

CENTRAL HUDSON GAS & ELECTRIC CORP

Form 10-Q

August 05, 2010

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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 June 30, 2010

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

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Indicate by check mark whether the Registrants (1) have 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) have been subject to such filing requirements for the past 90 days.

|                                           |                                                                     |
|-------------------------------------------|---------------------------------------------------------------------|
| CH Energy Group, Inc.                     | Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> |
| Central Hudson Gas & Electric Corporation | Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> |

Indicate by check mark whether the Registrants have 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 <input checked="" type="checkbox"/> No <input type="checkbox"/> |
| Central Hudson Gas & Electric Corporation | Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> |

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

|                                           |                                                                     |
|-------------------------------------------|---------------------------------------------------------------------|
| CH Energy Group, Inc.                     | Yes <input type="checkbox"/> No <input checked="" type="checkbox"/> |
| Central Hudson Gas & Electric Corporation | Yes <input type="checkbox"/> No <input checked="" type="checkbox"/> |

As of the close of business on July 31, 2010 (i) CH Energy Group, Inc. had outstanding 15,823,371 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).

FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 2010

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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>June 30, |                 | Six Months Ended<br>June 30, |                |
|----------------------------------------------------------------------------------------------------------|--------------------------------|-----------------|------------------------------|----------------|
|                                                                                                          | 2010                           | 2009            | 2010                         | 2009           |
| <b>Operating Revenues</b>                                                                                |                                |                 |                              |                |
| Electric                                                                                                 | \$ 125,096                     | \$ 108,597      | \$ 271,058                   | \$ 265,350     |
| Natural gas                                                                                              | 32,461                         | 31,056          | 101,548                      | 121,179        |
| Competitive business subsidiaries:                                                                       |                                |                 |                              |                |
| Petroleum products                                                                                       | 37,178                         | 33,057          | 117,338                      | 101,575        |
| Other                                                                                                    | 7,042                          | 5,909           | 14,475                       | 12,612         |
| <b>Total Operating Revenues</b>                                                                          | <b>201,777</b>                 | <b>178,619</b>  | <b>504,419</b>               | <b>500,716</b> |
| <b>Operating Expenses</b>                                                                                |                                |                 |                              |                |
| Operation:                                                                                               |                                |                 |                              |                |
| Purchased electricity and fuel used in electric generation                                               | 53,445                         | 51,884          | 121,596                      | 143,635        |
| Purchased natural gas                                                                                    | 14,754                         | 19,301          | 52,402                       | 84,126         |
| Purchased petroleum                                                                                      | 32,313                         | 26,960          | 95,084                       | 74,849         |
| Other expenses of operation - regulated activities                                                       | 50,191                         | 44,390          | 107,894                      | 90,711         |
| Other expenses of operation - competitive business subsidiaries                                          | 13,270                         | 13,148          | 27,574                       | 28,087         |
| Depreciation and amortization                                                                            | 9,957                          | 9,319           | 19,881                       | 18,686         |
| Taxes, other than income tax                                                                             | 10,627                         | 9,553           | 21,480                       | 19,658         |
| <b>Total Operating Expenses</b>                                                                          | <b>184,557</b>                 | <b>174,555</b>  | <b>445,911</b>               | <b>459,752</b> |
| <b>Operating Income</b>                                                                                  | <b>17,220</b>                  | <b>4,064</b>    | <b>58,508</b>                | <b>40,964</b>  |
| <b>Other Income and Deductions</b>                                                                       |                                |                 |                              |                |
| (Loss) income from unconsolidated affiliates                                                             | (532 )                         | (153 )          | (298 )                       | 77             |
| Interest on regulatory assets and investment income                                                      | 1,513                          | 2,350           | 2,640                        | 3,466          |
| Write-off of note receivable                                                                             | -                              | -               | -                            | (1,299 )       |
| Regulatory adjustments for interest costs                                                                | (107 )                         | (659 )          | (248 )                       | (1,188 )       |
| Business development costs                                                                               | (499 )                         | (529 )          | (802 )                       | (1,010 )       |
| Other - net                                                                                              | 150                            | (464 )          | (36 )                        | (163 )         |
| <b>Total Other Income (Deductions)</b>                                                                   | <b>525</b>                     | <b>545</b>      | <b>1,256</b>                 | <b>(117 )</b>  |
| <b>Interest Charges</b>                                                                                  |                                |                 |                              |                |
| Interest on long-term debt                                                                               | 5,649                          | 5,094           | 11,257                       | 9,874          |
| Interest on regulatory liabilities and other interest                                                    | 1,487                          | 939             | 3,150                        | 2,014          |
| <b>Total Interest Charges</b>                                                                            | <b>7,136</b>                   | <b>6,033</b>    | <b>14,407</b>                | <b>11,888</b>  |
| <b>Income (loss) before income taxes, non-controlling interest and preferred dividends of subsidiary</b> | <b>10,609</b>                  | <b>(1,424 )</b> | <b>45,357</b>                | <b>28,959</b>  |
| <b>Income Taxes</b>                                                                                      | <b>4,021</b>                   | <b>(436 )</b>   | <b>18,054</b>                | <b>10,993</b>  |
| <b>Net Income (loss) from Continuing Operations</b>                                                      | <b>6,588</b>                   | <b>(988 )</b>   | <b>27,303</b>                | <b>17,966</b>  |
| <b>Discontinued Operations</b>                                                                           |                                |                 |                              |                |

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|                                                             |            |            |          |         |
|-------------------------------------------------------------|------------|------------|----------|---------|
| (Loss) income from discontinued operations before tax       | -          | (656 )     | -        | 6,825   |
| Income tax (benefit) expense from discontinued operations   | -          | (272 )     | -        | 2,832   |
| Net Income (loss) from Discontinued Operations              | -          | (384 )     | -        | 3,993   |
| Net Income (loss)                                           | 6,588      | (1,372 )   | 27,303   | 21,959  |
| Net income (loss) attributable to non-controlling interest: |            |            |          |         |
| Non-controlling interest in subsidiary                      | (419 )     | (157 )     | (385 )   | (190 )  |
| Dividends declared on Preferred Stock of subsidiary         | 242        | 242        | 485      | 485     |
| Net income (loss) attributable to CH Energy Group           | 6,765      | (1,457 )   | 27,203   | 21,664  |
| Dividends declared on Common Stock                          | 8,545      | 8,526      | 17,084   | 17,050  |
| Change in Retained Earnings                                 | \$(1,780 ) | \$(9,983 ) | \$10,119 | \$4,614 |

The Notes to Financial Statements are an integral part hereof.

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

(In Thousands, except per share amounts)

|                                                                                                       | Three Months Ended<br>June 30, |          | Six Months Ended<br>June 30, |        |
|-------------------------------------------------------------------------------------------------------|--------------------------------|----------|------------------------------|--------|
|                                                                                                       | 2010                           | 2009     | 2010                         | 2009   |
| <b>Common Stock:</b>                                                                                  |                                |          |                              |        |
| Average shares outstanding - Basic                                                                    | 15,782                         | 15,774   | 15,780                       | 15,773 |
| Average shares outstanding - Diluted                                                                  | 15,920                         | 15,826   | 15,918                       | 15,825 |
| <b>Income (loss) from continuing operations attributable to CH Energy Group common shareholders</b>   |                                |          |                              |        |
| Earnings per share - Basic                                                                            | \$0.43                         | \$(0.07) | \$1.72                       | \$1.12 |
| Earnings per share - Diluted                                                                          | \$0.42                         | \$(0.07) | \$1.71                       | \$1.12 |
| <b>Income (loss) from discontinued operations attributable to CH Energy Group common shareholders</b> |                                |          |                              |        |
| Earnings per share - Basic                                                                            | \$-                            | \$(0.02) | \$-                          | \$0.25 |
| Earnings per share - Diluted                                                                          | \$-                            | \$(0.02) | \$-                          | \$0.25 |
| <b>Amounts attributable to CH Energy Group common shareholders</b>                                    |                                |          |                              |        |
| Earnings per share - Basic                                                                            | \$0.43                         | \$(0.09) | \$1.72                       | \$1.37 |
| Earnings per share - Diluted                                                                          | \$0.42                         | \$(0.09) | \$1.71                       | \$1.37 |
| Dividends Declared Per Share                                                                          | \$0.54                         | \$0.54   | \$1.08                       | \$1.08 |

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

(In Thousands)

|                                                                                                                                                             | Three Months Ended<br>June 30, |           | Six Months Ended<br>June 30, |          |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------|-----------|------------------------------|----------|
|                                                                                                                                                             | 2010                           | 2009      | 2010                         | 2009     |
| Net Income (loss)                                                                                                                                           | \$6,588                        | \$(1,372) | \$27,303                     | \$21,959 |
| <b>Other Comprehensive Income:</b>                                                                                                                          |                                |           |                              |          |
| <b>Fair value of cash flow hedges:</b>                                                                                                                      |                                |           |                              |          |
| Unrealized gains - net of tax of (\$9) and (\$13) in 2010 and (\$38) and (\$39) in 2009, respectively                                                       | 13                             | 57        | 18                           | 58       |
| Reclassification for gains realized in net income - net of tax of \$11 and \$35 in 2010 and \$0 and \$0 in 2009, respectively                               | (16)                           | -         | (52)                         | -        |
| Net unrealized gains recorded from investments held by equity method investees - net of tax of \$0 and (\$71) in 2010 and \$0 and \$0 in 2009, respectively | -                              | -         | 107                          | -        |
| Other comprehensive income                                                                                                                                  | (3)                            | 57        | 73                           | 58       |
| Comprehensive Income (loss)                                                                                                                                 | 6,585                          | (1,315)   | 27,376                       | 22,017   |



|                                                                      |         |   |          |     |          |
|----------------------------------------------------------------------|---------|---|----------|-----|----------|
| Comprehensive income (loss) attributable to non-controlling interest | (177    | ) | 85       | 100 | 295      |
| Comprehensive income (loss) attributable to CH Energy Group          | \$6,762 |   | \$(1,400 | )   | \$27,276 |
|                                                                      |         |   |          |     | \$21,722 |

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)

|                                                                                   | Six Months Ended June<br>30, |           |
|-----------------------------------------------------------------------------------|------------------------------|-----------|
|                                                                                   | 2010                         | 2009      |
| Operating Activities:                                                             |                              |           |
| Net income                                                                        | \$27,303                     | \$21,959  |
| Adjustments to reconcile net income to net cash provided by operating activities: |                              |           |
| Depreciation                                                                      | 18,015                       | 17,678    |
| Amortization                                                                      | 1,866                        | 2,607     |
| Deferred income taxes - net                                                       | 24,282                       | (11,916 ) |
| Bad debt expense                                                                  | 420                          | 8,216     |
| Distributed (undistributed) equity in earnings of unconsolidated affiliates       | 602                          | 550       |
| Pension expense                                                                   | 16,030                       | 6,352     |
| Other post-employment benefits ("OPEB") expense                                   | 3,729                        | 5,056     |
| Regulatory liability - rate moderation                                            | (9,948 )                     | -         |
| Revenue decoupling mechanism                                                      | (1,362 )                     | -         |
| Regulatory asset amortization                                                     | 2,825                        | 2,812     |
| Loss (gain) on sale of assets                                                     | 15                           | (39 )     |
| Changes in operating assets and liabilities - net of business acquisitions:       |                              |           |
| Accounts receivable, unbilled revenues and other receivables                      | 11,232                       | 34,596    |
| Fuel, materials and supplies                                                      | 2,435                        | 8,695     |
| Special deposits and prepayments                                                  | 1,351                        | (860 )    |
| Prepaid income taxes                                                              | (9,055 )                     | -         |
| Accounts payable                                                                  | (6,165 )                     | (16,323 ) |
| Accrued income taxes and interest                                                 | 102                          | 19,094    |
| Customer advances                                                                 | (7,499 )                     | (7,639 )  |
| Pension plan contribution                                                         | (31,673 )                    | (6,850 )  |
| OPEB contribution                                                                 | (3,750 )                     | -         |
| Regulatory asset - storm deferral                                                 | (16,673 )                    | -         |
| Regulatory asset - manufactured gas plant ("MGP") site remediation                | (7,858 )                     | (1,970 )  |
| Regulatory asset - PSC tax surcharge and general assessment                       | 482                          | -         |
| Deferred natural gas and electric costs                                           | 3,959                        | 30,912    |
| Other - net                                                                       | 1,629                        | 4,148     |
| Net cash provided by operating activities                                         | 22,294                       | 117,078   |
| Investing Activities:                                                             |                              |           |
| Proceeds from sale of assets                                                      | 58                           | 189       |
| Additions to utility and other property and plant                                 | (34,693 )                    | (66,162 ) |
| Other - net                                                                       | (2,703 )                     | (2,676 )  |
| Net cash used in investing activities                                             | (37,338 )                    | (68,649 ) |
| Financing Activities:                                                             |                              |           |
| Redemption of long-term debt                                                      | -                            | (20,000 ) |
| Proceeds from issuance of long-term debt                                          | -                            | 50,000    |
| Borrowings (repayments) of short-term debt - net                                  | 3,000                        | (35,500 ) |
| Dividends paid on Preferred Stock of subsidiary                                   | (485 )                       | (485 )    |

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|                                       |           |           |
|---------------------------------------|-----------|-----------|
| Dividends paid on Common Stock        | (17,074 ) | (17,046 ) |
| Other - net                           | (101 )    | (116 )    |
| Net cash used in financing activities | (14,660 ) | (23,147 ) |

|                                                  |           |          |
|--------------------------------------------------|-----------|----------|
| Net Change in Cash and Cash Equivalents          | (29,704 ) | 25,282   |
| Cash and Cash Equivalents at Beginning of Period | 73,436    | 19,825   |
| Cash and Cash Equivalents at End of Period       | \$43,732  | \$45,107 |

Supplemental Disclosure of Cash Flow Information:

|                                                        |          |          |
|--------------------------------------------------------|----------|----------|
| Interest paid                                          | \$11,517 | \$10,172 |
| Federal and state taxes paid                           | \$14,445 | \$7,039  |
| Additions to plant included in liabilities             | \$2,964  | \$5,113  |
| Regulatory asset - storm deferral costs in liabilities | \$2,770  | \$-      |

The Notes to Financial Statements are an integral part hereof.

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## CH ENERGY GROUP CONSOLIDATED BALANCE SHEET (UNAUDITED)

(In Thousands)

|                                                                                                                                             | June 30,<br>2010 | December<br>31,<br>2009 | June 30,<br>2009 |
|---------------------------------------------------------------------------------------------------------------------------------------------|------------------|-------------------------|------------------|
| <b>ASSETS</b>                                                                                                                               |                  |                         |                  |
| Utility Plant                                                                                                                               |                  |                         |                  |
| Electric                                                                                                                                    | \$934,309        | \$908,807               | \$888,772        |
| Natural gas                                                                                                                                 | 286,016          | 281,139                 | 274,251          |
| Common                                                                                                                                      | 141,940          | 139,754                 | 137,619          |
| Gross Utility Plant                                                                                                                         | 1,362,265        | 1,329,700               | 1,300,642        |
| Less: Accumulated depreciation                                                                                                              | 387,556          | 375,434                 | 379,502          |
| Net                                                                                                                                         | 974,709          | 954,266                 | 921,140          |
| Construction work in progress                                                                                                               | 54,176           | 58,120                  | 57,358           |
| Net Utility Plant                                                                                                                           | 1,028,885        | 1,012,386               | 978,498          |
| Non-Utility Property & Plant                                                                                                                |                  |                         |                  |
| Griffith non-utility property & plant                                                                                                       | 28,492           | 27,951                  | 42,724           |
| Other non-utility property & plant                                                                                                          | 39,631           | 37,654                  | 20,534           |
| Gross Non-Utility Property & Plant                                                                                                          | 68,123           | 65,605                  | 63,258           |
| Less: Accumulated depreciation - Griffith                                                                                                   | 19,586           | 18,619                  | 24,786           |
| Less: Accumulated depreciation - other                                                                                                      | 4,165            | 3,333                   | 2,634            |
| Net Non-Utility Property & Plant                                                                                                            | 44,372           | 43,653                  | 35,838           |
| Current Assets                                                                                                                              |                  |                         |                  |
| Cash and cash equivalents                                                                                                                   | 43,732           | 73,436                  | 45,107           |
| Accounts receivable from customers - net of allowance for doubtful accounts of \$7.6 million, \$7.7 million and \$9.1 million, respectively | 83,192           | 94,526                  | 94,872           |
| Accrued unbilled utility revenues                                                                                                           | 9,132            | 14,159                  | 8,542            |
| Other receivables                                                                                                                           | 7,619            | 6,612                   | 7,371            |
| Fuel, materials and supplies                                                                                                                | 22,406           | 24,841                  | 27,890           |
| Regulatory assets                                                                                                                           | 68,881           | 59,993                  | 35,601           |
| Prepaid income tax                                                                                                                          | 10,918           | 1,863                   | -                |
| Fair value of derivative instruments                                                                                                        | 1,138            | 741                     | 500              |
| Special deposits and prepayments                                                                                                            | 19,987           | 21,290                  | 22,255           |
| Accumulated deferred income tax                                                                                                             | 1,269            | 300                     | 21,851           |
| Total Current Assets                                                                                                                        | 268,274          | 297,761                 | 263,989          |
| Deferred Charges and Other Assets                                                                                                           |                  |                         |                  |
| Regulatory assets - pension plan                                                                                                            | 151,589          | 168,705                 | 181,083          |
| Regulatory assets - OPEB                                                                                                                    | -                | -                       | 7,682            |
| Regulatory assets - other                                                                                                                   | 101,944          | 83,691                  | 93,831           |
| Goodwill                                                                                                                                    | 35,651           | 35,651                  | 67,455           |
| Other intangible assets - net                                                                                                               | 13,678           | 14,813                  | 34,045           |
| Unamortized debt expense                                                                                                                    | 5,000            | 5,094                   | 4,937            |

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|                                          |              |              |              |
|------------------------------------------|--------------|--------------|--------------|
| Investments in unconsolidated affiliates | 8,136        | 8,698        | 8,834        |
| Other investments                        | 12,035       | 10,812       | 9,559        |
| Other                                    | 16,139       | 16,619       | 15,242       |
| Total Deferred Charges and Other Assets  | 344,172      | 344,083      | 422,668      |
| Total Assets                             | \$ 1,685,703 | \$ 1,697,883 | \$ 1,700,993 |

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)

|                                                                                                                                                                              | June 30,<br>2010 | December<br>31,<br>2009 | June 30,<br>2009 |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|-------------------------|------------------|
| <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) 15,823,371 shares, 15,804,562 shares and 15,789,759 shares outstanding, respectively | \$ 1,686         | \$ 1,686                | \$ 1,686         |
| Paid-in capital                                                                                                                                                              | 350,311          | 350,367                 | 350,851          |
| Retained earnings                                                                                                                                                            | 236,118          | 225,999                 | 221,248          |
| Treasury stock - 1,038,716 shares, 1,057,525 shares and 1,072,328 shares, respectively                                                                                       | (43,668 )        | (44,406 )               | (45,059 )        |
| Accumulated other comprehensive income                                                                                                                                       | 257              | 184                     | 113              |
| Capital stock expense                                                                                                                                                        | (328 )           | (328 )                  | (328 )           |
| Total CH Energy Group Common Shareholders' Equity                                                                                                                            | 544,376          | 533,502                 | 528,511          |
| Non-controlling interest in subsidiary                                                                                                                                       | 1,000            | 1,385                   | 1,258            |
| Total Equity                                                                                                                                                                 | 545,376          | 534,887                 | 529,769          |
| Preferred Stock of subsidiary                                                                                                                                                | 21,027           | 21,027                  | 21,027           |
| Long-term debt                                                                                                                                                               | 463,899          | 463,897                 | 463,896          |
| Total Capitalization                                                                                                                                                         | 1,030,302        | 1,019,811               | 1,014,692        |
| <b>Current Liabilities</b>                                                                                                                                                   |                  |                         |                  |
| Current maturities of long-term debt                                                                                                                                         | 24,000           | 24,000                  | -                |
| Notes payable                                                                                                                                                                | 3,000            | -                       | -                |
| Accounts payable                                                                                                                                                             | 40,732           | 43,197                  | 36,621           |
| Accrued interest                                                                                                                                                             | 6,169            | 6,067                   | 6,080            |
| Dividends payable                                                                                                                                                            | 8,787            | 8,777                   | 8,769            |
| Accrued vacation and payroll                                                                                                                                                 | 6,939            | 6,192                   | 7,528            |
| Customer advances                                                                                                                                                            | 14,951           | 22,450                  | 22,803           |
| Customer deposits                                                                                                                                                            | 8,512            | 8,579                   | 8,446            |
| Regulatory liabilities                                                                                                                                                       | 19,592           | 29,974                  | 32,475           |
| Fair value of derivative instruments                                                                                                                                         | 24,729           | 13,837                  | 14,677           |
| Accrued environmental remediation costs                                                                                                                                      | 8,398            | 17,399                  | 8,950            |
| Accrued income taxes                                                                                                                                                         | -                | -                       | 19,354           |
| Deferred revenues                                                                                                                                                            | 3,631            | 4,725                   | 6,642            |
| Other                                                                                                                                                                        | 13,892           | 17,814                  | 15,258           |
| Total Current Liabilities                                                                                                                                                    | 183,332          | 203,011                 | 187,603          |
| <b>Deferred Credits and Other Liabilities</b>                                                                                                                                |                  |                         |                  |
| Regulatory liabilities - OPEB                                                                                                                                                | 3,696            | 1,521                   | -                |
| Regulatory liabilities - other                                                                                                                                               | 88,086           | 91,457                  | 84,212           |
| Operating reserves                                                                                                                                                           | 4,413            | 4,756                   | 4,620            |
| Accrued environmental remediation costs                                                                                                                                      | 4,747            | 6,375                   | 17,564           |
| Accrued OPEB costs                                                                                                                                                           | 44,879           | 46,241                  | 54,298           |
| Accrued pension costs                                                                                                                                                        | 125,912          | 152,383                 | 161,712          |
| Other                                                                                                                                                                        | 13,726           | 14,245                  | 12,104           |
| Total Deferred Credits and Other Liabilities                                                                                                                                 | 285,459          | 316,978                 | 334,510          |
| Accumulated Deferred Income Tax                                                                                                                                              | 186,610          | 158,083                 | 164,188          |

Commitments and Contingencies

|                                      |             |             |             |
|--------------------------------------|-------------|-------------|-------------|
| Total Capitalization and Liabilities | \$1,685,703 | \$1,697,883 | \$1,700,993 |
|--------------------------------------|-------------|-------------|-------------|

