	49.1	\$ 922.8	47.0
Short-term Debt	105.0	4.6	107.0	5.5
Common Equity	1,056.4	46.3	932.2	47.5
Total	\$ 2,280.8	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, with a common equity ratio of 50%, 49% and 48% for the rate years beginning July 1, 2021, July 1, 2022, and July 1, 2023, respectively. Central Hudson is currently managing its financing to maintain a common equity ratio at 48%.

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 ROE of 9.0%.

Critical Accounting Estimates

The preparation of Central Hudson's consolidated financial statements requires management to make estimates that affect the reported amounts of assets, liabilities, revenue and expenses, and the related disclosure of contingent assets and contingent liabilities. Estimates are based on the Company's historical experiences and on various other assumptions that it believes are reasonable under the circumstances, the results of which form the basis for making estimates about the carrying values of assets and liabilities. The accuracy of these estimates and the likelihood of future changes depend on a range of possible outcomes and several underlying variables, many of which are beyond the Company's control. Actual results may differ from these estimates under different assumptions or conditions.

Central Hudson believes the following judgments and estimates are critical in the preparation of its consolidated financial statements.

- 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 generally accepted accounting principles between regulated and non-regulated businesses and requires the recording of regulatory assets and liabilities for certain transactions that would have been treated as expenses or revenues in non-

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

- Depreciation and amortization are based on estimates of the useful lives and estimated net salvage value of properties.
- Estimates for uncollectible accounts are based on customer accounts receivable aging data as well as consideration of various quantitative and qualitative factors, including special collection issues, a historical analysis of the relationship of write-offs to accounts receivable balances in arrears, and estimated impacts of the current and future economic conditions.
- The tax reserve recorded by Central Hudson relates to a change in 2010 to its tax return methodology for claiming deductions for incidental repair and maintenance expenditures on its utility assets. Although management believes that its methodology for claiming the deduction is consistent with the Internal Revenue Code and case law, management cannot predict whether the Internal Revenue Service will accept the entirety of the deduction claimed.
- The estimates for other operating reserves are based on assessments of future obligations related to injuries and damages and workers' compensation claims.
- Unbilled revenues are determined based on the estimated sales for services rendered to customers whose meters are not read on the last day of the month.
- The significant assumptions and estimates used to account for the pension plan and OPEB benefit expenses and liabilities are the discount rate, the expected long-term rate of return on the Retirement Plan and OPEB plans assets, the rate of compensation increase, the healthcare cost trend rate, mortality assumptions, and the method of amortizing gains and losses.
- Estimates are also reflected for certain commitments and contingencies where there is sufficient basis to project a future obligation, including environmental remediation costs and NRAs.

Changes in Internal Controls over Financial Reporting

There have been no changes in internal controls over financial reporting for CH Energy Group of Central Hudson during the twelve months ended December 31, 2022, that have materially affected, or are reasonably likely to materially affect, internal controls over financial reporting.

Regulatory Proceedings

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 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.

Central Hudson 2021 Financing Order

On November 18, 2021, the PSC 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.

FERC SDU 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 SDUs being installed on Central Hudson’s transmission facilities, which are required to provide four Large Generating Facility Developers with Capacity Resource Interconnection Service. This charge provides Central Hudson with full recovery of all reasonably incurred costs related to the development, construction, operation, and maintenance of the SDU and a reasonable return on its investment. Project costs to be recovered by Central Hudson and allocated to the Load Serving Entities pursuant to Rate Schedule 12 of the NYISO OATT are expected to be approximately \$2.6 million plus operation, maintenance and other applicable costs and will be updated annually. 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 subsequently approved by FERC on October 4, 2021.

August 2020 Tropical Storm Isaias

On August 5, 2020, the New York State Governor instituted proceeding 20-01633 directing the PSC 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 PSC approved Emergency Response Plans and Show Cause (“Storm 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 PSC-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 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 PSC 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. Central Hudson has fulfilled the Settlement Agreement.

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 occurred in 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. This examination has now concluded and DPS Staff has communicated to Central Hudson that they have found no issues.

Inflation Reduction Act of 2022

In August 2022, the President of the United States of America signed into law the Inflation Reduction Act (“IRA”) of 2022, which enacted a number of changes to federal tax law. These changes include the introduction of a new 15% corporate minimum tax on applicable corporations, including CH Energy Group, effective for tax years beginning after December 31, 2022. Enactment of the new law has not impacted our financial condition, results of operations or cash flows for the period ended December 31, 2022. Central Hudson does not expect a material impact on future results due to the implementation of

the corporate minimum tax or any other aspect of the Act. The IRA also includes numerous tax credits which currently do not apply and any that may apply in the future are expected to have an immaterial impact.

