

CENTRAL HUDSON GAS & ELECTRIC CORP  
Form 10-Q  
May 06, 2011

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

(Mark One)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2011

OR

- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

| Commission<br>File Number | Registrant, State of<br>Incorporation<br>Address and<br>Telephone Number  | IRS<br>Employer<br>Identification<br>No. |
|---------------------------|---|--|
| 0-30512                   | CH Energy Group,<br>Inc.<br>(Incorporated in New<br>York)<br>284 South Avenue<br>Poughkeepsie, New<br>York 12601-4839<br>(845) 452-2000   | 14-1804460                               |
| 1-3268                    | Central Hudson Gas &<br>Electric Corporation<br>(Incorporated in New<br>York)<br>284 South Avenue<br>Poughkeepsie, New<br>York 12601-4839 | 14-0555980                               |

(845) 452-2000



Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrants were required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

CH Energy Group, Inc. Yes  No   
Central Hudson Gas & Electric Corporation Yes  No

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

CH Energy Group, Inc. Yes  No   
Central Hudson Gas & Electric Corporation Yes  No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

|   |   |
|---|---|
| CH Energy Group, Inc.                                       | Central Hudson Gas & Electric Corporation                 |
| Large Accelerated Filer <input checked="" type="checkbox"/> | Large Accelerated Filer <input type="checkbox"/>          |
| Accelerated Filer <input type="checkbox"/>                  | Accelerated Filer <input type="checkbox"/>                |
| Non-Accelerated Filer <input type="checkbox"/>              | Non-Accelerated Filer <input checked="" type="checkbox"/> |
| Smaller Reporting Company <input type="checkbox"/>          | Smaller Reporting Company <input type="checkbox"/>        |

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act):

CH Energy Group, Inc. Yes  No   
Central Hudson Gas & Electric Corporation Yes  No

As of the close of business on April 30, 2011 (i) CH Energy Group, Inc. had outstanding 15,542,371 shares of Common Stock (\$0.10 per share par value) and (ii) all of the outstanding 16,862,087 shares of Common Stock (\$5 per share par value) of Central Hudson Gas & Electric Corporation were held by CH Energy Group, Inc.

CENTRAL HUDSON GAS & ELECTRIC CORPORATION MEETS THE CONDITIONS SET FORTH IN GENERAL INSTRUCTIONS (H)(1)(a) AND (b) OF FORM 10-Q AND IS THEREFORE FILING THIS FORM WITH THE REDUCED DISCLOSURE FORMAT PURSUANT TO GENERAL INSTRUCTIONS (H)(2)(a), (b) AND (c).

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FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 2011

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FILING FORMAT

This Quarterly Report on Form 10-Q is a combined quarterly report being filed by two different registrants: CH Energy Group, Inc. (“CH Energy Group”) and Central Hudson Gas & Electric Corporation (“Central Hudson”), a wholly owned subsidiary of CH Energy Group. Except where the content clearly indicates otherwise, any reference in this report to CH Energy Group includes all subsidiaries of CH Energy Group, including Central Hudson. Central Hudson makes no representation as to the information contained in this report in relation to CH Energy Group and its subsidiaries other than Central Hudson.

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## PART 1 – FINANCIAL INFORMATION

## ITEM 1 – Financial Statements (Unaudited)

## CH ENERGY GROUP CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)

(In Thousands, except per share amounts)

|  | Three Months Ended<br>March 31, |            |
|--|---------------------------------|------------|
|  | 2011                            | 2010       |
| Operating Revenues   |                                 |            |
| Electric   | \$ 154,570                      | \$ 145,962 |
| Natural gas  | 75,482                          | 69,087     |
| Competitive business subsidiaries:   |                                 |            |
| Petroleum products   | 92,632                          | 80,160     |
| Other  | 5,960                           | 4,764      |
| Total Operating Revenues   | 328,644                         | 299,973    |
| Operating Expenses   |                                 |            |
| Operation:   |                                 |            |
| Purchased electricity and fuel used in electric generation                                 | 70,268                          | 66,875     |
| Purchased natural gas  | 41,798                          | 37,648     |
| Purchased petroleum  | 75,766                          | 62,771     |
| Other expenses of operation - regulated activities   | 69,254                          | 57,703     |
| Other expenses of operation - competitive business subsidiaries                            | 12,891                          | 13,314     |
| Depreciation and amortization  | 10,716                          | 9,690      |
| Taxes, other than income tax   | 13,280                          | 10,804     |
| Total Operating Expenses   | 293,973                         | 258,805    |
| Operating Income   | 34,671                          | 41,168     |
| Other Income and Deductions  |                                 |            |
| Income from unconsolidated affiliates  | 464                             | 234        |
| Interest on regulatory assets and other interest income                                    | 1,879                           | 1,127      |
| Regulatory adjustments for interest costs  | 383                             | (142 )     |
| Business development costs   | (948 )                          | (303 )     |
| Other - net  | (576)                           | (150 )     |
| Total Other Income (Deductions)  | 1,202                           | 766        |
| Interest Charges   |                                 |            |
| Interest on long-term debt   | 6,532                           | 5,609      |
| Interest on regulatory liabilities and other interest                                      | 1,690                           | 1,699      |
| Total Interest Charges   | 8,222                           | 7,308      |
| Income before income taxes, non-controlling interest and preferred dividends of subsidiary | 27,651                          | 34,626     |
| Income Taxes   | 10,644                          | 14,062     |
| Net Income from Continuing Operations  | 17,007                          | 20,564     |
| Discontinued Operations  |                                 |            |
| Income from discontinued operations before tax   | 187                             | 122        |
| Income tax expense (benefit) from discontinued operations                                  | 5                               | (29 )      |
| Net income from Discontinued Operations  | 182                             | 151        |

|  |         |          |
|--|---------|----------|
| Net Income   | 17,189  | 20,715   |
| Net income attributable to non-controlling interest: |         |          |
| Non-controlling interest in subsidiary               | -       | 35       |
| Dividends declared on Preferred Stock of subsidiary  | 242     | 242      |
| Net income attributable to CH Energy Group           | 16,947  | 20,438   |
| Dividends declared on Common Stock                   | 8,427   | 8,539    |
| Change in Retained Earnings                          | \$8,520 | \$11,899 |

The Notes to Financial Statements are an integral part hereof.

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## CH ENERGY GROUP CONSOLIDATED STATEMENT OF INCOME (CONT'D) (UNAUDITED)

(In Thousands, except per share amounts)

|  | Three Months Ended<br>March 31, |        |
|--|---------------------------------|--------|
|  | 2011                            | 2010   |
| <b>Common Stock:</b>   |                                 |        |
| Average shares outstanding - Basic   | 15,645                          | 15,778 |
| Average shares outstanding - Diluted   | 15,838                          | 15,936 |
| <b>Income from continuing operations attributable to CH Energy Group common shareholders</b>   |                                 |        |
| Earnings per share - Basic   | \$1.07                          | \$1.29 |
| Earnings per share - Diluted   | \$1.06                          | \$1.27 |
| <b>Income from discontinued operations attributable to CH Energy Group common shareholders</b> |                                 |        |
| Earnings per share - Basic   | \$0.01                          | \$0.01 |
| Earnings per share - Diluted   | \$0.01                          | \$0.01 |
| <b>Amounts attributable to CH Energy Group common shareholders</b>                             |                                 |        |
| Earnings per share - Basic   | \$1.08                          | \$1.30 |
| Earnings per share - Diluted   | \$1.07                          | \$1.28 |
| Dividends Declared Per Share   | \$0.54                          | \$0.54 |

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

(In Thousands)

|  | Three Months Ended<br>March 31, |          |
|--|---------------------------------|----------|
|  | 2011                            | 2010     |
| Net Income   | \$17,189                        | \$20,715 |
| <b>Other Comprehensive Income:</b>   |                                 |          |
| Fair value of cash flow hedges:  |                                 |          |
| Unrealized gains - net of tax of \$0 and (\$4)   | -                               | 5        |
| Reclassification for gains realized in net income - net of tax of \$0 and \$24                             | -                               | (36)     |
| Net unrealized gains/(loss) on investments held by equity method investees - net of tax of \$27 and (\$71) | (41)                            | 107      |
| Other comprehensive (loss) income  | (41)                            | 76       |
| Comprehensive Income   | 17,148                          | 20,791   |
| Comprehensive income attributable to non-controlling interest  | 242                             | 277      |
| Comprehensive income attributable to CH Energy Group   | \$16,906                        | \$20,514 |

The Notes to Financial Statements are an integral part hereof.





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## CH ENERGY GROUP CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

(In Thousands)

|  | Three Months Ended<br>March 31, |           |
|--|---------------------------------|-----------|
|  | 2011                            | 2010      |
| <b>Operating Activities:</b>   |                                 |           |
| Net income   | \$ 17,189                       | \$ 20,715 |
| <b>Adjustments to reconcile net income to net cash provided by operating activities:</b> |                                 |           |
| Depreciation   | 9,885                           | 8,993     |
| Amortization   | 1,037                           | 931       |
| Deferred income taxes - net  | 9,177                           | 18,627    |
| Bad debt expense   | 2,458                           | 2,626     |
| Distributed (undistributed) equity in earnings of unconsolidated affiliates              | (464 )                          | (197 )    |
| Pension expense  | 8,289                           | 8,955     |
| Other post-employment benefits ("OPEB") expense  | 1,999                           | 2,083     |
| Regulatory liability - rate moderation   | (3,451 )                        | (5,473 )  |
| Revenue decoupling mechanism recorded  | 5,280                           | (913 )    |
| Regulatory asset amortization  | 1,743                           | 1,863     |
| Gain on sale of assets   | -                               | 15        |
| <b>Changes in operating assets and liabilities - net of business acquisitions:</b>       |                                 |           |
| Accounts receivable, unbilled revenues and other receivables                             | (27,400 )                       | (17,301 ) |
| Fuel, materials and supplies   | 6,781                           | 4,096     |
| Special deposits and prepayments   | (1,894 )                        | (2,439 )  |
| Income and other taxes   | (2,242 )                        | (7,732 )  |
| Accounts payable   | (9,611 )                        | (6,111 )  |
| Accrued interest   | 1,234                           | 431       |
| Customer advances  | (9,264 )                        | (9,592 )  |
| Pension plan contribution  | (8,157 )                        | (30,138 ) |
| OPEB contribution  | -                               | (525 )    |
| Revenue decoupling mechanism collected   | 1,742                           | 1,369     |
| Regulatory asset - storm deferral  | -                               | (2,894 )  |
| Regulatory asset - manufactured gas plant ("MGP") site remediation                       | 559                             | (3,576 )  |
| Regulatory asset - Temporary State Assessment  | (2,272 )                        | (3,960 )  |
| Deferred natural gas and electric costs  | 25,334                          | 7,993     |
| Other - net  | 1,821                           | (1,854 )  |
| Net cash provided by (used in) operating activities                                      | 29,773                          | (14,008 ) |
| <b>Investing Activities:</b>   |                                 |           |
| Proceeds from sale of assets   | 41                              | 33        |
| Additions to utility and other property and plant  | (19,228 )                       | (12,560 ) |
| Acquisitions made by competitive business subsidiaries                                   | (1,961 )                        | -         |
| Other - net  | (477 )                          | (614 )    |
| Net cash used in investing activities  | (21,625 )                       | (13,141 ) |
| <b>Financing Activities:</b>   |                                 |           |
| Borrowings (repayments) of short-term debt - net   | 16,500                          | 30,000    |
| Dividends paid on Common Stock   | (8,523 )                        | (8,534 )  |

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|  |          |          |
|--|----------|----------|
| Dividends paid on Preferred Stock of subsidiary          | (242 )   | (242 )   |
| Shares repurchased                                       | (8,533 ) | -        |
| Other - net  | (228 )   | (21 )    |
| Net cash (used in) provided by financing activities      | (1,026 ) | 21,203   |
| Cash Included in Net Current Assets Held for Sale        | (603 )   | -        |
| Net Change in Cash and Cash Equivalents                  | 6,519    | (5,946 ) |
| Cash and Cash Equivalents at Beginning of Period         | 29,420   | 73,436   |
| Cash and Cash Equivalents at End of Period               | \$35,939 | \$67,490 |
| <b>Supplemental Disclosure of Cash Flow Information:</b> |          |          |
| Interest paid  | \$5,932  | \$5,463  |
| Federal and state taxes paid                             | \$7,989  | \$14,374 |
| Additions to plant included in liabilities               | \$2,981  | \$1,557  |
| Regulatory asset - storm deferral costs in liabilities   | \$-      | \$16,360 |

The Notes to Financial Statements are an integral part hereof.

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## CH ENERGY GROUP CONSOLIDATED BALANCE SHEET (UNAUDITED)

(In Thousands)

|   | March 31,<br>2011 | December<br>31,<br>2010 | March 31,<br>2010 |
|---|-------------------|-------------------------|-------------------|
| <b>ASSETS</b>   |                   |                         |                   |
| Utility Plant   |                   |                         |                   |
| Electric  | \$972,543         | \$963,261               | \$915,540         |
| Natural gas   | 295,914           | 292,358                 | 282,828           |
| Common  | 143,398           | 142,255                 | 140,704           |
| Gross Utility Plant   | 1,411,855         | 1,397,874               | 1,339,072         |
| Less: Accumulated depreciation  | 378,038           | 395,776                 | 381,112           |
| Net   | 1,033,817         | 1,002,098               | 957,960           |
| Construction work in progress   | 50,588            | 52,607                  | 58,227            |
| Net Utility Plant   | 1,084,405         | 1,054,705               | 1,016,187         |
| Non-Utility Property & Plant  |                   |                         |                   |
| Griffith non-utility property & plant   | 30,032            | 29,881                  | 28,173            |
| Other non-utility property & plant  | 55,927            | 64,059                  | 36,512            |
| Gross Non-Utility Property & Plant  | 85,959            | 93,940                  | 64,685            |
| Less: Accumulated depreciation - Griffith   | 20,679            | 20,519                  | 19,076            |
| Less: Accumulated depreciation - other  | 1,755             | 5,108                   | 3,735             |
| Net Non-Utility Property & Plant  | 63,525            | 68,313                  | 41,874            |
| Current Assets  |                   |                         |                   |
| Cash and cash equivalents   | 35,939            | 29,420                  | 67,490            |
| Accounts receivable from customers - net of allowance for doubtful accounts of \$6.8 million, \$6.7 million and \$7.7 million, respectively | 126,427           | 99,402                  | 109,760           |
| Accrued unbilled utility revenues   | 14,778            | 16,233                  | 13,163            |
| Other receivables   | 6,775             | 8,006                   | 7,049             |
| Fuel, materials and supplies  | 17,925            | 25,447                  | 20,745            |
| Regulatory assets   | 41,763            | 96,491                  | 77,403            |
| Income tax receivable   | 2,504             | 2,802                   | 9,595             |
| Fair value of derivative instruments  | 108               | 146                     | 64                |
| Special deposits and prepayments  | 24,565            | 22,869                  | 23,754            |
| Assets held for sale  | 8,653             | -                       | -                 |
| Accumulated deferred income tax   | 17,492            | -                       | 2,158             |
| Total Current Assets  | 296,929           | 300,816                 | 331,181           |
| Deferred Charges and Other Assets   |                   |                         |                   |
| Regulatory assets - pension plan  | 134,199           | 142,647                 | 159,509           |
| Regulatory assets - other   | 81,115            | 83,678                  | 119,700           |
| Goodwill  | 36,455            | 35,940                  | 35,651            |
| Other intangible assets - net   | 13,691            | 12,867                  | 14,246            |

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|  |             |             |             |
|--|-------------|-------------|-------------|
| Unamortized debt expense                 | 4,831       | 4,774       | 5,017       |
| Investments in unconsolidated affiliates | 7,077       | 6,681       | 9,057       |
| Other investments                        | 13,506      | 12,883      | 10,901      |
| Other                                    | 5,444       | 5,971       | 17,169      |
| Total Deferred Charges and Other Assets  | 296,318     | 305,441     | 371,250     |
| Total Assets                             | \$1,741,177 | \$1,729,275 | \$1,760,492 |

The Notes to Financial Statements are an integral part hereof.

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

(In Thousands)

|  | March 31,<br>2011 | December<br>31,<br>2010 | March 31,<br>2010 |
|--|-------------------|-------------------------|-------------------|
| <b>CAPITALIZATION AND LIABILITIES</b>  |                   |                         |                   |
| <b>Capitalization</b>  |                   |                         |                   |
| <b>CH Energy Group Common Shareholders' Equity</b>   |                   |                         |                   |
| Common Stock (30,000,000 shares authorized: \$0.10 par value; 16,862,087 shares issued) 15,620,765 shares, 15,799,262 shares and 15,813,388 shares outstanding, respectively | \$ 1,686          | \$ 1,686                | \$ 1,686          |
| Paid-in capital  | 350,290           | 350,360                 | 350,178           |
| Retained earnings  | 238,862           | 230,342                 | 237,898           |
| Treasury stock - 1,241,322 shares, 1,062,825 shares and 1,048,699 shares, respectively   | (53,702 )         | (44,887 )               | (44,064 )         |
| Accumulated other comprehensive income   | 418               | 459                     | 260               |
| Capital stock expense  | (328 )            | (328 )                  | (328 )            |
| Total CH Energy Group Common Shareholders' Equity  | 537,226           | 537,632                 | 545,630           |
| Non-controlling interest in subsidiary   | 172               | 172                     | 1,420             |
| Total Equity   | 537,398           | 537,804                 | 547,050           |
| Preferred Stock of subsidiary  | 21,027            | 21,027                  | 21,027            |
| Long-term debt   | 466,960           | 502,959                 | 463,898           |
| Total Capitalization   | 1,025,385         | 1,061,790               | 1,031,975         |
| <b>Current Liabilities</b>   |                   |                         |                   |
| Current maturities of long-term debt   | 36,941            | 941                     | 24,000            |
| Notes payable  | 16,500            | -                       | 30,000            |
| Accounts payable   | 44,960            | 57,059                  | 52,755            |
| Accrued interest   | 7,632             | 6,398                   | 6,498             |
| Dividends payable  | 8,678             | 8,774                   | 8,782             |
| Accrued vacation and payroll   | 6,868             | 6,663                   | 7,315             |
| Customer advances  | 10,045            | 19,309                  | 12,858            |
| Customer deposits  | 7,590             | 7,727                   | 8,526             |
| Regulatory liabilities   | 17,379            | 18,596                  | 19,969            |
| Fair value of derivative instruments   | 9,626             | 13,183                  | 36,789            |
| Accrued environmental remediation costs  | 2,162             | 2,233                   | 12,606            |
| Deferred revenues  | 3,857             | 4,650                   | 3,895             |
| Liabilities held for sale  | 321               | -                       | -                 |
| Accumulated deferred income tax  | -                 | 6,052                   | -                 |
| Other  | 13,527            | 18,961                  | 13,807            |
| Total Current Liabilities  | 186,086           | 170,546                 | 237,800           |
| <b>Deferred Credits and Other Liabilities</b>  |                   |                         |                   |
| Regulatory liabilities - OPEB  | 8,930             | 6,976                   | 3,205             |
| Regulatory liabilities - other   | 113,621           | 99,793                  | 107,897           |
| Operating reserves   | 2,898             | 3,187                   | 4,397             |
| Fair value of derivative instruments   | 10,090            | 11,698                  | -                 |
| Accrued environmental remediation costs  | 3,201             | 4,312                   | 6,898             |
| Accrued OPEB costs   | 46,227            | 45,367                  | 46,778            |
| Accrued pension costs  | 96,524            | 102,555                 | 124,845           |

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|  |              |              |              |
|--|--------------|--------------|--------------|
| Tax reserve                                  | 11,952       | 11,486       | -            |
| Other  | 17,966       | 16,967       | 14,326       |
| Total Deferred Credits and Other Liabilities | 311,409      | 302,341      | 308,346      |
| Accumulated Deferred Income Tax              | 218,297      | 194,598      | 182,371      |
| Commitments and Contingencies                |              |              |              |
| Total Capitalization and Liabilities         | \$ 1,741,177 | \$ 1,729,275 | \$ 1,760,492 |

The Notes to Financial Statements are an integral part hereof.

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## CH ENERGY GROUP CONSOLIDATED STATEMENT OF EQUITY (UNAUDITED)

(In Thousands, except share amounts)

|   | CH Energy Group Common Shareholders |         |                       |            |                    |                    |                      |   |                 |           |  |
|---|-------------------------------------|---------|-----------------------|------------|--------------------|--------------------|----------------------|---|-----------------|-----------|--|
|   | Common Stock                        |         | Treasury Stock        |            |                    | Paid-In<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income<br>/Non-controlling<br>Interest | Total<br>Equity |           |  |
|   | Shares<br>Issued                    | Amount  | Shares<br>Repurchased | Amount     | Capital<br>Expense |                    |                      |   |                 |           |  |
| Balance at<br>December 31,<br>2009  | 16,862,087                          | \$1,686 | (1,057,525)           | \$(44,406) | \$350,367          | \$(328)            | \$225,999            | \$184   | \$1,385         | \$534,887 |  |
| Comprehensive<br>income:  |                                     |         |                       |            |                    |                    |                      |   |                 |           |  |
| Net income  |                                     |         |                       |            |                    |                    | 20,680               | 35  |                 | 20,715    |  |
| Dividends<br>declared on<br>Preferred Stock<br>of subsidiary                |                                     |         |                       |            |                    |                    | (242 )               |   |                 | (242 )    |  |
| Change in fair<br>value:  |                                     |         |                       |            |                    |                    |                      |   |                 |           |  |
| Derivative<br>instruments   |                                     |         |                       |            |                    |                    |                      | 5   |                 | 5         |  |
| Investments   |                                     |         |                       |            |                    |                    |                      | 107   |                 | 107       |  |
| Reclassification<br>adjustments<br>for gains<br>recognized in<br>net income |                                     |         |                       |            |                    |                    |                      | (36 )   |                 | (36 )     |  |
| Dividends<br>declared on<br>common stock                                    |                                     |         |                       |            |                    |                    | (8,539 )             |   |                 | (8,539 )  |  |
| Treasury shares<br>activity - net   |                                     |         | 8,826                 | 342        | (189 )             |                    |                      |   |                 | 153       |  |
| Balance at<br>March 31, 2010  | 16,862,087                          | \$1,686 | (1,048,699)           | \$(44,064) | \$350,178          | \$(328)            | \$237,898            | \$260   | \$1,420         | \$547,050 |  |
| Balance at<br>December 31,<br>2010  | 16,862,087                          | \$1,686 | (1,062,825)           | \$(44,887) | \$350,360          | \$(328)            | \$230,342            | \$459   | \$172           | \$537,804 |  |
| Comprehensive<br>income:  |                                     |         |                       |            |                    |                    |                      |   |                 |           |  |
| Net income  |                                     |         |                       |            |                    |                    | 17,189               |   |                 | 17,189    |  |
| Dividends<br>declared on<br>Preferred Stock<br>of subsidiary                |                                     |         |                       |            |                    |                    | (242 )               |   |                 | (242 )    |  |



|                                    |            |         |             |            |           |         |           |       |       |  |           |
|------------------------------------|------------|---------|-------------|------------|-----------|---------|-----------|-------|-------|--|-----------|
| Change in fair value:              |            |         |             |            |           |         |           |       |       |  |           |
| Investments                        |            |         |             |            |           |         | (41 )     |       |       |  | (41 )     |
| Dividends declared on common stock |            |         |             |            |           |         | (8,427 )  |       |       |  | (8,427 )  |
| Treasury shares activity - net     |            |         | (178,497 )  | (8,815 )   | (70 )     |         |           |       |       |  | (8,885 )  |
| Balance at March 31, 2011          | 16,862,087 | \$1,686 | (1,241,322) | \$(53,702) | \$350,290 | \$(328) | \$238,862 | \$418 | \$172 |  | \$537,398 |

The Notes to Financial Statements are an integral part hereof.