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 | Stock<br>Expense | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income |         | Total<br>Equity |
|                                                              | Shares<br>Issued                    | Amount   | Shares<br>Repurchased | Amount     |                    |                  |                      | /Non-controlling<br>(Loss) Interest             |         |                 |
| Balance at<br>December 31,<br>2008                           | 16,862,087                          | \$ 1,686 | (1,079,004 )          | \$(45,386) | \$350,873          | \$(328)          | \$216,634            | \$55                                            | \$1,448 | \$524,982       |
| Comprehensive<br>income:                                     |                                     |          |                       |            |                    |                  |                      |                                                 |         |                 |
| Net income                                                   |                                     |          |                       |            |                    |                  | 22,149               |                                                 | (190 )  | 21,959          |
| Dividends<br>declared on<br>Preferred Stock<br>of subsidiary |                                     |          |                       |            |                    |                  | (485 )               |                                                 |         | (485 )          |
| Change in fair<br>value:                                     |                                     |          |                       |            |                    |                  |                      |                                                 |         |                 |
| Derivative<br>instruments                                    |                                     |          |                       |            |                    |                  |                      | 58                                              |         | 58              |
| Dividends<br>declared on<br>common stock                     |                                     |          |                       |            |                    |                  | (17,050 )            |                                                 |         | (17,050 )       |
| Treasury shares<br>activity - net                            |                                     |          | 6,676                 | 327        | (22 )              |                  |                      |                                                 |         | 305             |
| Balance at June<br>30, 2009                                  | 16,862,087                          | \$ 1,686 | (1,072,328 )          | \$(45,059) | \$350,851          | \$(328)          | \$221,248            | \$113                                           | \$1,258 | \$529,769       |
| 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                                                   |                                     |          |                       |            |                    |                  | 27,688               |                                                 | (385 )  | 27,303          |
| Dividends<br>declared on<br>Preferred Stock<br>of subsidiary |                                     |          |                       |            |                    |                  | (485 )               |                                                 |         | (485 )          |
| Change in fair<br>value:                                     |                                     |          |                       |            |                    |                  |                      |                                                 |         |                 |
| Derivative<br>instruments                                    |                                     |          |                       |            |                    |                  |                      | 18                                              |         | 18              |
| Investments                                                  |                                     |          |                       |            |                    |                  |                      | (52 )                                           |         | (52 )           |
|                                                              |                                     |          |                       |            |                    |                  |                      | 107                                             |         | 107             |



Reclassification  
adjustments  
for losses  
recognized in  
net income

|                                    |            |         |              |  |            |           |           |           |       |           |           |
|------------------------------------|------------|---------|--------------|--|------------|-----------|-----------|-----------|-------|-----------|-----------|
| Dividends declared on common stock |            |         |              |  |            |           | (17,084 ) |           |       | (17,084 ) |           |
| Treasury shares activity - net     | 18,809     |         | 738          |  | (56 )      |           |           |           |       | 682       |           |
| Balance at June 30, 2010           | 16,862,087 | \$1,686 | (1,038,716 ) |  | \$(43,668) | \$350,311 | \$(328)   | \$236,118 | \$257 | \$1,000   | \$545,376 |

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>June 30, |            | Six Months Ended<br>June 30, |            |
|------------------------------------------------------------|--------------------------------|------------|------------------------------|------------|
|                                                            | 2010                           | 2009       | 2010                         | 2009       |
| Operating Revenues                                         |                                |            |                              |            |
| Electric                                                   | \$ 125,096                     | \$ 108,597 | \$ 271,058                   | \$ 265,350 |
| Natural gas                                                | 32,461                         | 31,056     | 101,548                      | 121,179    |
| Total Operating Revenues                                   | 157,557                        | 139,653    | 372,606                      | 386,529    |
| Operating Expenses                                         |                                |            |                              |            |
| Operation:                                                 |                                |            |                              |            |
| Purchased electricity and fuel used in electric generation | 52,649                         | 51,242     | 119,523                      | 141,765    |
| Purchased natural gas                                      | 14,754                         | 19,301     | 52,402                       | 84,126     |
| Other expenses of operation                                | 50,191                         | 44,390     | 107,894                      | 90,711     |
| Depreciation and amortization                              | 8,422                          | 7,989      | 16,836                       | 15,998     |
| Taxes, other than income tax                               | 10,462                         | 9,363      | 21,113                       | 19,330     |
| Total Operating Expenses                                   | 136,478                        | 132,285    | 317,768                      | 351,930    |
| Operating Income                                           | 21,079                         | 7,368      | 54,838                       | 34,599     |
| Other Income and Deductions                                |                                |            |                              |            |
| Interest on regulatory assets and other interest income    | 1,508                          | 1,866      | 2,633                        | 2,611      |
| Regulatory adjustments for interest costs                  | (107 )                         | (659 )     | (248 )                       | (1,188 )   |
| Other - net                                                | 144                            | (543 )     | (38 )                        | (373 )     |
| Total Other Income                                         | 1,545                          | 664        | 2,347                        | 1,050      |
| Interest Charges                                           |                                |            |                              |            |
| Interest on other long-term debt                           | 4,813                          | 4,568      | 9,586                        | 9,348      |
| Interest on regulatory liabilities and other interest      | 1,488                          | 1,323      | 3,151                        | 2,761      |
| Total Interest Charges                                     | 6,301                          | 5,891      | 12,737                       | 12,109     |
| Income Before Income Taxes                                 | 16,323                         | 2,141      | 44,448                       | 23,540     |
| Income Taxes                                               | 6,334                          | 924        | 17,814                       | 9,729      |
| Net Income                                                 | 9,989                          | 1,217      | 26,634                       | 13,811     |
| Dividends Declared on Cumulative Preferred Stock           | 242                            | 242        | 485                          | 485        |
| Income Available for Common Stock                          | \$ 9,747                       | \$ 975     | \$ 26,149                    | \$ 13,326  |

## CENTRAL HUDSON STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

(In Thousands)

| Three Months Ended<br>June 30, |      | Six Months Ended<br>June 30, |      |
|--------------------------------|------|------------------------------|------|
| 2010                           | 2009 | 2010                         | 2009 |

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|                            |          |          |           |           |
|----------------------------|----------|----------|-----------|-----------|
| Net Income                 | \$ 9,989 | \$ 1,217 | \$ 26,634 | \$ 13,811 |
| Other Comprehensive Income | -        | -        | -         | -         |
| Comprehensive Income       | \$ 9,989 | \$ 1,217 | \$ 26,634 | \$ 13,811 |

The Notes to Financial Statements are an integral part hereof.

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## CENTRAL HUDSON STATEMENT OF CASH FLOWS (UNAUDITED)

(In Thousands)

|                                                                                   | Six Months Ended June<br>30, |              |
|-----------------------------------------------------------------------------------|------------------------------|--------------|
|                                                                                   | 2010                         | 2009         |
| <b>Operating Activities:</b>                                                      |                              |              |
| Net income                                                                        | \$26,634                     | \$13,811     |
| Adjustments to reconcile net income to net cash provided by operating activities: |                              |              |
| Depreciation                                                                      | 16,105                       | 15,470       |
| Amortization                                                                      | 731                          | 528          |
| Deferred income taxes - net                                                       | 22,081                       | (13,394 )    |
| Bad debt expense                                                                  | 70                           | 5,122        |
| Pension expense                                                                   | 16,030                       | 6,352        |
| OPEB expense                                                                      | 3,729                        | 5,056        |
| Regulatory liability - rate moderation                                            | (9,948 )                     | -            |
| Revenue decoupling mechanism                                                      | (1,362 )                     | -            |
| Regulatory asset amortization                                                     | 2,825                        | 2,812        |
| Changes in operating assets and liabilities - net:                                |                              |              |
| Accounts receivable, unbilled revenues and other receivables                      | 7,719                        | 20,599       |
| Fuel, materials and supplies                                                      | 1,628                        | 7,946        |
| Special deposits and prepayments                                                  | 2,652                        | 1,261        |
| Prepaid income taxes                                                              | (4,363 )                     | -            |
| Accounts payable                                                                  | (1,086 )                     | (12,702 )    |
| Accrued income taxes and interest                                                 | 103                          | 15,974       |
| Customer advances                                                                 | (5,665 )                     | (2,985 )     |
| Pension plan contribution                                                         | (31,673 )                    | (6,850 )     |
| OPEB contribution                                                                 | (3,750 )                     | -            |
| Regulatory asset - storm deferral                                                 | (16,673 )                    | -            |
| Regulatory asset - MGP site remediation                                           | (7,858 )                     | (1,970 )     |
| Regulatory asset - PSC tax surcharge and general assessment                       | 482                          | -            |
| Deferred natural gas and electric costs                                           | 3,959                        | 30,912       |
| Other - net                                                                       | 5,232                        | 5,105        |
| Net cash provided by operating activities                                         | 27,602                       | 93,047       |
| <b>Investing Activities:</b>                                                      |                              |              |
| Additions to utility plant                                                        | (31,402 )                    | (60,389 )    |
| Other - net                                                                       | (2,811 )                     | (2,941 )     |
| Net cash used in investing activities                                             | (34,213 )                    | (63,330 )    |
| <b>Financing Activities:</b>                                                      |                              |              |
| Redemption of long-term debt                                                      | -                            | (20,000 )    |
| Borrowings (repayments) of short-term debt - net                                  | 3,000                        | (25,500 )    |
| Additional paid-in capital                                                        | -                            | 25,000       |
| Dividends paid on cumulative Preferred Stock                                      | (485 )                       | (485 )       |
| Other - net                                                                       | (101 )                       | (118 )       |
| Net cash provided by (used in) financing activities                               | 2,414                        | (21,103 )    |
| <b>Net Change in Cash and Cash Equivalents</b>                                    | <b>(4,197 )</b>              | <b>8,614</b> |

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|                                                 |       |          |
|-------------------------------------------------|-------|----------|
| Cash and Cash Equivalents - Beginning of Period | 4,784 | 2,455    |
| Cash and Cash Equivalents - End of Period       | \$587 | \$11,069 |

Supplemental Disclosure of Cash Flow Information:

|                                                        |         |          |
|--------------------------------------------------------|---------|----------|
| Interest paid                                          | \$9,779 | \$10,064 |
| Federal and state taxes paid                           | \$8,910 | \$7,417  |
| Additions to plant included in liabilities             | \$2,936 | \$5,113  |
| Regulatory asset - storm deferral costs in liabilities | \$2,770 | \$-      |

The Notes to Financial Statements are an integral part hereof.

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## CENTRAL HUDSON BALANCE SHEET (UNAUDITED)

(In Thousands)

|                                                                                                                                             | June 30,<br>2010 | December<br>31,<br>2009 | June 30,<br>2009 |
|---------------------------------------------------------------------------------------------------------------------------------------------|------------------|-------------------------|------------------|
| <b>ASSETS</b>                                                                                                                               |                  |                         |                  |
| Utility Plant                                                                                                                               |                  |                         |                  |
| Electric                                                                                                                                    | \$934,309        | \$908,807               | \$888,772        |
| Natural gas                                                                                                                                 | 286,016          | 281,139                 | 274,251          |
| Common                                                                                                                                      | 141,940          | 139,754                 | 137,619          |
| Gross Utility Plant                                                                                                                         | 1,362,265        | 1,329,700               | 1,300,642        |
| Less: Accumulated depreciation                                                                                                              | 387,556          | 375,434                 | 379,502          |
| Net                                                                                                                                         | 974,709          | 954,266                 | 921,140          |
| Construction work in progress                                                                                                               | 54,176           | 58,120                  | 57,358           |
| Net Utility Plant                                                                                                                           | 1,028,885        | 1,012,386               | 978,498          |
| Non-Utility Property and Plant                                                                                                              | 681              | 681                     | 441              |
| Less: Accumulated depreciation                                                                                                              | 34               | 33                      | 31               |
| Net Non-Utility Property and Plant                                                                                                          | 647              | 648                     | 410              |
| Current Assets                                                                                                                              |                  |                         |                  |
| Cash and cash equivalents                                                                                                                   | 587              | 4,784                   | 11,069           |
| Accounts receivable from customers - net of allowance for doubtful accounts of \$5.8 million, \$5.8 million and \$5.1 million, respectively | 60,492           | 68,328                  | 64,420           |
| Accrued unbilled utility revenues                                                                                                           | 9,132            | 14,159                  | 8,542            |
| Other receivables                                                                                                                           | 4,397            | 3,025                   | 2,774            |
| Fuel, materials and supplies - at average cost                                                                                              | 19,677           | 21,305                  | 23,169           |
| Regulatory assets                                                                                                                           | 68,881           | 59,993                  | 35,601           |
| Prepaid income tax                                                                                                                          | 15,069           | 10,706                  | -                |
| Fair value of derivative instruments                                                                                                        | 1,110            | 393                     | 500              |
| Special deposits and prepayments                                                                                                            | 15,700           | 18,304                  | 17,363           |
| Accumulated deferred income tax                                                                                                             | -                | -                       | 19,033           |
| Total Current Assets                                                                                                                        | 195,045          | 200,997                 | 182,471          |
| Deferred Charges and Other Assets                                                                                                           |                  |                         |                  |
| Regulatory assets - pension plan                                                                                                            | 151,589          | 168,705                 | 181,083          |
| Regulatory assets - OPEB                                                                                                                    | -                | -                       | 7,682            |
| Regulatory assets - other                                                                                                                   | 101,944          | 83,691                  | 93,831           |
| Unamortized debt expense                                                                                                                    | 5,000            | 5,094                   | 4,937            |
| Other investments                                                                                                                           | 11,735           | 10,543                  | 9,374            |
| Other                                                                                                                                       | 2,936            | 3,536                   | 2,148            |
| Total Deferred Charges and Other Assets                                                                                                     | 273,204          | 271,569                 | 299,055          |
| Total Assets                                                                                                                                | \$1,497,781      | \$1,485,600             | \$1,460,434      |

The Notes to Financial Statements are an integral part hereof.



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

(In Thousands)

|                                                                                                     | June 30,<br>2010 | December<br>31,<br>2009 | June 30,<br>2009 |
|-----------------------------------------------------------------------------------------------------|------------------|-------------------------|------------------|
| <b>CAPITALIZATION AND LIABILITIES</b>                                                               |                  |                         |                  |
| Capitalization                                                                                      |                  |                         |                  |
| 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                                                                                   | 176,899          | 150,750                 | 132,270          |
| Capital stock expense                                                                               | (4,961 )         | (4,961 )                | (4,961 )         |
| Total Equity                                                                                        | 456,229          | 430,080                 | 411,600          |
| Cumulative Preferred Stock not subject to mandatory redemption                                      | 21,027           | 21,027                  | 21,027           |
| Long-term debt                                                                                      | 413,899          | 413,897                 | 413,896          |
| Total Capitalization                                                                                | 891,155          | 865,004                 | 846,523          |
| Current Liabilities                                                                                 |                  |                         |                  |
| Current maturities of long-term debt                                                                | 24,000           | 24,000                  | -                |
| Notes payable                                                                                       | 3,000            | -                       | -                |
| Accounts payable                                                                                    | 35,271           | 32,069                  | 30,332           |
| Accrued interest                                                                                    | 5,740            | 5,637                   | 5,559            |
| Dividends payable - Preferred Stock                                                                 | 242              | 242                     | 242              |
| Accrued vacation and payroll                                                                        | 5,121            | 5,046                   | 4,694            |
| Customer advances                                                                                   | 9,337            | 15,002                  | 6,589            |
| Customer deposits                                                                                   | 8,445            | 8,504                   | 8,332            |
| Regulatory liabilities                                                                              | 19,592           | 29,974                  | 32,475           |
| Fair value of derivative instruments                                                                | 24,729           | 13,553                  | 14,774           |
| Accrued environmental remediation costs                                                             | 8,102            | 16,982                  | 8,819            |
| Accrued income taxes                                                                                | -                | -                       | 16,397           |
| Accumulated deferred income tax                                                                     | 1,078            | 1,883                   | -                |
| Other                                                                                               | 8,588            | 8,761                   | 7,406            |
| Total Current Liabilities                                                                           | 153,245          | 161,653                 | 135,619          |
| Deferred Credits and Other Liabilities                                                              |                  |                         |                  |
| Regulatory liabilities - OPEB                                                                       | 3,696            | 1,521                   | -                |
| Regulatory liabilities - other                                                                      | 88,086           | 91,457                  | 84,212           |
| Operating reserves                                                                                  | 3,162            | 3,503                   | 3,629            |
| Accrued environmental remediation costs                                                             | 1,546            | 3,248                   | 16,383           |
| Accrued OPEB costs                                                                                  | 44,879           | 46,241                  | 54,298           |
| Accrued pension costs                                                                               | 125,912          | 152,383                 | 161,712          |
| Other                                                                                               | 12,893           | 13,495                  | 11,421           |
| Total Deferred Credits and Other Liabilities                                                        | 280,174          | 311,848                 | 331,655          |
| Accumulated Deferred Income Tax                                                                     | 173,207          | 147,095                 | 146,637          |



Commitments and Contingencies

|                                      |             |             |             |
|--------------------------------------|-------------|-------------|-------------|
| Total Capitalization and Liabilities | \$1,497,781 | \$1,485,600 | \$1,460,434 |
|--------------------------------------|-------------|-------------|-------------|

The Notes to Financial Statements are an integral part hereof.

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## CENTRAL HUDSON STATEMENT OF EQUITY (UNAUDITED)

(In Thousands, except share amounts)

|                                     | Common Stock     |           | Central Hudson Common Shareholders<br>Treasury Stock |        | Paid-In<br>Capital | Capital<br>Stock<br>Expense | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income<br>/ Total<br>Equity |            |
|-------------------------------------|------------------|-----------|------------------------------------------------------|--------|--------------------|-----------------------------|----------------------|----------------------------------------------------------------------|------------|
|                                     | Shares<br>Issued | Amount    | Shares<br>Repurchased                                | Amount |                    |                             |                      | (Loss)                                                               |            |
| Balance at<br>December 31,<br>2008  | 16,862,087       | \$ 84,311 | -                                                    | \$ -   | \$ 174,980         | \$ (4,961)                  | \$ 118,944           | \$ -                                                                 | \$ 373,274 |
| Net income                          |                  |           |                                                      |        |                    |                             | 13,811               |                                                                      | 13,811     |
| Dividends<br>declared:              |                  |           |                                                      |        |                    |                             |                      |                                                                      |            |
| On cumulative<br>Preferred<br>Stock |                  |           |                                                      |        |                    |                             | (485 )               |                                                                      | (485 )     |
| Additional<br>Paid-In<br>Capital    |                  |           |                                                      |        | 25,000             |                             |                      |                                                                      | 25,000     |
| Balance at<br>June 30, 2009         | 16,862,087       | \$ 84,311 | -                                                    | \$ -   | \$ 199,980         | \$ (4,961)                  | \$ 132,270           | \$ -                                                                 | \$ 411,600 |
| Balance at<br>December 31,<br>2009  | 16,862,087       | \$ 84,311 | -                                                    | \$ -   | \$ 199,980         | \$ (4,961)                  | \$ 150,750           | \$ -                                                                 | \$ 430,080 |
| Net income                          |                  |           |                                                      |        |                    |                             | 26,634               |                                                                      | 26,634     |
| Dividends<br>declared:              |                  |           |                                                      |        |                    |                             |                      |                                                                      |            |
| On cumulative<br>Preferred<br>Stock |                  |           |                                                      |        |                    |                             | (485 )               |                                                                      | (485 )     |
| Balance at<br>June 30, 2010         | 16,862,087       | \$ 84,311 | -                                                    | \$ -   | \$ 199,980         | \$ (4,961)                  | \$ 176,899           | \$ -                                                                 | \$ 456,229 |

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”) and CH-Lyonsdale, LLC (“CH-Lyonsdale”), and its majority owned subsidiaries Lyonsdale Biomass, LLC (“Lyonsdale”) and 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 Lyonsdale and Shirley Delaware. 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, 2009 (the “Corporations’ 10-K Annual Report”).

CH Energy Group’s and Central Hudson’s balance sheet as of June 30, 2009 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

On December 11, 2009, Griffith divested its operations in certain geographic locations. CH Energy Group has reported the prior period results of these operations in the discontinued operations section of CH Energy Group's Consolidated Statement of Income. For more information, see Note 5 – "Acquisitions, Divestitures and Investments."

Certain amounts in the 2009 Financial Statements have been reclassified to conform to the 2010 presentation.

## Revenue Recognition

CH Energy Group's deferred revenue balances as of June 30, 2010, December 31, 2009 and June 30, 2009 were \$3.6 million, \$4.7 million and \$6.6 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).

## Fuel, Materials &amp; Supplies

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

## CH Energy Group

|                                  | June 30,<br>2010 | December<br>31,<br>2009 | June 30,<br>2009 |
|----------------------------------|------------------|-------------------------|------------------|
| Natural gas                      | \$9,786          | \$12,020                | \$13,124         |
| Petroleum products and propane   | 1,515            | 2,583                   | 1,938            |
| Fuel used in electric generation | 826              | 480                     | 751              |
| Materials and supplies           | 10,279           | 9,758                   | 12,077           |
| Total                            | \$22,406         | \$24,841                | \$27,890         |

## Central Hudson

|                                  | June 30,<br>2010 | December<br>31,<br>2009 | June 30,<br>2009 |
|----------------------------------|------------------|-------------------------|------------------|
| Natural gas                      | \$9,786          | \$12,020                | \$13,124         |
| Petroleum products and propane   | 525              | 547                     | 531              |
| Fuel used in electric generation | 293              | 308                     | 334              |
| Materials and supplies           | 9,073            | 8,430                   | 9,180            |
| Total                            | \$19,677         | \$21,305                | \$23,169         |

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## 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. 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 \$46.6 million, \$47.0 million, and \$48.0 million of net cost of removal as regulatory liabilities as of June 30, 2010, December 31, 2009, and June 30, 2009, respectively.