Sale of Utility Asset to Transco

On June 21, 2022, the PSC issued Order Authorizing the Transfer of Transmission Property and Easement Interest under Case 22-E-0077. The Order was approved to increase the power transfer capability from upstate to downstate New York. In the Order, the PSC authorized the transfer of easement interest covering real property associated with a 12-mile overhead 115 kV electric transmission line (“SL Line”) and certain transmission property and equipment related to the Sugarloaf Switching Station and the SL Line, from Central Hudson to New York Transco LLC and the recognition of any gains realized upon the transfer for the benefit of customers. On July 11, 2022, Central Hudson completed the sale of transmission property and easement interest for approximately \$4.6 million with a realized gain of \$4.4 million which was deferred as a regulatory liability for the benefit of customers with carrying charges at the Company’s pre-tax weighted average cost of capital as prescribed by the Order.

The below matters are ongoing regulatory proceedings. 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.

Investigations and Inquiries into Central Hudson’s Customer Information System and Billing Practices

On September 1, 2021, Central Hudson launched its new CIS. The system replaced the Company’s 40-year-old legacy mainframe system and was implemented after careful due diligence, planning, and investigation to address critical obsolescence and cyber security risks. The new CIS enables Central Hudson to provide creative solutions for our customers and adapt to evolving technology.

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 the implementation. In certain cases, customers received bills that required adjustments, which did not have a material adverse impact to Central Hudson’s financial statements. Remediation of these billing issues has been a top priority across the Company. The amounts that were not billed have been recorded within the RDM or as unbilled revenue. A significant force of external resources was also retained by the Company to support stabilization of the billing processes.

CIS Show Cause Order

During the March 2022 PSC session, the PSC directed Department of Public Service (“DPS”) Staff, and subsequently instituted Case 22-00666, to investigate billing issues subsequent to the implementation and to publicly track comments and other related documents. The Company has answered several data requests regarding the CIS implementation and continues to collaborate with DPS Staff. On December 15, 2022, the PSC issued its Order to Commence Proceeding and Show Cause, under Case 22-M-0645. The Order discussed issues related to the CIS project, including system defects, training, testing, staffing, and cited alleged apparent violations of Public Service Law, New York Codes, Rules and Regulations, and prior PSC Orders. Central Hudson filed its response on January 17, 2023, acknowledging the unintended disruptive impact on customers and stating that the Company did not violate the Public Service Law (“PSL”), rules, or Commission Orders and that neither penalties under PSL §§ 25, 25-a nor a prudence review is warranted. Central Hudson cited in its response its legal position that the Office of Investigation and Enforcement report misinterpreted or misapplied specific sections of statutes, rules, and Commission Orders.

Agway Energy Services LLC Petition (“Agway”)

On February 25, 2022, 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 requested that the PSC 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 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 PSC 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 PSC’s jurisdiction to provide. Agway has submitted a filing requesting to enter mediation on this matter, including recurring meetings with both parties and DPS Staff. On June 24, 2022, the Company entered mediation with Agway and continues to hold weekly meetings to discuss, investigate, and resolve issues.

New York State Senate Investigation regarding Commodity Prices and Billing System Transition

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 Central Hudson’s billing system issues. On December 31, 2022, the Committee on Investigation and Government Operations filed their Final Investigative Report on Utility Pricing Practices and Failures and made recommendations based on their findings.

New York State Office of the Attorney General Billing System Inquiry

On May 17, 2022, Central Hudson received inquiries from the New York State Office of the Attorney General (“AG’s Office”) seeking information regarding recent changes to Central Hudson’s billing practices and systems and complaints that the AG’s Office has received from Central Hudson’s customers. Central Hudson has responded to these inquiries, as well as additional inquiries and data requests from the AG’s Office. Central Hudson continues to have regular discussions with the AG’s Office regarding the billing system and the data requests.

Energy Affordability & COVID-19 Proceeding

On June 11, 2020, the PSC 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 PSC 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 PSC’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 PSC issued an Order adopting EAP modifications, establishing an EAP Working Group, and directing the Utilities to file several compliance filings. Central Hudson is an active participant in the EAP working group which continues to address various aspects of the Order, including the development of an Arrears Relief Program designed to forgive a portion of the utility arrears accrued during the COVID-19 pandemic.