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## CENTRAL HUDSON STATEMENT OF INCOME (UNAUDITED)

(In Thousands)

|  | Three Months Ended<br>March 31, |            |
|--|---------------------------------|------------|
|  | 2011                            | 2010       |
| Operating Revenues   |                                 |            |
| Electric   | \$ 154,570                      | \$ 145,962 |
| Natural gas  | 75,482                          | 69,087     |
| Total Operating Revenues                                   | 230,052                         | 215,049    |
| Operating Expenses   |                                 |            |
| Operation:   |                                 |            |
| Purchased electricity and fuel used in electric generation | 70,268                          | 66,874     |
| Purchased natural gas                                      | 41,798                          | 37,648     |
| Other expenses of operation                                | 69,254                          | 57,703     |
| Depreciation and amortization                              | 8,921                           | 8,414      |
| Taxes, other than income tax                               | 13,235                          | 10,651     |
| Total Operating Expenses                                   | 203,476                         | 181,290    |
| Operating Income   | 26,576                          | 33,759     |
| Other Income and Deductions                                |                                 |            |
| Interest on regulatory assets and other interest income    | 1,866                           | 1,125      |
| Regulatory adjustments for interest costs                  | 383                             | (142 )     |
| Other - net  | (563 )                          | (181 )     |
| Total Other Income   | 1,686                           | 802        |
| Interest Charges   |                                 |            |
| Interest on long-term debt                                 | 5,904                           | 4,773      |
| Interest on regulatory liabilities and other interest      | 1,470                           | 1,663      |
| Total Interest Charges                                     | 7,374                           | 6,436      |
| Income Before Income Taxes                                 | 20,888                          | 28,125     |
| Income Taxes   | 8,249                           | 11,480     |
| Net Income   | 12,639                          | 16,645     |
| Dividends Declared on Cumulative Preferred Stock           | 242                             | 242        |
| Income Available for Common Stock                          | \$ 12,397                       | \$ 16,403  |

## CENTRAL HUDSON STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

(In Thousands)

Three Months Ended  
March 31,

|                            | 2011      | 2010      |
|----------------------------|-----------|-----------|
| Net Income                 | \$ 12,639 | \$ 16,645 |
| Other Comprehensive Income | -         | -         |
| Comprehensive Income       | \$ 12,639 | \$ 16,645 |

The Notes to Financial Statements are an integral part hereof.

Table of ContentsCENTRAL HUDSON STATEMENT OF CASH FLOWS (UNAUDITED)  
(In Thousands)

|   | Three Months Ended<br>March 31, |           |
|---|---------------------------------|-----------|
|   | 2011                            | 2010      |
| <b>Operating Activities:</b>  |                                 |           |
| Net income  | \$12,639                        | \$16,645  |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                 |           |
| Depreciation  | 8,481                           | 8,050     |
| Amortization  | 440                             | 364       |
| Deferred income taxes - net   | 7,951                           | 17,532    |
| Bad debt expense  | 2,076                           | 2,389     |
| Pension expense   | 8,289                           | 8,955     |
| OPEB expense  | 1,999                           | 2,083     |
| Regulatory liability - rate moderation  | (3,451 )                        | (5,473 )  |
| Revenue decoupling mechanism recorded   | 5,280                           | (913 )    |
| Regulatory asset amortization   | 1,743                           | 1,863     |
| Changes in operating assets and liabilities - net:                                |                                 |           |
| Accounts receivable, unbilled revenues and other receivables                      | (12,231 )                       | (10,418 ) |
| Fuel, materials and supplies  | 5,117                           | 3,977     |
| Special deposits and prepayments  | (3,055 )                        | (1,468 )  |
| Income and other taxes  | (1,954 )                        | (6,188 )  |
| Accounts payable  | (4,425 )                        | (3,012 )  |
| Accrued interest  | 399                             | (405 )    |
| Customer advances   | (7,726 )                        | (6,454 )  |
| Pension plan contribution   | (8,157 )                        | (30,138 ) |
| OPEB contribution   | -                               | (525 )    |
| Revenue decoupling mechanism collected  | 1,742                           | 1,369     |
| Regulatory asset - storm deferral   | -                               | (2,894 )  |
| Regulatory asset - MGP site remediation   | 559                             | (3,576 )  |
| Regulatory asset - Temporary State Assessment                                     | (2,272 )                        | (3,960 )  |
| Deferred natural gas and electric costs   | 25,334                          | 7,993     |
| Other - net   | 4,174                           | 2,693     |
| Net cash provided by (used in) operating activities                               | 42,952                          | (1,511 )  |
| <b>Investing Activities:</b>  |                                 |           |
| Additions to utility plant  | (16,117 )                       | (12,760 ) |
| Other - net   | (453 )                          | (627 )    |
| Net cash used in investing activities   | (16,570 )                       | (13,387 ) |
| <b>Financing Activities:</b>  |                                 |           |
| Borrowings (repayments) of short-term debt - net                                  | -                               | 30,000    |
| Dividends paid to parent - CH Energy Group  | (11,000 )                       | -         |
| Dividends paid on cumulative Preferred Stock                                      | (242 )                          | (242 )    |
| Other - net   | (228 )                          | (21 )     |
| Net cash (used in) provided by financing activities                               | (11,470 )                       | 29,737    |
| Net Change in Cash and Cash Equivalents   | 14,912                          | 14,839    |

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|   |          |          |
|---|----------|----------|
| Cash and Cash Equivalents - Beginning of Period | 9,622    | 4,784    |
| Cash and Cash Equivalents - End of Period       | \$24,534 | \$19,623 |

Supplemental Disclosure of Cash Flow Information:

|  |         |          |
|--|---------|----------|
| Interest paid  | \$5,912 | \$5,432  |
| Federal and state taxes paid                           | \$7,827 | \$8,910  |
| Additions to plant included in liabilities             | \$2,165 | \$1,529  |
| Regulatory asset - storm deferral costs in liabilities | \$-     | \$16,360 |

The Notes to Financial Statements are an integral part hereof.

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Table of ContentsCENTRAL HUDSON BALANCE SHEET (UNAUDITED)  
(In Thousands)

|   | March 31,<br>2011 | December<br>31,<br>2010 | March 31,<br>2010 |
|---|-------------------|-------------------------|-------------------|
| <b>ASSETS</b>   |                   |                         |                   |
| Utility Plant   |                   |                         |                   |
| Electric  | \$972,543         | \$963,261               | \$915,540         |
| Natural gas   | 295,914           | 292,358                 | 282,828           |
| Common  | 143,398           | 142,255                 | 140,704           |
| Gross Utility Plant   | 1,411,855         | 1,397,874               | 1,339,072         |
| Less: Accumulated depreciation  | 378,038           | 395,776                 | 381,112           |
| Net   | 1,033,817         | 1,002,098               | 957,960           |
| Construction work in progress   | 50,588            | 52,607                  | 58,227            |
| Net Utility Plant   | 1,084,405         | 1,054,705               | 1,016,187         |
| Non-Utility Property and Plant  | 681               | 681                     | 681               |
| Less: Accumulated depreciation  | 35                | 35                      | 33                |
| Net Non-Utility Property and Plant  | 646               | 646                     | 648               |
| Current Assets  |                   |                         |                   |
| Cash and cash equivalents   | 24,534            | 9,622                   | 19,623            |
| Accounts receivable from customers - net of allowance for doubtful accounts of \$5.3 million, \$5.3 million and \$5.9 million, respectively | 86,292            | 67,185                  | 77,113            |
| Accrued unbilled utility revenues   | 14,778            | 16,233                  | 13,163            |
| Other receivables   | 2,832             | 10,328                  | 3,265             |
| Fuel, materials and supplies - at average cost  | 14,910            | 20,027                  | 17,328            |
| Regulatory assets   | 41,763            | 96,491                  | 77,403            |
| Income tax receivable   | -                 | -                       | 16,894            |
| Fair value of derivative instruments  | 68                | 34                      | -                 |
| Special deposits and prepayments  | 20,268            | 17,184                  | 19,797            |
| Accumulated deferred income tax   | 11,133            | -                       | -                 |
| Total Current Assets  | 216,578           | 237,104                 | 244,586           |
| Deferred Charges and Other Assets   |                   |                         |                   |
| Regulatory assets - pension plan  | 134,199           | 142,647                 | 159,509           |
| Regulatory assets - other   | 81,115            | 83,678                  | 119,700           |
| Unamortized debt expense  | 4,831             | 4,774                   | 5,017             |
| Other investments   | 13,110            | 12,511                  | 10,622            |
| Other   | 2,449             | 3,009                   | 4,064             |
| Total Deferred Charges and Other Assets   | 235,704           | 246,619                 | 298,912           |
| Total Assets  | \$1,537,333       | \$1,539,074             | \$1,560,333       |

The Notes to Financial Statements are an integral part hereof.



Table of ContentsCENTRAL HUDSON BALANCE SHEET (CONT'D) (UNAUDITED)  
(In Thousands)

|   | March 31,<br>2011 | December<br>31,<br>2010 | March 31,<br>2010 |
|---|-------------------|-------------------------|-------------------|
| <b>CAPITALIZATION AND LIABILITIES</b>   |                   |                         |                   |
| <b>Capitalization</b>   |                   |                         |                   |
| Common Stock, 30,000,000 shares authorized; 16,862,087 shares issued and outstanding, \$5 par value | \$84,311          | \$84,311                | \$84,311          |
| Paid-in capital   | 199,980           | 199,980                 | 199,980           |
| Retained earnings   | 166,295           | 164,898                 | 167,153           |
| Capital stock expense   | (4,961 )          | (4,961 )                | (4,961 )          |
| <b>Total Equity</b>   | <b>445,625</b>    | <b>444,228</b>          | <b>446,483</b>    |
| <br>  |                   |                         |                   |
| Cumulative Preferred Stock not subject to mandatory redemption                                      | 21,027            | 21,027                  | 21,027            |
| <br>  |                   |                         |                   |
| Long-term debt  | 417,901           | 453,900                 | 413,898           |
| <b>Total Capitalization</b>   | <b>884,553</b>    | <b>919,155</b>          | <b>881,408</b>    |
| <br>  |                   |                         |                   |
| <b>Current Liabilities</b>  |                   |                         |                   |
| Current maturities of long-term debt  | 36,000            | -                       | 24,000            |
| Notes payable   | -                 | -                       | 30,000            |
| Accounts payable  | 36,833            | 43,452                  | 45,314            |
| Accrued interest  | 6,366             | 5,967                   | 5,232             |
| Dividends payable - Preferred Stock   | 242               | 242                     | 242               |
| Accrued vacation and payroll  | 5,351             | 5,484                   | 5,751             |
| Customer advances   | 6,028             | 13,753                  | 8,548             |
| Customer deposits   | 7,514             | 7,654                   | 8,451             |
| Regulatory liabilities  | 17,379            | 18,596                  | 19,969            |
| Fair value of derivative instruments  | 9,626             | 13,183                  | 36,739            |
| Accrued environmental remediation costs   | 1,042             | 1,396                   | 12,334            |
| Accrued income taxes  | 699               | 113                     | -                 |
| Accumulated deferred income tax   | -                 | 9,439                   | 156               |
| Other   | 8,543             | 13,275                  | 8,977             |
| <b>Total Current Liabilities</b>  | <b>135,623</b>    | <b>132,554</b>          | <b>205,713</b>    |
| <br>  |                   |                         |                   |
| <b>Deferred Credits and Other Liabilities</b>   |                   |                         |                   |
| Regulatory liabilities - OPEB   | 8,930             | 6,976                   | 3,205             |
| Regulatory liabilities - other  | 113,621           | 99,793                  | 107,897           |
| Operating reserves  | 2,102             | 2,068                   | 3,164             |
| Fair value of derivative instruments  | 10,090            | 11,698                  | -                 |
| Accrued environmental remediation costs   | 1,693             | 1,849                   | 3,652             |
| Accrued OPEB costs  | 46,227            | 45,367                  | 46,778            |
| Accrued pension costs   | 96,524            | 102,555                 | 124,845           |
| Tax reserve   | 11,952            | 11,486                  | -                 |
| Other   | 17,080            | 16,109                  | 13,566            |
| <b>Total Deferred Credits and Other Liabilities</b>   | <b>308,219</b>    | <b>297,901</b>          | <b>303,107</b>    |



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|                                      |             |             |             |
|--------------------------------------|-------------|-------------|-------------|
| Accumulated Deferred Income Tax      | 208,938     | 189,464     | 170,105     |
| Commitments and Contingencies        |             |             |             |
| Total Capitalization and Liabilities | \$1,537,333 | \$1,539,074 | \$1,560,333 |

The Notes to Financial Statements are an integral part hereof.

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Table of ContentsCENTRAL HUDSON STATEMENT OF EQUITY (UNAUDITED)  
(In Thousands, except share amounts)

|  | Central Hudson Common Shareholders |           | Treasury              |        | Paid-In<br>Capital | Capital<br>Stock<br>Expense | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income<br>/ (Loss) | Total<br>Equity |
|--|------------------------------------|-----------|-----------------------|--------|--------------------|-----------------------------|----------------------|---|-----------------|
|  | Common Stock                       |           | Stock                 |        |                    |                             |                      |   |                 |
|  | Shares<br>Issued                   | Amount    | Shares<br>Repurchased | Amount |                    |                             |                      |   |                 |
| Balance at<br>December 31,<br>2009                   | 16,862,087                         | \$ 84,311 | -                     | \$ -   | \$ 199,980         | \$ (4,961)                  | \$ 150,750           | \$ -  | \$ 430,080      |
| Net income   |                                    |           |                       |        |                    |                             | 16,645               |   | 16,645          |
| Dividends<br>declared:                               |                                    |           |                       |        |                    |                             |                      |   |                 |
| On cumulative<br>Preferred Stock                     |                                    |           |                       |        |                    |                             | (242 )               |   | (242 )          |
| Balance at March<br>31, 2010                         | 16,862,087                         | \$ 84,311 | -                     | \$ -   | \$ 199,980         | \$ (4,961)                  | \$ 167,153           | \$ -  | \$ 446,483      |
| Balance at<br>December 31,<br>2010                   | 16,862,087                         | \$ 84,311 | -                     | \$ -   | \$ 199,980         | \$ (4,961)                  | \$ 164,898           | \$ -  | \$ 444,228      |
| Net income   |                                    |           |                       |        |                    |                             | 12,639               |   | 12,639          |
| Dividends<br>declared:                               |                                    |           |                       |        |                    |                             |                      |   |                 |
| On cumulative<br>Preferred Stock                     |                                    |           |                       |        |                    |                             | (242 )               |   | (242 )          |
| On Common<br>Stock to parent -<br>CH Energy<br>Group |                                    |           |                       |        |                    |                             | (11,000 )            |   | (11,000 )       |
| Balance at March<br>31, 2011                         | 16,862,087                         | \$ 84,311 | -                     | \$ -   | \$ 199,980         | \$ (4,961)                  | \$ 166,295           | \$ -  | \$ 445,625      |

The Notes to Financial Statements are an integral part hereof.

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NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

NOTE 1 – Summary of Significant Accounting Policies

Basis of Presentation

This Quarterly Report on Form 10-Q is a combined report of CH Energy Group, Inc. (“CH Energy Group”) and its regulated electric and natural gas subsidiary, Central Hudson Gas & Electric Corporation (“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 and CH Energy Group’s non-utility subsidiary, Central Hudson Enterprises Corporation (“CHEC”). Operating results of CHEC include its wholly owned subsidiaries, Griffith Energy Services, Inc. (“Griffith”), CH-Auburn Energy, LLC (“CH-Auburn”), CH-Greentree, LLC (“CH-Greentree”), CH Shirley Wind, LLC (“CH Shirley Wind”), CH-Lyonsdale, LLC (“CH-Lyonsdale”) and Lyonsdale Biomass, LLC (“Lyonsdale”), and its majority owned subsidiary Shirley Wind (Delaware), LLC (“Shirley Delaware”). The non-controlling interest shown on CH Energy Group’s Consolidated Financial Statements represents the minority owner’s proportionate share of the income and equity of Shirley Delaware for 2011 and 2010 and Lyonsdale for 2010 prior to the purchase of the minority owner’s interest on October 1, 2010. Inter-company balances and transactions have been eliminated in consolidation.

The Financial Statements were prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”), which for regulated public utilities, includes specific accounting guidance for regulated operations. For additional information regarding regulatory accounting, see Note 2 - “Regulatory Matters.”

Unaudited Financial Statements

The accompanying Consolidated Financial Statements of CH Energy Group and Financial Statements of Central Hudson are unaudited but, in the opinion of Management, reflect adjustments (which include normal recurring adjustments) necessary for a fair statement of the results for the interim periods presented. These unaudited quarterly Financial Statements do not contain all footnote disclosures concerning accounting policies and other matters which would be included in annual Financial Statements and, accordingly, should be read in conjunction with the audited Financial Statements (including the Notes thereto) included in the combined CH Energy Group/Central Hudson Annual Report on Form 10-K for the year ended December 31, 2010 (the “Corporations’ 10-K Annual Report”).

CH Energy Group’s and Central Hudson’s balance sheet as of March 31, 2010 is not required to be included in this Quarterly Report on Form 10-Q; however, this balance sheet is included for supplemental analysis purposes.

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Reclassification

Certain amounts in the 2010 Financial Statements have been reclassified to conform to the 2011 presentation.

On March 31, 2011, CH Energy Group's subsidiary CHEC entered into an agreement to sell its Lyonsdale Biomass subsidiary, which operates a wood-burning electric generating facility in New York. CH Energy Group concluded that the criteria for reporting held for sale and discontinued operations were met at March 31, 2011, and accordingly, presented the results of operations associated with these operations for current and prior periods in discontinued operations in the CH Energy Group Consolidated Statement of Income and has presented the assets and liabilities of Lyonsdale separately in the CH Energy Group Consolidated Balance Sheet. Management has elected to include cash flows from discontinued operations with those from continuing operations in the CH Energy Group Consolidated Statement of Cash Flows.

For more information regarding discontinued operations and assets held for sale, see Note 5 – "Acquisition, Divestitures and Investments."

Consolidation of Variable Interest Entities

CH Energy Group and its subsidiaries do not have any interests in special purpose entities and do not have material affiliations with any variable interest entities which were not consolidated.

Revenue Recognition

CH Energy Group's deferred revenue balances as of March 31, 2011, December 31, 2010 and March 31, 2010 were \$3.9 million, \$4.7 million and \$3.9 million, respectively. The deferred revenue balance will be recognized in CH Energy Group's operating revenues over the 12-month term of the respective customer contract.

As required by the PSC, Central Hudson records gross receipts tax revenues and expenses on a gross income statement presentation basis (i.e., included in both revenue and expenses). Sales and use taxes for both Central Hudson and Griffith are accounted for on a net basis (excluded from revenue).

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## Fuel, Materials &amp; Supplies

The following is a summary of CH Energy Group's and Central Hudson's inventories (In Thousands):

## CH Energy Group

|                                  | March 31,<br>2011 | December 31,<br>2010 | March 31,<br>2010 |
|----------------------------------|-------------------|----------------------|-------------------|
| Natural gas                      | \$ 5,467          | \$ 10,809            | \$ 7,414          |
| Petroleum products and propane   | 2,284             | 3,831                | 2,111             |
| Fuel used in electric generation | 266 (1)           | 820                  | 798               |
| Materials and supplies           | 9,908 (1)         | 9,987                | 10,422            |
| Total                            | \$ 17,925         | \$ 25,447            | \$ 20,745         |

## Central Hudson

|                                  | March 31,<br>2011 | December 31,<br>2010 | March 31,<br>2010 |
|----------------------------------|-------------------|----------------------|-------------------|
| Natural gas                      | \$ 5,467          | \$ 10,809            | \$ 7,414          |
| Petroleum products and propane   | 519               | 519                  | 525               |
| Fuel used in electric generation | 266               | 271                  | 293               |
| Materials and supplies           | 8,658             | 8,428                | 9,096             |
| Total                            | \$ 14,910         | \$ 20,027            | \$ 17,328         |

(1) Fuel used in electric generation of \$525 and materials and supplies of \$216 related to Lyonsdale have been excluded from these amounts as of March 31, 2011 and designated as held for sale under current accounting guidance. For further details, see Note 5 - "Acquisitions, Divestitures and Investments."

## Depreciation and Amortization

Current accounting guidance related to asset retirements 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. These depreciation rates include a change for the cost of future removal and retirement of fixed assets. In accordance with current accounting guidance for regulated operations, Central Hudson continues to accrue for the future cost of removal for its rate-regulated natural gas and electric utility assets. In accordance with current accounting guidance related to asset retirements, Central Hudson has classified \$52.5 million, \$46.9 million, and \$46.5 million of cost of removal as regulatory liabilities as of March 31, 2011, December 31, 2010, and March 31, 2010, respectively. This liability represents the portion of the cost of removal charge in excess of the amount reported as an Asset Retirement Obligation under GAAP.