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

## 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 June |        | Six Months Ended June 30, |        |
|-------------------------|--------|---------------------------|--------|
| 30,                     |        | 2010                      | 2009   |
| 2010                    | 2009   | 2010                      | 2009   |
| 137,793                 | 51,974 | 137,793                   | 52,497 |

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 June |        | Six Months Ended June 30, |        |
|-------------------------|--------|---------------------------|--------|
| 30,                     |        | 2010                      | 2009   |
| 2010                    | 2009   | 2010                      | 2009   |
| 35,980                  | 18,420 | 35,980                    | 18,420 |

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

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## 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                                                      | Maximum<br>Potential<br>Payments | Outstanding<br>Liabilities(1) |
|------------------------------------------------------------------------------|----------------------------------|-------------------------------|
| Heating oil, propane, other petroleum products, weather and commodity hedges | \$ 31,250                        | \$ 3,601                      |
| Certain equipment supply and construction agreements                         | \$ 27,764                        | \$ -                          |

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

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

## 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 as of June 30, 2010, Central Hudson would be able to pay a maximum of \$34.4 million in dividends to CH Energy Group without violating the restrictions by the PSC. 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. CH Energy Group's other subsidiaries do not have express restrictions on their ability to pay dividends.

On June 17, 2010, the Board of Directors of CH Energy Group declared a quarterly dividend of \$0.54 per share, payable August 2, 2010, to shareholders of record as of July 9, 2010.

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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):

|                                                             | June 30,<br>2010  | December<br>31,<br>2009 | June 30,<br>2009  |
|-------------------------------------------------------------|-------------------|-------------------------|-------------------|
| <b>Regulatory Assets (Debits):</b>                          |                   |                         |                   |
| Current:                                                    |                   |                         |                   |
| Deferred purchased electric and natural gas costs           | \$ 23,651         | \$ 27,610               | \$ 16,682         |
| Deferred unrealized losses on derivatives                   | 23,619            | 13,160                  | 14,274            |
| PSC tax surcharge and assessments                           | 10,975            | 11,186                  | -                 |
| Revenue decoupling mechanism ("RDM")                        | 5,793             | 5,121                   | -                 |
| Residual natural gas deferred balances                      | 4,554             | 2,825                   | 4,554             |
| Other                                                       | 289               | 91                      | 91                |
|                                                             | 68,881            | 59,993                  | 35,601            |
| Long-term:                                                  |                   |                         |                   |
| Deferred pension costs                                      | 151,589 (1)       | 168,705                 | 181,083 (2)       |
| Carrying charges - pension reserve                          | - (1)             | 1,297                   | - (2)             |
| Deferred costs - MGP site remediation                       | 12,251            | 20,530                  | 25,202 (2)        |
| Deferred OPEB costs                                         | -                 | -                       | 7,682 (2)         |
| Deferred debt expense on re-acquired debt                   | 4,623             | 4,874                   | 5,146             |
| Deferred Medicare subsidy taxes                             | 6,442             | -                       | -                 |
| Residual natural gas deferred balances and carrying charges | 15,617 (1)        | 17,583                  | 21,972 (2)        |
| Income taxes recoverable through future rates               | 33,122 (1)        | 28,658                  | 33,835 (2)        |
| Uncollectible deferral                                      | 2,605 (1)         | 3,360                   | -                 |
| Deferred storm costs and carrying charges                   | 19,701            | -                       | - (2)             |
| Other                                                       | 7,583 (1)         | 7,389                   | 7,676 (2)         |
|                                                             | 253,533           | 252,396                 | 282,596           |
| <b>Total Regulatory Assets</b>                              | <b>\$ 322,414</b> | <b>\$ 312,389</b>       | <b>\$ 318,197</b> |
| <b>Regulatory Liabilities (Credits):</b>                    |                   |                         |                   |
| Current:                                                    |                   |                         |                   |
| Excess electric depreciation reserve                        | \$ 12,177         | \$ 19,296               | \$ 20,000         |
| Gas costs deferred - GSC                                    | -                 | -                       | 5,663             |
| Income taxes refundable through future rates                | 5,600             | 5,456                   | 4,912             |
| Deferred unbilled gas revenues                              | 1,815             | 5,222                   | 1,900             |
|                                                             | 19,592            | 29,974                  | 32,475            |
| Long-term:                                                  |                   |                         |                   |
| Customer benefit fund                                       | 3,734             | 3,792                   | 4,067             |
| Deferred cost of removal                                    | 46,610            | 46,955                  | 48,026            |
| Excess electric depreciation reserve                        | 4,521             | 12,965                  | 9,691             |
| Income taxes refundable through future rates                | 25,832 (1)        | 18,611                  | 18,472 (2)        |
| Deferred OPEB costs                                         | 3,696 (1)         | 1,521                   | - (2)             |
| Carrying charges - OPEB reserve                             | - (1)             | 1,469                   | - (2)             |
| Other                                                       | 7,389 (1)         | 7,665                   | 3,956 (2)         |

|                              |            |            |            |
|------------------------------|------------|------------|------------|
|                              | 91,782     | 92,978     | 84,212     |
| Total Regulatory Liabilities | \$ 111,374 | \$ 122,952 | \$ 116,687 |
| Net Regulatory Assets        | \$ 211,040 | \$ 189,437 | \$ 201,510 |

- (1) Central Hudson offset all or a portion of certain regulatory assets and liabilities, including full offset of the June 30, 2010 balances for Carrying charges - OPEB reserve, Carrying charges - pension reserve, in accordance with the PSC prescribed 2010 Rate Order ("2010 Rate Order") issued on June 18, 2010.
- (2) Central Hudson offset all or a portion of certain regulatory assets and liabilities, including full offset of the June 30, 2009 balances for Carrying charges - OPEB reserve, Carrying charges - pension reserve and December 2008 Storm costs, in accordance with the PSC prescribed 2009 Rate Order ("2009 Rate Order") issued on June 26, 2009.



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The significant regulatory assets and liabilities include:

**Uncollectible Deferral:** On May 14, 2010, the PSC issued an Order approving Central Hudson's deferral of \$2.3 million incremental electric bad debt expense for the rate year ended June 30, 2009 and \$1.5 million incremental gas uncollectible expense for the calendar year ended December 31, 2009. This Order included a modification to time period in the requested incremental gas uncollectible deferral from a rate year basis as requested and previously deferred to a calendar year basis consistent with Case 09-M-0140. As a result, Central Hudson recognized an additional \$1.1 million of deferred uncollectible expense in the current year. These deferrals, as well as the previously approved deferred uncollectible amounts accumulated in this regulatory asset balance as of June 30, 2010, were included for full offset in accordance with the PSC prescribed 2010 Rate Order issued on June 18, 2010. On June 30, 2010, Central Hudson recorded an additional \$2.6 million of incremental electric uncollectible expense for the rate year ended June 30, 2010 and expects to file a petition for approval in the third quarter of 2010. The amount deferred was calculated based on the methodology established in prior approved orders and Management believes the incremental expense meets the PSC criteria.

**Storm Costs:** In late February 2010, Central Hudson's service territory experienced two significant snow storms disrupting service to approximately 210,000 customers. The \$19.4 million deferred was calculated based on the methodology established in prior approved orders and Management believes that the restoration costs incurred meet the PSC criteria and are probable of future recovery in rates.

**Deferred Medicare Subsidy Taxes:** The Patient Protection and Affordable Care Act signed into law on March 23, 2010, contains a provision which changes the tax treatment related to the Retiree Drug Subsidy benefit under the Medicare Prescription Drug, Improvement and Modernization Act (under Medicare Part D). This change reduces the employer's deduction for the costs of health care for retirees by the amount of Retiree Drug Subsidy payments received. As a result, the deductible temporary difference and any related deferred tax asset associated with the benefit plan were reduced. Under the PSC policy regarding Medicare Act Effects, cost savings and income tax effects related to the Medicare Prescription Drug, Improvement and Modernization Act are deferred for future recovery from or refund to customers resulting in a new regulatory asset of \$6.4 million for the reduction in deferred taxes.

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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      | Derivatives and Hedging (Topic 815)                 | ASU No. 2010-11      | Scope Exception Related to Embedded Credit Derivatives | Mar-10      | Jul-10         |

## Impact Key:

(1) No anticipated impact on the financial condition, results of operations and cash flows of CH Energy Group and its subsidiaries upon future adoption.

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## NOTE 4 – Income Tax

As there are no uncertain tax positions, no interest or penalties have been recorded in the financial statements. CH Energy Group and its subsidiaries file a consolidated Federal and New York State income tax return, which represents the major tax jurisdictions of CH Energy Group.

| Jurisdiction   | Tax Years Under Audit | Tax Years Open for Audit |
|----------------|-----------------------|--------------------------|
| Federal        | 2007 and 2008         | 2006                     |
| New York State | None                  | 2006, 2007 and 2008      |

## 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>June 30, |            | Six Months Ended<br>June 30, |           |
|---------------------------------------------------|--------------------------------|------------|------------------------------|-----------|
|                                                   | 2010                           | 2009       | 2010                         | 2009      |
| Net income (loss) attributable to CH Energy Group | \$6,765                        | \$(1,457 ) | \$27,203                     | \$21,664  |
| Preferred Stock dividends of Central Hudson       | 242                            | 242        | 485                          | 485       |
| Non-controlling interest in subsidiary            | (419 )                         | (157 )     | (385 )                       | (190 )    |
| Federal income tax                                | (859 )                         | (362 )     | (4,727 )                     | 23,080    |
| State income tax                                  | (776 )                         | (459 )     | (1,501 )                     | 4,394     |
| Deferred federal income tax                       | 4,820                          | 83         | 21,118                       | (12,053 ) |
| Deferred state income tax                         | 836                            | 30         | 3,164                        | (1,596 )  |
| Income (loss) before taxes                        | \$10,609                       | \$(2,080 ) | \$45,357                     | \$35,784  |
| Computed federal tax at 35% statutory rate        | \$3,713                        | \$(728 )   | \$15,875                     | \$12,524  |
| State income tax net of federal tax benefit       | 248                            | (279 )     | 2,022                        | 807       |
| Depreciation flow-through                         | 643                            | 756        | 1,309                        | 1,528     |
| Cost of Removal                                   | (369 )                         | (313 )     | (735 )                       | (625 )    |
| Production tax credits                            | (75 )                          | (240 )     | (136 )                       | (563 )    |
| Other                                             | (139 )                         | 96         | (281 )                       | 154       |
| Total income tax                                  | \$4,021                        | \$(708 )   | \$18,054                     | \$13,825  |
| Effective tax rate - federal                      | 37.3                           | % 13.4     | % 36.1                       | % 30.8    |
| Effective tax rate - state                        | 0.6                            | % 20.6     | % 3.7                        | % 7.8     |
| Effective tax rate - combined                     | 37.9                           | % 34.0     | % 39.8                       | % 38.6    |

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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<br>June 30, |         | Six Months Ended<br>June 30, |           |
|---------------------------------------------|--------------------------------|---------|------------------------------|-----------|
|                                             | 2010                           | 2009    | 2010                         | 2009      |
| Net income                                  | \$9,989                        | \$1,217 | \$26,634                     | \$13,811  |
| Federal income tax                          | 1,703                          | 863     | (3,398 )                     | 19,110    |
| State income tax                            | 82                             | 111     | (868 )                       | 4,013     |
| Deferred federal income tax                 | 3,953                          | (56 )   | 19,394                       | (11,857 ) |
| Deferred state income tax                   | 596                            | 6       | 2,686                        | (1,537 )  |
| Income before taxes                         | \$16,323                       | \$2,141 | \$44,448                     | \$23,540  |
| Computed federal tax at 35% statutory rate  | \$5,713                        | \$749   | \$15,557                     | \$8,239   |
| State income tax net of federal tax benefit | 649                            | 78      | 2,121                        | 1,072     |
| Depreciation flow-through                   | 643                            | 756     | 1,309                        | 1,528     |
| Cost of Removal                             | (369 )                         | (313 )  | (735 )                       | (625 )    |
| Other                                       | (302 )                         | (346 )  | (438 )                       | (485 )    |
| Total income tax                            | \$6,334                        | \$924   | \$17,814                     | \$9,729   |
| Effective tax rate - federal                | 34.7                           | % 37.7  | % 36.0                       | % 30.8    |
| Effective tax rate - state                  | 4.2                            | % 5.5   | % 4.1                        | % 10.5    |
| Effective tax rate - combined               | 38.9                           | % 43.2  | % 40.1                       | % 41.3    |

## NOTE 5 – Acquisitions, Divestitures and Investments

## Acquisitions and Divestitures

During the six months ended June 30, 2010, CH Energy Group made no acquisitions or divestitures.

As a result of the December 11, 2009 divestiture of approximately 43% of Griffith's assets, consisting of its operations in Rhode Island, New York, New Jersey, Connecticut, Massachusetts and Pennsylvania, income from discontinued operations is separately stated in the results of operations for the three and six months ended June 30, 2009. The table below summarizes financial results of the discontinued operations (In Thousands):

|                                                           | Three<br>Months<br>Ended<br>June 30,<br>2009 | Six Months<br>Ended<br>June 30,<br>2009 |
|-----------------------------------------------------------|----------------------------------------------|-----------------------------------------|
| Revenues from discontinued operations                     | \$21,611                                     | \$77,988                                |
| (Loss)/income from discontinued operations before tax     | (656 )                                       | 6,825                                   |
| Income tax (benefit)/expense from discontinued operations | (272 )                                       | 2,832                                   |

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## Investments

CHEC's current investments at June 30, 2010 include the following:

| CHEC Investment          | Description                                                                                            |
|--------------------------|--------------------------------------------------------------------------------------------------------|
| Griffith Energy Services | 100% controlling interest in a fuel distribution business                                              |
| Lyonsdale                | 75% controlling interest in a wood-fired biomass electric generating plant                             |
| CH-Greentree             | 100% equity interest in a molecular gate used to remove nitrogen from landfill gas                     |
| CH-Auburn                | 100% equity interest in an electric generating plant that utilizes landfill gas to produce electricity |
| Cornhusker Holdings      | 12% equity interest plus subordinated debt investment in an operating corn-ethanol plant               |
| CH-Community Wind        | 50% equity interest in a joint venture that owns 18% interest in two operating wind projects           |
| CH Shirley               | 100% ownership of CH Shirley, which owns 90% controlling interest in a wind project in construction    |
| Other                    | Other renewable energy projects and partnerships and an energy sector venture capital fund             |

CHEC holds a 12% interest in preferred equity units plus subordinated notes issued by Cornhusker Holdings. Cornhusker Holdings is the owner of Cornhusker Energy Lexington, LLC ("CEL"), a corn-ethanol production facility located in Nebraska that began operation as of the end of January 2006. This investment is accounted for under the equity method. As of June 30, 2010, CHEC's total investment in Cornhusker consisted of subordinated notes totaling \$10.2 million, including interest, and an equity investment of \$1.5 million. In response to the continuation of lower than expected margins, Management stopped accruing interest income on the subordinated debt in the third quarter of 2009, and will record such interest only when paid. CEL has not been making interest payments to CHEC. In accordance with the subordinated note agreement, CEL has the right to accrue unpaid interest and add it to the value of the notes. The recoverability of the Company's total investment in Cornhusker Holdings is predicated on CEL achieving sufficient positive cash flow to repay the notes. If CEL does not achieve sufficient positive cash flow, the investment and notes may become impaired. CEL was obligated as part of its senior note agreement to complete expansion of plant capacity and output from 40 million gallons per year to 57.5 million gallons per year by December 31, 2009. A waiver was obtained from the senior lender in the second quarter of 2010 allowing the plant to operate at its current capacity without requiring that any further expansion be undertaken to achieve the 57.5 million gallon requirement. CEL is current on all payments of principal and interest due under the senior note agreement and is in compliance with all other terms of the senior note agreement. Management believes CHEC's investment in Cornhusker Holdings is not impaired as of June 30, 2010 based on Management's intent and ability to hold the investments until fully recovered as well as an analysis of forecasted cash flows. For the six months ended June 30, 2010, CEL did not achieve its projected cash flow forecasts. If CEL's margins do not improve to at least the level indicated in its cash flow forecast, CHEC's investment could become impaired.

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During 2009, CH Shirley, a wholly owned subsidiary of CHEC, agreed to invest approximately \$50 million for a 90% controlling interest in a 20-megawatt wind farm facility being constructed in Wisconsin. As of June 30, 2010, CH Shirley had invested approximately \$16.8 million, which is included in the line "Other non-utility property & plant" on the CH Energy Group Consolidated Balance Sheet.

## NOTE 6 – Goodwill and Other Intangible Assets

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

|                               | June 30, 2010                                 |                             |                             | December 31, 2009           |                             | June 30, 2009               |                             |
|-------------------------------|-----------------------------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
|                               | Weighted<br>Average<br>Amortization<br>Period | 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                                            | \$33,745                    | \$ 20,082                   | \$33,745                    | \$ 18,957                   | \$55,165                    | \$ 24,087                   |
| Trademarks                    | -                                             | -                           | -                           | -                           | -                           | 2,956                       | 509                         |
| Covenants not to compete      | 5                                             | 100                         | 85                          | 100                         | 75                          | 1,605                       | 1,085                       |
| Total Amortizable Intangibles | 14.97                                         | \$33,845                    | \$ 20,167                   | \$33,845                    | \$ 19,032                   | \$59,726                    | \$ 25,681                   |

CH Energy Group  
(In Thousands)

|                      | Three Months Ended<br>June 30, |         | Six Months Ended June<br>30, |         |
|----------------------|--------------------------------|---------|------------------------------|---------|
|                      | 2010                           | 2009    | 2010                         | 2009    |
| Amortization Expense | \$567                          | \$1,039 | \$1,135                      | \$2,079 |

The estimated annual amortization expense for each of the next five years, assuming no new acquisitions or divestitures, is approximately \$2.2 million.

## NOTE 7 – Short-Term Borrowing Arrangements

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

|                       | June 30,<br>2010 | December<br>31, 2009 | June 30,<br>2009 |
|-----------------------|------------------|----------------------|------------------|
| Short-term borrowings | \$3,000          | \$-                  | \$-              |

## 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.

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There were no repurchases of preferred stock in the six months ended June 30, 2010 and 2009.

Central Hudson paid no common stock dividends in the six months ended June 30, 2010 and 2009.

NOTE 9 – Capitalization – Long-Term Debt

NYSERDA

Central Hudson's 1999 NYSERDA Bonds, Series B, C and D, totaling \$115.9 million, 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 the interest costs from Central Hudson's three series of variable rate 1999 NYSERDA Bonds. As a result, variations in interest rates on these bonds are deferred for future recovery from or refund to customers and Central Hudson does not expect variations in interest rates to have any adverse impact on earnings.

To mitigate the potential 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. Central Hudson's one year rate caps for the bond series, set at 3.0%, expired on March 31, 2010 and were replaced with three new rate caps. Effective April 1, 2010, the new rate caps are set at 5.0%. Two of the rate caps are one-year in length with notional amounts aligned to Series C and Series D. The third rate cap is two years in length with a notional amount aligned with Series B. 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.

Central Hudson is currently evaluating what actions, if any, it may take in the future in connection with its 1999 NYSERDA Bonds, Series B, C and D. 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.

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The following are the components of Central Hudson's net periodic benefit costs for its pension and OPEB plans for the three and six months ended June 30, 2010 (In Thousands):

|                                 | Pension Benefits<br>Three Months Ended<br>June 30, |          | OPEB(1)<br>Three Months Ended<br>June 30, |          |
|---------------------------------|----------------------------------------------------|----------|-------------------------------------------|----------|
|                                 | 2010                                               | 2009     | 2010                                      | 2009     |
| Service cost                    | \$2,272                                            | \$1,957  | \$531                                     | \$519    |
| Interest cost                   | 6,571                                              | 6,455    | 1,712                                     | 1,791    |
| Expected return on plan assets  | (6,225 )                                           | (4,969 ) | (1,267 )                                  | (1,271 ) |
| Amortization of:                |                                                    |          |                                           |          |
| Prior service cost (credit)     | 544                                                | 544      | (1,467 )                                  | (1,467 ) |
| Transitional obligation (asset) | -                                                  | -        | 641                                       | 641      |
| Recognized actuarial loss       | 7,377                                              | 6,350    | 2,073                                     | 2,209    |
| Net Periodic Benefit Cost       | \$10,539                                           | \$10,337 | \$2,223                                   | \$2,422  |

|                                 | Pension Benefits<br>Six Months Ended<br>June 30, |          | OPEB(1)<br>Six Months Ended<br>June 30, |          |
|---------------------------------|--------------------------------------------------|----------|-----------------------------------------|----------|
|                                 | 2010                                             | 2009     | 2010                                    | 2009     |
| Service cost                    | \$4,544                                          | \$3,914  | \$1,062                                 | \$1,038  |
| Interest cost                   | 13,142                                           | 12,910   | 3,424                                   | 3,582    |
| Expected return on plan assets  | (12,450 )                                        | (9,938 ) | (2,534 )                                | (2,542 ) |
| Amortization of:                |                                                  |          |                                         |          |
| Prior service cost (credit)     | 1,088                                            | 1,088    | (2,934 )                                | (2,934 ) |
| Transitional obligation (asset) | -                                                | -        | 1,282                                   | 1,282    |
| Recognized actuarial loss       | 14,754                                           | 12,700   | 4,146                                   | 4,418    |
| Net Periodic Benefit Cost       | \$21,078                                         | \$20,674 | \$4,446                                 | \$4,844  |

(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) at June 30, 2010, December 31, 2009 and June 30, 2009 was \$126.5 million, \$153.0 million and \$162.2 million, respectively. 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.



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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):

|                                                                         | June 30,<br>2010 | December<br>31,<br>2009 | June 30,<br>2009 |
|-------------------------------------------------------------------------|------------------|-------------------------|------------------|
| Prefunded (accrued) pension costs prior to funding status adjustment    | \$22,257         | \$11,661                | \$16,060         |
| Additional liability required                                           | (148,801 )       | (164,644 )              | (178,295 )       |
| Total accrued pension liability                                         | \$(126,544 )     | \$(152,983 )            | \$(162,235 )     |
| Total offset to additional liability - Regulatory assets - Pension Plan | \$148,801        | \$164,644               | \$178,295        |

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 six months ended June 30, 2010 and 2009 were \$31.4 million and \$6.6 million, respectively. The increase in year-over-year funding is primarily due to stronger than expected cash flows at the end of 2009, which enabled Central Hudson to accelerate its 2010 funding of the plan.

Employer contributions for OPEB totaled \$3.8 million during the six months ended June 30, 2010. There were no employer contributions for OPEB during the six months ended June 30, 2009.

Contribution levels for the 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.