On April 7, 2022, \$250 million was approved in the New York State budget to provide funding for utility arrears relief for customers eligible for energy affordability programs. The Energy Affordability Policy (“EAP”) Working Group developed and filed a report on May 23, 2022, which proposed a comprehensive arrears relief program for customers to be rolled out in two phases. Phase 1 would address all existing low-income customers’ arrears and Phase 2 would be a broader program focused on arrears relief for residential customers that did not meet the definition of low-income, as well as some non-residential customers. On June 16, 2022, the PSC approved Phase 1 of the AMP, whereby residential utility customers who receive income-qualified government assistance for utility bills and other expenses and have past-due balances for service through May 1, 2022, will have those balances forgiven. The Phase 1 program was funded in part through the \$250 million in New York State relief, \$2.8 million of which was dispersed to Central Hudson. The remainder of the program cost is being recovered through a temporary surcharge on utility bills not to exceed a 0.5% bill impact for residential customers. As of December 1, 2022, Central Hudson had distributed approximately \$7.1 million in relief via bill credits to roughly 5,600 eligible customers. Additional bill credits will be processed in early 2023 as new customers become eligible for relief through the end of 2022.

On January 19, 2023, the PSC issued Order for Phase 2 AMP providing arrears relief for certain residential and small commercial customers with arrears balances as of May 1, 2022, which were not eligible for Phase 1. The arrears amounts will be filed with Staff by February 18, 2023, together with the Phase 2 Outreach and Education Plans. The Company was directed to utilize deferred economic development balances to offset a portion of the program cost.

Columbia Energy Notice

Columbia Energy, one of the ESCOs operating in Central Hudson’s service territory, filed notice with the New York State Public Service Commission that it intended to return its approximately 25,000 customers to Central Hudson’s commodity supply service. Certain municipalities and the municipalities’ Community Choice Aggregation (“CCA”) administrator filed a petition with the New York Supreme Court in Albany seeking a temporary restraining order (“TRO”) alleging Columbia Energy breached its contractual obligations to provide commodity service to CCA customers. The TRO is a preliminary step necessary before the Supreme Court may grant a permanent injunction. The Supreme Court granted the TRO. Columbia Energy subsequently defaulted on its obligations to the NYISO, and as such, the NYISO ordered Central Hudson to return Columbia Energy’s customers (who are also the CCA customers) to Central Hudson’s commodity supply service as of July 19, 2022. As of November 2022, Central Hudson has processed the return of the customers to Central Hudson’s commodity supply service. The parties to the Supreme Court case have filed a motion in the Supreme Court alleging that Columbia Energy’s default to NYISO was a breach of the TRO previously granted by the Supreme Court. That litigation is ongoing and Central Hudson is not a party.

Central Hudson Management and Operations Audit

On December 16, 2021, the PSC instituted a proceeding for a new Central Hudson audit in its Order Initiating a Management & Operations Audit. The audit is being conducted by an independent auditor selected by DPS Staff as announced at the March 2022 PSC 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. Discovery has concluded after 689 information requests and 42 interviews with subject matter experts and various members of Central Hudson’s Board of Directors. A copy of the Draft Report was received from DPS Staff on December 28, 2022. Central Hudson’s response was filed on January 20, 2023 and a meeting will be scheduled by Staff in February to discuss audit comments and recommendations.

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 concerns Climate Vulnerability Studies and part B concerns compensation for customers experiencing widespread and prolonged outages.

Climate Vulnerability Studies

Part A requires that each utility complete a Climate Vulnerability Study evaluating its infrastructure, design specifications, and procedures to understand the utility's vulnerability to climate driven risks and file with the PSC 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 that must include 1) storm hardening and resilience measures planned for the next ten to twenty years; 2) details of how the corporation 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.

On June 16, 2022, the PSC Issued its Order Initiating Proceeding Concerning Electric Utility Climate Vulnerability Studies and Plans. The proceeding was initiated to develop and consider studies, proposals, plans, rules, and procedures for implementing the provisions of the Storm Hardening & Climate Resilience Law. On July 14, 2022, the Commission issued an Order adopting the necessary definitions, processes, and procedures to implement the Storm Hardening & Climate Resilience Law. Compliance tariff leaves were filed on July 22, 2022. On August 15, 2022, the utilities jointly filed comments in response of the Order, including an ask of the Commission to move expeditiously to approve cost recovery mechanisms associated with the development and implementation of each utility's Studies and Plans.

Compensation for Widespread, Prolonged Outages

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. Utilities will 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 and reimbursement of 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 stipulates that none of the costs incurred by the utility related to these requirements can be recoverable 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. Central Hudson has not been required to provide compensation to customers under Part B of this law through December 31, 2022.