See Note 6 - "Goodwill and Other Intangible Assets" for further discussion of amortization of intangibles (other than goodwill).

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Earnings Per Share

In the calculation of earnings per share (basic and diluted) of CH Energy Group's Common Stock, earnings for CH Energy Group are reduced by the Preferred Stock dividends of Central Hudson.

The average dilutive effect of CH Energy Group's stock options, performance shares and restricted shares are as follows (In Shares):

| Three Months Ended<br>March 31, |         |
|---------------------------------|---------|
| 2011                            | 2010    |
| 193,449                         | 158,461 |

Certain stock options are excluded from the calculation of diluted earnings per share because the exercise price of those options were greater than the average market price per share of Common Stock. Options excluded are as follows (In Shares):

| Three Months Ended<br>March 31, |        |
|---------------------------------|--------|
| 2011                            | 2010   |
| -                               | 35,980 |

For additional information regarding stock options, performance shares and restricted shares, see Note 11 - "Equity-Based Compensation."

Parental Guarantees

CH Energy Group and CHEC have issued guarantees to counterparties to assure the payment, when due, of certain obligations incurred by CH Energy Group subsidiaries, in physical and financial transactions.

(In Thousands)

| Transaction Description  | March 31, 2011                   |                               |
|--|----------------------------------|-------------------------------|
|  | Maximum<br>Potential<br>Payments | Outstanding<br>Liabilities(1) |
| Heating oil, propane, other petroleum products, weather and commodity hedges | \$33,750                         | \$ 6,283                      |
| Certain equipment supply and construction agreements                         | \$1,044                          | \$ 789                        |

(1) Balances included in CH Energy Group's Consolidated Balance Sheet

Management is not aware of any existing condition that would require payment under the guarantees.

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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 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 payment of \$38.5 million in dividends to CH Energy Group for the year ended December 31, 2010. Central Hudson's dividend 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 CH Energy Group or any of Central Hudson's affiliates. Further restrictions are imposed for any downgrades below this level. During the three months ended March 31, 2011, Central Hudson declared and paid dividends of \$11.0 million to CH Energy Group. CH Energy Group's other subsidiaries do not have express restrictions on their ability to pay dividends.

On March 31, 2011, the Board of Directors of CH Energy Group declared a quarterly dividend of \$0.54 per share, payable May 2, 2011, to shareholders of record as of April 11, 2011.

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## NOTE 2 – Regulatory Matters

## Summary of Regulatory Assets and Liabilities

The following table sets forth Central Hudson's regulatory assets and liabilities (In Thousands):

|  | March 31,<br>2011 | December 31,<br>2010 | March 31,<br>2010 |
|--|-------------------|----------------------|-------------------|
| <b>Regulatory Assets (Debits):</b>                                     |                   |                      |                   |
| Current:   |                   |                      |                   |
| Deferred purchased electric and natural gas costs                      | \$ 4,985          | \$ 30,320            | \$ 19,617         |
| Deferred unrealized losses on derivatives                              | 19,648            | 24,847               | 36,739            |
| PSC General and Temporary State Assessment and carrying charges        | 12,286            | 9,891                | 15,297            |
| RDM and carrying charges   | -                 | 3,966                | 4,698             |
| Residual natural gas deferred balances                                 | 4,554             | 4,554                | 962               |
| Deferred storm costs and carrying charges                              | - (1)             | 19,985               | -                 |
| Uncollectible deferral and carrying charges                            | - (1)             | 2,638                | -                 |
| Other  | 290               | 290                  | 90                |
|  | 41,763            | 96,491               | 77,403            |
| Long-term:   |                   |                      |                   |
| Deferred pension costs   | 134,199           | 142,647              | 159,509           |
| Carrying charges - pension reserve                                     | 2,068             | 1,144                | 2,160             |
| Deferred and accrued costs - MGP site remediation and carrying charges | 9,398             | 10,364               | 16,790            |
| Deferred debt expense on re-acquired debt                              | 5,957             | 6,084                | 4,748             |
| Deferred Medicare Subsidy taxes  | 6,885             | 6,740                | 6,314             |
| Residual natural gas deferred balances and carrying charges            | 12,453            | 14,121               | 17,631            |
| Income taxes recoverable through future rates                          | 35,972            | 35,903               | 41,781            |
| Uncollectible deferral and carrying charges                            | -                 | -                    | 3,369             |
| Deferred storm costs and carrying charges                              | -                 | -                    | 19,253            |
| Other  | 8,382             | 9,322                | 7,654             |
|  | 215,314           | 226,325              | 279,209           |
| <b>Total Regulatory Assets</b>   | <b>\$ 257,077</b> | <b>\$ 322,816</b>    | <b>\$ 356,612</b> |
| <b>Regulatory Liabilities (Credits):</b>                               |                   |                      |                   |
| Current:   |                   |                      |                   |
| Excess electric depreciation reserve and carrying charges              | \$ 4,931          | \$ 7,366             | \$ 10,114         |
| RDM and carrying charges   | 3,198             | -                    | -                 |
| Income taxes refundable through future rates                           | 5,128             | 5,128                | 6,037             |
| Deferred unbilled gas revenues   | 4,122             | 6,102                | 3,818             |
|  | 17,379            | 18,596               | 19,969            |
| Long-term:   |                   |                      |                   |
| Customer benefit fund  | 3,403             | 3,468                | 3,740             |
| Deferred cost of removal   | 52,517            | 46,938               | 46,480            |
| Electric rate base credit fund   | 9,632 (1)         | -                    | -                 |
| Excess electric depreciation reserve and carrying charges              | 4,004             | 4,889                | 13,583            |



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|  |            |            |            |
|--|------------|------------|------------|
| Income taxes refundable through future rates | 26,099     | 33,820     | 33,716     |
| Deferred OPEB costs                          | 8,930      | 6,976      | 3,205      |
| Carrying charges - OPEB reserve              | 2,476      | 1,599      | 2,239      |
| Other  | 15,490     | 9,079      | 8,139      |
|  | 122,551    | 106,769    | 111,102    |
| Total Regulatory Liabilities                 | \$ 139,930 | \$ 125,365 | \$ 131,071 |
|  |            |            |            |
| Net Regulatory Assets                        | \$ 117,147 | \$ 197,451 | \$ 225,541 |

(1) Central Hudson offset deferred storm costs and incremental bad debt expense and associated carrying charges, in accordance with the PSC prescribed Order issued on April 14, 2011.

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## 2010 Rate Order

From July 1, 2010 through June 30, 2013, Central Hudson operates under the terms of the 2010 Rate Order, which provides for the following:

| Description  | 2010 Rate Order  |
|--|--|
| Electric delivery revenue increases  | \$11.8 million(1)<br>7/1/10<br>\$9.3<br>million(1) 7/1/11<br>\$9.0 million<br>7/1/12 |
| Natural gas delivery revenue increases   | \$5.7 million<br>7/1/10<br>\$2.4 million<br>7/1/11<br>\$1.6 million<br>7/1/12        |
| ROE  | 10.0%  |
| Earnings sharing   | Yes(2)   |
| Capital structure – common equity  | 48%  |
| Targets with true-up provisions - % of revenue requirement to defer for shortfalls     |  |
| Net plant balances   | 100%   |
| Transmission and distribution ROW maintenance  | 100%   |
| RDMs – electric and natural gas(3)   | Yes  |
| New deferral accounting for full recovery  |  |
| Fixed debt costs   | Yes(4)   |
| Transmission sag mitigation  | Yes  |
| New York State Temporary Assessment  | Yes  |
| Material regulatory actions(5)   | Yes(5)   |
| Property taxes – Deferral for 90% of excess/deficiency relative to revenue requirement | Yes(6)   |

(1) Moderated by \$12 million and \$4 million bill credits, respectively.

(2) ROE > 10.5%, 50% to customers, > 11.0%, 80% to customers, > 11.5%, 90% to customers.

(3) Electric is based on revenue dollars; gas is based on usage per customer.

(4) Deferral authorization in RY2 and RY3 only.

(5) Legislative, governmental or regulatory actions with individual impacts greater than or equal to 2% of net income of the applicable department.

(6) The Company's pre-tax gain or loss limited to \$0.7 million per rate year.

## Other PSC Proceedings

On September 23, 2010, Central Hudson filed a petition with the PSC requesting approval to defer for future recovery the incremental bad debt expense and storm costs, and incremental gas and electric property tax expense above the respective rate allowances for the twelve months ended June 30, 2010. The petition also requests approval of offsets of the foregoing against significant tax refunds resulting from a change in the way Central Hudson treats certain capital expenditures for tax purposes.

On April 14, 2011, the Commission issued an Order authorizing deferral of \$18.8 million of the incremental electric storm restoration expense and the \$2.6 million of incremental bad debt expense and denying deferral of the Company's \$2.6 million of incremental electric and gas property tax expense. The PSC also approved the ratemaking treatment proposed by the Company in its filing and the offsets have been recorded as of March 31, 2011. The remaining balance of the tax refund not subject to offset has been established as a regulatory liability, electric rate base credit fund, for the benefit of customers totaling \$9.6 million.

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## NOTE 3 - New Accounting Guidance

Newly adopted and soon to be adopted accounting guidance is summarized below, and explanations of the underlying information for all guidance (except that which is not currently applicable) that is expected to have a material impact on CH Energy Group and its subsidiaries.

| Impact | Category  | Accounting Reference | Title   | Issued Date | Effective Date |
|--------|---|----------------------|---|-------------|----------------|
| 1      | Fair Value Measurements and Disclosures (Topic 820) | ASU No. 2010-06      | Improving Disclosures about Fair Value Measurements   | Jan-10      | Jan-11         |
| 1      | Intangibles - Goodwill and Other (Topic 360)        | ASU No. 2010-28      | Intangibles - Goodwill and Other: When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts | Dec-10      | Jan-11         |
| 1      | Business Combinations (Topic 805)                   | ASU No. 2010-29      | Disclosure of Supplementary Pro Forma Information for Business Combinations   | Dec-10      | Jan-11         |

## Impact Key:

- (1) No current impact on the financial condition, results of operations and cash flows of CH Energy Group and its subsidiaries when adopted on the effective date noted.

## NOTE 4 – Income Tax

In September of 2010, Central Hudson filed a request with the Internal Revenue Service (“IRS”) to change the Company’s tax accounting method related to costs to repair and maintain utility assets. The change was effective for the tax year ending December 31, 2009. This change allows Central Hudson to take a current tax deduction for a significant amount of repair costs that were previously capitalized for tax purposes.

Other than the uncertain tax position related to the Company’s accounting method change, there are no other uncertain tax positions. The following is a summary of activity related to uncertain tax positions (In Thousands):

|  | Three Months Ended<br>March 31, |      |
|--|---------------------------------|------|
|  | 2011                            | 2010 |
| Balance at the beginning of the period                             | \$11,486                        | \$-  |
| Additional reserve related to tax accounting method change         | 466                             | -    |
| Settlement of uncertain tax positions with tax authorities         | -                               | -    |
| Lapse of statute of limitations related to uncertain tax positions | -                               | -    |
| Balance at the end of the period                                   | \$11,952                        | \$-  |



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| Jurisdiction   | Tax Years Open for Audit |
|----------------|--------------------------|
| Federal(1)     | 2007, 2008 and 2009      |
| New York State | 2007, 2008 and 2009      |

(1) Federal tax filings for the years 2007, 2008 and 2009 are currently under audit.

## Reconciliation - CH Energy Group

The following is a reconciliation 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 (In Thousands):

|   | Three Months Ended<br>March 31, |           |
|---|---------------------------------|-----------|
|   | 2011                            | 2010      |
| Net income attributable to CH Energy Group  | \$ 16,947                       | \$ 20,438 |
| Preferred Stock dividends of Central Hudson | 242                             | 242       |
| Non-controlling interest in subsidiary      | -                               | 35        |
| Federal income tax                          | 1,003                           | (3,868)   |
| State income tax                            | 348                             | (725)     |
| Deferred federal income tax                 | 8,552                           | 16,298    |
| Deferred state income tax                   | 746                             | 2,328     |
| Income before taxes                         | \$ 27,838                       | \$ 34,748 |
| Computed federal tax at 35% statutory rate  | \$ 9,743                        | \$ 12,162 |
| State income tax net of federal tax benefit | 988                             | 1,774     |
| Depreciation flow-through                   | 788                             | 666       |
| Cost of Removal                             | (457)                           | (366)     |
| Production tax credits                      | (35)                            | (61)      |
| Other                                       | (378)                           | (142)     |
| Total income tax                            | \$ 10,649                       | \$ 14,033 |
| Effective tax rate - federal                | 34.3 %                          | 35.8 %    |
| Effective tax rate - state                  | 4.0 %                           | 4.6 %     |
| Effective tax rate - combined               | 38.3 %                          | 40.4 %    |

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## Reconciliation - Central Hudson

The following is a reconciliation between the amount of federal income tax computed on income before taxes at the statutory rate and the amount reported in Central Hudson's Statement of Income (In Thousands):

|   | Three Months Ended |          |      |   |
|---|--------------------|----------|------|---|
|   | March 31,          |          |      |   |
|   | 2011               | 2010     |      |   |
| Net income                                  | \$12,639           | \$16,645 |      |   |
| Federal income tax                          | 70                 | (5,101 ) |      |   |
| State income tax                            | 170                | (950 )   |      |   |
| Deferred federal income tax                 | 7,217              | 15,441   |      |   |
| Deferred state income tax                   | 792                | 2,090    |      |   |
| Income before taxes                         | \$20,888           | \$28,125 |      |   |
| Computed federal tax at 35% statutory rate  | \$7,311            | \$9,844  |      |   |
| State income tax net of federal tax benefit | 903                | 1,472    |      |   |
| Depreciation flow-through                   | 788                | 666      |      |   |
| Cost of Removal                             | (457 )             | (366 )   |      |   |
| Other                                       | (296 )             | (136 )   |      |   |
| Total income tax                            | \$8,249            | \$11,480 |      |   |
| Effective tax rate - federal                | 34.9               | %        | 36.7 | % |
| Effective tax rate - state                  | 4.6                | %        | 4.1  | % |
| Effective tax rate - combined               | 39.5               | %        | 40.8 | % |

## NOTE 5 – Acquisitions, Divestitures and Investments

## Acquisitions

During the three months ended March 31, 2011, Griffith acquired fuel distribution companies as follows (Dollars in Thousands):

| Quarter Ended  | # of<br>Acquired<br>Companies | Purchase<br>Price | Total<br>Intangible<br>Assets(1) | Goodwill | Total<br>Tangible<br>Assets |
|----------------|-------------------------------|-------------------|----------------------------------|----------|-----------------------------|
| March 31, 2011 | 2                             | \$ 1,961          | \$ 1,936                         | \$ 515   | \$ 25                       |
| Total          | 2                             | \$ 1,961          | \$ 1,936                         | \$ 515   | \$ 25                       |

(1) Including goodwill.

## Divestitures

In the first quarter of 2011, Griffith reduced its environmental reserve by \$0.6 million based on the completion of an environmental study. The reserve adjustment related to the 2009 divestiture of operations in certain geographic locations. As such, \$0.4 million, net of tax, has been reflected in income from discontinued operations in the CH Energy Group Consolidated Income Statement for the three months ended March 31, 2011.

On March 29, 2011, CH Energy Group's subsidiary CHEC entered into an agreement to sell its Lyonsdale Biomass Facility. CH Energy Group concluded that the criteria for reporting held for sale and discontinued operations were met at March 31, 2011, and accordingly, presented the results of operations associated with these operations for current and prior periods in discontinued operations in the CH Energy Group Consolidated Statement of Income and has presented the assets and liabilities of Lyonsdale separately in the CH Energy Group Consolidated Balance Sheet. Management has elected to include cash flows from discontinued operations with those from continuing operations in the CH Energy Group Consolidated Statement of Cash Flows.



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The table below provides additional detail of the financial results of the discontinued operations (In Thousands):

|   | Three Months Ended |         |
|---|--------------------|---------|
|   | 2011               | 2010    |
| Revenues from discontinued operations                     | \$1,773            | \$2,670 |
| Income from discontinued operations before tax            | 187                | 122     |
| Income tax expense (benefit) from discontinued operations | 5                  | (29)    |

The carrying amounts of the major classes of assets and liabilities classified as held for sale in CH Energy Group's Consolidated Balance Sheet are as follows (In Thousands):

|  | March 31,<br>2011 |
|--|-------------------|
| <b>Assets</b>                            |                   |
| <b>Current Assets</b>                    |                   |
| Cash                                     | \$603             |
| Accounts receivable from customers       | 525               |
| Fuel, materials and supplies             | 741               |
| Special deposits and prepayments         | 227               |
| Other receivable                         | 78                |
| Total current assets                     | 2,174             |
| <b>Property, Plant and Equipment</b>     |                   |
| Property, plant and equipment            | 10,670            |
| Less: Accumulated depreciation           | 4,191             |
| Total property, plant and equipment, net | 6,479             |
| <b>Assets held for sale</b>              | <b>\$8,653</b>    |
| <b>Liabilities</b>                       |                   |
| <b>Current Liabilities</b>               |                   |
| Accounts payable                         | \$157             |
| Accrued expenses                         | 137               |
| Accrued vacation and payroll             | 18                |
| Other                                    | 9                 |
| <b>Liabilities held for sale</b>         | <b>\$321</b>      |

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## Investments

CHEC's current investments at March 31, 2011 include the following (Dollars in Thousands):

| CHEC Investment          | Description   | Intercompany Debt | Equity Investment | Total      |
|--------------------------|---|-------------------|-------------------|------------|
| Griffith Energy Services | 100% controlling interest in a fuel distribution business   | \$ 45,000         | \$ 36,140         | \$ 81,140  |
| Lyonsdale                | 100% ownership in a wood-fired biomass electric generating plant  | 5,175             | 3,157             | 8,332      |
| CH-Greentree             | 100% equity interest in a molecular gate used to remove nitrogen from landfill gas  | -                 | 4,981             | 4,981      |
| CH-Auburn                | 100% equity interest in a 3-megawatt electric generating plant that utilizes landfill gas to produce electricity  | 2,750             | 1,674             | 4,424      |
| CH-Community Wind        | 50% equity interest in a joint venture that owns 18% interest in two operating wind projects  | -                 | 3,710             | 3,710      |
| CH Shirley Wind          | 100% ownership of CH Shirley Wind, which owns 90% controlling interest in Shirley Wind (Delaware), LLC ("Shirley Delaware"), which owns 100% interest in Shirley Wind, LLC ("Shirley Wind"), a 20 megawatt wind project | 25,000            | 20,235            | 45,235     |
| Other                    | Other renewable energy projects and partnerships and an energy sector venture capital fund  | -                 | 3,367             | 3,367      |
|                          |   | \$ 77,925         | \$ 73,264         | \$ 151,189 |

On April 21, 2011, CHEC's Board of Directors passed a resolution authorizing entering into a purchase and sale agreement and accordingly, the assets and liabilities of Shirley Wind have been designated as held for sale subsequent to the March 31, 2011 reporting date. See Note 16 – "Subsequent Events" for further details of assets held for sale after the balance sheet date. Management updated its test for recoverability from year end assuming a sale transaction, noting the cash flows indicated by the bid from an interested party together with the receipt of federal grants, on an undiscounted basis, exceed the net book value of the investment in Shirley Wind at March 31, 2011. Therefore, no impairment is indicated.



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## NOTE 6 – Goodwill and Other Intangible Assets

The components of amortizable intangible assets of CH Energy Group are summarized as follows (Dollars In Thousands):

|                               | March 31, 2011   |                             | December 31, 2010           |                             | March 31, 2010              |                             |                             |
|-------------------------------|--|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
|                               | Weighted<br>Average<br>Amortization<br>Period<br>(Years) | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization |
| Customer relationships        | 15   | \$ 35,341                   | \$ 21,801                   | \$ 34,063                   | \$ 21,214                   | \$ 33,745                   | \$ 19,519                   |
| Covenants not to compete      | 5  | 256                         | 105                         | 113                         | 95                          | 100                         | 80                          |
| Total Amortizable Intangibles | 14.93  | \$ 35,597                   | \$ 21,906                   | \$ 34,176                   | \$ 21,309                   | \$ 33,845                   | \$ 19,599                   |

| (In Thousands)       | Three Months Ended<br>March 31, |       |
|----------------------|---------------------------------|-------|
|                      | 2011                            | 2010  |
| Amortization Expense | \$597                           | \$567 |

The estimated annual amortization expense for each of the next five years, assuming no new acquisitions or divestitures, is approximately \$2.0 million.

## NOTE 7 – Short-Term Borrowing Arrangements

CH Energy Group and Central Hudson's borrowings under a revolving credit facility are as follows (In Thousands):

|   | March 31,<br>2011 | December<br>31, 2010 | March 31,<br>2010 |
|---|-------------------|----------------------|-------------------|
| CH Energy Group Holding Company Short-term borrowings | \$16,500          | \$-                  | \$-               |
| Central Hudson Short-term borrowings                  | -                 | -                    | 30,000            |
| CH Energy Group Consolidated                          | \$16,500          | \$-                  | \$30,000          |

## NOTE 8 – Capitalization – Common and Preferred Stock

For a schedule of activity related to common stock, paid-in capital and capital stock, see the Consolidated Statement of Equity for CH Energy Group and Central Hudson.

Effective July 31, 2007, CH Energy Group's Board of Directors extended and amended the Common Stock Repurchase Program of the Company (the "Repurchase Program"), which was originally authorized in 2002. As amended, the Repurchase Program authorizes the repurchase of up to 2,000,000 shares (excluding shares repurchased before July 31, 2007) or approximately 13% of the CH Energy Group's outstanding Common Stock, from time to time, through July 31, 2012. As of March 31, 2011, CH Energy Group had purchased 202,345 shares under the Repurchase Program of which 172,783 shares were purchased during the three months ended March 31, 2011. Subsequent to March 31, 2011 and through April 29, 2011, CH Energy Group purchased 78,394 additional shares under the Repurchase Program. CH Energy Group intends to purchase additional shares under the Program during the remainder of 2011. CH Energy Group intends to set repurchase targets, if any, from time to time based on then prevailing circumstances. Management's repurchase of shares does not represent a retirement or constructive retirement of shares and accordingly, has been presented as an increase to treasury stock in CH Energy Group's

Consolidated Balance Sheet.