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## 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. The asset allocation strategy employed in the Retirement Plan reflects Central Hudson's return objectives and what Management believes is an acceptable level of short-term volatility in the market value of the Retirement Plan assets in exchange for potentially higher long-term returns. Asset allocation targets, effective as of June 30, 2010, 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          | 53      | % | 58             | % | 63      | % |
| Debt Securities            | 37      | % | 42             | % | 47      | % |
| Alternative Investments(1) | -       | % | -              | % | 5       | % |

(1) Includes Real Estate

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

During the first quarter of 2010, Management began a transition to a long-duration investment strategy for its pension plan assets. Management's intent in making the change is 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. The transition is expected to take between two and three years and result in changing the asset allocation to a 50/50 split between debt and equity. In addition, this policy is intended to:

- Achieve a rate of return for the Plan over the long term that contributes to meeting the Plan's current and future obligations, including actuarial interest and benefit payment obligations.
- Earn long-term returns from capital appreciation and current income that at least keep pace with inflation over the long term by meeting or exceeding the benchmark index net of fees as described below.

There are no assurances that the Retirement Plan's return objectives will be achieved.

The targeted benchmark index over the next two to three years 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.

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## 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<br>Fair Value | Performance Shares<br>Granted | Performance Shares<br>Outstanding at<br>June 30, 2010 |
|------------------|--------------------------|-------------------------------|-------------------------------------------------------|
| January 24, 2008 | \$ 35.76                 | 33,440                        | 31,900                                                |
| January 26, 2009 | \$ 49.29                 | 36,730                        | 36,730                                                |
| February 8, 2010 | \$ 38.62                 | 48,740                        | 48,740                                                |

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.

In May 2010, performance shares earned as of December 31, 2009 for the award cycle with a grant date of January 25, 2007 were issued to participants. Those recipients electing not to defer this compensation under the CH Energy Group Directors and Executives Deferred Compensation Plan received shares issued from CH Energy Group's treasury stock. A total of 9,983 shares were issued from CH Energy Group's treasury stock in May 2010. Additionally, due to the retirement of one of Central Hudson's executive officers on January 1, 2010, a pro-rated number of shares under the January 24, 2008 and January 26, 2009 grants were paid to this individual on July 1, 2010. An additional 2,134 shares were issued from CH Energy Group's treasury stock on this date in satisfaction of these awards.

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## Restricted Shares and Restricted Stock Units

The following table summarizes information concerning restricted shares and stock units outstanding as of June 30, 2010:

| Grant Date        | Type of Award | Shares or Stock Units Granted | Grant Date Fair Value | Vesting Terms                     | Unvested Shares Outstanding at June 30, 2010 |
|-------------------|---------------|-------------------------------|-----------------------|-----------------------------------|----------------------------------------------|
| January 2, 2008   | Shares        | 10,000                        | \$ 44.32              | End of 3 years                    | 8,900 (1)                                    |
| January 2, 2008   | Shares        | 2,100                         | \$ 44.32              | Ratably over 3 years              | 700                                          |
| January 26, 2009  | Shares        | 2,930                         | \$ 49.29              | End of 3 years                    | 2,680 (2)                                    |
| October 1, 2009   | Shares        | 14,375                        | \$ 43.86              | Ratably over 5 years              | 14,375                                       |
| 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                    | 3,060                                        |
| February 10, 2010 | Shares        | 5,200                         | \$ 38.89              | End of 3 years                    | 5,200                                        |

- (1) 500 shares were forfeited upon resignation of the employee holding the shares and the vesting of 600 shares was accelerated upon a change in control for an individual resulting from the sale of certain assets of Griffith.
- (2) The vesting of 250 shares was accelerated upon a change in control for an individual resulting from the sale of certain assets of Griffith.

## Compensation Expense

The following table summarizes expense for equity-based compensation by award type for the three and six months ended June 30, 2010 and 2009 (In Thousands):

|                                   | Three Months Ended<br>June 30, |              | Six Months Ended<br>June 30, |        |
|-----------------------------------|--------------------------------|--------------|------------------------------|--------|
|                                   | 2010                           | 2009         | 2010                         | 2009   |
| Performance shares                | \$ 150                         | \$ 299       | \$ 754                       | \$ 495 |
| Restricted shares and stock units | \$ 133                         | not material | \$ 266                       | \$ 108 |

## 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. On an annual basis, the electricity purchased through the Entergy contract represents approximately 23% of Central Hudson's full-service customer requirements. For the six months ended June 30, 2010 and 2009, the energy supplied under this agreement cost approximately \$28.1 million and \$25.3 million, respectively. On June 30, 2010, Central Hudson entered into another agreement with Entergy Nuclear Power Marketing, LLC to purchase electricity (but not capacity) on a unit-contingent basis at defined prices from January 1, 2011 through December 31, 2013.

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.

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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 its own generating capacity, contracts with capacity providers, and purchases from the NYISO capacity market.

### Contingencies

#### City of Poughkeepsie

On January 1, 2001, a fire destroyed a multi-family residence on Taylor Avenue in the City of Poughkeepsie, New York, resulting in several deaths and damage to nearby residences. Eight separate lawsuits arising out of this incident have been commenced against Central Hudson and other defendants. The basis for the claimed liability of Central Hudson in these actions is that it was allegedly negligent in the supply of natural gas. The suits seek an aggregate of \$528 million in compensatory damages. Central Hudson has notified its insurance carrier, denied liability, and defended the lawsuits. On December 10, 2008, Central Hudson entered into a settlement agreement with the plaintiffs and one remaining defendant. Under the settlement agreement, Central Hudson has agreed to make payments to the plaintiffs that will not be material in the aggregate. The settlement agreement is subject to final approval by the Court.

### 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. Notwithstanding Central Hudson’s sale of the Danskammer Plant on January 30, 2001, Central Hudson could retain liability, depending on the type of remedy, if any, imposed in connection with this matter. 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. Central Hudson presently has insufficient information with which to predict the outcome of this matter.

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- Former Manufactured Gas Plant Facilities

Like most late 19th and early 20th century utilities in the Northeastern United States, 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 eight 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 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 DEC began making inquiries regarding a ninth site in May 2009. The status of the sites is as follows:

|    | Site                           | Status                                                                                                                                                                                                                                                                                                        |
|----|--------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| #1 | Beacon, NY                     | Interim Remediation work complete. Final Report approved by the DEC. A revised Site Management Plan was submitted by Central Hudson to the DEC on May 12, 2010. The property owner is finalizing a deed restriction for the property with the DEC.                                                            |
| #2 | Newburgh, NY                   | The DEC has approved the Construction Completion Report for the remediation that was completed at Area A of the site. Remediation is currently underway in Areas B and C, and is scheduled to be completed by the end of 2010. Site restoration work will be completed in the first half of 2011.             |
| #3 | Laurel Street Poughkeepsie, NY | Remediation work is complete. The Construction Completion Report was approved by the DEC on June 21, 2010. As requested by the DEC, fifteen additional monitoring wells were installed in the 1st quarter of 2010. The first quarterly groundwater-sampling event was conducted between April 29-May 4, 2010. |

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|    | Site                                      | Status                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
|----|-------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| #4 | North Water Street<br>Poughkeepsie,<br>NY | As requested by the DEC, additional land and river investigations were conducted during the week of April 5, of 2010. Monitoring for the Reactive Cap Pilot study is ongoing with removal of the cap planned for later this year.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| #5 | Kingston, NY                              | Additional land and river investigations have been approved by the DEC. The schedule for the upcoming Remedial Investigative ("RI") work is pending completion/approval of the RI Work Plan. 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 the Rondout Creek in front of the Kingston site. All tugs have been removed by the owner. There has previously been disagreement as to the overall responsibility for the "Dry Dock" which has sunk and resides at the bottom of the Rondout Creek waterway. We are currently involved in legal proceedings seeking to get the "Dry Dock" removed, and while responsibility for the "Dry Dock" appears to have been established as belonging to the private party, the outcome of the proceedings are uncertain. |
| #6 | Catskill, NY                              | Site investigation has been completed under the DEC-approved Brownfield Cleanup Agreement. A Remedial Investigation Final Report was submitted to the DEC on May 12, 2010. A remediation Alternatives Analysis is planned for the third and fourth quarters of 2010.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| #7 | Saugerties,<br>NY                         | This site has been removed from the DEC listing of sites in which Central Hudson has remedial responsibility.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| #8 | Bayeaux Street<br>Poughkeepsie,<br>NY     | Central Hudson does not believe it has any further liability for this site.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| #9 | Broad Street<br>Newburgh,<br>NY           | The DEC began making inquiries about this additional site in May 2009. Central Hudson does not believe it has any liability for this site and has responded to the DEC on June 22, 2009 confirming this position.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |

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 interim remediation work has been completed and the final report has been approved by the DEC. With regards to sites #7, 8, and 9, 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 liability for these sites.

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

| Site #  | Estimate   | Liability<br>Recorded as of<br>12/31/09 | Amounts<br>Spent in<br>2010(3) | Liability<br>Adjustment | Liability<br>Recorded as<br>of 6/30/10 | Current<br>Portion of<br>Liability at<br>6/30/10 | Long term<br>portion of<br>Liability at<br>6/30/10 |
|---------|------------|-----------------------------------------|--------------------------------|-------------------------|----------------------------------------|--------------------------------------------------|----------------------------------------------------|
| 2, 3(1) | \$ 44,700  | \$ 18,554                               | \$ 9,041                       | \$ (2,172)              | \$ 7,344                               | \$ 6,787                                         | \$ 557                                             |
| 4, 5,   |            |                                         |                                |                         |                                        |                                                  |                                                    |
| 6(2)    | 121,000    | 1,676                                   | 225                            | 833                     | 2,304                                  | 1,315                                            | 989                                                |
|         | \$ 165,700 | \$ 20,230                               | \$ 9,266                       | \$ (1,339)              | \$ 9,648                               | \$ 8,102                                         | \$ 1,546                                           |

(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) Amounts spent in 2010 as shown above do not include legal fees of approximately \$23K.

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.

Pursuant to the 2006 Rate Order, Central Hudson is 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 \$4.9 million and \$9.3 million in the three and six months ended June 30, 2010, respectively, related to site investigation and remediation for sites #2, 3, 4, 5 and 6. Based on the 2006 Rate Order, on July 1, 2007, Central Hudson started the recovery of a rate allowance for MGP Site Investigation and Remediation Costs. The 2009 Rate Order provided for an increase in this rate allowance to an amount of \$2.8 million during the July 2009 through June 2010 rate year. Additionally, the 2009 Rate Order authorized recovery of amounts spent over the rate allowance from a net electric regulatory liability balance and authorizes continued deferral for all other MGP site remediation expenditures. The total MGP Site Investigation and Remediation costs recovered from July 1, 2007 through June 30, 2010 was approximately \$13.2 million, with \$3.2 million recovered in the second quarter of 2010 totaling \$7.1 million.

recovered in 2010.

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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

In December 1977, Central Hudson purchased property at 610 Little Britain Road, New Windsor, New York. In 1992, the DEC informed Central Hudson that the DEC was preparing to conduct a Preliminary Site Assessment ("PSA") of the site, and in 1995, the DEC issued an Order of Consent in which Central Hudson agreed to conduct the PSA. In 2000, following completion of the PSA, 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). 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.

- Eltings Corners

Central Hudson owns and operates a maintenance and warehouse facility in Highland, 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.

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- Asbestos Litigation

As of June 30, 2010, of the 3,319 asbestos cases brought against Central Hudson, 1,186 remain pending. Of the cases no longer pending against Central Hudson, 1,981 have been dismissed or discontinued without payment by Central Hudson, and Central Hudson has settled 152 cases. Central Hudson is presently unable to assess the validity of the remaining asbestos lawsuits; accordingly, it cannot determine the ultimate liability relating to these cases. 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 six months ended June 30, 2010, Griffith spent approximately \$0.1 million on remediation efforts in Maryland, Virginia and Connecticut.

Griffith's reserve for environmental remediation is \$3.5 million as of June 30, 2010, of which \$0.3 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. The Company has reserved \$2.6 million for environmental remediation costs it may be obligated to pay based on its indemnification obligations under the sale agreement. Management believes this is the maximum amount Griffith is likely to be required to pay with respect to its indemnification obligations under the sale agreement.

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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.

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 June 30, 2010 |                            |           |                                           |              | Total      |
|---------------------------------------------------|----------------------------------|----------------------------|-----------|-------------------------------------------|--------------|------------|
|                                                   | Central Hudson<br>Electric       | Segments<br>Natural<br>Gas | Griffith  | Other<br>Businesses<br>and<br>Investments | Eliminations |            |
| Revenues from external customers                  | \$ 125,096                       | \$ 32,461                  | \$ 42,111 | \$ 2,109                                  | \$ -         | \$ 201,777 |
| Intersegment revenues                             | 1                                | 26                         | -         | -                                         | (27 )        | -          |
| Total revenues                                    | 125,097                          | 32,487                     | 42,111    | 2,109                                     | (27 )        | 201,777    |
| Operating income                                  | 16,135                           | 4,944                      | (2,170 )  | (1,689 )                                  | -            | 17,220     |
| Interest and investment income                    | 1,127                            | 381                        | -         | 723                                       | (718 ) (1)   | 1,513      |
| Interest charges                                  | 5,038                            | 1,263                      | 577       | 976                                       | (718 ) (1)   | 7,136      |
| Income before income taxes                        | 12,321                           | 4,002                      | (2,714 )  | (3,000 )                                  | -            | 10,609     |
| Net income (loss) attributable to CH Energy Group | 7,578                            | 2,169                      | (1,601 )  | (1,381 )                                  | -            | 6,765      |
| Segment assets at June 30                         | 1,141,625                        | 356,156                    | 97,210    | 93,166                                    | (2,454 ) (2) | 1,685,703  |

(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 non-controlling owner's interest of \$1,000 related to Lyonsdale.

CH Energy Group Segment Disclosure  
(In Thousands)

|                                  | Three Months Ended June 30, 2009 |                            |           |                                           |              | Total      |
|----------------------------------|----------------------------------|----------------------------|-----------|-------------------------------------------|--------------|------------|
|                                  | Central Hudson<br>Electric       | Segments<br>Natural<br>Gas | Griffith  | Other<br>Businesses<br>and<br>Investments | Eliminations |            |
| Revenues from external customers | \$ 108,597                       | \$ 31,056                  | \$ 37,524 | \$ 1,442                                  | \$ -         | \$ 178,619 |
| Intersegment revenues            | 4                                | 34                         | -         | -                                         | (38 )        | -          |
| Total revenues                   | 108,601                          | 31,090                     | 37,524    | 1,442                                     | (38 )        | 178,619    |
| Operating income                 | 7,250                            | 118                        | (2,451 )  | (853 )                                    | -            | 4,064      |
| Interest and investment income   | 1,298                            | 568                        | -         | 1,628                                     | (1,144 ) (1) | 2,350      |
| Interest charges                 | 4,673                            | 1,218                      | 648       | 638                                       | (1,144 ) (1) | 6,033      |
| Income before income taxes       | 2,888                            | (747 )                     | (3,022 )  | (543 )                                    | -            | (1,424 )   |

|                        |           |         |          |     |        |          |               |
|------------------------|-----------|---------|----------|-----|--------|----------|---------------|
| Net income             |           |         |          |     |        |          |               |
| (loss) attributable    |           |         |          |     |        |          |               |
| to CH Energy Group     | 1,684     | (709 )  | (2,170 ) | (3) | (262 ) | -        | (1,457 )      |
| Segment assets at June |           |         |          |     |        |          |               |
| 30                     | 1,082,953 | 377,481 | 174,158  |     | 67,622 | (1,221 ) | (2) 1,700,993 |

(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 non-controlling owner's interest of \$1,260 related to Lyonsdale.

(3) Includes loss from discontinued operations of \$(384).

Table of ContentsCH Energy Group Segment Disclosure  
(In Thousands)

|                                                   | Six Months Ended June 30, 2010 |            |            |                 |              |            |
|---------------------------------------------------|--------------------------------|------------|------------|-----------------|--------------|------------|
|                                                   | Segments                       |            |            | Other           |              |            |
|                                                   | Central Hudson                 | Natural    | Griffith   | Businesses      | Eliminations | Total      |
|                                                   | Electric                       | Gas        |            | and Investments |              |            |
| Revenues from external customers                  | \$ 271,058                     | \$ 101,548 | \$ 126,578 | \$ 5,235        | \$ -         | \$ 504,419 |
| Intersegment revenues                             | 19                             | 201        | -          | -               | (220 )       | -          |
| Total revenues                                    | 271,077                        | 101,749    | 126,578    | 5,235           | (220 )       | 504,419    |
| Operating income                                  | 36,262                         | 18,576     | 5,173      | (1,503 )        | -            | 58,508     |
| Interest and investment income                    | 1,930                          | 703        | 1          | 1,359           | (1,353 ) (1) | 2,640      |
| Interest charges                                  | 10,133                         | 2,604      | 1,097      | 1,926           | (1,353 ) (1) | 14,407     |
| Income before income taxes                        | 27,928                         | 16,520     | 4,166      | (3,257 )        | -            | 45,357     |
| Net income (loss) attributable to CH Energy Group | 16,688                         | 9,461      | 2,458      | (1,404 )        | -            | 27,203     |
| Segment assets at June 30                         | 1,141,625                      | 356,156    | 97,210     | 93,166          | (2,454 ) (2) | 1,685,703  |

(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 non-controlling owner's interest of \$1,000 related to Lyonsdale.

CH Energy Group Segment Disclosure  
(In Thousands)

|                                            | Six Months Ended June 30, 2009 |            |            |                 |              |            |
|--------------------------------------------|--------------------------------|------------|------------|-----------------|--------------|------------|
|                                            | Segments                       |            |            | Other           |              |            |
|                                            | Central Hudson                 | Natural    | Griffith   | Businesses      | Eliminations | Total      |
|                                            | Electric                       | Gas        |            | and Investments |              |            |
| Revenues from external customers           | \$ 265,350                     | \$ 121,179 | \$ 110,532 | \$ 3,655        | \$ -         | \$ 500,716 |
| Intersegment revenues                      | 10                             | 252        | -          | -               | (262 )       | -          |
| Total revenues                             | 265,360                        | 121,431    | 110,532    | 3,655           | (262 )       | 500,716    |
| Operating income                           | 22,997                         | 11,602     | 7,494      | (1,129 )        | -            | 40,964     |
| Interest and investment income             | 1,649                          | 962        | 5          | 3,046           | (2,196 ) (1) | 3,466      |
| Interest charges                           | 9,553                          | 2,556      | 1,207      | 768             | (2,196 ) (1) | 11,888     |
| Income before income taxes                 | 13,840                         | 9,700      | 6,490      | (1,071 )        | -            | 28,959     |
| Net income attributable to CH Energy Group | 7,979                          | 5,347      | 7,856 (3)  | 482             | -            | 21,664     |



|                           |           |         |         |        |              |           |
|---------------------------|-----------|---------|---------|--------|--------------|-----------|
| Segment assets at June 30 | 1,082,953 | 377,481 | 174,158 | 67,622 | (1,221 ) (2) | 1,700,993 |
|---------------------------|-----------|---------|---------|--------|--------------|-----------|

(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 non-controlling owner's interest of \$1,260 related to Lyonsdale.

(3) Includes income from discontinued operations of \$3,993.

Table of ContentsCentral Hudson Segment Disclosure  
(In Thousands)

|                                   | Three Months Ended June 30, 2010 |             |              |            |
|-----------------------------------|----------------------------------|-------------|--------------|------------|
|                                   | Electric                         | Natural Gas | Eliminations | Total      |
| Revenues from external customers  | \$ 125,096                       | \$ 32,461   | \$ -         | \$ 157,557 |
| Intersegment revenues             | 1                                | 26          | (27 )        | -          |
| Total revenues                    | 125,097                          | 32,487      | (27 )        | 157,557    |
| Operating income                  | 16,135                           | 4,944       | -            | 21,079     |
| Interest and investment income    | 1,127                            | 381         | -            | 1,508      |
| Interest charges                  | 5,038                            | 1,263       | -            | 6,301      |
| Income before income taxes        | 12,321                           | 4,002       | -            | 16,323     |
| Income available for common stock | 7,578                            | 2,169       | -            | 9,747      |
| Segment assets at June 30         | 1,141,625                        | 356,156     | -            | 1,497,781  |

Central Hudson Segment Disclosure  
(In Thousands)

|                                   | Three Months Ended June 30, 2009 |             |              |            |
|-----------------------------------|----------------------------------|-------------|--------------|------------|
|                                   | Electric                         | Natural Gas | Eliminations | Total      |
| Revenues from external customers  | \$ 108,597                       | \$ 31,056   | \$ -         | \$ 139,653 |
| Intersegment revenues             | 4                                | 34          | (38 )        | -          |
| Total revenues                    | 108,601                          | 31,090      | (38 )        | 139,653    |
| Operating income                  | 7,250                            | 118         | -            | 7,368      |
| Interest and investment income    | 1,298                            | 568         | -            | 1,866      |
| Interest charges                  | 4,673                            | 1,218       | -            | 5,891      |
| Income before income taxes        | 2,888                            | (747 )      | -            | 2,141      |
| Income available for common stock | 1,684                            | (709 )      | -            | 975        |
| Segment assets at June 30         | 1,082,953                        | 377,481     | -            | 1,460,434  |

Central Hudson Segment Disclosure  
(In Thousands)

|                                   | Six Months Ended June 30, 2010 |             |              |            |
|-----------------------------------|--------------------------------|-------------|--------------|------------|
|                                   | Electric                       | Natural Gas | Eliminations | Total      |
| Revenues from external customers  | \$ 271,058                     | \$ 101,548  | \$ -         | \$ 372,606 |
| Intersegment revenues             | 19                             | 201         | (220 )       | -          |
| Total revenues                    | 271,077                        | 101,749     | (220 )       | 372,606    |
| Operating income                  | 36,262                         | 18,576      | -            | 54,838     |
| Interest and investment income    | 1,930                          | 703         | -            | 2,633      |
| Interest charges                  | 10,133                         | 2,604       | -            | 12,737     |
| Income before income taxes        | 27,928                         | 16,520      | -            | 44,448     |
| Income available for common stock | 16,688                         | 9,461       | -            | 26,149     |
| Segment assets at June 30         | 1,141,625                      | 356,156     | -            | 1,497,781  |

Central Hudson Segment Disclosure  
(In Thousands)

Six Months Ended June 30, 2009

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|                                   | Electric  | Natural Gas | Eliminations | Total     |
|-----------------------------------|-----------|-------------|--------------|-----------|
| Revenues from external customers  | \$265,350 | \$121,179   | \$ -         | \$386,529 |
| Intersegment revenues             | 10        | 252         | (262 )       | -         |
| Total revenues                    | 265,360   | 121,431     | (262 )       | 386,529   |
| Operating income                  | 22,997    | 11,602      | -            | 34,599    |
| Interest and investment income    | 1,649     | 962         | -            | 2,611     |
| Interest charges                  | 9,553     | 2,556       | -            | 12,109    |
| Income before income taxes        | 13,840    | 9,700       | -            | 23,540    |
| Income available for common stock | 7,979     | 5,347       | -            | 13,326    |
| Segment assets at June 30         | 1,082,953 | 377,481     | -            | 1,460,434 |

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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:

|                                        | % of Requirement Hedged |   |
|----------------------------------------|-------------------------|---|
| Central Hudson                         |                         |   |
| Open Electric Derivative Contracts:    |                         |   |
| 2009                                   | 24.8                    | % |
| July 2010 – December 2010(1)           | 29.5                    | % |
| 2011(1)                                | 21.6                    | % |
| 2012(1)                                | 22.1                    | % |
| Open Natural Gas Derivative Contracts: |                         |   |
| 2009                                   | 37.4                    | % |
| November 2010 – March 2011(1)          | 28.4                    | % |

(1) Projected coverage as of June 30, 2010.