Strategic Use of Energy Data Proceeding

On March 19, 2020, the Commission issued an Order Instituting Proceeding: Strategic Use of Energy Related Data in Case 20-M-0082 to combine the multiple proceedings where data related topics have been addressed in recent years. On February 11, 2021, the Commission issued an Order Implementing an Integrated Energy Data Resource ("IEDR") and, on April 15, 2021, issued an Order Adopting Data Access Framework ("DAF") and Establishing Further Process. The two Orders establish a statewide data repository, and the framework for the repository, which will be administered by NYSERDA and is meant to assist Energy Service Entities ("ESE") in developing Distributed Energy Resources ("DER") to help New York meet its CLCPA goals.

The Order Implementing an IEDR requires utilities to establish an IEDR Implementation Team, led by a member of the Company's senior management team. The Commission established a budget cap of \$13.5 million for the Program Sponsor's efforts for Phase 1, including \$12 million for procured resources and \$1.5 million for the NYSERDA administrative costs as Project Sponsor. The Order directs that program costs be allocated and collected from the jurisdictional electric utilities in the same

manner as the current authorized costs are being allocated and collected via the existing Bill-As-You-Go (“BAYG”) agreements that NYSEERDA has with each utility. Phase 1 should be completed in 24 – 30 months. Phase 2 should be completed in 30 – 36 months following completion of Phase 1. Operation of the utility’s IEDR data feeds should persist for the life of the IEDR (multiple decades). The Order directs utilities to file quarterly reports on IEDR project planning and investment and NYSEERDA to file an initial Implementation Plan, an updated BAYG Summary, quarterly reports and program reports on Phase 1 and Phase 2.

The Order Adopting a DAF incorporates the existing Commission established data access requirements to date including cybersecurity and privacy requirements and establishes data quality and integrity standards criterion to be met by the utility, or data custodian, for application or use case specific purposes. The Order also establishes a process that ensures the utilities will play a role with increasing customers’ familiarity with appropriate data sharing options. The Joint Utility (“JU”) made numerous filings in compliance with the Order including the identification of available data points that were omitted from the data sets in the Order, a proposal for an alternative method of account identification for completing ESE customer transactions, and the submission of a Consent Process Assessment and Customer Consent Engagement Plan. On September 20, 2021, the JU filed a comprehensive Data Access Implementation Plan (“DAIP”) that provides a uniform method for developing statewide data access requirements. Implementation of the DAIP, when approved by the Commission, will require significant work including the procurement of a Data Ready Certification provider and development of the associated platform.

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 PSC 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 PSC 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 PSC 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 PSC 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 PSC issued an Order Local Transmission and Distribution Planning Process and Phase 2 Project Proposals (“September 9”) 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 NYSEERDA, 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 (“CSRA”) and Cost Allocation Mechanism in compliance with Clauses 3 and 4 of the PSC’s September 9 Order.

On January 20, 2022, the PSC 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 PSC’s September 9 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. On May 12, 2022, the PSC issued Order Accepting both the CSRA and Rate Schedule 19 as compliant with its Phase 2 Order. The JU will proceed to FERC for approval of the PSC-sanctioned CSRA and Rate Schedule 19 under FPA section 205 in order to establish a cost allocation and recovery framework for Approved Local CLCPA Projects. On December 22, 2022, the JU requested an extension of Ordering Clause 5 of the Order on Local Transmission and Distribution Planning Process and Phase 2 Project Proposals (Order), issued September 9, 2021, which directed the Filing Parties to submit a coordinated portfolio of Phase 2 projects that meet the requisite investment criteria and benefit cost analysis by January 1, 2023. On December 29, 2022, the extension was granted until March 3, 2023.

Modifications to New York State Standard Interconnection Requirements

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

Subsequently on July 16, 2021, The Commission issued an Order adopting amendments to cost-sharing mechanisms proposed by the JU, subject to modifications which include minimum subscription thresholds and a “free-rider” protection mechanism. The Order directed the JU to complete the following: consult with other participants in the Interconnection Policy Working Group (“IPWG”) and file relevant revisions to the Standardized Interconnection Requirements (including addressing the “free-rider” concern); consult with DPS Staff and the IPWG to identify and propose relevant adjustments to hosting capacity maps; and file a proposal for a reimbursement mechanism. In accordance with the Order and subsequently approved extension by the Commission, the JU filed its proposed hosting map capacity adjustments and proposed cost reimbursement mechanism on October 28, 2021. On April 14, 2022 the Order adopting amendments to the cost sharing mechanisms was approved by the Commission. All new projects submitted after April 14th will fall under Cost Sharing 2.0. Central Hudson filed their first report on November 30, 2022. There are no cost sharing projects at this time.