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There were no repurchases of preferred stock in the three months ended March 31, 2011 and 2010.

On January 24, 2011, Central Hudson made an \$11.0 million dividend payment to parent CH Energy Group. Central Hudson made an additional dividend payment of \$11.0 million to parent CH Energy Group on May 2, 2011.

NOTE 9 – Capitalization – Long-Term Debt

NYSERDA

On December 7, 2010, Central Hudson issued \$82.15 million of its unsecured Medium Term Notes. Central Hudson used the proceeds from the sale of the notes for refunding its 1999 NYSERDA Bonds Series C and Series D of \$41.15 million and \$41.0 million, respectively. Central Hudson has retired these Series C and Series D NYSERDA Bonds and no notes are outstanding in these two Series.

Central Hudson's Series B NYSERDA Bonds total \$33.7 million at March 31, 2011. These bonds are tax-exempt multi-modal bonds that are currently in a variable rate mode. In its Orders, the PSC has authorized deferral accounting treatment for variations in the interest costs from these bonds. 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. As a result, variations in interest rates do not have any impact on earnings.

To mitigate the potential cash flow impact of unexpected increases in short-term interest rates, Central Hudson purchases interest rate caps based on an index of short-term tax-exempt debt. Two of the rate caps were one-year in length with notional amounts that were aligned to the Series C and Series D NYSERDA Bonds that are no longer outstanding. These two rate caps expired on April 1, 2011. The third rate cap is two years in length with a notional amount aligned with Series B and will expire on April 1, 2012. The caps are based on the monthly weighted average of an index of tax-exempt variable rate debt, multiplied by 175%. Central Hudson would receive a payout if the adjusted index exceeds 5.0% for a given month.

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Central Hudson is currently evaluating what actions, if any, it may take in the future in connection with its Series B NYSERDA Bonds. Potential actions may include converting the debt to another interest rate mode or refinancing with taxable bonds.

## NOTE 10 – Post-Employment Benefits

Central Hudson provides certain health care and life insurance benefits for retired employees through its post-retirement benefit plans.

Post-retirement benefit plans at Central Hudson do not have any adverse impact on earnings. The following information is provided in accordance with current accounting requirements.

The following are the components of Central Hudson's net periodic benefit costs for its pension and OPEB plans for the three months ended March 31, 2011 and 2010 (In Thousands):

|                                  | Pension Benefits   |                 | OPEB(1)            |                |
|----------------------------------|--------------------|-----------------|--------------------|----------------|
|                                  | Three Months Ended |                 | Three Months Ended |                |
|                                  | March 31,          |                 | March 31,          |                |
|                                  | 2011               | 2010            | 2011               | 2010           |
| Service cost                     | \$2,448            | \$2,272         | \$673              | \$531          |
| Interest cost                    | 6,537              | 6,571           | 1,732              | 1,712          |
| Expected return on plan assets   | (6,860 )           | (6,225 )        | (1,711 )           | (1,267 )       |
| Amortization of:                 |                    |                 |                    |                |
| Prior service cost (credit)      | 536                | 544             | (1,466 )           | (1,467 )       |
| Transitional obligation (asset)  | -                  | -               | 641                | 641            |
| Recognized actuarial loss        | 6,523              | 7,377           | 2,688              | 2,073          |
| <b>Net Periodic Benefit Cost</b> | <b>\$9,184</b>     | <b>\$10,539</b> | <b>\$2,557</b>     | <b>\$2,223</b> |

(1) The OPEB amounts for both years reflect the effect of the Medicare Prescription Drug Improvement and Modernization Act of 2003.

Central Hudson's pension liability balance (i.e., the under-funded status) is as follows (In Thousands):

|                           | March 31, | December    | March 31, |
|---------------------------|-----------|-------------|-----------|
|                           | 2011      | 31,<br>2010 | 2010      |
| Pension liability balance | \$97,195  | \$103,227   | \$125,461 |

These balances include recognition for the difference between the projected benefit obligation ("PBO") for pensions and the market value of the pension assets, as well as consideration for non-qualified executive plans. In addition to the Retirement Plan, a portion of CH Energy Group's and Central Hudson's executives are covered under a non-qualified Supplemental Executive Retirement Plan.

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

|   | March 31,<br>2011 | December<br>31,<br>2010 | March 31,<br>2010 |
|---|-------------------|-------------------------|-------------------|
| Prefunded pension costs prior to funding status adjustment              | \$33,280          | \$34,307                | \$31,261          |
| Additional liability required   | (130,475 )        | (137,534 )              | (156,722 )        |
| Total accrued pension liability   | \$(97,195 )       | \$(103,227 )            | \$(125,461 )      |
| Total offset to additional liability - Regulatory assets - Pension Plan | \$130,475         | \$137,534               | \$156,722         |

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, net of tax. However, Central Hudson has PSC approval to record regulatory assets rather than adjusting comprehensive income to offset the additional liability.

Contributions to the Retirement Plan during the three months ended March 31, 2011 and 2010 were \$8.0 million and \$30.0 million, respectively.

No employer contributions for the OPEB plan were made during the three months ended March 31, 2011 and \$0.5 million for the three months ended March 31, 2010.

Contribution levels for the Retirement Income Plan and Post-Employment Benefit plans are determined by various factors including the discount rate, expected return on plan assets, benefit changes, and corporate resources. In addition, OPEB plan contribution levels are also impacted by medical claims assumptions used and mortality assumptions used.

#### Retirement Plan Policy and Strategy

Central Hudson's Retirement Plan investment policy seeks to achieve long-term growth and income to match the long-term nature of its funding obligations. During the first quarter of 2010, Management began a transition to a long-duration investment ("LDI") strategy for its pension plan assets. Management's objective is to minimize the plan's funded status volatility and the level of contributions by more closely aligning the characteristics of plan assets with liabilities.



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Asset allocation targets in effect as of March 31, 2011, expressed as a percentage of the market value of the Retirement Plan's assets, are summarized in the table below:

| Asset Class                | Minimum |   | Target Average |   | Maximum |   |
|----------------------------|---------|---|----------------|---|---------|---|
|                            |         | % |                | % |         | % |
| Equity Securities          | 49      | % | 54             | % | 59      | % |
| Debt Securities            | 41      | % | 46             | % | 51      | % |
| Alternative Investments(1) | -       | % | -              | % | 5       | % |

(1) Includes Real Estate

Central Hudson plans to continue the transition to an LDI strategy in 2011, resulting in an asset allocation of approximately 50% equity and 50% long duration fixed income assets by year-end. The targeted benchmark index during the transition to long-duration investment strategy is comprised of 28% Russell 1000 Stock Index; 10% Russell 2500 Stock Index; 12% Morgan Stanley Capital International Europe, Australasia and Far East (MSCI EAFE) International Stock Index (Net) and 50% BC Long Government Credit Index.

Due to market value fluctuations, Retirement Plan assets will require rebalancing from time-to-time to maintain the target asset allocation.

Central Hudson cannot assure that the Retirement Plan's return objectives or funded status objectives will be achieved.

## NOTE 11 – Equity-Based Compensation

## Performance Shares

A summary of the status of outstanding performance shares granted to executives under the 2006 Plan is as follows:

| Grant Date       | Grant Date Fair Value | Performance Shares Granted | Performance Shares            |
|------------------|-----------------------|----------------------------|-------------------------------|
|                  |                       |                            | Outstanding at March 31, 2011 |
| January 24, 2008 | \$ 35.76              | 33,440                     | 28,420                        |
| January 26, 2009 | \$ 49.29              | 36,730                     | 32,810                        |
| February 8, 2010 | \$ 38.62              | 48,740                     | 48,740                        |
| February 7, 2011 | \$ 49.77              | 40,320                     | 40,320                        |

The ultimate number of shares earned under the awards is based on metrics established by the Compensation Committee at the beginning of the award cycle. Compensation expense is recorded as performance shares are earned over the relevant three-year life of the performance share grant prior to its award. The portion of the compensation expense related to an employee who retires during the performance period is the amount recognized up to the date of retirement.

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Performance shares granted January 24, 2008, and shown as outstanding as of March 31, 2011 in the above table are expected to be paid out in May 2011. Additionally, due to the retirement of one of Central Hudson's executive officers on January 1, 2011, a pro-rated number of shares under the January 26, 2009 and February 8, 2010 grants are expected to be paid to this individual in July 2011.

## Restricted Shares and Restricted Stock Units

The following table summarizes information concerning restricted shares and stock units outstanding as of March 31, 2011:

| Grant Date        | Type of Award | Shares or Stock Units Granted | Grant Date Fair Value | Vesting Terms                     | Unvested Shares Outstanding at March 31, 2011 |
|-------------------|---------------|-------------------------------|-----------------------|-----------------------------------|---|
| January 2, 2008   | Shares        | 10,000                        | \$ 44.32              | End of 3 years Ratably over 3     | - (1)   |
| January 2, 2008   | Shares        | 2,100                         | \$ 44.32              | years                             | - (2)   |
| January 26, 2009  | Shares        | 2,930                         | \$ 49.29              | End of 3 years Ratably over 5     | 2,320 (3)                                     |
| October 1, 2009   | Shares        | 14,375                        | \$ 43.86              | years                             | 11,500  |
| November 20, 2009 | Stock Units   | 13,900                        | \$ 41.43              | 1/3 each year in Years 5, 6 and 7 | 13,900  |
| February 8, 2010  | Shares        | 3,060                         | \$ 38.62              | End of 3 years                    | 2,655 (4)                                     |
| February 10, 2010 | Shares        | 5,200                         | \$ 38.89              | End of 3 years Ratably over 3     | 5,200   |
| November 15, 2010 | Shares        | 3,000                         | \$ 46.53              | years                             | 3,000   |
| February 7, 2011  | Shares        | 1,500                         | \$ 49.77              | 1/3 each year in Years 3, 4 and 5 | 1,500   |
| February 7, 2011  | Shares        | 2,230                         | \$ 49.77              | End of 3 years                    | 2,230   |

(1) 500 shares were forfeited upon resignation of the employee holding the shares, the vesting of 600 shares was accelerated upon a change in control for an individual resulting from the sale of certain assets of Griffith, vesting of 800 shares was accelerated as approved by the Board of Directors and remaining 8,100 shares vested on January 2, 2011.

(2) 2100 shares vested ratably over three years ending January 2, 2011.

(3) The vesting of 250 shares was accelerated upon a change in control for an individual resulting from the sale of certain assets of Griffith and the vesting of 360 shares was accelerated as approved by the Board of Directors.

(4) The vesting of 405 shares was accelerated as approved by the Board of Directors.

## Compensation Expense

The following table summarizes expense for equity-based compensation by award type for the three months ended March 31, 2011 and 2010 (In Thousands):

|   | Three Months Ended March 31, |       |
|---|------------------------------|-------|
|   | 2011                         | 2010  |
| Performance shares  | \$690                        | \$604 |
| Restricted shares and stock units                           | \$102                        | \$124 |
| Recognized tax benefit of restricted shares and stock units | \$41                         | \$50  |

Compensation expense for performance shares is recognized over the three year performance period based on the fair value of the awards at the end of each reporting period and the time elapsed within each grant's performance period. Compensation expense for restricted shares and stock options is recognized over the defined vesting periods based on the grant date fair value of the awards.

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NOTE 12 – Commitments and Contingencies

Electricity Purchase Commitments

On March 6, 2007, Central Hudson entered into an agreement with Entergy Nuclear Power Marketing, LLC to purchase electricity (but not capacity) on a unit-contingent basis at defined prices from January 1, 2008 through December 31, 2010. During this period, the electricity purchased through this Entergy contract represented approximately 23% of Central Hudson's full-service customer requirements on an annual basis. For the three months ended March 31, 2010, energy supplied under this agreement cost approximately \$13.8 million. On June 30, 2010 and September 9, 2010, Central Hudson entered into additional agreements with Entergy Nuclear Power Marketing, LLC to purchase electricity on a unit-contingent basis at defined prices from January 1, 2011 through December 31, 2013. The electricity purchased under these current contracts with Entergy is generated from the Indian Point and FitzPatrick nuclear power facilities and is estimated to represent approximately 13% of Central Hudson's full-service customer requirements on an annual basis. For the three months ended March 31, 2011, energy supplied under this agreement cost approximately \$4.4 million.

In the event the above noted counterparty is unable to fulfill its commitment to deliver under the terms of the agreements, Central Hudson would obtain the supply from the NYISO market, and under Central Hudson's current ratemaking treatment, recover the full cost from customers. As such, there would be no impact on earnings.

Central Hudson must also acquire sufficient peak load capacity to meet the peak load requirements of its full service customers. This capacity is made up of contracts with capacity providers, purchases from the NYISO capacity market and its own generating capacity.

Environmental Matters

Central Hudson

- Air

In October 1999, Central Hudson was informed by the New York State Attorney General ("Attorney General") that the Danskammer Point Steam Electric Generating Station ("Danskammer Plant") was included in an investigation by the Attorney General's Office into the compliance of eight older New York State coal-fired power plants with federal and state air emissions rules. Specifically, the Attorney General alleged that Central Hudson "may have constructed, and continues to operate, major modifications to the Danskammer Plant without obtaining certain requisite preconstruction permits." In March 2000, the Environmental Protection Agency ("EPA") assumed responsibility for the investigation. Central Hudson has completed its production of documents requested by the Attorney General, the New York State Department of Environmental Conservation ("DEC"), and the EPA, and believes any permits required for these projects were obtained in a timely manner. Central Hudson sold the Danskammer Plant on January 30, 2001. In March 2009, Dynegy notified Central Hudson that Dynegy had received an information request pursuant to the Clean Air Act from the EPA for the Danskammer Plant covering the period beginning January 2000 to present. At that time, Dynegy also submitted to Central Hudson a demand for indemnification for any fines, penalties or other losses that may be incurred by Dynegy arising from the period that Central Hudson owned the Danskammer Plant. While Central Hudson could have retained liability after the sale, depending on the type of remedy, Central Hudson believes that the statutes of limitation relating to any alleged violation of air emissions rules have lapsed.

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- Former Manufactured Gas Plant Facilities

Central Hudson and its predecessors owned and operated manufactured gas plants (“MGPs”) to serve their customers’ heating and lighting needs. MGPs manufactured gas from coal and oil. This process produced certain by-products that may pose risks to human health and the environment.

The DEC, which regulates the timing and extent of remediation of MGP sites in New York State, has notified Central Hudson that it believes Central Hudson or its predecessors at one time owned and/or operated MGPs at seven sites in Central Hudson’s franchise territory. The DEC has further requested that Central Hudson investigate and, if necessary, remediate these sites under a Consent Order, Voluntary Cleanup Agreement, or Brownfield Cleanup Agreement. The DEC has placed all seven of these sites on the New York State Environmental Site Remediation Database. A number of the sites are now owned by third parties and have been redeveloped for other uses. The status of the seven MGP sites are as follows:

|    | Site         | Status  |
|----|--------------|---|
| #1 | Beacon, NY   | Remediation work complete. Final Report approved by the DEC. A revised Site Management Plan (“SMP”) was submitted by Central Hudson to the DEC on September 20, 2010. Central Hudson is finalizing a deed restriction for the Metro-North property.   |
| #2 | Newburgh, NY | The DEC has approved the Construction Completion Report (“CCR”) for the remediation that was completed at Area A of the site. Remediation for the other two areas at the site, Areas B and C, was completed in December 2010. The remaining site restoration work is expected to be completed in the spring of 2011. Central Hudson is preparing a Final Engineering Report for submittal to the DEC later this year. |

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|    | Site   | Status   |
|----|--|--|
| #3 | Laurel Street<br>Poughkeepsie,<br>NY         | Remediation work is complete. The CCR was approved by the DEC. As requested by the DEC, fifteen additional monitoring wells were installed and the last of the four quarterly groundwater sampling events was conducted in January 2011. Central Hudson continues to investigate off-site groundwater impacts.   |
| #4 | North Water<br>Street<br>Poughkeepsie,<br>NY | As requested by the DEC, additional land and river investigations were conducted. The final monitoring event for the reactive cap pilot study was completed and the cap removed. Central Hudson has submitted a Remedial Investigation ("RI") Report to the DEC and is beginning to develop remedial alternatives.   |
| #5 | Kingston, NY                                 | Additional land and river investigations have been approved by the DEC. The land-based RI work is complete. The river-based RI work is underway. Remaining fieldwork involving the collection of additional shallow sediment cores is expected to be completed in 2011. Previously, a license agreement with a private party and Central Hudson had allowed the presence and mooring of tug boats and a "Dry Dock" in front of the Kingston site. All tugs have been removed by the owner, but the Dry Dock remains in place and is an obstacle to completing remediation of the river bed under it. Central Hudson is currently involved in legal proceedings seeking to obtain judicial authorization to have the Dry Dock removed. The outcome of the proceedings is uncertain. |
| #6 | Catskill, NY                                 | Site investigation has been completed under the DEC-approved Brownfield Cleanup Agreement. A RI Report was approved. A Remedial Alternatives Analysis ("RAA") was submitted to the DEC on February 8, 2011. The DEC has completed a draft Decision Document for the site that is currently under public review.  |
| #7 | Bayeaux<br>Street<br>Poughkeepsie,<br>NY     | Per the DEC, no further investigation or remedial action is required at this time.   |

In the second quarter of 2008, Central Hudson updated the estimate of potential remediation and future operating, maintenance, and monitoring costs for sites #2, 3, 4, 5 and 6, indicating the total cost for the five sites could exceed \$165 million over the next 30 years. Amounts are subject to change based on current investigations, final remedial design (and associated engineering estimates), DEC and NYS Department of Health ("NYSDOH") comments and requests, remedial design changes/negotiations, and changed or unforeseen conditions during the remediation or additional requirements following the remediation.

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Site #1 remediation work has been completed and the final report has been approved by the DEC. With regard to site #8, Central Hudson does not have sufficient information to estimate its potential remediation cost, if any. As stated above, Central Hudson believes that it has no further liability for this site and the DEC in a letter dated March 13, 2009 has indicated no further investigation or remedial action is required at this time.

Information for sites #2 through #6 are detailed in the chart below (In Thousands):

| Site #  | Estimate   | Liability Recorded as of 12/31/10 | Amounts Spent in 2011(3) | Liability Adjustment | Liability Recorded as of 3/31/11 | Current Portion of Liability at 3/31/11 | Long term portion of Liability at 3/31/11 |
|---------|------------|-----------------------------------|--------------------------|----------------------|----------------------------------|---|---|
| 2, 3(1) | \$ 44,700  | \$ 1,766                          | \$ 498                   | \$ 82                | \$ 1,350                         | \$ 412                                  | \$ 938                                    |
| 4, 5,   |            |                                   |                          |                      |                                  |   |   |
| 6(2)    | 121,000    | 1,479                             | 134                      | 40                   | 1,385                            | 630                                     | 755                                       |
|         | \$ 165,700 | \$ 3,245                          | \$ 632                   | \$ 122               | \$ 2,735                         | \$ 1,042                                | \$ 1,693                                  |

- (1) The estimates for sites #2 and 3 are currently based on the actual completed or contracted remediation costs. However, these estimates are subject to change. The estimated liability recorded for sites #2 and 3 are based on estimates of remediation costs for the proposed clean-up plans.
- (2) No amounts have been recorded in connection with physical remediation for sites #4, 5 and 6. Absent DEC-approved remediation plans, Management cannot reasonably estimate what cost, if any, will actually be incurred. The estimated liability for sites #4, 5 and 6 are based on the latest forecast of activities at these sites in connection with preliminary investigations, site testing and development of remediation plans for these sites. For additional discussion of estimates, see paragraphs below.
- (3) There were no legal fees for 2011.

The estimates for sites #4, 5 and 6 were based on partially completed remedial investigations and current DEC and NYSDOH preferences related to site remediation, and are considered conceptual and preliminary. The cost estimate involves assumptions relating to investigation expenses, remediation costs, potential future liabilities, and post-remedial operating, maintenance and monitoring costs, and is based on a variety of factors including projections regarding the amount and extent of contamination, the location, size and use of the sites, proximity to sensitive resources, status of regulatory investigations, and information regarding remediation activities at other MGP sites in New York State. The cost estimate also assumes that proposed or anticipated remediation techniques are technically feasible and that proposed remediation plans receive DEC and NYSDOH approval. Further, the updated estimate could change materially based on changes to technology relating to remedial alternatives and changes to current laws and regulations.

As authorized by the PSC, Central Hudson is currently permitted to defer for future recovery the differences between actual costs for MGP site investigation and remediation and the associated rate allowances, with carrying charges to be accrued on the deferred balances at the authorized pre-tax rate of return. Central Hudson spent \$0.6 million for the three months ended March 31, 2011, related to site investigation and remediation for sites #2, 3, 4, 5 and 6. On July 1, 2007, Central Hudson started recovering through a rate allowance for MGP Site Investigation and Remediation Costs. The 2010 Rate Order provided for an increase in this rate allowance to an amount of \$13.6 million over the three year settlement period ending June 30, 2013. As authorized in the 2009 Rate Order, Central Hudson also received deferral authority and subsequent recovery for amounts spent over the rate allowance from a net electric regulatory liability balance during the three year settlement period ending June 30, 2010. The total MGP Site Investigation and Remediation costs recovered from July 1, 2007 through March 31, 2011 was approximately \$16.5 million, with \$1.2 million recovered in the first quarter of 2011.





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Central Hudson has put its insurers on notice and intends to seek reimbursement from its insurers for the costs of any liabilities. Certain of these insurers have denied coverage.

Future remediation activities, including operating, maintenance and monitoring 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.

- Little Britain Road property owned by Central Hudson

In 2000, Central Hudson and the DEC entered into a Voluntary Cleanup Agreement (“VCA”) whereby Central Hudson removed approximately 3,100 tons of soil and conducted groundwater sampling. Central Hudson believes that it has fulfilled its obligations under the VCA and should receive the release provided for in the VCA, but the DEC has proposed that additional ground water work be done to address groundwater sampling results that showed the presence of certain contaminants at levels exceeding DEC criteria. Central Hudson believes that such work is not necessary and has completed a soil vapor intrusion study showing that indoor air at the facility met Occupational Safety and Health Administration (“OSHA”) and NYSDOH standards; in addition, in 2008, it also installed an indoor air vapor mitigation system (that continues to operate).