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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 June 30, 2010, there were 13 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 June 30, 2010 if the contingent features were triggered, are described below.

Table of ContentsContingent Contracts  
(Dollars In Thousands)

| Triggering Event                                              | As of June 30, 2010                                             |                                    |                                                                                         |
|---------------------------------------------------------------|-----------------------------------------------------------------|------------------------------------|-----------------------------------------------------------------------------------------|
|                                                               | # 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                                                               | \$(22 )                            | \$(22 )                                                                                 |
| Credit Rating Downgrade (to below BBB-)                       | 8                                                               | 1,062                              | 1,062                                                                                   |
| Adequate Assurance(1)                                         | 1                                                               | (6,675 )                           | (6,175 )                                                                                |
| <b>Total Central Hudson</b>                                   | <b>10</b>                                                       | <b>(5,635 )</b>                    | <b>(5,135 )</b>                                                                         |
| <b>Griffith:</b>                                              |                                                                 |                                    |                                                                                         |
| Change in Ownership (CHEG ownership of CHEC falls below 51%)  | -                                                               | -                                  | -                                                                                       |
| Adequate Assurance(1)                                         | 3                                                               | 28                                 | 28                                                                                      |
| <b>Total Griffith</b>                                         | <b>3</b>                                                        | <b>28</b>                          | <b>28</b>                                                                               |
| <b>Total CH Energy Group</b>                                  | <b>13</b>                                                       | <b>\$(5,607 )</b>                  | <b>\$(5,107 )</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 June 30, 2010, Central Hudson had collateral of \$0.5 million posted against the fair value amount of derivatives under one of these agreements and Griffith had no collateral posted.

The fair value of CH Energy Group's and Central Hudson's derivative instruments and their location in the respective Balance Sheets are described below, followed by a description 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

On June 30, 2010, CH Energy Group and Central Hudson each reported one major category of assets and liabilities at fair value: derivative contracts. Derivative contracts are measured on a recurring basis. The fair value of CH Energy Group's and Central Hudson's reportable assets and liabilities at June 30, 2010, December 31, 2009 and June 30, 2009 by category and hierarchy level follows (In Thousands):

| Asset or Liability 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 June 30, 2010                                 |              |                                                                                  |                                                           |                                                    |
| Assets:                                             |              |                                                                                  |                                                           |                                                    |
| Derivative Contracts:                               |              |                                                                                  |                                                           |                                                    |
| Central Hudson - electric                           | \$ 1,080     | \$-                                                                              | \$-                                                       | \$ 1,080                                           |
| Central Hudson - natural gas                        | 30           | 30                                                                               | -                                                         | -                                                  |
| Griffith - heating oil(1)                           | 28           | 28                                                                               | -                                                         | -                                                  |
| Central Hudson - interest rate cap                  | -            | -                                                                                | -                                                         | -                                                  |
| Total Assets                                        | \$ 1,138     | \$58                                                                             | \$-                                                       | \$ 1,080                                           |
| Liabilities:                                        |              |                                                                                  |                                                           |                                                    |
| Derivative Contracts:                               |              |                                                                                  |                                                           |                                                    |
| Central Hudson - electric                           | \$ (24,556 ) | \$-                                                                              | \$-                                                       | \$ (24,556 )                                       |
| Central Hudson - natural gas                        | (173 )       | (173 )                                                                           | -                                                         | -                                                  |
| Total Liabilities                                   | \$ (24,729 ) | \$ (173 )                                                                        | \$-                                                       | \$ (24,556 )                                       |
| As of December 31, 2009                             |              |                                                                                  |                                                           |                                                    |
| Assets:                                             |              |                                                                                  |                                                           |                                                    |
| Derivative Contracts:                               |              |                                                                                  |                                                           |                                                    |
| Central Hudson - electric                           | \$ 314       | \$-                                                                              | \$-                                                       | \$ 314                                             |
| Central Hudson - natural gas                        | 79           | 79                                                                               | -                                                         | -                                                  |
| Griffith - heating oil(1)                           | 348          | 348                                                                              | -                                                         | -                                                  |
| Central Hudson - interest rate cap                  | -            | -                                                                                | -                                                         | -                                                  |
| Total Assets                                        | \$ 741       | \$427                                                                            | \$-                                                       | \$ 314                                             |
| Liabilities:                                        |              |                                                                                  |                                                           |                                                    |
| Derivative Contracts:                               |              |                                                                                  |                                                           |                                                    |
| Central Hudson - electric                           | \$ (12,297 ) | \$-                                                                              | \$-                                                       | \$ (12,297 )                                       |
| Central Hudson - natural gas                        | (1,256 )     | (1,256 )                                                                         | -                                                         | -                                                  |
| Griffith - other derivative financial instrument(1) | (284 )       | -                                                                                | (284 )                                                    | -                                                  |
| Total Liabilities                                   | \$ (13,837 ) | \$ (1,256 )                                                                      | \$ (284 )                                                 | \$ (12,297 )                                       |
| As of June 30, 2009                                 |              |                                                                                  |                                                           |                                                    |
| Assets:                                             |              |                                                                                  |                                                           |                                                    |
| Derivative Contracts:                               |              |                                                                                  |                                                           |                                                    |
| Central Hudson - electric                           | \$ 500       | \$-                                                                              | \$-                                                       | \$ 500                                             |

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|                                    |             |            |     |              |
|------------------------------------|-------------|------------|-----|--------------|
| Griffith - heating oil(1)          | 97          | 97         | -   | -            |
| Central Hudson - interest rate cap | -           | -          | -   | -            |
| Total Assets                       | \$597       | \$97       | \$- | \$ 500       |
|                                    |             |            |     |              |
| Liabilities:                       |             |            |     |              |
| Derivative Contracts:              |             |            |     |              |
| Central Hudson - electric          | \$(11,771 ) | \$-        | \$- | \$ (11,771 ) |
| Central Hudson - natural gas       | (3,003 )    | (3,003 )   | -   | -            |
| Total Liabilities                  | \$(14,774 ) | \$(3,003 ) | \$- | \$ (11,771 ) |

(1) Derivative contracts relate to CH Energy Group's unregulated business subsidiary, Griffith. All other contracts pertain to Central Hudson's derivative contracts as noted.



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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 |               |
|---------------------------------------------|--------------------|---------------|
|                                             | June 30, 2010      | June 30, 2009 |
| Balance at Beginning of Period              | \$ (36,628 )       | \$ (17,506 )  |
| Unrealized gains                            | 13,152             | 6,235         |
| Realized losses                             | (3,489 )           | (7,314 )      |
| Purchases, issuances, sales and settlements | 3,489              | 7,314         |
| Transfers in and/or out of Level 3          | -                  | -             |
| Balance at End of Period                    | \$ (23,476 )       | \$ (11,271 )  |

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

\$ -                      \$ -

|                                             | Six Months Ended |               |
|---------------------------------------------|------------------|---------------|
|                                             | June 30, 2010    | June 30, 2009 |
| Balance at Beginning of Period              | \$ (11,983 )     | \$ (5,538 )   |
| Unrealized losses                           | (11,493 )        | (5,733 )      |
| Realized losses                             | (6,339 )         | (10,778 )     |
| Purchases, issuances, sales and settlements | 6,339            | 10,778        |
| Transfers in and/or out of Level 3          | -                | -             |
| Balance at End of Period                    | \$ (23,476 )     | \$ (11,271 )  |

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.

Table of ContentsThe Effect of Derivative Instruments on the Statements of Income  
(In Thousands)

## CH Energy Group

## Designated as Hedging Instruments:

None

## Not Designated as Hedging Instruments:

|                                                  | Amount of Gain/(Loss) Recognized as<br>(Increase)/Decrease in Purchased Electric<br>and Purchased Natural Gas |                  |                  |                  | Location of<br>Gain/(Loss) |
|--------------------------------------------------|---------------------------------------------------------------------------------------------------------------|------------------|------------------|------------------|----------------------------|
|                                                  | Three Months Ended                                                                                            |                  | Six Months Ended |                  |                            |
|                                                  | June 30,<br>2010                                                                                              | June 30,<br>2009 | June 30,<br>2010 | June 30,<br>2009 |                            |
| Central Hudson<br>electricity swap<br>contracts  | \$ (3,489 )                                                                                                   | \$ (7,314 )      | \$ (6,339 )      | \$ (10,778 )     | Regulatory<br>asset(1)     |
| Central Hudson<br>natural gas swap<br>contracts  | -                                                                                                             | (233 )           | (1,778 )         | (11,254 )        | Regulatory<br>asset(1)     |
| Central Hudson<br>interest rate swap<br>contract | -                                                                                                             | -                | -                | -                | Regulatory<br>asset(1)     |
| Griffith heating oil<br>call option contracts    | (16 )                                                                                                         | -                | (52 )            | -                | Purchased<br>petroleum     |
| Total                                            | \$ (3,505 )                                                                                                   | \$ (7,547 )      | \$ (8,169 )      | \$ (22,032 )     |                            |

## Central Hudson

## Designated as Hedging Instruments:

None

## Not Designated as Hedging Instruments:

|                             | Amount of Gain/(Loss) Recognized as<br>(Increase)/Decrease in Purchased Electric<br>and Purchased Natural Gas |             |                  |              | Location of<br>Gain/(Loss) |
|-----------------------------|---------------------------------------------------------------------------------------------------------------|-------------|------------------|--------------|----------------------------|
|                             | Three Months Ended                                                                                            |             | Six Months Ended |              |                            |
|                             | June 30,<br>2010                                                                                              | 2009        | June 30,<br>2010 | 2009         |                            |
| Electricity swap contracts  | \$ (3,489 )                                                                                                   | \$ (7,314 ) | \$ (6,339 )      | \$ (10,778 ) | Regulatory asset(1)        |
| Natural gas swap contracts  | -                                                                                                             | (233 )      | (1,778 )         | (11,254 )    | Regulatory asset(1)        |
| Interest rate swap contract | -                                                                                                             | -           | -                | -            | Regulatory asset(1)        |
| Total                       | \$ (3,489 )                                                                                                   | \$ (7,547 ) | \$ (8,117 )      | \$ (22,032 ) |                            |

- (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

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

Notes Receivable: To estimate the fair value of debt instruments, CH Energy Group performed a discounted cash flow analysis, specifically the Gross Yield Method (“GYM”). The GYM discounts the contractual cash flows at an estimated market or risk-adjusted yield. The cash flows from the note receivable from Cornhusker Holdings include the estimated quarterly payments based on the contractual cash coupon payment and payment-in-kind (“PIK”) feature. The estimated risk adjusted yield was based on the following: (i) the total contractual coupon payment, (ii) the change in option adjusted spreads (“OAS”) between the amendment date and year-end, and (iii) a risk adjustment to account for the additional risk due to the PIK feature. The estimated fair value of the note receivable was calculated as the sum of the present value of all quarterly payments and the final principal repayment. Additionally, a CCC credit rating for CEL was assumed in the fair value calculation. Based on the assumptions and methodologies described, the fair value of the note receivable as of June 30, 2010 is \$11.3 million. The carrying amount of this note receivable as of June 30, 2010 that is reported in the balance sheet is \$10.2 million.

Table of ContentsCH Energy Group - Long-term Debt Maturities and Fair Value  
(Dollars in Thousands)

June 30, 2010

|                                   | Expected Maturity Date |        |           |           |           |            |            |  |  |  |  |  | Fair Value |
|-----------------------------------|------------------------|--------|-----------|-----------|-----------|------------|------------|--|--|--|--|--|------------|
|                                   | 2010                   | 2011   | 2012      | 2013      | 2014      | Thereafter | Total      |  |  |  |  |  |            |
| Fixed Rate:                       | \$ 24,000              | \$ 941 | \$ 37,007 | \$ 31,076 | \$ 41,650 | \$ 237,375 | \$ 372,049 |  |  |  |  |  | \$ 400,662 |
| Estimated Effective Interest Rate | 4.38 %                 | 6.86 % | 6.71 %    | 6.93 %    | 6.02 %    | 5.94 %     | 6.01 %     |  |  |  |  |  |            |
| Variable Rate:                    | \$ -                   | \$ -   | \$ -      | \$ -      | \$ -      | \$ 115,850 | \$ 115,850 |  |  |  |  |  | \$ 115,850 |
| Estimated Effective Interest Rate |                        |        |           |           |           | 0.44 %     | 0.44 %     |  |  |  |  |  |            |
| Total Debt Outstanding            |                        |        |           |           |           |            | \$ 487,899 |  |  |  |  |  | \$ 516,512 |
| Estimated Effective Interest Rate |                        |        |           |           |           |            | 4.69 %     |  |  |  |  |  |            |

December 31,  
2009

|                                   | Expected Maturity Date |        |           |           |           |            |            |  |  |  |  |  | Fair Value |
|-----------------------------------|------------------------|--------|-----------|-----------|-----------|------------|------------|--|--|--|--|--|------------|
|                                   | 2010                   | 2011   | 2012      | 2013      | 2014      | Thereafter | Total      |  |  |  |  |  |            |
| Fixed Rate:                       | \$ 24,000              | \$ 941 | \$ 37,007 | \$ 31,076 | \$ 41,650 | \$ 237,373 | \$ 372,047 |  |  |  |  |  | \$ 385,527 |
| Estimated Effective Interest Rate | 4.38 %                 | 6.86 % | 6.71 %    | 6.92 %    | 6.02 %    | 5.94 %     | 6.01 %     |  |  |  |  |  |            |
| Variable Rate:                    | \$ -                   | \$ -   | \$ -      | \$ -      | \$ -      | \$ 115,850 | \$ 115,850 |  |  |  |  |  | \$ 115,850 |
| Estimated Effective Interest Rate |                        |        |           |           |           | 0.82 %     | 0.82 %     |  |  |  |  |  |            |
| Total Debt Outstanding            |                        |        |           |           |           |            | \$ 487,897 |  |  |  |  |  | \$ 501,377 |
| Estimated Effective Interest Rate |                        |        |           |           |           |            | 4.78 %     |  |  |  |  |  |            |

June 30, 2009

|                                   | Expected Maturity Date |           |      |           |           |            |            |  |  |  |  |  | Fair Value |
|-----------------------------------|------------------------|-----------|------|-----------|-----------|------------|------------|--|--|--|--|--|------------|
|                                   | 2009                   | 2010      | 2011 | 2012      | 2013      | Thereafter | Total      |  |  |  |  |  |            |
| Fixed Rate:                       | \$ -                   | \$ 24,000 | \$ - | \$ 36,000 | \$ 30,000 | \$ 258,046 | \$ 348,046 |  |  |  |  |  | \$ 350,350 |
| Estimated Effective Interest Rate | - %                    | 4.38 %    | - %  | 6.71 %    | 6.92 %    | 5.95 %     | 6.01 %     |  |  |  |  |  |            |
| Variable Rate:                    | \$ -                   | \$ -      | \$ - | \$ -      | \$ -      | \$ 115,850 | \$ 115,850 |  |  |  |  |  | \$ 115,850 |
| Estimated Effective Interest Rate |                        |           |      |           |           | 1.19 %     | 1.19 %     |  |  |  |  |  |            |
| Total Debt Outstanding            |                        |           |      |           |           |            | \$ 463,896 |  |  |  |  |  | \$ 466,200 |
| Estimated Effective Interest Rate |                        |           |      |           |           |            | 4.80 %     |  |  |  |  |  |            |



Table of ContentsCentral Hudson - Long-term Debt Maturities and Fair Value  
(Dollars in Thousands)

June 30, 2010

|                                   | Expected Maturity Date |      |           |           |           |            |            |  |  |  | Fair Value |
|-----------------------------------|------------------------|------|-----------|-----------|-----------|------------|------------|--|--|--|------------|
|                                   | 2010                   | 2011 | 2012      | 2013      | 2014      | Thereafter | Total      |  |  |  |            |
| Fixed Rate:                       | \$ 24,000              | \$ - | \$ 36,000 | \$ 30,000 | \$ 14,000 | \$ 218,049 | \$ 322,049 |  |  |  | \$ 343,215 |
| 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 |                        |      |           |           |           | 0.44 %     | 4.40 %     |  |  |  |            |
| Total Debt Outstanding            |                        |      |           |           |           |            | \$ 437,899 |  |  |  | \$ 459,065 |
| Estimated Effective Interest Rate |                        |      |           |           |           |            | 4.45 %     |  |  |  |            |

December 31,  
2009

|                                   | Expected Maturity Date |      |           |           |           |            |            |  |  |  | Fair Value |
|-----------------------------------|------------------------|------|-----------|-----------|-----------|------------|------------|--|--|--|------------|
|                                   | 2010                   | 2011 | 2012      | 2013      | 2014      | Thereafter | Total      |  |  |  |            |
| Fixed Rate:                       | \$ 24,000              | \$ - | \$ 36,000 | \$ 30,000 | \$ 14,000 | \$ 218,047 | \$ 322,047 |  |  |  | \$ 332,908 |
| 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 |                        |      |           |           |           | 0.82 %     | 0.82 %     |  |  |  |            |
| Total Debt Outstanding            |                        |      |           |           |           |            | \$ 437,897 |  |  |  | \$ 448,758 |
| Estimated Effective Interest Rate |                        |      |           |           |           |            | 4.56 %     |  |  |  |            |

June 30, 2009

|                                   | Expected Maturity Date |           |      |           |           |            |            |  |  |  | Fair Value |
|-----------------------------------|------------------------|-----------|------|-----------|-----------|------------|------------|--|--|--|------------|
|                                   | 2009                   | 2010      | 2011 | 2012      | 2013      | Thereafter | Total      |  |  |  |            |
| Fixed Rate:                       | \$ -                   | \$ 24,000 | \$ - | \$ 36,000 | \$ 30,000 | \$ 208,046 | \$ 298,046 |  |  |  | \$ 299,287 |
| Estimated Effective Interest Rate | - %                    | 4.38 %    | - %  | 6.71 %    | 6.92 %    | 5.79 %     | 5.90 %     |  |  |  |            |
| Variable Rate:                    | \$ -                   | \$ -      | \$ - | \$ -      | \$ -      | \$ 115,850 | \$ 115,850 |  |  |  | \$ 115,850 |
| Estimated Effective Interest Rate |                        |           |      |           |           | 1.19 %     | 1.19 %     |  |  |  |            |
| Total Debt Outstanding            |                        |           |      |           |           |            | \$ 413,896 |  |  |  | \$ 415,137 |
| Estimated Effective Interest Rate |                        |           |      |           |           |            | 4.58 %     |  |  |  |            |





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NOTE 16 – Subsequent Events

CH Energy Group has performed an evaluation of events subsequent to June 30, 2010 through the date the financial statements were issued and noted one additional item to disclose. On July 15, 2010, Central Hudson declared a \$26.0 million dividend payable to CH Energy Group (the Holding Company).

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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 Second 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, 2009 and the MD&A in Part I, Item 2 of the Companies' combined Quarterly Report on Form 10-Q for the quarterly period ended March 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 investments in renewable energy supply, energy efficiency, an energy sector venture capital fund and the holding company's activities, which consist primarily of financing its subsidiaries and business development.

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A breakdown by business unit of CH Energy Group's operating revenues, net of divestitures of \$201.8 million and \$178.6 million for the three months ended June 30, 2010 and 2009, respectively, is illustrated below.

CH Energy Group Revenue by Business Unit

(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 2nd Quarter 2010: 26% cost recovery revenues + 36% other revenues = 62%

Electric 2nd Quarter 2009: 29% cost recovery revenues + 32% other revenues = 61%

Natural gas 2nd Quarter 2010: 7% cost recovery revenues + 9% other revenues = 16%

Natural gas 2nd Quarter 2009: 10% cost recovery revenues + 7% other revenues = 17%

Griffith 2nd Quarter 2010: 16% commodity costs + 5% other revenues = 21%

Griffith 2nd Quarter 2009: 15% commodity costs + 6% other revenues = 21%

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A breakdown by business unit of CH Energy Group's operating revenues, net of divestitures of \$504.4 million and \$500.7 million for the six months ended June 30, 2010 and 2009, respectively, is illustrated below.

CH Energy Group Revenue by Business Unit

(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 YTD 2010: 24% cost recovery revenues + 30% other revenues = 54%

Electric YTD 2009: 28% cost recovery revenues + 25% other revenues = 53%

Natural gas YTD 2010: 10% cost recovery revenues + 10% other revenues = 20%

Natural gas YTD 2009: 17% cost recovery revenues + 7% other revenues = 24%

Griffith YTD 2010: 19% commodity costs + 6% other revenues = 25%

Griffith YTD 2009: 15% commodity costs + 7% other revenues = 22%

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A breakdown by business unit of net income/(loss) attributable to CH Energy Group of \$6.8 million and \$(1.5) million for the three months ended June 30, 2010 and 2009, respectively, is illustrated below.

CH Energy Group Net Income by Business Unit

- (1) Includes loss from discontinued operations of \$(0.4) million for the three months ended June 30, 2009.

A breakdown by business unit of net income attributable to CH Energy Group of \$27.2 million and \$21.7 million for the six months ended June 30, 2010 and 2009, respectively, is illustrated below.

CH Energy Group Net Income by Business Unit

- (2) Includes income from discontinued operations of \$4.0 million for the six months ended June 30, 2009.

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Due to the seasonality of the fuel oil distribution and natural gas businesses, each business unit's relative contribution to total earnings can vary significantly from quarter to quarter. As such, a more meaningful view of results can be seen on a twelve month basis, as illustrated below:

CH Energy Group Net Income for the 12 Months Ended June 30, 2010

A breakdown by segment of CH Energy Group's total assets of \$1.7 billion as of June 30, 2010 is illustrated below.