Value of Distributed Energy Resources Proceeding – Value of “D”

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 sunset 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. Most recently, the Commission issued an order on September 15, 2022 seeking to establish CDG billing metrics to track and evaluate utilities' performance in CDG billing. Several stakeholder sessions will be held to inform Staff's anticipated proposal for Commission consideration.

In addition to compensation policy, the Commission has explored rate design issues through the VDER proceeding including focus on standby and buyback rates. On November 25, 2020, the DPS Staff issued a Whitepaper on Allocated Cost of Service ("ACOS") Methods Used to Develop Standby and Buyback Service Rates. The whitepaper recommended a standardized ACOS study methodology and rate design for standby rates and buyback service rates for stand-alone energy storage systems. The central issue in this proceeding is the allocation of costs between the categories comprising the contract demand charge and the as-used demand charge, such that standby rates truly reflect cost causation. The JU and other parties have presented various methods of cost allocation through public filings, technical conference discussions, and written comments. In March 2022 the Commission issued an order ruling on the Staff Whitepaper and requiring another set of draft filings by the utilities which were filed in July 2022 and contained updated ACOS studies, draft tariff revisions and proposed rates. The Joint Utilities are currently working on developing mass market bill impacts of the proposed rates filed in July 2022. A proposed approach to the bill impact analysis was filed in compliance with the March 2022 order on January 3, 2023 and a subsequent stakeholder conference is anticipated to discuss the utilities' planned approach. Central Hudson is awaiting an Order in this proceeding or further Commission action.

Community Distributed Generation ("CDG")

In November 2021, the PSC issued Order Identifying Further Procedural Steps Regarding the Development of Opt-Out Community Distributed Generation. Subsequently on March 29, 2022, DPS Staff filed its Whitepaper on proposed opt-out CDG program operation, oversight, and enforcement rules for future PSC consideration. CCA provides municipalities with legal authority to act as an aggregator and broker for the sale of energy and other services to residents via an opt-out enrollment process. This Whitepaper outlines the implementation of a statewide CDG program on an opt-out basis under the CCA model and offers recommendations in four categories: Opt-Out CDG Program Structure, Opt-Out CDG Program Rules, Data Access and CDG Billing and Crediting, and Opt-Out CDG Compliance and Enforcement. In accordance with the Commission's April 11, 2022, Notice Seeking Comments, on June 6, 2022, the Joint Utilities filed comments on the Opt-Out CDG Whitepaper noting overall support for Opt-Out CDG but outlining the need for refinements and technical workshops.

On September 15, 2022, the Commission issued an Order establishing a process intended to address and resolve ongoing CDG billing issues, improve the industry's visibility into the utilities' transition to an automated Net-Crediting billing process, and incentivize more accurate and timely utility performance in billing for CDG. An initial stakeholder conference focused on developing utility CDG crediting and billing performance metrics and a negative revenue adjustment mechanism was held on November 9, 2022. Any proposals for utility CDG billing metrics, including negative revenue adjustments, and reporting, will be brought before the Commission for consideration prior to implementation or adoption.

Additionally, as directed by the September 15, 2022 Order, Central Hudson filed on October 17, 2022, Implementation Plans detailing the progress toward automation of crediting and billing of CDG

including: 1) the current billing system constraints preventing full CDG billing automation; (2) the billing system changes necessary to effectuate automated CDG billing; and (3) the steps and timeline to achieve full automation of CDG billing. Further, updates to the Implementation Plans will be required to be made quarterly until automation efforts are completed.

Clean Energy Standard (“CES”) / CEF

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 PSC 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 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 submitted NYSERDA’s contracts for Clean Path New York and Champlain Hudson Power Express projects for PSC 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 avoidable expenditures and environmental impacts estimated between \$27 to \$31 billion. The PSC approved this petition in its Order Approving Contracts for the Purchase of Tier 4 Renewable Energy Certificates on April 14, 2022.