In September 2010, NYSDEC personnel orally advised that Central Hudson would likely receive a letter from the NYSDEC proposing closure of the VCA, and inclusion of the site into the Brownfield Cleanup Program (“BCP”). To date that letter has not been received.

At this time Central Hudson does not have sufficient information to estimate the need for additional remediation or potential remediation costs. Central Hudson has put its insurers on notice regarding this matter and intends to seek reimbursement from its insurers for amounts, if any, for which it may become liable. Central Hudson cannot predict the outcome of this matter.

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- Eltings Corners

Central Hudson owns and operates a maintenance and warehouse facility located in Lloyd, NY. In the course of Central Hudson's recent hazardous waste permit renewal process for this facility, sediment contamination was discovered within the wetland area across the street from the main property. In cooperation with NYSDEC, Central Hudson continues to investigate the nature and extent of the contamination. The extent of the contamination, as well as the timing and costs for continued investigation and future remediation efforts, cannot be reasonably estimated at this time.

- Asbestos Litigation

As of March 31, 2011, of the 3,327 asbestos cases brought against Central Hudson, 1,169 remain pending. Of the cases no longer pending against Central Hudson, 2,003 have been dismissed or discontinued without payment by Central Hudson, and Central Hudson has settled 155 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.

#### CHEC

During the three months ended March 31, 2011, Griffith spent less than \$0.1 million on remediation efforts in Maryland, Virginia and Connecticut.

Griffith's reserve for environmental remediation is \$2.6 million as of March 31, 2011, of which \$1.1 million is expected to be spent in the next twelve months.

In connection with the 2009 sale of operations in certain geographic locations, Griffith agreed to indemnify the purchaser for certain claims, losses and expenses arising out of any breach by Griffith of the representations, warranties and covenants Griffith made in the sale agreement, certain environmental matters and all liabilities retained by Griffith. Griffith's indemnification obligation is subject to a number of limitations, including time limits within which certain claims must be brought, an aggregate deductible of \$0.8 million applicable to certain types of non-environmental claims and other deductibles applicable to certain specific environmental claims, and caps on Griffith's liability with respect to certain of the indemnification obligations. The sale agreement includes an aggregate cap of \$5.7 million on Griffith's obligation to indemnify the purchaser for breaches of many of Griffith's representations and warranties and for certain environmental liabilities. In 2009, the Company reserved \$2.6 million for environmental remediation costs it may be obligated to pay based on its indemnification obligations under the sale agreement. To date, Griffith has paid approximately \$0.2 million under its environmental remediation cost obligation. In the first quarter of 2011, Griffith reduced the reserve by \$0.6 million based on the completion of an environmental study. The reserve balance as of March 31, 2011 related to the divestiture is \$1.8 million. Management believes this is the most likely amount Griffith would pay with respect to its indemnification obligations under the sale agreement.

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CH-Auburn received a Notice of Violation of its air permit from the NYS DEC in 2010. CH-Auburn reached an agreement with the NYS DEC to resolve this issue and paid a civil penalty of approximately \$30,000 in the first quarter of 2011. During the time period in which the issue was being resolved, CH-Auburn was not running one of its three engine generators. The third engine generator is back in operation and CH-Auburn continues to meet its obligations under the Energy Services Agreement with the City of Auburn.

Other Matters

Central Hudson and Griffith 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, it is the opinion of Management that their ultimate resolution will not have a material adverse effect on either of CH Energy Group's or the individual segment's financial positions, results of operations or cash flows.

CH Energy Group and Central Hudson expense legal costs as incurred.

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NOTE 13 – 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 and the unregulated fuel distribution business of Griffith. Other activities of CH Energy Group, which do not constitute a business segment include the investment, financing, and business development activities of CH Energy Group and the renewable energy and investment activities of CHEC, including its ownership interests in ethanol, wind, landfill gas and biomass energy projects and are reported under the heading "Other Businesses and Investments."

Certain additional information regarding these segments is set forth in the following tables. 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.

Central Hudson's and Griffith's operations are seasonal in nature and weather-sensitive and, as a result, financial results for interim periods are not necessarily indicative of trends for a twelve-month period. Demand for electricity typically peaks during the summer, while demand for natural gas and heating oil typically peaks during the winter.

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In the following segment charts for CH Energy Group, information related to Griffith represents continuing operations unless otherwise noted.

CH Energy Group Segment Disclosure  
(In Thousands)

|  | Three Months Ended March 31, 2011 |                |           |                                  |              | Total      |
|--|-----------------------------------|----------------|-----------|----------------------------------|--------------|------------|
|  | Segments                          |                | Griffith  | Other                            |              |            |
|  | Central Hudson<br>Electric        | Natural<br>Gas |           | Businesses<br>and<br>Investments | Eliminations |            |
| Revenues from external customers\$         | 154,570                           | \$ 75,482      | \$ 96,919 | \$ 1,673                         | \$ -         | \$ 328,644 |
| Intersegment revenues                      | 4                                 | 166            | -         | -                                | (170)        | -          |
| Total revenues                             | 154,574                           | 75,648         | 96,919    | 1,673                            | (170)        | 328,644    |
| Operating income                           | 14,674                            | 11,902         | 7,498     | 597                              | -            | 34,671     |
| Interest and investment income             | 1,413                             | 453            | -         | 1,182                            | (1,169) (1)  | 1,879      |
| Interest charges                           | 5,857                             | 1,517          | 753       | 1,264                            | (1,169) (1)  | 8,222      |
| Income before income taxes                 | 10,083                            | 10,805         | 6,816     | (53)                             | -            | 27,651     |
| Net income attributable to CH Energy Group | 6,033                             | 6,364          | 4,392 (3) | 158 (2)                          | -            | 16,947     |
| Segment assets at March 31                 | 1,182,116                         | 355,217        | 115,816   | 90,581                           | (2,553)      | 1,741,177  |

(1) This represents the elimination of inter-company interest income (expense) generated from lending activities between CH Energy Group (the holding company), and its subsidiaries (CHEC and Griffith).

(2) Includes loss from discontinued operations of \$189.

(3) Includes income from discontinued operations of \$371.

CH Energy Group Segment Disclosure  
(In Thousands)

|                                     | Three Months Ended March 31, 2010 |                |           |                                  |              | Total      |
|-------------------------------------|-----------------------------------|----------------|-----------|----------------------------------|--------------|------------|
|                                     | Segments                          |                | Griffith  | Other                            |              |            |
|                                     | Central Hudson<br>Electric        | Natural<br>Gas |           | Businesses<br>and<br>Investments | Eliminations |            |
| Revenues from external customers \$ | 145,962                           | \$ 69,087      | \$ 84,467 | \$ 457                           | \$ -         | \$ 299,973 |
| Intersegment revenues               | 1                                 | 175            | -         | -                                | (176)        | -          |
| Total revenues                      | 145,963                           | 69,262         | 84,467    | 457                              | (176)        | 299,973    |
| Operating income                    | 20,127                            | 13,632         | 7,343     | 66                               | -            | 41,168     |

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|   |           |         |         |          |           |           |
|---|-----------|---------|---------|----------|-----------|-----------|
| Interest and investment income                    | 762       | 363     | 1       | 512      | (511) (1) | 1,127     |
| Interest charges                                  | 5,095     | 1,341   | 521     | 862      | (511) (1) | 7,308     |
| Income before income taxes                        | 15,607    | 12,518  | 6,880   | (379)    | -         | 34,626    |
| Net income (loss) attributable to CH Energy Group | 9,111     | 7,292   | 4,059   | (24) (2) | -         | 20,438    |
| Segment assets at March 31                        | 1,189,303 | 371,030 | 107,564 | 93,046   | (451)     | 1,760,492 |

(1) This represents the elimination of inter-company interest income (expense) generated from lending activities between CH Energy Group (the holding company), and its subsidiaries (CHEC and Griffith).

(2) Includes income from discontinued operations of \$151.

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## NOTE 14 - Accounting for Derivative Instruments and Hedging Activities

## Accounting for Derivatives

Central Hudson has been authorized to fully recover risk management costs as a component for its natural gas and electricity cost adjustment charge clauses. 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 clauses, and are not designated as hedges. Additionally, Central Hudson has been authorized to fully recover the interest costs associated with its variable rate debt, which includes costs and gains or losses associated with its interest rate cap contracts. As a result, derivative activity at Central Hudson does not impact earnings.

Derivative activity related to Griffith's heating oil contracts is not material.

Notwithstanding the above, the following information is provided in accordance with current accounting requirements.

The percentage of Central Hudson's electric and gas requirements hedged by derivative contracts is as follows:

| Central Hudson                           | % of<br>Requirement<br>Hedged (1) |   |
|--|-----------------------------------|---|
| <b>Electric Derivative Contracts:</b>    |                                   |   |
| April 2011 – December 2011               | 22.1                              | % |
| 2012                                     | 22.4                              | % |
| <b>Natural Gas Derivative Contracts:</b> |                                   |   |
| November 2011 – March 2012               | 5.6                               | % |

(1) Projected coverage as of March 31, 2011.

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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 interest and exchange 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 and Griffith's derivative instruments contain provisions that require the company to maintain specified issuer credit ratings and financial strength ratings. Should the company'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 their derivatives, both Central Hudson and Griffith have entered into master netting agreements with counterparties whereby contracts in a gain position can be offset against contracts in a loss position. Of the sixteen total agreements held by both companies, eleven contain credit-risk related contingent features. As of March 31, 2011, there were 14 open derivative contracts under these eleven master netting agreements containing credit-risk related contingent features. The circumstances that could trigger these features, the aggregate fair value of the derivative contracts that contain contingent features and the amount that would be required to settle these instruments on March 31, 2011 if the contingent features were triggered, are summarized in the table below.



Table of ContentsContingent Contracts  
(Dollars In Thousands)

| Triggering Event  | As of March 31, 2011  |                                    |   |
|---|---|------------------------------------|---|
|   | # of<br>Contracts<br>Containing<br>the<br>Triggering<br>Feature | Gross Fair<br>Value of<br>Contract | Cost to<br>Settle if<br>Contingent<br>Feature is<br>Triggered<br>(net of<br>collateral) |
| <b>Central Hudson:</b>  |   |                                    |   |
| Change in Ownership (CHEG ownership of CHG&E falls below 51%) | 1   | \$7                                | \$7   |
| Credit Rating Downgrade (to below BBB-)                       | 2   | 16                                 | 16  |
| Adequate Assurance(1)   | -   | -                                  | -   |
| <b>Total Central Hudson</b>                                   | <b>3</b>  | <b>23</b>                          | <b>23</b>   |
| <b>Griffith:</b>  |   |                                    |   |
| Change in Ownership (CHEG ownership of CHEC falls below 51%)  | -   | -                                  | -   |
| Adequate Assurance(1)   | 11  | 39                                 | 39  |
| <b>Total Griffith</b>   | <b>11</b>   | <b>39</b>                          | <b>39</b>   |
| <b>Total CH Energy Group</b>                                  | <b>14</b>   | <b>\$62</b>                        | <b>\$62</b>   |

(1) If the counterparty has reasonable grounds to believe Central Hudson's or Griffith's creditworthiness or performance has become unsatisfactory, it can request collateral in an amount determined by the counterparty, not to exceed the amount required to settle the contract.

CH Energy Group and Central Hudson have elected gross presentation for their derivative contracts under master netting agreements and collateral positions. On March 31, 2011, neither Central Hudson nor Griffith had collateral posted against the fair value amount of derivatives.

The fair value of CH Energy Group's and Central Hudson's derivative instruments and their location in the respective Balance Sheets are summarized in the table below, followed by a summarization of their effect on the respective Statements of Income. For additional information regarding Central Hudson's physical hedges, see the discussion following the caption "Electricity Purchase Commitments" in Note 12 - "Commitments and Contingencies."

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## Gross Fair Value of Derivative Instruments

Derivative contracts are measured at fair value on a recurring basis. As of March 31, 2011, December 31, 2010 and March 31, 2010, CH Energy Group's and Central Hudson's derivative assets and liabilities by category and hierarchy level follows (In Thousands):

| Asset or Liability Category                          | Fair Value  | Quoted<br>Prices in<br>Active<br>Markets<br>for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
|--|-------------|---|---|--|
| As of March 31, 2011                                 |             |   |   |  |
| Assets:  |             |   |   |  |
| Derivative Contracts:                                |             |   |   |  |
| Central Hudson - natural gas                         | \$68        | \$-   | \$68  | \$ -   |
| Total Central Hudson Assets                          | \$68        | \$-   | \$68  | \$ -   |
| Griffith - heating oil                               | 39          | -   | 39  | -  |
| Total CH Energy Group Assets                         | \$107       | \$-   | \$107   | \$ -   |
| Liabilities:   |             |   |   |  |
| Derivative Contracts:                                |             |   |   |  |
| Central Hudson - electric                            | \$(19,716 ) | \$-   | \$-   | \$ (19,716 )                                       |
| Total CH Energy Group and Central Hudson Liabilities | \$(19,716 ) | \$-   | \$-   | \$ (19,716 )                                       |
| As of December 31, 2010                              |             |   |   |  |
| Assets:  |             |   |   |  |
| Derivative Contracts:                                |             |   |   |  |
| Central Hudson - natural gas                         | \$34        | \$-   | \$34  | \$ -   |
| Total Central Hudson Assets                          | \$34        | \$-   | \$34  | \$ -   |
| Griffith - heating oil                               | \$112       | \$-   | \$112   | \$ -   |
| Total CH Energy Group Assets                         | \$146       | \$-   | \$146   | \$ -   |
| Liabilities:   |             |   |   |  |
| Derivative Contracts:                                |             |   |   |  |
| Central Hudson - electric                            | \$(23,872 ) | \$-   | \$-   | \$ (23,872 )                                       |
| Central Hudson - natural gas                         | (1,009 )    | -   | (1,009 )  | -  |
| Total CH Energy Group and Central Hudson Liabilities | \$(24,881 ) | \$-   | \$(1,009 )  | \$ (23,872 )                                       |
| As of March 31, 2010                                 |             |   |   |  |
| Assets:  |             |   |   |  |
| Derivative Contracts:                                |             |   |   |  |
| Griffith - heating oil                               | \$64        | \$-   | \$64  | \$ -   |
| Total CH Energy Group and Central Hudson Assets      | \$64        | \$-   | \$64  | \$ -   |

Liabilities:

Derivative Contracts:

|  |             |     |          |              |
|--|-------------|-----|----------|--------------|
| Central Hudson - electric                        | \$(36,628 ) | \$- | \$-      | \$ (36,628 ) |
| Central Hudson - natural gas                     | (111 )      | -   | (111 )   | -            |
| Total Central Hudson Liabilities                 | \$(36,739 ) | \$- | \$(111 ) | \$ (36,628 ) |
| Griffith - other derivative financial instrument | \$(50 )     | \$- | \$(50 )  | \$ -         |
| Total CH Energy Group Liabilities                | \$(36,789 ) | \$- | \$(161 ) | \$ (36,628 ) |

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The table listed below provides a reconciliation of the beginning and ending net balances for assets and liabilities measured at fair value and classified as Level 3 in the fair value hierarchy (In Thousands):

|                                    | Three Months Ended<br>March 31, |             |
|------------------------------------|---------------------------------|-------------|
|                                    | 2011                            | 2010        |
| Balance at Beginning of Period     | \$(23,872 )                     | \$(11,983 ) |
| Unrealized gains (losses)          | 4,156                           | (24,645 )   |
| Realized losses                    | (1,671 )                        | (2,850 )    |
| Purchases                          | -                               | -           |
| Issuances                          | -                               | -           |
| Sales and settlements              | 1,671                           | 2,850       |
| Transfers in and/or out of Level 3 | -                               | -           |
| Balance at End of Period           | \$(19,716 )                     | \$(36,628 ) |

The amount of total gains or losses for the period included in earnings attributable to the change in unrealized gains or losses relating to derivatives still held at end of period \$- \$-

The company did not have any transfers into or out of Levels 1 or 2.

#### The Effect of Derivative Instruments on the Statements of Income

For the three months ended March 31, 2011, all other comprehensive income and income statement activity for Griffith heating oil call option contracts was not material. Effective October 1, 2009, Griffith de-designated all open derivative positions. The loss reclassified from accumulated other comprehensive income in 2010, as these de-designated derivatives have settled, was not material.

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For the three months ended March 31, 2011, neither CH Energy Group nor Central Hudson had derivatives designated as hedging instruments. The following table summarizes the effects of CH Energy Group and Central Hudson on the statements of income (In Thousands):

|  | Amount of Gain/(Loss)<br>Recognized as<br>Increase/(Decrease) in the<br>Income Statement<br>Three Months Ended<br>March 31, |                   | Location of Gain/(Loss) |
|--|---|-------------------|-------------------------|
|  | 2011  | 2010              |                         |
| <b>Central Hudson:</b>                         |   |                   |                         |
| Electricity swap contracts                     | \$(1,671 )  | \$(2,850 )        | Regulatory asset(1)     |
| Natural gas swap contracts                     | (1,385 )  | (1,778 )          | Regulatory asset(1)     |
| Interest rate swap contract                    | -   | -                 | Regulatory asset(1)     |
| <b>Total Central Hudson</b>                    | <b>\$(3,056 )</b>   | <b>\$(4,628 )</b> |                         |
| <b>Griffith:</b>                               |   |                   |                         |
| Heating oil call option contracts              | 81  | (14 )             | Purchased petroleum     |
| Griffith other derivative financial instrument | -   | 51                | Purchased petroleum     |
| <b>Total Griffith</b>                          | <b>\$81</b>   | <b>\$37</b>       |                         |
| <b>Total CH Energy Group</b>                   | <b>\$(2,975 )</b>   | <b>\$(4,591 )</b> |                         |

(1) Realized gains and losses on Central Hudson's derivative instruments are conveyed to or recovered from customers through PSC authorized deferral accounting mechanisms, with an offset in revenue and on the balance sheet, and no impact on results of operations.

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## NOTE 15 – Other Fair Value Measurements

## Other Assets Recorded at Fair Value

In addition to the derivatives reported at fair value discussed in Note 14 – “Accounting for Derivative Instruments and Hedging Activities”, CH Energy Group reports certain other assets at fair value in the Consolidated Balance Sheets, including the investments of CH Energy Group’s Directors and Executives Deferred Compensation Plan and the property and plant of Lyonsdale. The following table summarizes the amount reported at fair value related to these assets as of March 31, 2011, December 31, 2010 and March 31, 2010 (In Thousands):

| Asset Category                  | Fair Value | Quoted<br>Prices in<br>Active<br>Markets for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
|---------------------------------|------------|--|---|--|
| As of March 31, 2011            |            |  |   |  |
| Other investments(1)            | \$4,018    | \$4,018  | \$-   | \$ -   |
| As of December 31, 2010         |            |  |   |  |
| Other investments(1)            | \$3,912    | \$3,912  | \$-   | \$ -   |
| Lyonsdale property and plant(2) | \$6,685    | \$-  | \$6,685   | \$ -   |
| As of March 31, 2010            |            |  |   |  |
| Other investments(1)            | \$-        | \$-  | \$-   | \$ -   |

(1) Other investments represent trust assets for the funding of CH Energy Group’s Directors and Executives Deferred Compensation Plan and is titled “Other investments” within the Deferred Charges and Other Assets section of the CH Energy Group Consolidated and Central Hudson Balance Sheets.

(2) Lyonsdale property and plant was stated at carrying value at March 31, 2011 and prior to December 31, 2010.

As of March 31, 2011 and December 31, 2010, a portion of the trust assets for the funding of CH Energy Group’s Directors and Executives Deferred Compensation Plan are invested in mutual funds, 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.

On March 18, 2011, Central Hudson entered into a total return master swap agreement with Bank of America with the intent to enter into future swap contracts to exchange total returns on CH Energy Group, Inc. Common stock for fixed payments to Bank of America. The purpose is to reduce the volatility to earnings from phantom shares in CH Energy Group’s Directors and Executives Deferred Compensation Plan. There were no outstanding swap contracts as of March 31, 2011. Based on the terms and conditions of the swap agreement, the fair value of the swaps will be designated as Level 2 within the fair value hierarchy. Quarterly valuations will be made at which time a net cash settlement will be recorded. The first valuation date will be June 30, 2011.

Lyonsdale property and plant as of March 31, 2011 is stated at its carrying value which is less than fair value minus cost to sell and included in assets held for sale on the Consolidated CH Energy Group Balance Sheet. As a result of an impairment charge recognized in 2010, as of December 31, 2010, Lyonsdale property and plant of \$6.7 million was recorded at fair value. As of December 31, 2010, Management recorded a pre-tax impairment of \$2.1 million (\$1.3 million after-tax impact on earnings), based on the amount by which the carrying amount exceeded the fair value of the Lyonsdale assets. The fair value of the assets was calculated based on market participant bids for the purchase of

Lyonsdale, which were received in early 2011.

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CHEC recorded a reserve against the full balance of its \$10 million note receivable in Cornhusker Holdings in the third quarter of 2010. As of March 31, 2011, Management believes the fair value of this note receivable remains at zero and therefore appropriately reserved.