CH Energy Group Assets at June 30, 2010, by Business Unit

As the graph above indicates, as of June 30, 2010, 89% of CH Energy Group's assets were employed in the electric and natural gas businesses, which are subject to regulation by the Public Service Commission ("PSC") (as discussed in more detail below). The remaining 11% of its assets at June 30, 2010 were employed in non-regulated businesses.

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CH Energy Group's objective is to deliver value to its shareholders through current income, in the form of quarterly dividend payments, and through share price appreciation that is expected to result from earnings growth over the long term. CH Energy Group seeks to employ its resources in a manner that supports steady growth. CH Energy Group seeks to invest in projects that have risk and volatility profiles over the long term that are similar to Central Hudson. CH Energy Group seeks to achieve this result through careful risk management and by regularly considering a range of strategies that include: acquisitions, operating efficiency improvements, capital structure, allocation of capital to each business unit, entry into new lines of business, and divesting all or portions of existing lines of business. The particular strategy CH Energy Group employs from this range of options is periodically reviewed by Management and CH Energy Group's Board of Directors. Factors considered in decision-making include changes in the internal and external environment as well as the expected significance of each strategy to CH Energy Group's ability to achieve its objective.

In pursuit of its objectives, in 2010, CH Energy Group continues to invest in Central Hudson's infrastructure, review opportunities for Griffith to expand its service offerings, reduce costs and make selected "tuck-in" acquisitions, evaluate wind and landfill gas projects, explore divestiture of non-core assets, and evaluate new growth opportunities.

Central Hudson plans to continue investing in the replacement of aging infrastructure, upgrading the electric grid to enhance service for its customers, and make capital investments to reduce operational expenses. While load growth was minimal in 2009, total infrastructure investments were still substantially higher than annual depreciation, which resulted in a net increase to Central Hudson's rate base. Central Hudson is permitted by its regulators to recover its cost of capital on invested rate base. Infrastructure investments are expected to continue to exceed annual depreciation for the foreseeable future, increasing rate base and providing the basis for earnings growth over the long term.

In July 2009, Central Hudson filed a request to increase its electric and natural gas rates effective July 1, 2010. The request was necessary to fund ongoing and needed investments in the region's electric and natural gas infrastructure; to recover expenses associated with continued environmental compliance; to address externally imposed costs, such as rising property taxes; to maintain service levels, including our vegetation management program to reduce the incidence of service interruptions due to tree contact with utility lines; and to continue important safety programs, such as stray voltage testing. In February 2010, Central Hudson, the Staff of the Public Service Commission and Multiple Intervenors filed a proposed 3-year rate settlement. With the implementation of revenue decoupling mechanisms ("RDMs") effective July 2009, Central Hudson believes that the benefits of entering into a 3-year rate agreement outweigh the risk of limiting its ability to increase rates during this period beyond the level agreed to in the settlement. Management believes that agreeing to the 3-year rate settlement reduces earnings and cash flow uncertainties surrounding Central Hudson's ability to obtain rate increases during this period and allows the company to focus on its operations. At the June 17, 2010 Public Service Commission session, the Commission adopted the terms of the 3-year settlement in its entirety.

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During the first six months of 2010, Management resumed its prior acquisition strategy to expand through selected “tuck-in” acquisitions in the Mid-Atlantic region. This growth strategy focuses on acquiring and retaining full-service customers in geographic areas that overlap Griffith’s existing operations. Through the first six months of 2010, no acquisitions have been made.

In the second quarter of 2010, CHEC continued to focus on its renewable energy projects. CH Shirley, a wholly owned subsidiary of CHEC, has invested \$16.8 million to date, of the approximate \$50 million committed, in a 20-megawatt wind farm facility in Wisconsin. Construction began at the end of the first quarter and is expected to be completed in the fourth quarter of 2010.

CH Energy Group is currently reviewing its strategy with respect to the allocation of capital to renewable energy projects and has suspended making new investments in such projects pending completion of this review.

Central Hudson

Central Hudson delivers electricity and natural gas to approximately 300,000 electric customers and 75,000 natural gas customers in a defined service territory in the Mid-Hudson Valley region of New York State. The rates Central Hudson charges its customers are set by the PSC. These rates are designed to recover the cost of providing safe and reliable service to Central Hudson’s customers and to provide a fair and reasonable return on the capital invested by shareholders. Central Hudson’s earnings are derived primarily from the revenue it generates from delivering energy to its customers. Central Hudson also procures supplies of electricity and natural gas for customers who have not chosen to utilize an independent third party supplier. The PSC has authorized Central Hudson to recover the costs of the electric and gas commodities from customers, without earning a profit on the commodity costs.

Central Hudson’s Management seeks to increase shareholder value through obtaining current recovery of its costs of doing business, increasing its rate base, and earning an allowed Return on Equity (“ROE”) that provides a fair and reasonable return for providers of equity capital. Management is committed to providing safe and reliable service, to customer satisfaction, and to promoting positive customer and regulatory relations. Management believes these commitments are important in its efforts to obtain full cost recovery and reasonable returns for shareholders. Management’s strategies include effectively managing costs, requesting rate increases to align the revenues from customers with the cost of providing service, and investing in its energy delivery infrastructure.



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On July 31, 2009, Central Hudson filed a one year electric and natural gas rate case with the PSC seeking to increase, effective July 1, 2010, the electric and natural gas delivery rates which have been in effect since July 1, 2009. The filing proposed one-year increases of \$15.2 million and \$3.9 million of electric and natural gas delivery rates, respectively. The filing was made to obtain rate relief needed to recover on-going costs of providing electric and gas delivery services and cost increases resulting from regulatory mandates, rising property taxes and uncollectibles, costs associated with MGP remediation and cost of debt.

This filing resulted in Central Hudson, PSC Staff, and Multiple Intervenors entering into a negotiated three year settlement Joint Proposal ("2010 Joint Proposal") filed with the PSC on February 3, 2010. In an Order Establishing Rate Plan issued by the PSC on June 18, 2010, the Commission adopted the terms of the Joint Proposal that include an increase to electric delivery revenues of \$30.2 million over a three-year term is to be phased in with annual electric delivery rate increases of approximately \$11.8 million as of July 1, 2010, \$9.3 million as of July 1, 2011 and \$9.1 million as of July 1, 2012. A natural gas delivery revenue increase of \$9.7 million is to be phased-in over three years with natural gas delivery rate increases of \$5.7 million as of July 1, 2010, \$2.4 million as of July 1, 2011 and \$1.6 million as of July 1, 2012. The impact on customers of the electric rate increase will be moderated by continuing the credit to customers' bills that began with the 2009 Rate Order. These credits totaled \$20 million in the current rate year and will be reduced to \$12 million and \$4 million in rate years 1 and 2 of the 2010 Joint Proposal, respectively, after which the credit mechanism will end.

Additional information regarding the 2010 Electric and Natural Gas Rate Increase is discussed within the "Regulatory Matters – PSC Proceedings" section.

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Griffith

Griffith provides its products and services to approximately 58,000 customers in Delaware, Washington, D.C., Maryland, Pennsylvania, Virginia and West Virginia. Griffith's revenues, cash flows, and earnings are derived from the sale and delivery of heating oil, gasoline, diesel fuel, kerosene, and propane and from the installation and maintenance of heating, ventilating, and air conditioning equipment.

Below is a breakdown of Griffith's gross profit from continuing operations of \$8.1 million and \$9.1 million by petroleum product and by service and installations for the three months ended June 30, 2010 and 2009, respectively.

Griffith Gross Profit by Product & Service Line

Gross profits from discontinued operations of \$6.5 million by product and service lines for the three months ended June 30, 2009, excluded from the chart above are as follows:

Heating Oil: \$2.4 million, or 37% for the three months ended June 30, 2009

Motor Fuels: \$0.9 million, or 13% for the three months ended June 30, 2009

Other Fuels: \$0.3 million, or 4% for the three months ended June 30, 2009

Service & Installations: \$2.8 million, or 44% for the three months ended June 30, 2009

Other: \$0.1 million, or 2% for the three months ended June 30, 2009

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Below is a breakdown of Griffith's gross profit of \$28.5 million and \$32.7 million by petroleum product and by service and installations for the six months ended June 30, 2010 and 2009, respectively.

Griffith Gross Profit by Product & Service Line

Gross profits from discontinued operations of \$23.1 million by product and service lines for the six months ended June 30, 2009, excluded from the chart above are as follows:

Heating Oil: \$14.5 million, or 63% for the six months ended June 30, 2009

Motor Fuels: \$1.6 million, or 7% for the six months ended June 30, 2009

Other Fuels: \$0.9 million, or 4% for the six months ended June 30, 2009

Service & Installations: \$5.8 million, or 25% for the six months ended June 30, 2009

Other: \$0.3 million, or 1% for the six months ended June 30, 2009

Griffith's Management seeks to increase shareholder value primarily through increased earnings as a result of accretive acquisitions, effective marketing programs and continued improvements in operations. Griffith intends to provide its free cash flow to CH Energy Group for reinvestment by CH Energy Group or to support CH Energy Group's dividend to its shareholders. Management's strategies to achieve these goals include effectively managing costs, minimizing commodity risk and expanding margins.

Management believes that Griffith's strong brand name, effective cost management practices, and reputation for high quality, dependable service, position it well for future contributions to CH Energy Group's earnings and cash flows.

With its reduced volatility of earnings and cash flows following the 2009 partial divestiture, Management has refocused its attention on improving the profitability of the remaining business. Management has re-established its prior "tuck-in" acquisition strategy and has begun exploring potential candidates. Management has also commenced an effort to expand its Heating, Ventilating and Air Conditioning business in a manner that is expected to provide additional earnings and cash flow at reasonably predictable levels.

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Other Businesses and Investments

In addition to Griffith, CHEC derives earnings through investments in renewable energy, energy efficiency and an energy sector venture capital fund. This business unit also includes the holding company's activities, which consist primarily of financing its subsidiaries and business development.

CH Energy Group is currently reviewing its strategy with respect to the allocation of capital to renewable energy projects and has suspended making new investments in such projects pending completion of this review.

Notable Activity

**Shirley Wind:** Construction of the 20-megawatt wind project began at the end of the first quarter 2010 and is currently on schedule to be completed in the fourth quarter of 2010. During the second quarter, all access roads were completed, the underground electric collection system was installed, a maintenance building was constructed, and the first turbine foundation was completed.

**Cornhusker:** Cornhusker Energy Lexington, LLC ("CEL") is a merchant plant that produces ethanol. As a result, CEL faces ongoing commodity price risk and the risk that federal and state incentives may not be extended. However, the Energy Independence and Security Act of 2007 increased requirements for blending ethanol with gasoline from 10.5 billion gallons in 2009 to 12 billion gallons in 2010.

CEL was obligated as part of its senior note agreement to complete the expansion of plant capacity and output from 40 million gallons per year to 57.5 million gallons per year by December 31, 2009. A waiver was obtained from the senior lender in the second quarter of 2010 allowing the plant to operate at its current capacity without requiring any further expansion be undertaken to achieve the 57.5 million gallon requirement. CEL is current on all payments of principal and interest due under the senior note agreement and is in compliance with all other terms of the senior note agreement. CEL has not been making interest payments to CHEC. In accordance with the subordinated note agreement, CEL has the right to accrue unpaid interest and add it to the value of the notes. Management believes CHEC's investment in Cornhusker Holdings is not impaired as of June 30, 2010 based on Management's intent and ability to hold the investments until fully recovered, as well as an analysis of forecasted cash flows. For the six months ended June 30, 2010, CEL did not achieve its projected cash flow forecasts. If CEL's margins do not improve to at least the level indicated in its cash flow forecast, CHEC's investment could become impaired.

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## EARNINGS PER SHARE AND OVERVIEW OF SECOND QUARTER AND YEAR-TO-DATE RESULTS

The following discussion and analyses include explanations of significant changes in revenues and expenses between the three and six months ended June 30, 2010, and 2009 for Central Hudson's regulated electric and natural gas businesses, Griffith, and the Other Businesses and Investments.

The discussions and tables below present the change in earnings of CH Energy Group's business units in terms of earnings for each share of CH Energy Group's Common Stock. Management believes this presentation is useful because these business units are each wholly owned by CH Energy Group. 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. 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>June 30, |            |         | Six Months Ended<br>June 30, |         |         |
|-------------------------------------|--------------------------------|------------|---------|------------------------------|---------|---------|
|                                     | 2010                           | 2009       | Change  | 2010                         | 2009    | Change  |
| Central Hudson -<br>Electric        | \$ 0.48                        | \$ 0.10    | \$ 0.38 | \$ 1.06                      | \$ 0.50 | \$ 0.56 |
| Central Hudson -<br>Natural Gas     | 0.14                           | (0.04 )    | 0.18    | 0.60                         | 0.34    | 0.26    |
| Griffith                            | (0.10 )                        | (0.14 )    | 0.04    | 0.16                         | 0.50    | (0.34 ) |
| Other Businesses and<br>Investments | (0.09 )                        | (0.01 )    | (0.08 ) | (0.10 )                      | 0.03    | (0.13 ) |
|                                     | \$ 0.43                        | \$ (0.09 ) | \$ 0.52 | \$ 1.72                      | \$ 1.37 | \$ 0.35 |

Earnings for CH Energy Group increased \$0.52 per share for the second quarter of 2010 as compared to the second quarter of 2009. The increase in year-over-year results for the second quarter was primarily driven by an improvement in earnings at Central Hudson.

Year-to-date earnings increased \$0.35 per share for the first half of 2010 as compared to the same period in 2009. The improvement in year-to-date earnings was also due to improved earnings at Central Hudson, but was partially offset by a decrease in earnings at Griffith during the first quarter, which was primarily driven by the divestiture of approximately 40% of this segment's operations in December 2009.

Second quarter and year-to-date 2010 results by business unit were as follows:

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## Central Hudson

## Earnings per Share (Basic)

|             | Three Months Ended<br>June 30, |         |         | Six Months Ended<br>June 30, |         |         |
|-------------|--------------------------------|---------|---------|------------------------------|---------|---------|
|             | 2010                           | 2009    | Change  | 2010                         | 2009    | Change  |
| Electric    | \$ 0.48                        | \$ 0.10 | \$ 0.38 | \$ 1.06                      | \$ 0.50 | \$ 0.56 |
| Natural Gas | 0.14                           | (0.04 ) | 0.18    | 0.60                         | 0.34    | 0.26    |
|             | \$ 0.62                        | \$ 0.06 | \$ 0.56 | \$ 1.66                      | \$ 0.84 | \$ 0.82 |

Earnings from Central Hudson's electric and natural gas operations increased in the three and six months ended June 30, 2010, respectively, when compared to the same periods in 2009 primarily due to the increase in electric and natural gas delivery rates, including the RDM, both of which became effective July 1, 2009, and provided revenues which were better aligned with our costs of providing service to customers and allowed Central Hudson to earn a more appropriate return. Additionally, second quarter results included a deferral of electric bad debt expenses in excess of amounts provided in rates for the rate year ended June 30, 2010 and an increase to the requested and previously deferred gas bad debt expenses upon approval by the PSC. This approval modified the deferral time period from a rate year basis to a calendar year basis consistent with previously approved requests related to deferral of incremental gas uncollectible expenses. A summary of the year-over-year variances for the three and six months ended June 30, 2010 includes the following:

|                                             | Three Month<br>Change | Six Month<br>Change |
|---------------------------------------------|-----------------------|---------------------|
| Uncollectible deferral                      | \$ 0.14               | \$ 0.14             |
| Rate increases                              | 0.41                  | 0.84                |
| Weather impact on sales                     | (0.05 )               | (0.13 )             |
| Sales per customer                          | 0.08                  | 0.03                |
| Lower uncollectible reserves                | 0.04                  | 0.07                |
| Higher storm restoration expense(1)         | (0.02 )               | (0.05 )             |
| Higher depreciation                         | (0.03 )               | (0.05 )             |
| Higher property and other taxes             | (0.03 )               | (0.05 )             |
| Higher interest income on regulatory assets | 0.02                  | 0.02                |
|                                             | \$ 0.56               | \$ 0.82             |

(1) Excludes incremental costs incurred associated with the severe storms that occurred in late February 2010, which have been deferred for future recovery from customers.

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## Griffith

## Earnings per Share (Basic)

| Three Months Ended<br>June 30, |            |         | Six Months Ended<br>June 30, |         |            |
|--------------------------------|------------|---------|------------------------------|---------|------------|
| 2010                           | 2009       | Change  | 2010                         | 2009    | Change     |
| \$ (0.10 )                     | \$ (0.14 ) | \$ 0.04 | \$ 0.16                      | \$ 0.50 | \$ (0.34 ) |

Griffith's earnings increased in the three months ended and decreased for the six months ended June 30, 2010 compared to the same periods in 2009 due to the partial divestiture in December 2009. The operating losses from this portion of the business in the second quarter of 2009 improved the year-over-year results for the second quarter. On a year-to-date basis, the decreased volumes during the winter months as a result of the divestiture decreased earnings. A summary of the year-over-year variances for the three and six months ended June 30, 2010 includes the following:

|                                                         | Three Month<br>Change | Six Month<br>Change |
|---------------------------------------------------------|-----------------------|---------------------|
| Discontinued operations                                 | \$ 0.02               | \$ (0.25 )          |
| Margin on petroleum<br>sales and services               | 0.02                  | (0.04 )             |
| Weather impact on<br>sales (including hedging)          | (0.03 )               | (0.04 )             |
| Weather-normalized<br>sales (including<br>conservation) | (0.02 )               | (0.04 )             |
| Operating expenses                                      | 0.03                  | 0.03                |
| Lower uncollectible<br>accounts                         | 0.02                  | 0.04                |
| Other                                                   | -                     | (0.04 )             |
|                                                         | \$ 0.04               | \$ (0.34 )          |

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## Other Businesses and Investments

## Earnings per Share (Basic)

| Three Months Ended<br>June 30, |            |            | Six Months Ended<br>June 30, |         |            |
|--------------------------------|------------|------------|------------------------------|---------|------------|
| 2010                           | 2009       | Change     | 2010                         | 2009    | Change     |
| \$ (0.09 )                     | \$ (0.01 ) | \$ (0.08 ) | \$ (0.10 )                   | \$ 0.03 | \$ (0.13 ) |

The earnings activity of CH Energy Group (the holding company) and CHEC's partnerships and other investments decreased in the three and six months ended June 30, 2010 compared to the same periods in 2009 primarily due to lower earnings at Lyonsdale. For the three months ended June 30, 2010, a plant outage at Lyonsdale for equipment repairs was the largest driver of the decrease. The expiration of production tax credits on December 31, 2009 also reduced second quarter earnings and was the primary reason for the year-to-date decrease. Reduced margins at Cornhusker negatively impacted earnings for the three and six month periods. In addition, interest expense at the holding company for debt privately placed in the second quarter of 2009 decreased earnings during the six month periods. A summary of the year-over-year variances for the three and six months ended June 30, 2010 includes the following:

|                                  | Three Month<br>Change | Six Month<br>Change |
|----------------------------------|-----------------------|---------------------|
| Lyonsdale investment             | \$ (0.04 )            | \$ (0.05 )          |
| Cornhusker investment            | (0.02 )               | (0.03 )             |
| Holding company interest expense | (0.01 )               | (0.04 )             |
| Other                            | (0.01 )               | (0.01 )             |
|                                  | \$ (0.08 )            | \$ (0.13 )          |



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## RESULTS OF OPERATIONS

## 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 and six months ended June 30, 2010 and the three and six months ended June 30, 2009 for Central Hudson's regulated electric and natural gas businesses.

Income Statement Variances  
(Dollars In Thousands)

|                                             | Three Months Ended June |           | Increase/(Decrease) in |         |   |
|---------------------------------------------|-------------------------|-----------|------------------------|---------|---|
|                                             | 2010                    | 2009      | Amount                 | Percent |   |
| Operating Revenues                          | \$157,557               | \$139,653 | \$17,904               | 12.8    | % |
| Operating Expenses:                         |                         |           |                        |         |   |
| Purchased electricity, fuel and natural gas | 67,403                  | 70,543    | (3,140)                | (4.5)   | % |
| Depreciation and amortization               | 8,422                   | 7,989     | 433                    | 5.4     | % |
| Other operating expenses                    | 60,653                  | 53,753    | 6,900                  | 12.8    | % |
| Total Operating Expenses                    | 136,478                 | 132,285   | 4,193                  | 3.2     | % |
| Operating Income                            | 21,079                  | 7,368     | 13,711                 | 186.1   | % |
| Other Income, net                           | 1,545                   | 664       | 881                    | 132.7   | % |
| Interest Charges                            | 6,301                   | 5,891     | 410                    | 7.0     | % |
| Income before income taxes                  | 16,323                  | 2,141     | 14,182                 | 662.4   | % |
| Income Taxes                                | 6,334                   | 924       | 5,410                  | 585.5   | % |
| Net income                                  | \$9,989                 | \$1,217   | \$8,772                | 720.8   | % |

|                                             | Six Months Ended June |           | Increase/(Decrease) in |         |   |
|---------------------------------------------|-----------------------|-----------|------------------------|---------|---|
|                                             | 2010                  | 2009      | Amount                 | Percent |   |
| Operating Revenues                          | \$372,606             | \$386,529 | \$(13,923)             | (3.6)   | % |
| Operating Expenses:                         |                       |           |                        |         |   |
| Purchased electricity, fuel and natural gas | 171,925               | 225,891   | (53,966)               | (23.9)  | % |
| Depreciation and amortization               | 16,836                | 15,998    | 838                    | 5.2     | % |
| Other operating expenses                    | 129,007               | 110,041   | 18,966                 | 17.2    | % |
| Total Operating Expenses                    | 317,768               | 351,930   | (34,162)               | (9.7)   | % |
| Operating Income                            | 54,838                | 34,599    | 20,239                 | 58.5    | % |
| Other Income, net                           | 2,347                 | 1,050     | 1,297                  | 123.5   | % |
| Interest Charges                            | 12,737                | 12,109    | 628                    | 5.2     | % |
| Income before income taxes                  | 44,448                | 23,540    | 20,908                 | 88.8    | % |
| Income Taxes                                | 17,814                | 9,729     | 8,085                  | 83.1    | % |
| Net income                                  | \$26,634              | \$13,811  | \$12,823               | 92.8    | % |



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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 and six months ended June 30, 2010 compared to the same periods in 2009. 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, 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 no longer have a significant impact on Central Hudson's earnings.