On July 29, 2022, NYSERDA filed its Petition Regarding Proposed Year 2023 Clean Energy Standard Funding and Reconciliation of Year 2021 Administrative Costs. Specifically, NYSERDA is proposing an administrative budget of \$38.8 million for the CES 2023 Compliance Year, which would include staff direct and indirect salaries, fringe benefits, and other direct program operating costs and general administrative expenses. This represents an increase of approximately 29% from the 2022 budget of \$30.2M. On December 15, 2022 the PSC approved NYSERDA’s proposed administrative budget with modifications, reducing its proposed budget by \$5.4 million in areas related to staffing and technical support. On November 9, 2022 NYSERDA filed a petition with the PSC to modify the CES to transition from a defined percentage obligation to a load share obligation for load serving entities. Under the current Tier 1 approach, Load Servicing Entities (“LSEs”) must meet their compliance obligation, which is represented as a pre-determined and ascending percentage of the load they serve, by procuring Tier 1 RECs from NYSERDA or other sources, or, in the alternative, by making Alternative Compliance Payments (“ACPs”). Under the new approach proposed in this petition, LSEs would simply be obligated to procure all Tier 1 RECs made available by NYSERDA, after the completion of voluntary sales, in a proportion equivalent to their share of the State load or load share. Without a pre-determined compliance obligation percentage, there would no longer be a need for ACPs, nor would there be an incentive for LSEs to purchase RECs outside of those purchased by NYSERDA.

CEF Backstop

In 2016, the Commission determined that NYSERDA may need a guarantor, i.e., a backstop to address the financial risk associated with meeting renewable energy credit procurement obligations to generators under the CES and that electric utilities are best situated to serve that role, subject to recovery from customers. Subsequently, the Commission expanded the backstop concept to include zero emission credits and offshore wind renewable energy credits, the CES Build-Ready Program, and all CES programs. On July 1, 2021, NYSERDA filed its Proposed Clean Energy Standard Financial Backstop Collections Process with the Commission. In comments filed on September 27, 2021, the JU urge the Commission to reject NYSERDA’s backstop proposal because it would trigger additional and potentially significant collections from customers based on a summary of undefined reports and forecasts without public review or Commission action in contradiction to the Commission’s direction for

transparency. Instead, the JU urge the Commission to adopt their proposal based on a simpler, transparent, and public review of cash working capital that should prevent unnecessary increases in customer bills while providing NYSEERDA with sufficient funds to meet its CES procurement obligations and cash needs for the Build-Ready Program.

ZECs

On September 20, 2019, the Commission issued Order Approving Zero Emissions Credit Implementation Plan which adopts a “pay-as-you-go” model to address the program design issue that payment obligations were not responsive to changes in LSEs’ loads. Under the “pay-as-you-go” model, changes in LSE load can be automatically adjusted, eliminating the need for LSEs to petition the Commission for relief. NYSEERDA is required to provide each affected LSE with a revised agreement. Central Hudson provided NYSEERDA with an executed copy of the Agreement for the Sale of Zero-Emission Energy Certificates on January 2, 2020.

CES Administration Budget

On December 16, 2021, the Commission approved NYSEERDA’s 2022 CES administration budget of \$30.2 million as proposed by NYSEERDA. This budget will fund program salaries and overhead, New York State cost recovery expense, technical support, and system development. NYSEERDA is authorized to fund these expenditures through a combination of surplus funds received in previous years, including bid fees, Alternative Compliance Payments and interest income. For the ZEC program, NYSEERDA will continue to fund its administration through a ZEC adder.

Energy Efficiency (New Efficiency: New York) Proceeding

In September 2022, the Commission issued Order Initiating the New Efficiency: New York Interim Review and CEF Review. The review is intended to provide an opportunity to assess progress to date and consider modifications that will improve the management of the portfolios, increase the effectiveness of the programs, and ensure alignment with evolving state policies. Subsequently in December 2022, DPS Staff issued its Energy Efficiency and Building Electrification Report. The report details historical performance across all programs and portfolios, identifies areas of success or potential concern, and contemplates necessary policy adjustments. The report contains 42 specific questions that DPS Staff puts forth for stakeholder comments.

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 CLCPA defines targets for 70% renewable electricity by 2030 and 100% 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 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 to be related to the program.

On May 12, 2022, the PSC issued an Order on Implementation of the CLCPA under Case 22-M-0149. This Order initiates a proceeding to track compliance and develop provisions of the CLCPA, including minimum percentages of benefits to be distributed to disadvantaged communities. Specific requirements are (i) costs of large-scale clean energy projects will be distributed statewide on a load-ratio share basis, (ii) utilities will work with the Department of Public Service to develop a proposal by December 2, 2022 for annual GHG Emissions Inventory Reports, (iii) utilities will develop a proposal by March 31, 2023 for a GHG Emissions Reduction Pathways Study to achieve carbon reductions from use of delivered gas, and (iv) rates proceeding will begin for new electric-vehicle charging. Coincident with the Implementation Order, the PSC also issued a request for public comments regarding utility ownership of distributed energy resources and large-scale renewables. Although this has been discussed in the past, this Order is allowing additional consideration for the opportunity of utility owned DER and LSRs.