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

Long-term Debt: Quoted market prices for the same or similar issues

Notes Payable: Carrying amount



Table of ContentsLong-term Debt Maturities and Fair Value - CH Energy Group  
(Dollars in Thousands)March 31,  
2011

|   | Expected Maturity Date |           |           |           |          |            |                                   |            |  |  |            | Fair<br>Value |
|---|------------------------|-----------|-----------|-----------|----------|------------|-----------------------------------|------------|--|--|------------|---------------|
|   | 2011                   | 2012      | 2013      | 2014      | 2015     | Thereafter | Total                             |            |  |  |            |               |
| Fixed Rate:                             | \$ 941                 | \$ 37,007 | \$ 31,076 | \$ 41,650 | \$ 1,230 | \$ 358,297 | \$ 470,201                        |            |  |  |            | \$ 491,432    |
| Estimated<br>Effective<br>Interest Rate | 6.86 %                 | 6.71 %    | 6.92 %    | 6.02 %    | 6.86 %   | 5.54 %     | 5.78 %                            |            |  |  |            |               |
| Variable<br>Rate:                       | \$ -                   | \$ -      | \$ -      | \$ -      | \$ -     | \$ 33,700  | \$ 33,700                         |            |  |  |            | \$ 33,700     |
| Estimated<br>Effective<br>Interest Rate |                        |           |           |           |          | 0.52 %     | 0.52 %                            |            |  |  |            |               |
|   |                        |           |           |           |          |            | Total Debt Outstanding            | \$ 503,901 |  |  | \$ 525,132 |               |
|   |                        |           |           |           |          |            | Estimated Effective Interest Rate | 5.43 %     |  |  |            |               |

December 31,  
2010

|   | Expected Maturity Date |           |           |           |          |            |                                   |            |  |  |            | Fair<br>Value |
|---|------------------------|-----------|-----------|-----------|----------|------------|-----------------------------------|------------|--|--|------------|---------------|
|   | 2011                   | 2012      | 2013      | 2014      | 2015     | Thereafter | Total                             |            |  |  |            |               |
| Fixed Rate:                             | \$ 941                 | \$ 37,007 | \$ 31,076 | \$ 41,650 | \$ 1,230 | \$ 358,296 | \$ 470,200                        |            |  |  |            | \$ 489,660    |
| Estimated<br>Effective<br>Interest Rate | 6.86 %                 | 6.71 %    | 6.92 %    | 6.02 %    | 6.86 %   | 5.54 %     | 5.78 %                            |            |  |  |            |               |
| Variable<br>Rate:                       | \$ -                   | \$ -      | \$ -      | \$ -      | \$ -     | \$ 33,700  | \$ 33,700                         |            |  |  |            | \$ 33,700     |
| Estimated<br>Effective<br>Interest Rate |                        |           |           |           |          | 0.46 %     | 0.46 %                            |            |  |  |            |               |
|   |                        |           |           |           |          |            | Total Debt Outstanding            | \$ 503,900 |  |  | \$ 523,360 |               |
|   |                        |           |           |           |          |            | Estimated Effective Interest Rate | 5.42 %     |  |  |            |               |

March 31,  
2010

|   | Expected Maturity Date |        |           |           |           |            |            |  |  |  |  | Fair<br>Value |
|---|------------------------|--------|-----------|-----------|-----------|------------|------------|--|--|--|--|---------------|
|   | 2010                   | 2011   | 2012      | 2013      | 2014      | Thereafter | Total      |  |  |  |  |               |
| Fixed Rate:                             | \$ 24,000              | \$ 941 | \$ 37,007 | \$ 31,076 | \$ 41,650 | \$ 237,374 | \$ 372,048 |  |  |  |  | \$ 394,022    |
| Estimated<br>Effective<br>Interest Rate | 4.38 %                 | 6.86 % | 6.71 %    | 6.93 %    | 6.02 %    | 5.94 %     | 6.01 %     |  |  |  |  |               |
| Variable<br>Rate:                       | \$ -                   | \$ -   | \$ -      | \$ -      | \$ -      | \$ 115,850 | \$ 115,850 |  |  |  |  | \$ 115,850    |
|   |                        |        |           |           |           | 0.37 %     | 0.37 %     |  |  |  |  |               |

Estimated  
Effective  
Interest Rate

|                                   |            |            |
|-----------------------------------|------------|------------|
| Total Debt Outstanding            | \$ 487,898 | \$ 509,872 |
| Estimated Effective Interest Rate | 4.67       | %          |

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(Dollars in Thousands)March 31,  
2011

|                                   | Expected Maturity Date            |           |           |           |      |            | Total      | Fair Value |
|-----------------------------------|-----------------------------------|-----------|-----------|-----------|------|------------|------------|------------|
|                                   | 2011                              | 2012      | 2013      | 2014      | 2015 | Thereafter |            |            |
| Fixed Rate:                       | \$ -                              | \$ 36,000 | \$ 30,000 | \$ 14,000 | \$ - | \$ 340,201 | \$ 420,201 | \$ 434,771 |
| Estimated Effective Interest Rate | - %                               | 6.71 %    | 6.93 %    | 4.81 %    | - %  | 5.47 %     | 5.66 %     |            |
| Variable Rate:                    | \$ -                              | \$ -      | \$ -      | \$ -      | \$ - | \$ 33,700  | \$ 33,700  | \$ 33,700  |
| Estimated Effective Interest Rate |                                   |           |           |           |      | 0.52 %     | 0.52 %     |            |
|                                   | Total Debt Outstanding            |           |           |           |      |            | \$ 453,901 | \$ 468,471 |
|                                   | Estimated Effective Interest Rate |           |           |           |      |            | 5.28 %     |            |

December 31,  
2010

|                                   | Expected Maturity Date            |           |           |           |      |            | Total      | Fair Value |
|-----------------------------------|-----------------------------------|-----------|-----------|-----------|------|------------|------------|------------|
|                                   | 2011                              | 2012      | 2013      | 2014      | 2015 | Thereafter |            |            |
| Fixed Rate:                       | \$ -                              | \$ 36,000 | \$ 30,000 | \$ 14,000 | \$ - | \$ 340,200 | \$ 420,200 | \$ 432,800 |
| Estimated Effective Interest Rate | - %                               | 6.71 %    | 6.93 %    | 4.81 %    | - %  | 5.47 %     | 5.66 %     |            |
| Variable Rate:                    | \$ -                              | \$ -      | \$ -      | \$ -      | \$ - | \$ 33,700  | \$ 33,700  | \$ 33,700  |
| Estimated Effective Interest Rate |                                   |           |           |           |      | 0.46 %     | 0.46 %     |            |
|                                   | Total Debt Outstanding            |           |           |           |      |            | \$ 453,900 | \$ 466,500 |
|                                   | Estimated Effective Interest Rate |           |           |           |      |            | 5.28 %     |            |

March 31,  
2010

|                                   | Expected Maturity Date            |      |           |           |           |            | Total      | Fair Value |
|-----------------------------------|-----------------------------------|------|-----------|-----------|-----------|------------|------------|------------|
|                                   | 2010                              | 2011 | 2012      | 2013      | 2014      | Thereafter |            |            |
| Fixed Rate:                       | \$ 24,000                         | \$ - | \$ 36,000 | \$ 30,000 | \$ 14,000 | \$ 218,048 | \$ 322,048 | \$ 338,766 |
| Estimated Effective Interest Rate | 4.38 %                            | - %  | 6.71 %    | 6.93 %    | 4.81 %    | 5.86 %     | 5.90 %     |            |
| Variable Rate:                    | \$ -                              | \$ - | \$ -      | \$ -      | \$ -      | \$ 115,850 | \$ 115,850 | \$ 115,850 |
| Estimated Effective Interest Rate |                                   |      |           |           |           | 0.37 %     | 0.37 %     |            |
|                                   | Total Debt Outstanding            |      |           |           |           |            | \$ 437,898 | \$ 454,616 |
|                                   | Estimated Effective Interest Rate |      |           |           |           |            | 4.44 %     |            |



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## NOTE 16 – Subsequent Events

CH Energy Group has performed an evaluation of events subsequent to March 31, 2011 through the date the financial statements were issued and noted 4 additional item to disclose.

On April 7, 2011, Central Hudson contributed an additional \$8.0 million to its Retirement Plan.

On April 21, 2011, Central Hudson's Board of Directors approved an \$11.0 million dividend payment to parent CH Energy Group that was paid on May 2, 2011.

Effective May 1, 2011, the sale of CHEC's subsidiary Lyonsdale was completed at a selling price not materially different than the carrying value of the net assets at March 31, 2011.

On April 21, 2011, CHEC's Board of Directors passed a resolution authorizing CHEC to enter into a purchase and sale agreement for the sale of the Shirley Wind investment. CH Energy Group concluded that the criteria for reporting assets and liabilities as held for sale were met as of April 21, 2011 and accordingly have presented below the related assets and liabilities that qualify for held for sale at that date in the CH Energy Group Consolidated Balance Sheet.

Below are the major classes of assets and liabilities related to the sale of Shirley Wind (In Thousands):

|  | March 31,<br>2011 |
|--|-------------------|
| <b>Assets</b>                            |                   |
| Current Assets                           | \$637             |
| Total current assets                     | 637               |
| <b>Property, Plant and Equipment</b>     |                   |
| Property, plant and equipment            | 45,404            |
| Less: Accumulated depreciation           | 504               |
| Total property, plant and equipment, net | 44,900            |
| <b>Other Assets</b>                      | 460               |
| Assets held for sale                     | \$45,997          |
| <b>Liabilities</b>                       |                   |
| Current Liabilities                      | \$1,133           |
| Liabilities held for sale                | \$1,133           |

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As of the reporting date of March 31, 2011, CH Shirley did not meet the criteria to be held for sale as presented in the March 31, 2011 CH Energy Group Consolidated Balance Sheet.

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ITEM 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations

EXECUTIVE SUMMARY

This MD&A should be read in conjunction with the first quarter Financial Statements and the notes thereto and the MD&A in Item 7 of the Companies' combined Annual Report on Form 10-K for the year ended December 31, 2010.

Business Overview

CH Energy Group is a holding company with four business units:

Business Segments:

- (1) Central Hudson's regulated electric utility business;
- (2) Central Hudson's regulated natural gas utility business;
- (3) Griffith's fuel distribution business;

Other Businesses and Investments:

- (4) CHEC's renewable energy investments and the holding company's activities, which consist primarily of financing its subsidiaries.

CH Energy Group's mission is to provide electricity, natural gas, petroleum and related services to an expanding customer base in a safe, reliable, courteous and affordable manner; to produce growing financial returns for shareholders; to foster a culture that encourages employees to reach their full potential; and to be a good corporate citizen.

Strategy

Offer an attractive risk adjusted return to CH Energy Group shareholders. Our plan is to:

- Invest primarily in utility electric and natural gas transmission and distribution
  - Focus on risk management
  - Limit commodity exposure
  - Manage regulatory affairs effectively
- Maintain a financial profile that supports a credit rating in the "A" category
- Divest investments in non-regulated renewable energy production in an orderly fashion
- Target stable and predictable earnings, with growth trend expectations of 5% or more per year off a base of \$2.76 in 2009
  - Provide a common stock dividend that is the higher of \$2.16/share or 65% to 70% of earnings.

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Contributions by respective business units to operating revenues and net income for the three months ended March 31, 2011 and 2010 are discussed in the Results of Operations section of this Management Discussion and Analysis. There are no significant updates to the strategy specifically focused on either of the business units Central Hudson or Griffith since the Annual Report on Form 10-K for the year ended December 31, 2010.

Other Businesses and Investments

As noted earlier, CH Energy Group has decided to discontinue investing in the renewable energy industry through CHEC and has been actively seeking to sell some of these investments, specifically Lyonsdale and Shirley Wind. Management will continue to evaluate the market for the remaining investments in 2011. On March 29, 2011, CHEC entered into an agreement to sell its subsidiary Lyonsdale and completed the sale effective May 1, 2011. On April 21, 2011 the Board of Directors for CHEC passed a resolution which authorized entering into a purchase and sale agreement for the sale of Shirley Wind. Management believes greater shareholder value can be created by divesting these assets. However, if attractive terms of sale are not available in the near-term, holding existing investments in wind and landfill gas is not expected to require significant management oversight or further capital investment. Proceeds from the sale of any of these investments are expected to be used primarily for the repurchase of common stock and repayment of debt associated with these assets.

For further discussions relating to the impact of the change in strategy on the Company's renewable energy investments, see Note 5 – "Acquisitions, Divestitures and Investments."

EARNINGS PER SHARE AND OVERVIEW OF FIRST QUARTER RESULTS

The following discussion and analyses include explanations of significant changes in revenues and expenses between the three months ended March 31, 2011, and 2010, for Central Hudson's regulated electric and natural gas businesses, Griffith, and the Other Businesses and Investments.



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The discussions and tables below present the change in earnings of CH Energy Group's business units in terms of earnings for each outstanding share of CH Energy Group's Common Stock. Management believes that expressing the results in terms of the impact on shares of CH Energy Group is useful to investors because it shows the relative contribution of the various business units to CH Energy Group's earnings. This information is considered a non-GAAP financial measure and not an alternative to earnings per share determined on a consolidated basis, which is the most directly comparable GAAP measure. Additionally, Management believes that the disclosure of Significant Events within each business unit provides investors with the context around the Company's results that is important in enabling them to ascertain the likelihood that past performance is indicative of future performance. A reconciliation of each business unit's earnings per share to CH Energy Group's earnings per share, determined on a consolidated basis, is included in the table below.

## CH Energy Group Consolidated

## Earnings per Share (Basic)

|  | Three Months Ended<br>March 31, |        | Change    |
|--|---------------------------------|--------|-----------|
|  | 2011                            | 2010   |           |
| Central Hudson - Electric                                | \$0.39                          | \$0.58 | \$(0.19 ) |
| Central Hudson - Natural Gas                             | 0.40                            | 0.46   | (0.06 )   |
| Griffith   | 0.28                            | 0.26   | 0.02      |
| Other Businesses and Investments                         | 0.01                            | -      | 0.01      |
| Total CH Energy Group Consolidated Earnings, as reported | \$1.08                          | \$1.30 | \$(0.22 ) |

Earnings for CH Energy Group totaled \$1.08 per share for the first quarter of 2011.

Details by business unit were as follows:

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## Central Hudson

## Earnings per Share (Basic)

|                                      | Three Months Ended |        | Change    |
|--------------------------------------|--------------------|--------|-----------|
|                                      | March 31,          |        |           |
|                                      | 2011               | 2010   |           |
| Central Hudson - Electric            | \$0.39             | \$0.58 | \$(0.19 ) |
| Central Hudson - Natural Gas         | 0.40               | 0.46   | (0.06 )   |
| Total Central Hudson Earnings        | \$0.79             | \$1.04 | \$(0.25 ) |
|                                      |                    |        | Change    |
| Sales tax                            |                    |        | \$(0.01 ) |
| Storm deferral petition disallowance |                    |        | (0.03 )   |
| Delivery revenue                     |                    |        | 0.10      |
| Higher interest on regulatory assets |                    |        | 0.03      |
| Higher trimming costs                |                    |        | (0.12 )   |
| Weather related service restoration  |                    |        | (0.09 )   |
| Higher depreciation                  |                    |        | (0.03 )   |
| Higher property and other taxes      |                    |        | (0.08 )   |
| Other                                |                    |        | (0.02 )   |
|                                      |                    |        | \$(0.25 ) |

Earnings from Central Hudson's electric and natural gas operations decreased \$0.25 per share in the three months ended March 31, 2011 compared to the same period in 2010 primarily due to the accelerated tree trimming expenditures and higher costs to restore service to customers following storms.

Tree trimming costs were higher in 2011 because the Twin Peaks storm in February 2010 resulted in below normal activity in the first quarter of 2010 and tree trimming was accelerated in 2011 due to more favorable crew availability and contract pricing.

The higher storm costs for the first quarter of 2011 compared to the same period in 2010 was due to two drivers. First, in 2011 Central Hudson experienced a severe ice storm which resulted in incremental expenditures of over \$2.0 million. Additional costs were incurred for the restoration of gas service as a result of severe weather conditions in January. These incremental costs did not meet the criteria for deferral for recovery from customers, unlike the prior year's February 2010 storm. Also, the PSC issued an Order on the deferral petition for the significant storm event in February 2010, disallowing approximately \$0.8 million, which was recorded in the first quarter of 2011.

Higher property and other taxes and depreciation expense unfavorably impacted the quarter-over-quarter earning per share. These unfavorable variations were somewhat offset by higher delivery revenues and carrying charges.

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## Griffith

## Earnings per Share (Basic)

|   | Three Months Ended<br>March 31, |        | Change  |
|---|---------------------------------|--------|---------|
|   | 2011                            | 2010   |         |
| Griffith - Fuel Distribution Earnings             | \$0.28                          | \$0.26 | \$0.02  |
|   |                                 |        | Change  |
| Discontinued operations                           |                                 |        | \$0.02  |
| Margin on petroleum sales and services            |                                 |        | 0.03    |
| Weather-normalized sales (including conservation) |                                 |        | (0.06 ) |
| Lower operating expenses                          |                                 |        | 0.04    |
| Other   |                                 |        | (0.01 ) |
|   |                                 |        | \$0.02  |

Griffith's earnings increased \$0.02 per share in the three months ended March 31, 2011 compared to the same period in 2010 due to lower operating expenses which were the result of reducing infrastructure costs following the December 2009 partial divestiture. Higher margins and other favorable expense savings were able to partially offset the impact of lower sales volumes.

## Other Businesses and Investments

## Earnings per Share (Basic)

|  | Three Months Ended<br>March 31, |      | Change    |
|--|---------------------------------|------|-----------|
|  | 2011                            | 2010 |           |
| Other Businesses & Investments Earnings        | \$0.01                          | \$-  | \$0.01    |
|  |                                 |      | Change    |
| Discontinued operations                        |                                 |      | \$(0.02 ) |
| Expenses associated with divestiture activity  |                                 |      | (0.04 )   |
| Tax benefit related to discontinued operations |                                 |      | 0.02      |
| Higher interest income                         |                                 |      | 0.02      |
| Renewable energy investments                   |                                 |      | 0.01      |
| Other  |                                 |      | 0.02      |
|  |                                 |      | \$0.01    |

The earnings of CH Energy Group (the holding company) and CHEC's partnerships and other investments increased \$0.01 in the three months ended March 31, 2011 compared to the same period in 2010. This was due to the combined effect of a number of items shown on the table above.

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## RESULTS OF OPERATIONS

A breakdown by business unit of CH Energy Group's operating revenues (net of divestitures) and net income for the three months ended March 31, 2011 and 2010 are illustrated below (Dollars in Thousands):

| Business Unit                       | Three Months Ended<br>March 31, 2011 |       |  |       |            |       | Three Months Ended<br>March 31, 2010 |       |   |  |  |  |
|-------------------------------------|--------------------------------------|-------|--|-------|------------|-------|--------------------------------------|-------|---|--|--|--|
|                                     | Operating Revenues                   |       | Net Income attributable to CH Energy Group |       |            |       | Operating Revenues                   |       | Net Income (loss) attributable to CH Energy Group |  |  |  |
| Electric(1)                         | \$ 154,570                           | 47 %  | \$ 6,033                                   | 36 %  | \$ 145,962 | 49 %  | \$ 9,111                             | 44 %  |   |  |  |  |
| Gas(1)                              | 75,482                               | 23 %  | 6,364                                      | 37 %  | 69,087     | 23 %  | 7,292                                | 36 %  |   |  |  |  |
| Total Central Hudson                | 230,052                              | 70 %  | 12,397                                     | 73 %  | 215,049    | 72 %  | 16,403                               | 80 %  |   |  |  |  |
| Griffith(1)(3)                      | 96,919                               | 29 %  | 4,392                                      | 26 %  | 84,467     | 28 %  | 4,059                                | 20 %  |   |  |  |  |
| Other Businesses and Investments(2) | 1,673                                | 1 %   | 158  | 1 %   | 457        | - %   | (24 )                                | - %   |   |  |  |  |
| Total CH Energy Group               | \$ 328,644                           | 100 % | \$ 16,947                                  | 100 % | \$ 299,973 | 100 % | \$ 20,438                            | 100 % |   |  |  |  |

(1) A portion of the revenues above represent amounts collected from customers for the recovery of purchased electric and natural gas costs at Central Hudson and the cost of purchased petroleum products at Griffith and therefore have no material impact on net income. A breakout of these components is as follows:

Electric 1st Quarter 2011: 21% cost recovery revenues + 26% other revenues = 47%

Electric 1st Quarter 2010: 22% cost recovery revenues + 27% other revenues = 49%

Natural gas 1st Quarter 2011: 13% cost recovery revenues + 10% other revenues = 23%

Natural gas 1st Quarter 2010: 13% cost recovery revenues + 10% other revenues = 23%

Griffith 1st Quarter 2011: 23% commodity costs + 6% other revenues = 29%

Griffith 1st Quarter 2010: 21% commodity costs + 7% other revenues = 28%

(2) Other Businesses and Investments for the three months ended March 31, 2011 and 2010 includes income from discontinued operations of \$(189) and \$151, respectively.

(3) Griffith for the three months ended March 31, 2011 includes income from discontinued operations of \$371.

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## Central Hudson

The following discussions and analyses include explanations of significant changes in operating revenues, operating expenses, volumes delivered, other income, interest charges, and income taxes between the three months ended March 31, 2011 and 2010 for Central Hudson's regulated electric and natural gas businesses.

## Income Statement Variances

(Dollars In Thousands)

|   | Three Months Ended |           | Increase/(Decrease) in |         |   |
|---|--------------------|-----------|------------------------|---------|---|
|   | March 31,<br>2011  | 2010      | Amount                 | Percent |   |
| Operating Revenues                          | \$230,052          | \$215,049 | \$15,003               | 7.0     | % |
| Operating Expenses:                         |                    |           |                        |         |   |
| Purchased electricity, fuel and natural gas | 112,066            | 104,522   | 7,544                  | 7.2     | % |
| Depreciation and amortization               | 8,921              | 8,414     | 507                    | 6.0     | % |
| Other operating expenses                    | 82,489             | 68,354    | 14,135                 | 20.7    | % |
| Total Operating Expenses                    | 203,476            | 181,290   | 22,186                 | 12.2    | % |
| Operating Income                            | 26,576             | 33,759    | (7,183 )               | (21.3 ) | % |
| Other Income, net                           | 1,686              | 802       | 884                    | 110.2   | % |
| Interest Charges                            | 7,374              | 6,436     | 938                    | 14.6    | % |
| Income before income taxes                  | 20,888             | 28,125    | (7,237 )               | (25.7 ) | % |
| Income Taxes                                | 8,249              | 11,480    | (3,231 )               | (28.1 ) | % |
| Net income                                  | \$12,639           | \$16,645  | \$(4,006 )             | (24.1 ) | % |

## Delivery Volumes

Delivery volumes for Central Hudson vary in response to weather conditions and customer behavior. Electric deliveries peak in the summer and deliveries of natural gas used for heating purposes peak in the winter. Delivery volumes also vary as customers respond to the price of the particular energy product and changes in local economic conditions.