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## Actual Deliveries - Electric

(In Megawatt-Hours)

|                      | Three Months Ended |           | Increase / (Decrease) in |         |   |
|----------------------|--------------------|-----------|--------------------------|---------|---|
|                      | June 30,<br>2010   | 2009      | Amount                   | Percent |   |
| Residential          | 433,557            | 431,258   | 2,299                    | 1       | % |
| Commercial           | 471,868            | 458,324   | 13,544                   | 3       | % |
| Industrial and other | 298,304            | 315,242   | (16,938 )                | (5 )    | % |
| Total Deliveries     | 1,203,729          | 1,204,824 | (1,095 )                 | (0 )    | % |

|                      | Six Months Ended |           | Increase / (Decrease) in |         |   |
|----------------------|------------------|-----------|--------------------------|---------|---|
|                      | June 30,<br>2010 | 2009      | Amount                   | Percent |   |
| Residential          | 1,012,244        | 1,038,819 | (26,575 )                | (3 )    | % |
| Commercial           | 952,548          | 965,013   | (12,465 )                | (1 )    | % |
| Industrial and other | 559,867          | 608,169   | (48,302 )                | (8 )    | % |
| Total Deliveries     | 2,524,659        | 2,612,001 | (87,342 )                | (3 )    | % |

## Actual Deliveries - Natural Gas

(In Thousand Cubic Feet)

|                         | Three Months Ended |           | Increase / (Decrease) in |         |   |
|-------------------------|--------------------|-----------|--------------------------|---------|---|
|                         | June 30,<br>2010   | 2009      | Amount                   | Percent |   |
| Residential             | 798,816            | 879,319   | (80,503 )                | (9 )    | % |
| Commercial              | 1,025,849          | 1,105,986 | (80,137 )                | (7 )    | % |
| Industrial and other(1) | 1,435,891          | 720,519   | 715,372                  | 99      | % |
| Total Deliveries        | 3,260,556          | 2,705,824 | 554,732                  | 21      | % |

|                         | Six Months Ended June |           | Increase / (Decrease) in |         |   |
|-------------------------|-----------------------|-----------|--------------------------|---------|---|
|                         | 30,<br>2010           | 2009      | Amount                   | Percent |   |
| Residential             | 3,383,258             | 3,661,062 | (277,804 )               | (8 )    | % |
| Commercial              | 3,837,001             | 4,135,876 | (298,875 )               | (7 )    | % |
| Industrial and other(1) | 2,930,390             | 2,133,850 | 796,540                  | 37      | % |
| Total Deliveries        | 10,150,649            | 9,930,788 | 219,861                  | 2       | % |

(1) Includes interruptible natural gas deliveries.

Table of ContentsWeather Normalized Deliveries - Electric  
(In Megawatt-Hours)

|                      | Three Months Ended |           | Increase / (Decrease) in |         |   |
|----------------------|--------------------|-----------|--------------------------|---------|---|
|                      | June 30,<br>2010   | 2009      | Amount                   | Percent |   |
| Residential          | 440,949            | 437,794   | 3,155                    | 1       | % |
| Commercial           | 467,883            | 462,060   | 5,823                    | 1       | % |
| Industrial and other | 298,346            | 315,290   | (16,944)                 | (5)     | % |
| Total Deliveries     | 1,207,178          | 1,215,144 | (7,966)                  | (1)     | % |

|                      | Six Months Ended |           | Increase / (Decrease) in |         |   |
|----------------------|------------------|-----------|--------------------------|---------|---|
|                      | June 30,<br>2010 | 2009      | Amount                   | Percent |   |
| Residential          | 1,020,501        | 1,034,770 | (14,269)                 | (1)     | % |
| Commercial           | 949,363          | 967,137   | (17,774)                 | (2)     | % |
| Industrial and other | 559,912          | 608,198   | (48,286)                 | (8)     | % |
| Total Deliveries     | 2,529,776        | 2,610,105 | (80,329)                 | (3)     | % |

Weather Normalized Deliveries - Natural Gas  
(In Thousand Cubic Feet)

|                         | Three Months Ended |           | Increase / (Decrease) in |         |   |
|-------------------------|--------------------|-----------|--------------------------|---------|---|
|                         | June 30,<br>2010   | 2009      | Amount                   | Percent |   |
| Residential             | 1,050,607          | 957,136   | 93,471                   | 10      | % |
| Commercial              | 1,259,497          | 1,176,448 | 83,049                   | 7       | % |
| Industrial and other(1) | 476,112            | 408,644   | 67,468                   | 17      | % |
| Total Deliveries        | 2,786,216          | 2,542,228 | 243,988                  | 10      | % |

|                         | Six Months Ended |           | Increase / (Decrease) in |         |   |
|-------------------------|------------------|-----------|--------------------------|---------|---|
|                         | June 30,<br>2010 | 2009      | Amount                   | Percent |   |
| Residential             | 3,614,517        | 3,557,897 | 56,620                   | 2       | % |
| Commercial              | 4,074,413        | 4,045,858 | 28,555                   | 1       | % |
| Industrial and other(1) | 1,170,866        | 1,160,482 | 10,384                   | 1       | % |
| Total Deliveries        | 8,859,796        | 8,764,237 | 95,559                   | 1       | % |

(1) Excludes interruptible natural gas deliveries.

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

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Electric deliveries to residential and commercial customers during the three months ended June 30, 2010 increased slightly as compared to the prior year primarily as a result of an increase in sales per customer during the second quarter. Electric deliveries during the six months ended June 30, 2010 decreased as compared to the prior year primarily as a result of large decreases in sales per customer experienced in the first quarter, which outweighed the small increase in residential and commercial sales per customer in the second quarter.

Natural gas deliveries to residential and commercial customers during the three and six months ended June 30, 2010 as compared to the prior year were negatively impacted by the warmer than normal weather, which more than outweighed the increase in use per customer during both periods. The increase in actual natural gas deliveries for industrial and other reflects the increase in delivery volumes for interruptible customers in the current year.

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 June<br>30, |            | Increase /<br>(Decrease) |
|--------------------------------------------|--------------------------------|------------|--------------------------|
|                                            | 2010                           | 2009       |                          |
| Revenues with Matching Expense Offsets:(1) |                                |            |                          |
| Energy cost adjustment                     | \$51,107                       | \$50,043   | \$ 1,064                 |
| Sales to others for resale                 | 1,542                          | 1,199      | 343                      |
| Other revenues with matching offsets       | 18,022                         | 11,126     | 6,896                    |
| Subtotal                                   | 70,671                         | 62,368     | 8,303                    |
| Revenues Impacting Earnings:               |                                |            |                          |
| Customer sales                             | 49,954                         | 43,485     | 6,469                    |
| RDM and other regulatory mechanisms        | 2,013                          | 457        | 1,556                    |
| Pole attachments and other rents           | 1,069                          | 1,076      | (7 )                     |
| Finance charges                            | 784                            | 839        | (55 )                    |
| Other revenues                             | 605                            | 372        | 233                      |
| Subtotal                                   | 54,425                         | 46,229     | 8,196                    |
| Total Electric Revenues                    | \$ 125,096                     | \$ 108,597 | \$ 16,499                |

(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 and 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. 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 June<br>30, |           | Increase /<br>(Decrease) |
|--------------------------------------------|--------------------------------|-----------|--------------------------|
|                                            | 2010                           | 2009      |                          |
| Revenues with Matching Expense Offsets:(1) |                                |           |                          |
| Energy cost adjustment                     | \$ 10,006                      | \$ 13,832 | \$(3,826 )               |
| Sales to others for resale                 | 4,211                          | 4,694     | (483 )                   |
| Other revenues with matching offsets       | 4,196                          | 2,452     | 1,744                    |
| Subtotal                                   | 18,413                         | 20,978    | (2,565 )                 |
| Revenues Impacting Earnings:               |                                |           |                          |
| Customer sales                             | 10,200                         | 8,807     | 1,393                    |
| RDM and other regulatory mechanisms        | 2,594                          | 559       | 2,035                    |
| Interruptible profits                      | 508                            | 289       | 219                      |
| Finance charges                            | 308                            | 350       | (42 )                    |
| Other revenues                             | 438                            | 73        | 365                      |
| Subtotal                                   | 14,048                         | 10,078    | 3,970                    |

|                            |          |          |         |
|----------------------------|----------|----------|---------|
| Total Natural Gas Revenues | \$32,461 | \$31,056 | \$1,405 |
|----------------------------|----------|----------|---------|

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

|                                                   | Six Months Ended June<br>30, |                   | Increase /<br>(Decrease) |
|---------------------------------------------------|------------------------------|-------------------|--------------------------|
|                                                   | 2010                         | 2009              |                          |
| <b>Revenues with Matching Expense Offsets:(1)</b> |                              |                   |                          |
| Energy cost adjustment                            | \$ 116,807                   | \$ 139,506        | \$(22,699 )              |
| Sales to others for resale                        | 2,716                        | 2,259             | 457                      |
| Other revenues with matching offsets              | 37,506                       | 23,707            | 13,799                   |
| <b>Subtotal</b>                                   | <b>157,029</b>               | <b>165,472</b>    | <b>(8,443 )</b>          |
| <b>Revenues Impacting Earnings:</b>               |                              |                   |                          |
| Customer sales                                    | 105,456                      | 94,032            | 11,424                   |
| RDM and other regulatory mechanisms               | 3,468                        | 1,267             | 2,201                    |
| Pole attachments and other rents                  | 2,098                        | 2,043             | 55                       |
| Finance charges                                   | 1,594                        | 1,768             | (174 )                   |
| Other revenues                                    | 1,413                        | 768               | 645                      |
| <b>Subtotal</b>                                   | <b>114,029</b>               | <b>99,878</b>     | <b>14,151</b>            |
| <b>Total Electric Revenues</b>                    | <b>\$ 271,058</b>            | <b>\$ 265,350</b> | <b>\$ 5,708</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 and 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. 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)

|                                                   | Six Months Ended June<br>30, |               | Increase /<br>(Decrease) |
|---------------------------------------------------|------------------------------|---------------|--------------------------|
|                                                   | 2010                         | 2009          |                          |
| <b>Revenues with Matching Expense Offsets:(1)</b> |                              |               |                          |
| Energy cost adjustment                            | \$ 38,115                    | \$ 65,625     | \$(27,510 )              |
| Sales to others for resale                        | 13,290                       | 17,593        | (4,303 )                 |
| Other revenues with matching offsets              | 12,456                       | 7,268         | 5,188                    |
| <b>Subtotal</b>                                   | <b>63,861</b>                | <b>90,486</b> | <b>(26,625 )</b>         |
| <b>Revenues Impacting Earnings:</b>               |                              |               |                          |
| Customer sales                                    | 30,824                       | 26,893        | 3,931                    |
| RDM and other regulatory mechanisms               | 4,022                        | 1,688         | 2,334                    |
| Interruptible profits                             | 1,075                        | 591           | 484                      |
| Finance charges                                   | 630                          | 782           | (152 )                   |
| Other revenues                                    | 1,136                        | 739           | 397                      |
| <b>Subtotal</b>                                   | <b>37,687</b>                | <b>30,693</b> | <b>6,994</b>             |

|                            |           |           |             |
|----------------------------|-----------|-----------|-------------|
| Total Natural Gas Revenues | \$101,548 | \$121,179 | \$(19,631 ) |
|----------------------------|-----------|-----------|-------------|

(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 and 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 for the three months ended June 30, 2010 as compared to the same period in 2009. For both electric and natural gas, this increase was due to higher revenues with matching offsets, as well as higher delivery rates on customer sales and higher regulatory revenue stabilization mechanisms, primarily related to the RDMs, both of which became effective July 1, 2009. The increases in revenues with matching offsets, were primarily due to an increase in rates related to increased pension costs and a new tax surcharge implemented by the PSC in April 2009, and are offset by the matching increases in operating expenses. Energy cost adjustment revenues also had an impact on the year-over-year results for the second quarter. Electric energy cost adjustment revenues increased primarily due to increased purchased volumes. Natural gas energy cost adjustment revenues decreased primarily due to decreased residential and commercial purchased volumes and revenues collected for previously deferred costs, partially offset by higher wholesale gas prices.

Electric revenues also increased in the six months ended June 30, 2010 as compared to the same period in 2009. Higher other revenues with matching offsets, higher delivery rates on customer sales and higher revenues related to regulatory revenue stabilization mechanisms, primarily the RDMs as discussed above, were partially offset by a decrease in energy cost adjustment revenues. The decrease in energy cost adjustment revenues for the first half of the year was a result of lower revenues required to be recovered for previously deferred purchased electric costs and a decrease in delivery volumes in the first quarter which outweigh the increase in volumes in the second quarter.

Natural gas revenues decreased in the six months ended June 30, 2010 as compared to the same period in 2009 primarily due to lower energy cost adjustment revenues, which were only partially offset by higher other revenues with matching offsets, higher delivery rates on customer sales and higher revenues related to regulatory revenue stabilization mechanisms, primarily the RDMs. Natural gas energy cost adjustment revenues decreased for the six months ended June 30, 2010 as compared to the same period in 2009 due to a decrease in both delivery volumes and wholesale gas prices in the first quarter, which outweigh the increase in prices in the second quarter.

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## 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 new PSC tax surcharge, and NYS energy efficiency programs.

Total utility operating expenses increased 3% in the three months ended June 30, 2010 and decreased 10% in the six months ended June 30, 2010 as compared to the same periods in 2009. The following summarizes the change in operating expenses:

Change in Central Hudson Operating Expenses  
(In Thousands)

|                                              | Three Months Ended June<br>30, |           | Increase /<br>(Decrease) |
|----------------------------------------------|--------------------------------|-----------|--------------------------|
|                                              | 2010                           | 2009      |                          |
| Expenses Currently Matched to Revenues:(1)   |                                |           |                          |
| Purchased electricity                        | \$52,649                       | \$51,242  | \$1,407                  |
| Purchased natural gas                        | 14,217                         | 18,526    | (4,309 )                 |
| PSC tax surcharge                            | 3,972                          | -         | 3,972                    |
| Pension                                      | 6,914                          | 2,756     | 4,158                    |
| OPEB                                         | 1,610                          | 2,191     | (581 )                   |
| NYS energy programs                          | 5,472                          | 4,761     | 711                      |
| MGP site remediations                        | 657                            | 412       | 245                      |
| Other matched expenses                       | 3,593                          | 3,458     | 135                      |
| Subtotal                                     | 89,084                         | 83,346    | 5,738                    |
| Other Expense Variations:                    |                                |           |                          |
| Tree trimming                                | 3,280                          | 3,299     | (19 )                    |
| Property taxes                               | 7,548                          | 6,710     | 838                      |
| Storm restoration expenses(2)                | 1,295                          | 689       | 606                      |
| Injuries & damages reserve                   | (37 )                          | (36 )     | (1 )                     |
| Depreciation                                 | 8,422                          | 7,989     | 433                      |
| Uncollectible expense                        | 1,383                          | 2,238     | (855 )                   |
| Uncollectible deferrals                      | (3,702 )                       | -         | (3,702 )                 |
| Purchased natural gas incentive arrangements | 537                            | 775       | (238 )                   |
| Other expenses                               | 28,668                         | 27,275    | 1,393                    |
| Subtotal                                     | 47,394                         | 48,939    | (1,545 )                 |
| Total Operating Expenses                     | \$136,478                      | \$132,285 | \$4,193                  |

(1) Includes expenses that, in accordance with the 2006 Rate Order and the 2009 Rate Order, are adjusted in the current period to equal the revenues earned for the applicable expenses.

(2) Does not include \$19.4 million in incremental costs related to the February 2010 significant storm event deferred for future recovery from customers. See further discussion below.



Table of ContentsChange in Central Hudson Operating Expenses  
(In Thousands)

|                                              | Six Months Ended June<br>30, |            | Increase /<br>(Decrease) |
|----------------------------------------------|------------------------------|------------|--------------------------|
|                                              | 2010                         | 2009       |                          |
| Expenses Currently Matched to Revenues:(1)   |                              |            |                          |
| Purchased electricity                        | \$ 119,523                   | \$ 141,765 | \$(22,242 )              |
| Purchased natural gas                        | 51,405                       | 83,218     | (31,813 )                |
| PSC tax surcharge                            | 9,538                        | -          | 9,538                    |
| Pension                                      | 15,693                       | 6,302      | 9,391                    |
| OPEB                                         | 3,637                        | 5,044      | (1,407 )                 |
| NYS energy programs                          | 10,728                       | 10,457     | 271                      |
| MGP site remediations                        | 1,452                        | 825        | 627                      |
| Other matched expenses                       | 8,914                        | 8,347      | 567                      |
| Subtotal                                     | 220,890                      | 255,958    | (35,068 )                |
| Other Expense Variations:                    |                              |            |                          |
| Tree trimming                                | 5,856                        | 6,727      | (871 )                   |
| Property taxes                               | 15,073                       | 13,421     | 1,652                    |
| Storm restoration expenses(2)                | 2,597                        | 1,227      | 1,370                    |
| Injuries & damages reserve                   | 411                          | (168 )     | 579                      |
| Depreciation                                 | 16,836                       | 15,999     | 837                      |
| Uncollectible expense                        | 3,772                        | 5,123      | (1,351 )                 |
| Uncollectible reserve                        | (3,702 )                     | -          | (3,702 )                 |
| Purchased natural gas incentive arrangements | 997                          | 908        | 89                       |
| Other expenses                               | 55,038                       | 52,735     | 2,303                    |
| Subtotal                                     | 96,878                       | 95,972     | 906                      |
| Total Operating Expenses                     | \$317,768                    | \$351,930  | \$(34,162 )              |

(1) Includes expenses that, in accordance with the 2006 Rate Order and the 2009 Rate Order, are adjusted in the current period to equal the revenues earned for the applicable expenses.

(2) Does not include \$19.4 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 electric and natural gas expense in the six months ended June 30, 2010 reflect lower volumes for electric and natural gas deliveries, lower revenues collected for the recovery of previously deferred purchased electric and natural gas costs and lower wholesale prices for natural gas purchases in the current period. In the three months ended June 30, 2010, the variation in purchased electric was driven primarily by an increase in purchased volumes. For natural gas, the decrease in purchased volumes and revenues collected for previously deferred costs were only partially offset by an increase in wholesale prices in the second quarter of 2010 as compared to the prior year.

The increase in the PSC tax surcharge is due to a new tax surcharge instituted by the PSC in April 2009. The increase in pensions is due to an increase in the level of expenses recorded with a corresponding increase in revenues resulting from the increase in delivery rates authorized in the 2009 Rate Order.



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Uncollectible expense decreased in the three and six months ended June 30, 2010 as compared to the same periods in 2009 primarily as a result of a decrease in the amount recorded as an additional reserve for future uncollectible accounts. Management believes the reduction in the number of accounts falling into arrears is the result of improved economic conditions from the prior year. Additionally, in the second quarter of 2010, Central Hudson deferred an additional \$1.1 million of gas uncollectible expense based on the authorization from the PSC covering the calendar year 2009 as compared to the requested and previously deferred amount related to the six months ended June 30, 2009. Central Hudson also deferred for future recovery \$2.6 million in uncollectible electric expense over rate allowances for the rate year ended June 30, 2010.

Storm restoration costs can fluctuate from year to year based on changes in the number and severity of storms each year. The higher storm restoration costs in the first half of 2010 were primarily the result of the most significant storm event in the Company's history during the last week of February 2010. These 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 have been deferred for future recovery from customers. The decrease in expenses associated with tree-trimming in the first six months of 2010 is a result of the re-assignment of crews during the restoration efforts of this storm event.

Other Income

Other income and deductions for Central Hudson for the three and six months ended June 30, 2010, increased \$0.9 million and \$1.3 million, compared to the same periods in 2009, primarily due to an increase in regulatory adjustments relating to interest costs on Central Hudson's long-term debt. This adjustment offsets the increase in interest costs as discussed under the caption "Interest Charges." Additionally, increases in regulatory carrying charges due from customers, primarily related to storm costs, uncollectible expense, and the PSC tax surcharge, were partially offset by a decrease in regulatory carrying charges related to pension costs. A decrease in earnings on Central Hudson's deferred compensation plan assets also impacted the year-over-year results.

Interest Charges

Central Hudson's interest charges increased \$0.4 million and \$0.6 million for the three and six months ended June 30, 2010, compared to the same periods in 2009. Increases resulting from a higher outstanding long-term debt balance and regulatory adjustments for interest costs, as well as increased carrying charges due customers, were only partially offset by a decrease in the amount short-term borrowings and a decrease in interest rates on both the variable rate notes and short-term borrowings. On September 30, 2009, Central Hudson issued \$24 million of long-term debt to be used for general corporate purposes including the pay down of short-term debt outstanding, funding construction expenditures and working capital requirements. The increase in carrying charges on the net regulatory electric liability set aside for future customer benefit was partially offset by a decrease in carrying charges on other regulatory liabilities, primarily the underlying reserve balance for other post-retirement benefits.



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Income Taxes

Income taxes for Central Hudson increased \$5.4 million and \$8.1 million for the three and six months ended June 30, 2010 when compared to the same periods in 2009 primarily due to an increase in pre-tax book income.

CH Energy Group

In addition to the impacts of 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.