Thermal Network Pilots

On July 5, 2022, the Utility Thermal Energy Networks and Jobs Act (“Act”) was signed into law by Governor Kathy Hochul. The Act requires utilities to submit proposals for up to five thermal energy pilots and requires the PSC to promulgate rules and regulations related to thermal energy networks. The Act includes provisions requiring that such projects be located in disadvantaged communities and that the operation of the projects be staffed with union labor and include apprenticeship and pre-apprenticeship programs. On September 15, 2022, the PSC issued an Order on Developing Thermal Energy Networks Pursuant to the Utility Thermal Energy Network and Jobs Act under Case 22-M-0429. This Order required that utilities in New York State, including Central Hudson, submit proposals for pilot projects to install anywhere from one to five thermal energy networks as demonstrations for how the building sector can be transitioned from using fossil fuels for space and water heating. In accordance with the Order, Central Hudson filed its Thermal Energy Network Pilot Plan on October 7, 2022 and subsequently filed the Thermal Energy Network File Plan Update on January 9, 2023.

Electric Vehicles

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. 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. On July 14, 2022, the PSC issued the Order Approving Managed Charging Programs with Modifications, establishing utility administered programs which are designed to encourage vehicle charging during off-peak times. Subsequently, DPS Staff convened a stakeholder session to examine this topic. Central Hudson filed its Managed Charging Program Implementation Plan on September 26, 2022.

On September 26, 2022, DPS Staff issued the Whitepaper Regarding Alternatives to the Traditional Demand Charge for Commercial Customer Electric Vehicle Charging. The Whitepaper recommends a combination of solutions including a Commercial Managed Charging Program and an EV Phase-in Rate. On December 5, 2022 the Joint Utilities filed comments in response to the Whitepaper, recommending modifications to its proposals, differentiated based on the needs of upstate and downstate utilities.

Additionally, DPS Staff commenced the Electric Vehicle Supply Equipment Make-Ready program midpoint review on August 30, 2022. Subsequently on October 3, 2022, the Joint Utilities filed comments related to the midpoint review, which recommended modifications to promote target achievement aligned with policy goals that will have a significant impact on the success of the program. The recommendations included increasing incentives and associated budgets to align incentives with market needs in light of the Commission’s public policy objectives, expanding eligibility rules for

equipment (including chargers) and supporting technologies, and redesigning/expanding the Medium/Heavy Duty Pilot to remove current barriers to participation.

Energy Storage

In December 2018, the Public Service Commission established a statewide energy storage goal of up to 3,000 MW by 2030 and laid out its policy on deployment in its Order Establishing Energy Storage Goal and Deployment Policy. After two rounds of competitive procurements targeting a total of 350 MW of energy storage resources by the end of 2022, the Joint Utilities have generally not yet been able to contract with projects that are able to meet the Commission's goals. On November 30, 2022, the Joint Utilities filed a Petition to Modify the Energy Storage Order to Improve Procurement Results. Specifically, the Joint Utilities requested (1) an extension of the in-service date for storage resources from December 31, 2025 to no later than December 31, 2028 and (2) an extension of the maximum dispatch rights contract duration from the current "up to ten (10) years" to "up to fifteen (15) years.". On December 28, 2022, NYSERDA and the NYSDPS published a new framework for the State to achieve a nation-leading six gigawatts of energy storage by 2030, which represents at least 20 percent of the peak electricity load of New York State. The roadmap proposes a comprehensive set of recommendations to expand New York's energy storage programs to cost-effectively unlock the rapid growth of renewable energy across the state and bolster grid reliability and customer resilience. The roadmap requires electric utilities to study the potential of high-value energy storage projects towards providing cost-effective transmission and distribution services not currently available through existing markets.

Gas Planning Proceeding

On February 12, 2021, Staff filed the Gas System Planning Process Proposal which offers a modernized gas planning process for the gas distribution utilities in New York State and a Staff Moratorium Proposal that identifies procedures and criteria for managing moratoria on new attachments to the gas distribution systems.