The following chart reflects the change in the level of electric and natural gas deliveries for Central Hudson in the three months ended March 31, 2011 compared to the same period in 2010. Deliveries of electricity and natural gas to residential and commercial customers have historically contributed the most to Central Hudson's earnings. Industrial sales and interruptible sales have a negligible impact on earnings. Effective July 1, 2009 and continuing in the 2010 Rate Order, Central Hudson's delivery rate structure includes a RDM which provides the ability to record revenues equal to those forecasted in the development of current rates for most of Central Hudson's customers. As a result, fluctuations in actual delivery volumes do not have a significant impact on Central Hudson's earnings.

Table of ContentsElectric Deliveries  
(In Gigawatt-Hours)

|                      | Actual Deliveries  |       |              |         | Weather Normalized Deliveries(1) |       |              |         |
|----------------------|--------------------|-------|--------------|---------|----------------------------------|-------|--------------|---------|
|                      | Three Months Ended |       | Variation in |         | Three Months Ended               |       | Variation in |         |
|                      | 2011               | 2010  | Amount       | Percent | 2011                             | 2010  | Amount       | Percent |
| Residential          | 619                | 579   | 40           | 7 %     | 608                              | 581   | 27           | 5 %     |
| Commercial           | 508                | 481   | 27           | 6 %     | 505                              | 481   | 24           | 5 %     |
| Industrial and other | 260                | 261   | (1)          | (0)%    | 260                              | 262   | (2)          | (1)%    |
| Total Deliveries     | 1,387              | 1,321 | 66           | 5 %     | 1,373                            | 1,324 | 49           | 4 %     |

(1) Central Hudson uses an internal analysis based on historical weather data to remove the estimated impacts of weather on delivery volumes.

Natural Gas Deliveries  
(In Million Cubic Feet)

|                         | Actual Deliveries  |       |              |         | Weather Normalized Deliveries(1) |       |              |         |
|-------------------------|--------------------|-------|--------------|---------|----------------------------------|-------|--------------|---------|
|                         | Three Months Ended |       | Variation in |         | Three Months Ended               |       | Variation in |         |
|                         | 2011               | 2010  | Amount       | Percent | 2011                             | 2010  | Amount       | Percent |
| Residential             | 2,875              | 2,585 | 290          | 11 %    | 2,669                            | 2,529 | 140          | 6 %     |
| Commercial              | 3,324              | 2,811 | 513          | 18 %    | 3,187                            | 2,805 | 382          | 14 %    |
| Industrial and other(2) | 1,488              | 1,494 | (6)          | (0)%    | 747                              | 695   | 52           | 7 %     |
| Total Deliveries        | 7,687              | 6,890 | 797          | 12 %    | 6,603                            | 6,029 | 574          | 10 %    |

(1) Central Hudson uses an internal analysis based on historical weather data to remove the estimated impacts of weather on delivery volumes.

(2) Actual deliveries include interruptible natural gas deliveries. Weather normalized deliveries exclude interruptible natural gas deliveries.

Electric and natural gas deliveries to residential and commercial customers increased during the three months ended March 31, 2011 when compared to the same period in 2010 primarily as a result of increased sales per customer. Favorable impacts of colder weather further contributed to the increase in delivery volumes in the first quarter of 2011 as compared to 2010.

## Revenues

Central Hudson's revenues consist of two major categories: those which offset specific expenses in the current period (matching revenues), and those that impact earnings. Matching revenues recover Central Hudson's actual costs for particular expenses. 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.

Table of ContentsChange in Central Hudson Revenues - Electric  
(In Thousands)

|   | Three Months Ended<br>March 31, |                  | Increase /<br>(Decrease) |
|---|---------------------------------|------------------|--------------------------|
|   | 2011                            | 2010             |                          |
| <b>Revenues with Matching Expense Offsets:(1)</b> |                                 |                  |                          |
| Energy cost adjustment                            | \$69,271                        | \$65,700         | \$3,571                  |
| Sales to others for resale                        | 997                             | 1,174            | (177 )                   |
| Other revenues with matching offsets              | 22,548                          | 19,485           | 3,063                    |
| Subtotal  | 92,816                          | 86,359           | 6,457                    |
| <b>Revenues Impacting Earnings:</b>               |                                 |                  |                          |
| Customer sales                                    | 60,699                          | 55,502           | 5,197                    |
| RDM and other regulatory mechanisms               | (1,590 )                        | 1,455            | (3,045 )                 |
| Pole attachments and other rents                  | 932                             | 1,029            | (97 )                    |
| Finance charges                                   | 877                             | 810              | 67                       |
| Other revenues                                    | 836                             | 807              | 29                       |
| Subtotal  | 61,754                          | 59,603           | 2,151                    |
| <b>Total Electric Revenues</b>                    | <b>\$154,570</b>                | <b>\$145,962</b> | <b>\$8,608</b>           |

(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 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 utilities also do not affect earnings since any related profits or losses are returned or charged, respectively, to customers.

Change in Central Hudson Revenues - Natural Gas  
(In Thousands)

|   | Three Months Ended<br>March 31, |          | Increase /<br>(Decrease) |
|---|---------------------------------|----------|--------------------------|
|   | 2011                            | 2010     |                          |
| <b>Revenues with Matching Expense Offsets:(1)</b> |                                 |          |                          |
| Energy cost adjustment                            | \$31,550                        | \$28,110 | \$3,440                  |
| Sales to others for resale                        | 9,697                           | 9,079    | 618                      |
| Other revenues with matching offsets              | 9,801                           | 8,260    | 1,541                    |
| Subtotal  | 51,048                          | 45,449   | 5,599                    |
| <b>Revenues Impacting Earnings:</b>               |                                 |          |                          |
| Customer sales                                    | 25,100                          | 20,624   | 4,476                    |
| RDM and other regulatory mechanisms               | (2,297 )                        | 1,428    | (3,725 )                 |
| Interruptible profits                             | 664                             | 567      | 97                       |
| Finance charges                                   | 333                             | 322      | 11                       |
| Other revenues                                    | 634                             | 697      | (63 )                    |
| Subtotal  | 24,434                          | 23,638   | 796                      |

|                            |          |          |         |
|----------------------------|----------|----------|---------|
| Total Natural Gas Revenues | \$75,482 | \$69,087 | \$6,395 |
|----------------------------|----------|----------|---------|

(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 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.

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Electric and natural gas revenues increased in the three months ended March 31, 2011 as compared to the same period in 2010, primarily due to higher delivery rates on customer sales affected by the Rate Order that went into effect on July 1, 2010, higher energy cost adjustment revenues and other revenues with matching offsets. For both electric and gas the increase in energy cost adjustment revenues resulted from higher revenues required to be recovered for previously deferred purchased electric and gas costs. The increase in revenues with matching offsets is primarily due to an increase in rates related to a new NYS energy efficiency program.

Partially offsetting the increase in revenues for both electric and gas is a lower regulatory revenue recovery mechanism, primarily related to RDMs. In the first quarter of 2011, delivery revenue was higher than provided for in the PSC approved rates and Central Hudson is required to set aside this revenue for customer benefit.

Operating Expenses

The most significant elements of Central Hudson's operating expenses are purchased electricity and purchased natural gas; however, changes in these costs do not affect earnings since they are offset by changes in related revenues recovered through Central Hudson's energy cost adjustment mechanisms. Additionally, there are other costs that are matched to revenues largely from customer billings, notably the cost of pensions and OPEBs, the Temporary State Assessment, and NYS energy efficiency programs.

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Total utility operating expenses increased 12% in the three months ended March 31, 2011 compared to the same period in 2010. The following summarizes the change in operating expenses:

Change in Central Hudson Operating Expenses  
(In Thousands)

|   | Three Months Ended |                  | Increase /      |
|---|--------------------|------------------|-----------------|
|   | March 31,          | March 31,        | (Decrease)      |
|   | 2011               | 2010             |                 |
| <b>Expenses Currently Matched to Revenues:(1)</b> |                    |                  |                 |
| Purchased electricity                             | \$70,268           | \$66,874         | \$3,394         |
| Purchased natural gas                             | 41,247             | 37,189           | 4,058           |
| Temporary State Assessment                        | 6,545              | 5,566            | 979             |
| Pension   | 8,119              | 8,779            | (660 )          |
| OPEB  | 1,950              | 2,027            | (77 )           |
| NYS energy programs                               | 8,597              | 5,256            | 3,341           |
| MGP site remediations                             | 1,216              | 795              | 421             |
| Other matched expenses                            | 5,923              | 5,320            | 603             |
| Subtotal  | 143,865            | 131,806          | 12,059          |
| <b>Other Expense Variations:</b>                  |                    |                  |                 |
| Tree trimming                                     | 5,821              | 2,576            | 3,245           |
| Property taxes                                    | 9,371              | 7,525            | 1,846           |
| Weather related service restoration (2)           | 4,970              | 2,896            | 2,074           |
| Depreciation                                      | 8,921              | 8,414            | 507             |
| Uncollectible expense                             | 2,076              | 2,390            | (314 )          |
| Purchased natural gas incentive arrangements      | 551                | 459              | 92              |
| Other expenses                                    | 27,901             | 25,224           | 2,677           |
| Subtotal  | 59,611             | 49,484           | 10,127          |
| <b>Total Operating Expenses</b>                   | <b>\$203,476</b>   | <b>\$181,290</b> | <b>\$22,186</b> |

(1) Includes expenses that, in accordance with the 2009 and 2010 Rate Orders, are adjusted in the current period to equal the revenues earned for the applicable expenses.

(2) Three months ended March 31, 2010 does not include \$19.3 million in incremental costs related to the February 2010 significant storm event deferred for future recovery from customers. See further discussion below.

In addition to the required adjustment to match revenues collected from customers, the variation in purchased electricity for the three months ended March 31, 2011 compared to the same period in the prior year was driven primarily by higher revenues collected for the recovery of previously deferred purchased electricity costs, which were only partially offset by lower wholesale prices and lower purchased volumes. The variations in purchased gas for the three months ended March 31, 2011 was primarily driven by higher revenues collected for the recovery of previously deferred purchased gas costs and higher purchased volumes, partially reduced by lower natural gas prices.

Variations in NYS energy programs, Temporary State Assessment and other matched expenses are due to a change in the level of expenses recorded with a corresponding change in revenues resulting from the change in the amounts included in delivery rates as authorized in the 2010 Rate Order.



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Weather related service restoration costs can fluctuate from year to year based on changes in the number and severity of storms each year. The increase in expenses associated with tree-trimming in the first quarter of 2011 is a result of accelerated trimming in 2011 to take advantage of crew availability, favorable trimming and pricing conditions. In addition the reassignment of tree trimming crews to assist with the restoration efforts for the significant storm event during the last week of February 2010 led to an increase in year-over-year tree trimming expenses. These 2010 costs do not include incremental costs from this major storm event, such as the costs of mutual aid crews and contractors from other areas and overtime costs for Central Hudson crews, which were deferred for future recovery from customers. Central Hudson filed a petition with the PSC for approval and recovery on September 23, 2010. On April 14, 2011 the Commission issued an Order authorizing deferral of \$18.8 million of the incremental electric storm restoration expense. Central Hudson recorded \$0.8 million of storm costs from the February 2010 storm disallowed by the Commission in its April 14th Order in the first quarter of 2011.

Other Income

Other income and deductions for Central Hudson for the three months ended March 31, 2011, increased \$0.9 million, compared to the same period in 2010 due to regulatory adjustments resulting from changes in interest costs on Central Hudson's variable rate debt upon redemption of Series C and D notes in December 2010 with proceeds from the Series G medium-term notes. In addition, an increase in regulatory carrying charges from customers related to the February 2010 storm event, MGP and pension costs contributed to the increase in other income.

Interest Charges

Central Hudson's interest charges increased \$0.9 million for the three months ended March 31, 2011 compared to the same period in 2010. The increase is primarily the result of the higher interest rates associated with the \$82.2 million medium-term notes issued in December 2010 compared to the \$82.2 million variable rate series C and D notes that were retired in December 2010. Additional increase in interest charges is due to an overall higher outstanding debt balance during the three months ended March 31, 2011 compared to the same period in 2010.

Income Taxes

Income taxes for Central Hudson decreased \$3.2 million for the three months ended March 31, 2011 when compared to the same period in 2010 primarily due to a decrease in pre-tax book income.

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## CH Energy Group

In addition to the impacts on Central Hudson discussed above, CH Energy Group's sales volumes, revenues and operating expenses, income taxes and other income were impacted by Griffith and the other businesses described below. The results of Griffith and the other businesses described below exclude inter-company interest income and expense which are eliminated in consolidation.

Income Statement Variances  
(Dollars In Thousands)

|  | Three Months Ended |           | Increase/(Decrease) in |          |   |
|--|--------------------|-----------|------------------------|----------|---|
|  | March 31,<br>2011  | 2010      | Amount                 | Percent  |   |
| Operating Revenues   | \$328,644          | \$299,973 | \$28,671               | 9.6      | % |
| Operating Expenses:  |                    |           |                        |          |   |
| Purchased electricity, fuel, natural gas and petroleum                                     | 187,832            | 167,294   | 20,538                 | 12.3     | % |
| Depreciation and amortization  | 10,716             | 9,690     | 1,026                  | 10.6     | % |
| Other operating expenses   | 95,425             | 81,821    | 13,604                 | 16.6     | % |
| Total Operating Expenses   | 293,973            | 258,805   | 35,168                 | 13.6     | % |
| Operating Income   | 34,671             | 41,168    | (6,497 )               | (15.8 )  | % |
| Other Income (Deductions), net   | 1,202              | 766       | 436                    | 56.9     | % |
| Interest Charges   | 8,222              | 7,308     | 914                    | 12.5     | % |
| Income before income taxes, non-controlling interest and preferred dividends of subsidiary | 27,651             | 34,626    | (6,975 )               | (20.1 )  | % |
| Income Taxes   | 10,644             | 14,062    | (3,418 )               | (24.3 )  | % |
| Net income from continuing operations  | 17,007             | 20,564    | (3,557 )               | (17.3 )  | % |
| Net income from discontinued operations, net of tax  | 182                | 151       | 31                     | (20.5 )  | % |
| Non-controlling interest in subsidiary   | -                  | 35        | (35 )                  | (100.0 ) | % |
| Dividends declared on Preferred Stock of subsidiary  | 242                | 242       | -                      | -        | % |
| Net income attributable to CH Energy Group   | \$16,947           | \$20,438  | \$(3,491 )             | (17.1 )  | % |

## Sales Volumes

Delivery and sales volumes for Griffith vary in response to weather conditions, changes in our customer base and customer behavior. Deliveries of petroleum products used for heating purposes peak in the winter. Sales also vary as customers respond to the price of the particular energy product and changes in local economic conditions.

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Changes in sales volumes of petroleum products, including the impact of acquisitions, are set forth below.

Actual & Weather Normalized Deliveries  
(In Thousands of Gallons)

|                          | Actual Deliveries                 |        |   |         | Weather Normalized Deliveries(1)  |        |   |         |
|--------------------------|-----------------------------------|--------|---|---------|-----------------------------------|--------|---|---------|
|                          | Three Months Ended March 31, 2011 |        | Increase / (Decrease) in Amount Percent |         | Three Months Ended March 31, 2011 |        | Increase / (Decrease) in Amount Percent |         |
| <b>Heating Oil</b>       |                                   |        |   |         |                                   |        |   |         |
| Base company volume(2)   | 15,657                            | 18,243 | (2,586 )                                | (14 ) % | 15,562                            | 17,859 | (2,297 )                                | (13 ) % |
| Acquisitions volume      | 352                               | -      | 352                                     | -       | 351                               | -      | 351                                     | -       |
| Total Heating Oil        | 16,009                            | 18,243 | (2,234 )                                | (12 ) % | 15,913                            | 17,859 | (1,946 )                                | (11 ) % |
| <b>Motor Fuels</b>       |                                   |        |   |         |                                   |        |   |         |
| Base company volume(2)   | 10,044                            | 10,574 | (530 )                                  | (5 ) %  | 10,044                            | 10,574 | (530 )                                  | (5 ) %  |
| Acquisitions volume      | 478                               | -      | 478                                     | -       | 478                               | -      | 478                                     | -       |
| Total Motor Fuels        | 10,522                            | 10,574 | (52 )                                   | (0 ) %  | 10,522                            | 10,574 | (52 )                                   | (0 ) %  |
| <b>Propane and Other</b> |                                   |        |   |         |                                   |        |   |         |
| Base company volume(2)   | 514                               | 553    | (39 )                                   | (7 ) %  | 511                               | 542    | (31 )                                   | (6 ) %  |
| Total Propane and Other  | 514                               | 553    | (39 )                                   | (7 ) %  | 511                               | 542    | (31 )                                   | (6 ) %  |
| <b>Total</b>             |                                   |        |   |         |                                   |        |   |         |
| Base company volume(2)   | 26,215                            | 29,370 | (3,155 )                                | (11 ) % | 26,117                            | 28,975 | (2,858 )                                | (10 ) % |
| Acquisitions volume      | 830                               | -      | 830                                     | -       | 829                               | -      | 829                                     | -       |
| Total                    | 27,045                            | 29,370 | (2,325 )                                | (8 ) %  | 26,946                            | 28,975 | (2,029 )                                | (7 ) %  |

(1) Griffith uses an internal analysis based on historical weather data to remove the estimated impacts of weather on delivery volumes.

(2) For the purpose of this chart, "Base company" excludes any impact from acquisitions made by Griffith in 2011.

Actual and Weather Normalized Delivery Volumes as % of Total Volumes

|                            | Three Months Ended March 31, |                    |        |                    |
|----------------------------|------------------------------|--------------------|--------|--------------------|
|                            | 2011                         |                    | 2010   |                    |
|                            | Actual                       | Weather Normalized | Actual | Weather Normalized |
| Heating Oil - Base Case    | 58 %                         | 58 %               | 62 %   | 62 %               |
| Heating Oil - Acquisitions | 1 %                          | 1 %                | - %    | - %                |
| Motor Fuels - Base Case    | 37 %                         | 37 %               | 36 %   | 36 %               |
| Motor Fuels - Acquisitions | 2 %                          | 2 %                | - %    | - %                |

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|                               |     |   |     |   |     |   |     |   |
|-------------------------------|-----|---|-----|---|-----|---|-----|---|
| Propane and Other - Base Case | 2   | % | 2   | % | 2   | % | 2   | % |
| Total                         | 100 | % | 100 | % | 100 | % | 100 | % |

Sales of petroleum products decreased 8% in the three months ended March 31, 2011 compared to the same period in 2010 due primarily to customer conservation in response to higher heating oil prices and weather that was 3% warmer in the three months ended March 31, 2011, compared to the same period in 2010, as measured by heating degree days. Additionally, motor fuel volume decreased due to the loss of one major fueling customer.

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## Gross Profit

A breakdown of Griffith's gross profit by product and service line for the three months ended March 31, 2011 and 2010 illustrated below (Dollars in Thousands):

| Product and Service Line                 | Three Months Ended March 31, |     |   |          |     |   |
|--|------------------------------|-----|---|----------|-----|---|
|  | 2011                         |     |   | 2010     |     |   |
| Heating oil - Base Case                  | \$12,860                     | 65  | % | \$14,003 | 69  | % |
| Heating oil - Acquisitions               | 209                          | 1   | % | -        | -   | % |
| Motor fuels - Base Case                  | 2,293                        | 11  | % | 2,343    | 11  | % |
| Motor fuels - Acquisitions               | 138                          | 1   | % | -        | -   | % |
| Other fuels - Base Case                  | 716                          | 4   | % | 780      | 4   | % |
| Service and installations - Base Case    | 2,930                        | 15  | % | 2,969    | 15  | % |
| Service and installations - Acquisitions | 22                           | -   | % | -        | -   | % |
| Other - Base Case                        | 645                          | 3   | % | 264      | 1   | % |
| Other - Acquisitions                     | 5                            | -   | % | -        | -   | % |
| Total                                    | \$19,818                     | 100 | % | \$20,359 | 100 | % |

## Revenues

Change in Griffith Revenues  
(In Thousands)

|                                 | Three Months Ended |                   | Increase /<br>(Decrease) |
|---------------------------------|--------------------|-------------------|--------------------------|
|                                 | 2011               | March 31,<br>2010 |                          |
| Base Company                    |                    |                   |                          |
| Heating Oil(1)                  | \$56,524           | \$53,109          | \$3,415                  |
| Heating Oil - Acquisitions      | 1,203              | -                 | 1,203                    |
| Motor Fuels(1)                  | 31,036             | 25,175            | 5,861                    |
| Motor Fuels - Acquisitions      | 1,545              | -                 | 1,545                    |
| Other(1)                        | 2,319              | 1,876             | 443                      |
| Other - Acquisitions            | 5                  | -                 | 5                        |
| Service Revenues(1)             | 4,250              | 4,307             | (57)                     |
| Service Revenues - Acquisitions | 37                 | -                 | 37                       |
| Total Base Company              | \$96,919           | \$84,467          | \$12,452                 |

(1) These line items exclude the impact of acquisitions made by Griffith in 2011 and 2010 for the analysis which compares the three months ended March 31, 2011 to 2010.

Revenues, net of the effect of weather hedging contracts increased in the three months ended March 31, 2011 compared to the same period in 2010, due primarily to an increase in wholesale prices partially offset by a decline in sales volume.



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Operating Expenses

For the three months ended March 31, 2011, operating expenses, increased \$12.3 million, or 16%, from \$77.1 million in 2010 to \$89.4 million in 2011. The cost of petroleum products increased \$13 million, or 21%, due to higher wholesale market prices.

Other operating expenses, decreased \$0.7 million for the three months ended March 31, 2011 when compared to the same period in 2010 due primarily to the effect of cost cutting measures initiated in the fourth quarter of 2010 and lower costs associated with the reduced volumes delivered in 2011 compared to 2010.

Other Businesses and Investments

Revenues and Operating Expenses

Revenue and operating expenses of other businesses and investments include the results of operations of CH-Greentree, CH-Auburn and CH Shirley Wind and are included in the Consolidated Financial Statements of CH Energy Group. Results for the three months ended March 31, 2011 compared to the same period in 2010 reflect an increase in operating revenues of \$1.2 million and an increase in operating expenses of \$0.7 million. The increase in revenues and operating expenses primarily relates to CH Shirley Wind, which began commercial operation in December 2010. For the three months ended March 31, 2011 compared to the same period in 2010, CH Shirley Wind revenue increased \$1.1 million and operating expenses increased \$0.6 million.