On May 12, 2022, the PSC issued two orders in the Gas Planning Proceeding: Order Adopting Gas System Planning Process ("Planning Process Order") and Order Adopting Moratorium Management Procedures ("Moratorium Order"). Through the Planning Process Order, the PSC adopted modernized long-term natural gas planning procedures to ensure that the State, customers, stakeholders, and all other interested entities have the opportunity to understand and engage in the future of natural gas infrastructure in the State. The Order also directed Staff to establish an Avoided Cost of Gas Working Group to provide recommendations for improving calculations used in Benefit-Cost analyses. Through the Moratorium Order, the PSC adopted new rules that set forth the process for initiating, operating, and lifting a natural gas moratorium, and covers issues including the metrics used to identify supply shortfall, communications, a Customer Bill of Rights, training materials and outreach, and information on low- and moderate-income customer and disadvantaged community impacts.

In compliance with the Gas Planning Process Order, on August 10, 2022, the Company and the Joint Utilities made several filings to address proposed Non-Pipes Alternative ("NPA") screening and suitability criteria, proposed NPA incentive mechanism, proposed NPA cost recovery procedures and filed a report on the costs of the 100-foot rule. Draft tariffs were filed with the criteria that would necessitate the calling of a gas moratorium in compliance with the Moratorium Order. The Company filed a Moratorium Communications Plan on December 27, 2022.

Pipeline and Hazardous Materials Safety Administration

As a result of rulemaking Case PHMSA-2011-0023, the PHMSA, which is an agency of the United States Department of Transportation, has issued the first of the three-part Safety of Gas Transmission Pipeline Regulation updates. This first part includes Maximum Allowable Operating Pressure ("MAOP") Reconfirmation, Expansion of Assessment Requirements (creation of Moderate Consequence Areas) and Other Related Amendments. The effective date is July 1, 2020, with a required plan in place by

July 1, 2021, to ensure MAOP reconfirmation is 50% completed by 2028 and 100% completed by 2035. The second part is not final but is expected to address extensive updates to response and repair criteria for integrity assessment and to expand cathodic requirements. PHMSA is additionally introducing legislation changes to current regulations to mitigate ruptures and shorten pipeline segment isolation times on all newly constructed or fully replaced gas transmission lines. The third part of the Transmission Super Rule is not applicable to the Company since it deals only with gas gathering lines. Central Hudson currently estimates that the rule will impact up to 75 miles of its transmission pipelines. NY State adopted the federal code changes into state code within Case 20-G-0560. Recovery and deferral of costs associated with Safety of Gas Transmission Final Rules were addressed within the 2021 Rate Order. The second part of the Mega-Rule was issued in August 2022 with extensive updates to Repair Criteria, Integrity Management Improvements, Cathodic Protection, Management of Change, and Other Related Amendments. These updates are currently anticipated to require some procedural changes but will have only minor impacts to Central Hudson's natural gas business operations. The third part of the Transmission Mega-Rule is not applicable to the Company as it deals only with gas gathering lines. In April 2022, PHMSA issued changes to current regulations to mitigate ruptures and shorten pipeline segment isolation times on all newly constructed or fully replaced gas transmission lines. Central Hudson has no plans to significantly expand or replace any large sections of its gas transmission lines in the foreseeable future, therefore, this rulemaking is expected to have only minor impacts to Central Hudson's natural gas business operations.

FERC Notice of Pending Jurisdictional Inquiry

On June 24, 2019, Central Hudson received a notification and initial information requests from FERC for a jurisdictional inquiry regarding its hydroelectric projects at Sturgeon Pool and Dashville. The FERC also issued a Notice of Pending Jurisdictional Inquiry with any comments, motions to intervene and protests to be filed by August 8, 2019. These projects were determined to be non-jurisdictional in previous investigations based on the conclusion that the Wallkill River is not navigable as defined within the Federal Power Act at the location of the projects. In response to a request by the US Department of the Interior's Fish and Wildlife Service, the FERC will investigate the jurisdictional status of these projects. Central Hudson submitted responses to the information requests on August 8, 2019. On October 30, 2020, Central Hudson submitted to FERC additional information on docket UL19-1 so that FERC may decide the jurisdictional question on the facts and the law. No other process has been scheduled by FERC at this time. On November 17, 2021, Fish and Wildlife asked FERC to expedite its process to decide the case. FERC has not placed the case on its agenda and we cannot predict when a decision will occur.

FORWARD-LOOKING STATEMENTS

Statements included in this Annual 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 "anticipate(s)," "intend(s)," "estimate(s)," "believe(s)," "project(s)," "expect(s)," "plan(s)," "assume(s)," "seek(s)," 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 may 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.