Revenues and operating expenses associated with Lyonsdale which are included in the discontinued operations section in the Consolidated Financial Statements of CH Energy Group decreased in 2011 compared to the same period in 2010. Lyonsdale revenue decreased \$0.9 million and operating expenses decreased \$0.3 million for the three months ended March 31, 2011 compared to the same period in 2010 due to a lower capacity factor caused by unplanned outages.

Other Income and Interest Charges

Other income and deductions and interest charges for the balance of CH Energy Group, primarily the holding company and CHEC's investments in partnerships and other investments (other than Griffith) for the three months ended March 31, 2011 decreased by \$0.6 million compared to the same period in 2010. The decrease in other income and deductions is primarily the result of the costs associated with the divestiture of Lyonsdale in 2011 partially offset by a decrease in business development costs for the three months ended March 31, 2011 compared to the same period in 2010.

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## CH Energy Group – Income Taxes

Income taxes on income from continuing operations for CH Energy Group decreased \$3.4 million for the three months ended March 31, 2011, compared to the same period in 2010, primarily due to a decrease in pre-tax book income.

## CAPITAL RESOURCES AND LIQUIDITY

The growth of CH Energy Group's retained earnings in the three months ended March 31, 2011, contributed to the increase in the book value per share of its Common Stock from \$34.03 at December 31, 2010, to \$34.39 at March 31, 2011. Common equity comprised 49.8% of total capital (including short-term debt) at March 31, 2011, a decrease from 50.6% at December 31, 2010. Book value per share at March 31, 2010 was \$34.51 and the common equity ratio was 50.2%.

## Cash Flow Summary - CH Energy Group and Central Hudson

Changes in CH Energy Group's and Central Hudson's cash and cash equivalents resulting from operating, investing, and financing activities are summarized in the following chart (In Millions):

|   | CH Energy Group<br>Three Months Ended<br>March 31, |            | Central Hudson<br>Three Months Ended<br>March 31, |           |
|---|--|------------|---|-----------|
|   | 2011   | 2010       | 2011  | 2010      |
| Net Cash Provided By/(Used In):               |  |            |   |           |
| Operating Activities                          | \$ 29.7  | \$ (14.0 ) | \$ 43.0   | \$ (1.5 ) |
| Investing Activities                          | (21.6 )  | (13.1 )    | (16.6 )   | (13.4 )   |
| Financing Activities                          | (1.0 )   | 21.2       | (11.5 )   | 29.7      |
| Cash Included in Current Assets Held for Sale | (0.6 )   | -          | -   | -         |
| Net change for the period                     | 6.5  | (5.9 )     | 14.9  | 14.8      |
| Balance at beginning of period                | 29.4   | 73.4       | 9.6   | 4.8       |
| Balance at end of period                      | \$ 35.9  | \$ 67.5    | \$ 24.5   | \$ 19.6   |

Central Hudson's cash and cash equivalents increased by \$14.9 million and \$14.8 million for the three months ended March 31, 2011 and 2010, respectively. CH Energy Group's cash and cash equivalents increased \$6.5 million and decreased \$5.9 million for the three months ended March 31, 2011 and 2010, respectively.

Central Hudson's net cash provided by (used in) operations was \$43.0 million and (\$1.5) million for the three months ended March 31, 2011 and 2010, respectively. Cash provided by sales exceeded the period's expenses and working capital needs in the first quarter of 2011. In 2010, excluding the contributions to Central Hudson's pension and OPEB plans which totaled \$30.7 million for the three months ended March 31, 2010; cash provided by sales also exceeded the period's expenses and working capital needs. Central Hudson contributed \$8.2 million to its pension plan during the first quarter of 2011. Recovery of previously deferred electric and natural gas costs and lower wholesale prices during the three months ended March 31, 2011, contributed to the increase in cash provided by operating activities. In addition, net cash provided by operating activities at CH Energy Group was negatively impacted during the three months ended March 31, 2011 due to an increase in Griffith's customer accounts receivables.



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Central Hudson's net cash used in investing activities of \$16.6 million and \$13.4 million in the three months ended March 31, 2011 and 2010, respectively, was primarily for investments in Central Hudson's electric and natural gas transmission and distribution systems. Additional investments in Shirley Wind and acquisitions made by Griffith in the three months ended March 31, 2011 contributed to the additional net cash used in investing activities of CH Energy Group.

Central Hudson's net cash (used in) provided by financing activities was (\$11.5) million and \$29.7 million, respectively, for the three months ended March 31, 2011 and 2010. During 2011, Central Hudson paid dividends of \$11.0 million to parent CH Energy Group. No dividends were paid to parent during the three months ended March 31, 2010. For the three months ended March 31, 2010, Central Hudson's short-term borrowings were used primarily to supplement working capital. In addition, CH Energy Group's financing activities were impacted by \$16.5 million of short-term borrowings partially reduced by \$8.5 million for shares repurchased and returned to treasury shares in the three months ended March 31, 2011.

### Capitalization – Issuance of Treasury Stock

Performance shares granted January 24, 2008 and shown as outstanding as of March 31, 2011 are expected to be paid out in May 2011. Additionally, due to the retirement of one of Central Hudson's executive officers on January 1, 2011, a pro-rated number of shares under the January 26, 2009 and February 8, 2010 grants are expected to be paid to this individual in July 2011.

For further information regarding the above equity compensation, see Note 11 - "Equity Based Compensation" of this Quarterly Report on Form 10-Q.

### Contractual Obligations

Other contractual obligations and commitments of CH Energy Group are disclosed in Note 12 – "Commitments and Contingencies" of this Quarterly Report on Form 10-Q under the caption "Electric Purchase Commitments."

Central Hudson determines the amount it will contribute to its pension plan (the "Retirement Plan") based on several factors, including the value of plan assets relative to plan liabilities, the discount rate, expected return on plan assets, legislative requirements, regulatory considerations, and available corporate resources. The amount of the Retirement Plan's liabilities is affected by the discount rate used to determine benefit obligations and the accrual of additional benefits. Funding for the Retirement Plan totaled \$8.0 million and \$30.0 million for the three months ended March 31, 2011 and 2010, respectively. On April 7, 2011, Central Hudson contributed an additional \$8.0 million to the Retirement Plan. Central Hudson expects to contribute approximately \$16.0 million to the Retirement Plan in the remaining period in 2011.

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There were no employer contributions for OPEB plans for the three months ended March 31, 2011 and \$0.5 million during the three months ended March 31, 2010, respectively. The determination of future funding depends on a number of factors, including the discount rate, expected return on plan assets, medical claims assumptions used, benefit changes, regulatory considerations and corporate resources. On April 7, 2011, Central Hudson contributed \$1.2 million to the OPEB plan. No additional funding of the plan is expected for the remainder of 2011.

During the first quarter of 2010, Management began a transition to a long-duration investment strategy that is intended to reduce the year-to-year volatility of the funded status of the plan and of the level of contributions by more closely aligning the characteristics of plan assets with liabilities. Management cannot currently predict what impact future financial market volatility may have on the funded status of the plan or future funding decisions.

Under the policy of the PSC regarding pension and OPEB costs, Central Hudson recovers these costs through customer rates with differences between actual cost and rate allowances deferred for future recovery from or return to customers. Based on the current policy, Central Hudson expects to fully recover its net periodic pension and OPEB costs over time.

Financing Program

CH Energy Group believes that it is well positioned with a strong balance sheet and strong liquidity. Significant capacity is available on CH Energy Group's and Central Hudson's committed credit facilities. Central Hudson's investment-grade credit ratings help facilitate access to long-term debt. However, Management can make no assurance in regards to the continued availability of financing or the terms and costs. With the exception of the use of treasury shares for several restricted share grants, for satisfaction of the Company stock match under Central Hudson's Savings Incentive Plan and performance share awards earned, no equity issuance is currently planned for 2011.

At March 31, 2011, CH Energy Group and its subsidiaries maintained credit facilities with JPMorgan Chase Bank, N.A., Bank of America, N.A., HSBC Bank USA, N.A. and KeyBank National Association. If these lenders are unable to fulfill their commitment under these facilities, funding may not be available as needed.

Table of ContentsOutstanding Balances  
(In Thousands)

|   | March 31,<br>2011 | December<br>31,<br>2010 | March 31,<br>2010 |
|---|-------------------|-------------------------|-------------------|
| <b>CH Energy Group Holding Company:</b>   |                   |                         |                   |
| Current maturities of long-term debt at Holding Company                                     | \$941             | \$941                   | \$-               |
| \$150 million revolving credit facility at Holding Company                                  | 16,500            | -                       | -                 |
| <b>Central Hudson:</b>  |                   |                         |                   |
| Current maturities of long-term debt  | 36,000            | -                       | 24,000            |
| \$125 million revolving credit facility   | -                 | -                       | 30,000            |
| <b>CH Energy Group Consolidated:</b>  |                   |                         |                   |
| Current maturities of long-term debt at Holding Company and Central Hudson                  | 36,941            | 941                     | 24,000            |
| \$150 million revolving credit facility at Holding Company, \$125 million at Central Hudson | -                 | -                       | 30,000            |

Central Hudson's current senior unsecured debt rating/outlook is 'A'/stable by both Standard & Poor's Rating Services ("Standard & Poor's") and Fitch Ratings and 'A3'/stable by Moody's Investors Service ("Moody's")<sup>1</sup>.

CH Energy Group and Central Hudson believe they will be able to meet their short-term and long-term cash requirements, assuming that Central Hudson's future rate plans reflect the costs of service, including a reasonable return on invested capital.

## NYSERDA

Central Hudson's Series B NYSERDA Bonds total \$33.7 million at March 31, 2011. These bonds are tax-exempt multi-modal bonds that are currently in a variable rate mode. In its Orders, the PSC has authorized deferral accounting treatment for variations in the interest costs from these bonds. 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 do not have any impact on earnings.

To mitigate the potential cash flow impact of unexpected increases in short-term interest rates, Central Hudson purchases interest rate caps based on an index of short-term tax-exempt debt. Two of the rate caps were one-year in length with notional amounts that were aligned to the Series C and Series D NYSERDA Bonds which were redeemed in 2010. These caps expired on April 1, 2011. The third rate cap is two years in length with a notional amount aligned with Series B and will expire on April 1, 2012. The caps are based on the monthly weighted average of an index of tax-exempt variable rate debt, multiplied by 175%. Central Hudson would receive a payout if the adjusted index exceeds 5.0% for a given month.

<sup>1</sup> These 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.



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Central Hudson is currently evaluating what actions, if any, it may take in the future in connection with its Series B NYSEDA Bonds. Potential actions may include converting the debt to another interest rate mode or refinancing with taxable bonds.

For additional information related to CH Energy Group's and Central Hudson's financing program, please see Note 7 – "Short-term Borrowing Arrangements," Note 8 – "Capitalization – Common and Preferred Stock" and Note 9 – "Capitalization – Long-term Debt" to the Financial Statements of the Corporations' 10-K Annual Report.

REGULATORY MATTERS – PSC PROCEEDINGS

Petition of Central Hudson Gas & Electric Corporation for Commission Approval of a Plan for Deferred Accounting for Future Recovery with Carrying Charges of Three Items and Funding These and Certain Other Deferrals through Balance Sheet Offsets  
(Case 10-M-0473)

Background: On September 23, 2010, Central Hudson filed a petition with the PSC to defer for future recovery with carrying charges \$19.4 million incremental electric storm restoration expense, \$2.6 million incremental electric bad debt write-off expense, \$1.9 million incremental electric property tax expense and \$0.7 million incremental gas property tax expense above the respective rate allowances during the twelve months ended June 30, 2010. In December 2010, Central Hudson provided an update and amended the incremental storm expense deferral request to \$19.7 million. The petition also requested approval for recovery via offsets of the foregoing against significant tax refunds resulting from a change in the way Central Hudson treats certain capital expenditures for tax purposes. Additional offsets against other deferred items, notably including MGP site investigation and remediation costs were also included in the petition given the size of the tax refunds. On April 14, 2011, the Commission issued an Order authorizing deferral of \$18.8 million (denial of \$0.8 million) of the incremental electric storm restoration expense and the \$2.6 million of incremental bad debt expense and denying deferral of the Company's \$2.6 million of incremental electric and gas property tax expense. The PSC also approved the ratemaking treatment proposed by the Company in its filing and the offsets have been recorded as of March 31, 2011. Central Hudson expects to file a petition for reconsideration and rehearing on the PSC's April 14, 2011 Order. The petition will seek rehearing for reconsideration and recovery of a portion of certain costs denied by the Commission for deferral accounting treatment proposed by the Company in its September 23, 2010 petition filing related to the incremental electric storm restoration expense. Central Hudson cannot predict the final outcome of this proceeding.



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Management Audit

(Case 09-M-07674 – Comprehensive Management Audit of Central Hudson Gas & Electric Business)

Background: In February 2010, the PSC selected NorthStar Consulting Group (“NorthStar”) as the independent third-party consultant to conduct a comprehensive management audit of Central Hudson’s construction planning processes and operational efficiencies of its electric and gas businesses. The PSC is allowed to audit New York utilities every five years. Audit work officially commenced on March 24, 2010. In October 2010, the audit scope was expanded to examine affiliate transactions and accounting. A final report to the PSC of NorthStar’s findings and recommendations was completed February 28, 2011. On March 25, 2011, Central Hudson filed its audit comment letter with the PSC. Management anticipates that the audit will be addressed at the May 14th PSC session. No prediction can be made regarding the outcome of the matter at this time however, any recommendations will require a corresponding implementation plan for improvement as well as progress updates in future quarterly filings.

SIR Proceeding

(Case 11-M-0034 – Proceeding on Motion of the Commission to Commence a Review and Evaluation of the Treatment of the States’ Regulated Utilities’ Site Investigation and Remediation (“SIR”) Costs)

Background: In February 2011, the PSC initiated a proceeding to review and evaluate the treatment of MGP SIR costs. The proceeding has begun with a data gathering phase from all utilities on the history of sites and efforts and also to address cost control issues, allocation of responsibility and alternate rate treatments. The Commission has expressed a strong interest in having this proceeding move forward expeditiously and requiring that recommendations on these issues be presented for its determination before the end of the year. No prediction can be made regarding the outcome of the matter at this time.

During the first quarter of 2011, there has been no significant activity related to the following proceedings:

- Renewable Portfolio Standard
  - American Recovery and Reinvestment Act of 2009
- Energy Efficiency Programs and System Benefit Charge Collections

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OTHER MATTERS

Changes in Accounting Standards

See Note 1 – “Summary of Significant Accounting Policies” and Note 3 – “New Accounting Guidance” for discussion of relevant changes, which discussion is incorporated by reference herein.

Off-Balance Sheet Arrangements

CH Energy Group and Central Hudson do not have any off-balance sheet arrangements.

FORWARD-LOOKING STATEMENTS

Statements included in this Quarterly Report on Form 10-Q and any documents incorporated by reference which are not historical in nature are intended to be, and are hereby identified as, “forward-looking statements” for purposes of the safe harbor provided by Section 21E of the Exchange Act. Forward-looking statements may be identified by words including “anticipates,” “intends,” “estimates,” “believes,” “projects,” “expects,” “plans,” “assumes,” “seeks,” and similar expressions. Forward-looking statements including, without limitation, those relating to CH Energy Group’s and Central Hudson’s future business prospects, revenues, proceeds, working capital, investment valuations, liquidity, income, and margins, are subject to certain risks and uncertainties that could cause actual results to differ materially from those indicated in the forward-looking statements, due to several important factors, including those identified from time-to-time in the forward-looking statements. Those factors include, but are not limited to: deviations from normal seasonal weather and storm activity; fuel prices; plant capacity factors; energy supply and demand; potential future acquisitions; the ability of the Company to divest non-core assets at acceptable prices within expected time frames, legislative, regulatory, and competitive developments; interest rates; access to capital; market risks; electric and natural gas industry restructuring and cost recovery; the ability to obtain adequate and timely rate relief; changes in fuel supply or costs including future market prices for energy, capacity, and ancillary services; the success of strategies to satisfy electricity, natural gas, fuel oil, and propane requirements; the outcome of pending litigation and certain environmental matters, particularly the status of inactive hazardous waste disposal sites and waste site remediation requirements; and certain presently unknown or unforeseen factors, including, but not limited to, acts of terrorism. CH Energy Group and Central Hudson undertake no obligation to update publicly any forward-looking statements, whether as a result of new information, future events, or otherwise.

Given these uncertainties, undue reliance should not be placed on the forward-looking statements.

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ITEM 3 - Quantitative and Qualitative Disclosures About Market Risk

Reference is made to Part II, Item 7A of the Corporations' 10-K Annual Report for a discussion of market risk. The practices employed by CH Energy Group and Central Hudson to mitigate these risks - which were discussed in the Corporations' 10-K Annual Report - continue to operate effectively. For related discussion on this activity, see, in the Financial Statements of the Corporations' 10-K Annual Report, Note 14 - "Accounting for Derivative Instruments and Hedging Activities" and Item 7 - "Management's Discussion and Analysis of Financial Condition and Results of Operations" under the sub-caption "Capital Resources and Liquidity," and Note 9 - "Capitalization - Long-Term Debt" and Item 2 - "Management's Discussion and Analysis of Financial Condition and Results of Operations" under the sub-caption "Financing Program" of this Quarterly Report on Form 10-Q.

ITEM 4 - Controls and Procedures

The Chief Executive Officer and Chief Financial Officer of CH Energy Group and Central Hudson evaluated the effectiveness of the disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this Quarterly Report on Form 10-Q and based on the evaluation, concluded that, as of the end of the period covered by this Quarterly Report on Form 10-Q, the Corporations' controls and procedures are effective.

There were no changes to the Corporations' internal control over financial reporting that occurred during the Corporations' last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Corporations' internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1 - Legal Proceedings

For information about developments regarding certain legal proceedings, see Item 3 ("Legal Proceedings") of the Corporations' 10-K Annual Report, and Note 12 - "Commitments and Contingencies" of that 10-K and/or Note 12 - "Commitments and Contingencies" of this Quarterly Report on Form 10-Q.

ITEM 1A - Risk Factors

For a discussion identifying risk factors that could cause actual results to differ materially from those anticipated, see the discussion under "Item 1A - Risk Factors" of the Corporations' 10-K Annual Report.

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## ITEM 2 - Unregistered Sales of Equity Securities and Use of Proceeds

The following table provides a summary of shares repurchased by CH Energy Group for the quarter ended March 31, 2011:

|                     | Total Number<br>of Shares<br>Purchased(1) | Average Price<br>Paid per<br>Share(2) | Total Number of<br>Shares Purchased as<br>Part of Publicly<br>Announced Plans or<br>Programs(3) | Maximum<br>Number of Shares<br>that May Yet be<br>Purchased Under<br>the Plans or<br>Programs(3) |
|---------------------|---|---------------------------------------|---|--|
| January 1-31, 2011  | 112,114                                   | \$ 49.34                              | 106,400   | 1,864,038  |
| February 1-28, 2011 | 66,383                                    | \$ 49.45                              | 66,383  | 1,797,655  |
| March 1-31, 2011    | -   | \$ -                                  | -   | 1,797,655  |
| Total               | 178,497                                   | \$ 49.38                              | 172,783   | 1,797,655  |

- (1) Includes the repurchase of shares through the Company's authorized stock repurchase program as well as shares surrendered to CH Energy Group in satisfaction of tax withholdings on the vesting of restricted shares and stock options.
- (2) Closing price of a share of CH Energy Group's common stock on the date the stock was surrendered to CH Energy Group (in the case of shares surrendered in satisfaction of tax withholdings) and the actual price paid (in the case of market purchases).
- (3) On July 31, 2007, the Board of Directors authorized the repurchase of up to 2,000,000 shares or approximately 13% of CH Energy Group's outstanding common stock on that date, from time to time, over the five year period ending July 31, 2012.

## ITEM 6 – Exhibits

Incorporated herein by reference to the Exhibit Index for this Quarterly Report on Form 10-Q, which is located immediately after the signature pages to this report.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrants have duly caused this report to be signed on their behalf by the undersigned thereunto duly authorized.

CH ENERGY GROUP, INC.  
(Registrant)

By: /s/ Kimberly J. Wright  
Kimberly J. Wright  
Vice President - Accounting and Controller

CENTRAL HUDSON GAS & ELECTRIC  
CORPORATION  
(Co-Registrant)

By: /s/ Kimberly J. Wright  
Kimberly J. Wright  
Controller

Dated: May 6, 2011

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EXHIBIT INDEX

Following is the list of Exhibits, as required by Item 601 of Regulation S-K, filed as part of this Quarterly Report on Form 10-Q:

| Exhibit No.<br>(Regulation<br>S-K<br>Item 601<br>Designation) | Exhibit Description  |
|---|--|
| <u>12.1</u>   | CH Energy Group Statement showing the computation of the ratio of earnings to fixed charges.   |
| <u>12.2</u>   | Central Hudson Statement showing the computation of the ratio of earnings to fixed charges and ratio of earnings to fixed charges and preferred dividends. |
| <u>31.1.1</u>   | Rule 13a-14(a)/15d-14(a) Certification by Mr. Lant.  |
| <u>31.1.2</u>   | Rule 13a-14(a)/15d-14(a) Certification by Mr. Capone.  |
| <u>31.2.1</u>   | Rule 13a-14(a)/15d-14(a) Certification by Mr. Lant.  |
| <u>31.2.2</u>   | Rule 13a-14(a)/15d-14(a) Certification by Mr. Capone.  |
| <u>32.1.1</u>   | Section 1350 Certification by Mr. Lant.  |
| <u>32.1.2</u>   | Section 1350 Certification by Mr. Capone.  |
| <u>32.2.1</u>   | Section 1350 Certification by Mr. Lant.  |
| <u>32.2.2</u>   | Section 1350 Certification by Mr. Capone.  |
| 101.INS   | XBRL Instance Document.  |
| 101.SCH   | XBRL Taxonomy Extension Schema.  |
| 101.CAL   | XBRL Taxonomy Extension Calculation Linkbase.  |
| 101.DEF   | XBRL Taxonomy Extension Definition Linkbase.   |
| 101.LAB   | XBRL Taxonomy Extension Label Linkbase.  |
| 101.PRE   | XBRL Taxonomy Extension Presentation Linkbase.   |