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## Income Statement Variances

(Dollars In Thousands)

|                                                                                                     | Three Months Ended June |           | Increase/(Decrease) in |         |   |
|-----------------------------------------------------------------------------------------------------|-------------------------|-----------|------------------------|---------|---|
|                                                                                                     | 2010                    | 2009      | Amount                 | Percent |   |
| Operating Revenues                                                                                  | \$201,777               | \$178,619 | \$23,158               | 13.0    | % |
| Operating Expenses:                                                                                 |                         |           |                        |         |   |
| Purchased electricity, fuel, natural gas and petroleum                                              | 100,512                 | 98,145    | 2,367                  | 2.4     | % |
| Depreciation and amortization                                                                       | 9,957                   | 9,319     | 638                    | 6.8     | % |
| Other operating expenses                                                                            | 74,088                  | 67,091    | 6,997                  | 10.4    | % |
| Total Operating Expenses                                                                            | 184,557                 | 174,555   | 10,002                 | 5.7     | % |
| Operating Income                                                                                    | 17,220                  | 4,064     | 13,156                 | 323.7   | % |
| Other Income (Deductions), net                                                                      | 525                     | 545       | (20)                   | (3.7)   | % |
| Interest Charges                                                                                    | 7,136                   | 6,033     | 1,103                  | 18.3    | % |
| Income (loss) before income taxes, non-controlling interest and preferred dividends of subsidiaries | 10,609                  | (1,424)   | 12,033                 | 845.0   | % |
| Income Taxes                                                                                        | 4,021                   | (436)     | 4,457                  | 1,022.2 | % |
| Net income (loss) from continuing operations                                                        | 6,588                   | (988)     | 7,576                  | 766.8   | % |
| Net loss from discontinued operations, net of tax                                                   | -                       | (384)     | 384                    | 100.0   | % |
| Non-controlling interest in subsidiary                                                              | (419)                   | (157)     | (262)                  | (166.9) | % |
| Dividends declared on Preferred Stock of subsidiary                                                 | 242                     | 242       | -                      | -       | % |
| Net income (loss) attributable to CH Energy Group                                                   | \$6,765                 | \$(1,457) | \$8,222                | 564.3   | % |
|                                                                                                     |                         |           |                        |         |   |
|                                                                                                     | Six Months Ended June   |           | Increase/(Decrease) in |         |   |
|                                                                                                     | 2010                    | 2009      | Amount                 | Percent |   |
| Operating Revenues                                                                                  | \$504,419               | \$500,716 | \$3,703                | 0.7     | % |
| Operating Expenses:                                                                                 |                         |           |                        |         |   |
| Purchased electricity, fuel, natural gas and petroleum                                              | 269,082                 | 302,610   | (33,528)               | (11.1)  | % |
| Depreciation and amortization                                                                       | 19,881                  | 18,686    | 1,195                  | 6.4     | % |
| Other operating expenses                                                                            | 156,948                 | 138,456   | 18,492                 | 13.4    | % |
| Total Operating Expenses                                                                            | 445,911                 | 459,752   | (13,841)               | (3.0)   | % |
| Operating Income                                                                                    | 58,508                  | 40,964    | 17,544                 | 42.8    | % |
| Other Income (Deductions), net                                                                      | 1,256                   | (117)     | 1,373                  | 1,173.5 | % |
| Interest Charges                                                                                    | 14,407                  | 11,888    | 2,519                  | 21.2    | % |
| Income before income taxes, non-controlling interest and preferred dividends of subsidiaries        | 45,357                  | 28,959    | 16,398                 | 56.6    | % |
| Income Taxes                                                                                        | 18,054                  | 10,993    | 7,061                  | 64.2    | % |
| Net income from continuing operations                                                               | 27,303                  | 17,966    | 9,337                  | 52.0    | % |
| Net income from discontinued operations, net of tax                                                 | -                       | 3,993     | (3,993)                | (100.0) | % |
| Non-controlling interest in subsidiary                                                              | (385)                   | (190)     | (195)                  | (102.6) | % |
| Dividends declared on Preferred Stock of subsidiary                                                 | 485                     | 485       | -                      | -       | % |
| Net income attributable to CH Energy Group                                                          | \$27,203                | \$21,664  | \$5,539                | 25.6    | % |

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## Griffith

## Sales Volumes

Delivery and sales volumes for Griffith vary in response to weather conditions 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.

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

## Actual Deliveries

(In Thousands of Gallons)

|                          | Three Months Ended<br>June 30, |        | Increase /<br>(Decrease) in |         | 2010<br>Volumes<br>as %<br>of Total<br>Volume |   |
|--------------------------|--------------------------------|--------|-----------------------------|---------|-----------------------------------------------|---|
|                          | 2010                           | 2009   | Amount                      | Percent |                                               |   |
| <b>Heating Oil</b>       |                                |        |                             |         |                                               |   |
| Retained company volume  | 2,573                          | 4,233  | (1,660 )                    | (39 )%  | 17                                            | % |
| Divested volume          | -                              | 4,446  | (4,446 )                    | (100 )% | -                                             | % |
| Total Heating Oil        | 2,573                          | 8,679  | (6,106 )                    | (70 )%  | 17                                            | % |
| <b>Motor Fuels</b>       |                                |        |                             |         |                                               |   |
| Retained company volume  | 12,073                         | 11,938 | 135                         | 1 %     | 82                                            | % |
| Divested volume          | -                              | 3,546  | (3,546 )                    | (100 )% | -                                             | % |
| Total Motor Fuels        | 12,073                         | 15,484 | (3,411 )                    | (22 )%  | 82                                            | % |
| <b>Propane and Other</b> |                                |        |                             |         |                                               |   |
| Retained company volume  | 98                             | 134    | (36 )                       | (27 )%  | 1                                             | % |
| Divested volume          | -                              | 371    | (371 )                      | (100 )% | -                                             | % |
| Total Propane and Other  | 98                             | 505    | (407 )                      | (81 )%  | 1                                             | % |
| <b>Total</b>             |                                |        |                             |         |                                               |   |
| Retained company volume  | 14,744                         | 16,305 | (1,561 )                    | (10 )%  | 100                                           | % |
| Divested volume          | -                              | 8,363  | (8,363 )                    | (100 )% | -                                             | % |
| Total                    | 14,744                         | 24,668 | (9,924 )                    | (40 )%  | 100                                           | % |

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Actual Deliveries  
(In Thousands of Gallons)

|                          | Six Months Ended<br>June 30, |        | Increase /<br>(Decrease) in |         | 2010<br>Volumes<br>as %<br>of Total<br>Volume |   |
|--------------------------|------------------------------|--------|-----------------------------|---------|-----------------------------------------------|---|
|                          | 2010                         | 2009   | Amount                      | Percent |                                               |   |
| <b>Heating Oil</b>       |                              |        |                             |         |                                               |   |
| Retained company volume  | 20,816                       | 24,693 | (3,877 )                    | (16 )   | % 47                                          | % |
| Divested volume          | -                            | 23,483 | (23,483 )                   | (100 )  | % -                                           | % |
| Total Heating Oil        | 20,816                       | 48,176 | (27,360 )                   | (57 )   | % 47                                          | % |
| <b>Motor Fuels</b>       |                              |        |                             |         |                                               |   |
| Retained company volume  | 22,647                       | 23,053 | (406 )                      | (2 )    | % 51                                          | % |
| Divested volume          | -                            | 6,680  | (6,680 )                    | (100 )  | % -                                           | % |
| Total Motor Fuels        | 22,647                       | 29,733 | (7,086 )                    | (24 )   | % 51                                          | % |
| <b>Propane and Other</b> |                              |        |                             |         |                                               |   |
| Retained company volume  | 651                          | 714    | (63 )                       | (9 )    | % 2                                           | % |
| Divested volume          | -                            | 1,145  | (1,145 )                    | (100 )  | % -                                           | % |
| Total Propane and Other  | 651                          | 1,859  | (1,208 )                    | (65 )   | % 2                                           | % |
| <b>Total</b>             |                              |        |                             |         |                                               |   |
| Retained company volume  | 44,114                       | 48,460 | (4,346 )                    | (9 )    | % 100                                         | % |
| Divested volume          | -                            | 31,308 | (31,308 )                   | (100 )  | % -                                           | % |
| Total                    | 44,114                       | 79,768 | (35,654 )                   | (45 )   | % 100                                         | % |

Table of ContentsWeather Normalized Deliveries  
(In Thousands of Gallons)

|                         | Three Months Ended |        | Increase /    |         |     | 2010    |          |
|-------------------------|--------------------|--------|---------------|---------|-----|---------|----------|
|                         | June 30,           |        | (Decrease) in |         |     | Volumes |          |
|                         | 2010               | 2009   | Amount        | Percent |     | as %    | of Total |
|                         |                    |        |               |         |     | Volume  |          |
| Heating Oil             |                    |        |               |         |     |         |          |
| Retained company volume | 3,482              | 4,197  | (715 )        | (17 )%  | 22  |         | %        |
| Divested volume         | -                  | 4,356  | (4,356 )      | (100 )% | -   |         | %        |
| Total Heating Oil       | 3,482              | 8,553  | (5,071 )      | (59 )%  | 22  |         | %        |
|                         |                    |        |               |         |     |         |          |
| Motor Fuels             |                    |        |               |         |     |         |          |
| Retained company volume | 12,073             | 11,938 | 135           | 1 %     | 77  |         | %        |
| Divested volume         | -                  | 3,546  | (3,546 )      | (100 )% | -   |         | %        |
| Total Motor Fuels       | 12,073             | 15,484 | (3,411 )      | (22 )%  | 77  |         | %        |
|                         |                    |        |               |         |     |         |          |
| Propane and Other       |                    |        |               |         |     |         |          |
| Retained company volume | 125                | 134    | (9 )          | (7 )%   | 1   |         | %        |
| Divested volume         | -                  | 354    | (354 )        | (100 )% | -   |         | %        |
| Total Propane and Other | 125                | 488    | (363 )        | (74 )%  | 1   |         | %        |
|                         |                    |        |               |         |     |         |          |
| Total                   |                    |        |               |         |     |         |          |
| Retained company volume | 15,680             | 16,269 | (589 )        | (4 )%   | 100 |         | %        |
| Divested volume         | -                  | 8,256  | (8,256 )      | (100 )% | -   |         | %        |
| Total                   | 15,680             | 24,525 | (8,845 )      | (36 )%  | 100 |         | %        |

NoteGriffith uses an internal analysis based on historical weather data to remove the estimated impacts of weather on 1: delivery volumes.

Table of ContentsWeather Normalized Deliveries  
(In Thousands of Gallons)

|                          | Six Months Ended |        | Increase /    |         |   | 2010    |          |
|--------------------------|------------------|--------|---------------|---------|---|---------|----------|
|                          | June 30,         |        | (Decrease) in |         |   | Volumes |          |
|                          | 2010             | 2009   | Amount        | Percent |   | as %    | of Total |
|                          |                  |        |               |         |   | Volume  |          |
| <b>Heating Oil</b>       |                  |        |               |         |   |         |          |
| Retained company volume  | 21,341           | 23,572 | (2,231 )      | (9 )    | % | 48      | %        |
| Divested volume          | -                | 22,473 | (22,473 )     | (100 )  | % | -       | %        |
| Total Heating Oil        | 21,341           | 46,045 | (24,704 )     | (54 )   | % | 48      | %        |
| <b>Motor Fuels</b>       |                  |        |               |         |   |         |          |
| Retained company volume  | 22,647           | 23,053 | (406 )        | (2 )    | % | 51      | %        |
| Divested volume          | -                | 6,680  | (6,680 )      | (100 )  | % | -       | %        |
| Total Motor Fuels        | 22,647           | 29,733 | (7,086 )      | (24 )   | % | 51      | %        |
| <b>Propane and Other</b> |                  |        |               |         |   |         |          |
| Retained company volume  | 666              | 684    | (18 )         | (3 )    | % | 1       | %        |
| Divested volume          | -                | 1,087  | (1,087 )      | (100 )  | % | -       | %        |
| Total Propane and Other  | 666              | 1,771  | (1,105 )      | (62 )   | % | 1       | %        |
| <b>Total</b>             |                  |        |               |         |   |         |          |
| Retained company volume  | 44,654           | 47,309 | (2,655 )      | (6 )    | % | 100     | %        |
| Divested volume          | -                | 30,240 | (30,240 )     | (100 )  | % | -       | %        |
| Total                    | 44,654           | 77,549 | (32,895 )     | (42 )   | % | 100     | %        |

NoteGriffith uses an internal analysis based on historical weather data to remove the estimated impacts of weather on 1: delivery volumes.

Sales of petroleum products decreased 40% and 45% in the three and six months ended June 30, 2010 compared to the same periods in 2009. The decrease was due primarily to the sale of operations in certain geographic locations. Excluding the impact of the partial divestiture, sales were lower due to reduced sales of heating oil due to weather that was 32% and 8% warmer in the three and six months ended June 30, 2010 compared to the same periods in 2009 as measured by heating degree days and reduced sales to commercial customers that can burn both natural gas and oil.

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## Revenues

Change in Griffith Revenues  
(In Thousands)

|                                                 | Three Months Ended June |                 |                          |
|-------------------------------------------------|-------------------------|-----------------|--------------------------|
|                                                 | 2010                    | 30,<br>2009     | Increase /<br>(Decrease) |
| <b>Retained Company</b>                         |                         |                 |                          |
| Heating Oil                                     | \$7,127                 | \$9,244         | \$(2,117 )               |
| Motor Fuels                                     | 29,464                  | 23,118          | 6,346                    |
| Other                                           | 587                     | 695             | (108 )                   |
| Service Revenues                                | 4,933                   | 4,467           | 466                      |
| <b>Total Retained Company</b>                   | <b>\$42,111</b>         | <b>\$37,524</b> | <b>\$4,587</b>           |
| <b>Discontinued Operations(1)</b>               |                         |                 |                          |
| Heating Oil                                     | \$-                     | \$9,799         | \$(9,799 )               |
| Motor Fuels                                     | -                       | 6,851           | (6,851 )                 |
| Other                                           | -                       | 743             | (743 )                   |
| Service Revenues                                | -                       | 4,218           | (4,218 )                 |
| <b>Total Discontinued Operations</b>            | <b>\$-</b>              | <b>\$21,611</b> | <b>\$(21,611 )</b>       |
| <b>Reconciliation to Income Statement</b>       |                         |                 |                          |
| Total Revenue from discontinued operations      | \$-                     | \$21,611        | \$(21,611 )              |
| Expenses of discontinued operations             | -                       | 22,267          | (22,267 )                |
| Income tax benefit from discontinued operations | -                       | (272 )          | 272                      |
| <b>Net Income from discontinued operations</b>  | <b>\$-</b>              | <b>\$(384 )</b> | <b>\$384</b>             |

(1) The revenue by product line information of the Discontinued Operations is considered a non-GAAP financial measure; however, Management believes this information is useful in understanding the portion of operations disposed of as compared to the business retained. A reconciliation to net income from Discontinued Operations, the most comparable GAAP measure as shown on the CH Energy Group Consolidated Statement of Income, is provided.

Table of ContentsChange in Griffith Revenues  
(In Thousands)

|                                                 | Six Months Ended June<br>30, |                  | Increase /<br>(Decrease) |
|-------------------------------------------------|------------------------------|------------------|--------------------------|
|                                                 | 2010                         | 2009             |                          |
| <b>Retained Company</b>                         |                              |                  |                          |
| Heating Oil                                     | \$60,236                     | \$56,749         | \$3,487                  |
| Motor Fuels                                     | 54,639                       | 42,346           | 12,293                   |
| Other                                           | 2,462                        | 2,480            | (18)                     |
| Service Revenues                                | 9,241                        | 8,957            | 284                      |
| <b>Total Retained Company</b>                   | <b>\$126,578</b>             | <b>\$110,532</b> | <b>\$16,046</b>          |
| <b>Discontinued Operations(1)</b>               |                              |                  |                          |
| Heating Oil                                     | \$-                          | \$54,686         | \$(54,686)               |
| Motor Fuels                                     | -                            | 12,371           | (12,371)                 |
| Other                                           | -                            | 2,397            | (2,397)                  |
| Service Revenues                                | -                            | 8,534            | (8,534)                  |
| <b>Total Discontinued Operations</b>            | <b>\$-</b>                   | <b>\$77,988</b>  | <b>\$(77,988)</b>        |
| <b>Reconciliation to Income Statement</b>       |                              |                  |                          |
| Total Revenue from discontinued operations      | \$-                          | \$77,988         | \$(77,988)               |
| Expenses of discontinued operations             | -                            | 71,163           | (71,163)                 |
| Income tax expense from discontinued operations | -                            | 2,832            | (2,832)                  |
| <b>Net Income from discontinued operations</b>  | <b>\$-</b>                   | <b>\$3,993</b>   | <b>\$(3,993)</b>         |

(1) The revenue by product line information of the Discontinued Operations is considered a non-GAAP financial measure; however, Management believes this information is useful in understanding the portion of operations disposed of as compared to the business retained. A reconciliation to net income from Discontinued Operations, the most comparable GAAP measure as shown on the CH Energy Group Consolidated Statement of Income, is provided.

Revenues, net of the effect of weather hedging contracts decreased in the three and six months ended June 30, 2010 compared to the same periods in 2009, due primarily to the sale of operations in certain geographic locations. Net of divestitures, revenues have increased in the three and six months ended June 30, 2010 compared to the same periods in 2009 due to the increase in wholesale prices.

## Operating Expenses

For the three months ended June 30, 2010, operating expenses, net of divested operations, increased \$4.3 million, or 11%, from \$40.0 million in 2009 to \$44.3 million in 2010. The cost of petroleum products increased \$5.3 million, or 20%, due to higher wholesale market prices.

Other operating expenses, net of divested operations, decreased \$1.0 million for the three months ended June 30, 2010 when compared to the same period in 2009 due primarily to a decrease in uncollectible accounts and a reduction in other general and administration expenses.



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For the six months ended June 30, 2010, operating expenses, net of divested operations, increased \$18.4 million, or 18%, from \$103.0 million in 2009 to \$121.4 million in 2010. The cost of petroleum products increased \$20.2 million, or 27%, due to higher wholesale market prices.

Other operating expenses, net of divested operations, decreased \$1.8 million for the three months ended June 30, 2010 when compared to the same period in 2009 due primarily to a decrease in uncollectable accounts and a reduction in other general and administrative expenses.

Other Businesses and Investments

Revenues and Operating Expenses

In addition to the holding company, the operating results of Lyonsdale, CH-Greentree, CH-Auburn and CH Shirley are included in the Consolidated Financial Statements of CH Energy Group. Results for the three months ended June 30, 2010 compared to the same period in 2009 reflect an increase in operating revenues of \$0.7 million and an increase in operating expenses of \$1.5 million, with a net decrease in CH Energy Group's net income of \$0.6 million. Results for the six months ended June 30, 2010 compared to the same period in 2009 reflect an increase in operating revenues of \$1.6 million and an increase in operating expenses of \$2.0 million with a net decrease in CH Energy Group's net income of \$0.6 million. The increases in revenues and operating expenses are primarily attributable to CH-Greentree, which became operational in July 2009, and CH-Auburn, which became operational in February 2010. These increases were offset by a decrease in earnings from Lyonsdale as a result of the expiration of the production tax credits at the end of 2009 and a plant outage in June 2010 to repair equipment. The Lyonsdale plant is currently operating with improved efficiency in July.

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 and six months ended June 30, 2010 decreased by \$0.7 million and \$0.3 million compared to the same periods in 2009. Interest expense increased \$0.3 million and \$1.1 million for the three and six months ended June 30, 2010 due to the private placement of debt by the holding company late in the second quarter of 2009 to fund the unregulated portions of CH Energy Group, including Griffith. Additionally, a decrease in earnings at CHEC's Cornhusker investment decreased the year-over-year results by \$0.4 million for the second quarter and \$0.5 million for the first half of the year due to lower margins. For the six months ended June 30, 2010, these decreases in earnings were reduced by an increase in year-over-year results related to the reserve of \$1.3 million recorded in the first quarter of 2009 related to a development project of CHEC.

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## CH Energy Group – Income Taxes

Income taxes on income from continuing operations for CH Energy Group increased \$4.5 million and \$7.1 million for the three and six months ended June 30, 2010, compared to the same periods in 2009 due to an increase in pre-tax book income as well as the impact of the expiration of the production tax credits at Lyonsdale at December 31, 2009.

## CAPITAL RESOURCES AND LIQUIDITY

The growth of CH Energy Group's retained earnings in the six months ended June 30, 2010, contributed to the increase in the book value per share of its Common Stock from \$33.76 at December 31, 2009, to \$34.40 at June 30, 2010. Common equity comprised 51.5% of total capital (including short-term debt) at June 30, 2010, an increase from 51.1% at December 31, 2009. Book value per share at June 30, 2009 was \$33.47 and the common equity ratio was 52.1%.

## CH Energy Group - Cash Flow Summary

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

|                                 | Six Months Ended June<br>30, |         |
|---------------------------------|------------------------------|---------|
|                                 | 2010                         | 2009    |
| Net Cash Provided By/(Used In): |                              |         |
| Operating Activities            | \$22.3                       | \$117.1 |
| Investing Activities            | (37.3 )                      | (68.7 ) |
| Financing Activities            | (14.7 )                      | (23.1 ) |
| Net change for the period       | (29.7 )                      | 25.3    |
| Balance at beginning of period  | 73.4                         | 19.8    |
| Balance at end of period        | \$43.7                       | \$45.1  |

CH Energy Group's cash and cash equivalents decreased by \$29.7 million for the six months ended June 30, 2010 and increased by \$25.3 million for the six months ended June 30, 2009. For the six months ended June 30, 2010, CH Energy Group's cash flow from operations was insufficient to fund its investing activities, resulting in the use of short-term debt financing and the use of cash on hand. For the six months ended June 30, 2009, lower working capital requirements as a result of decreasing energy prices allowed CH Energy Group to absorb the redemption of Central Hudson's long-term debt at its maturity in January 2009 without refinancing, as well as repay short-term borrowings at both Central Hudson and Griffith. Additionally, during the second quarter of 2009, CH Energy Group issued \$50 million of 5-year notes to provide funding for unregulated investments. Further explanations of cash flow from operating, investing and financing activities are provided below.

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Net cash provided by operations was \$22.3 million and \$117.1 million for the six months ended June 30, 2010 and 2009, respectively. For both periods, cash provided by sales exceeded the period's expenses and working capital needs at both Central Hudson and Griffith. Strong cash flows from the end of 2009 enabled CH Energy Group to accelerate the funding of Central Hudson's pension and OPEB plans, which totaled \$35.4 million for the six months ended June 30, 2010 compared to \$6.9 million in the first half of 2009. In February 2010, Central Hudson experienced the most significant storm event in its history. The incremental costs of the storm restoration efforts have been deferred for future recovery from customers. Approximately \$16.6 million of these costs impacted cash flows in the first half of 2010. The remaining \$2.8 million, totaling \$19.4 million of incremental deferred storm costs, is expected to be paid in the third quarter. Central Hudson's MGP site remediation costs in excess of amounts recovered through rates and other regulatory mechanisms totaling \$7.9 million and \$2.0 million in the six months ended June 30, 2010 and 2009, respectively, also impacted cash from operations. These amounts have also been deferred for future recovery from customers.

Net cash used in investing activities of \$37.3 million and \$68.7 million in the six months ended June 30, 2010 and 2009, respectively. Cash was used primarily to fund investments in Central Hudson's electric and natural gas systems. In the first half of 2010, CH Energy Group invested approximately \$3.5 million in CH Shirley, bringing its total investment to \$16.8 million. In June 2009, Central Hudson closed on the purchase of certain real-estate in Kingston, NY, resulting in an increase of approximately \$13.0 million to plant additions.

Net cash used in financing activities was \$14.7 million and \$23.1 million in the six months ended June 30, 2010 and 2009, respectively. Financing activities have consistently included dividends of \$17.0 million. Short-term borrowings of \$3 million in the first half of 2010 were used primarily to supplement working capital needs. In the first half of 2009, Central Hudson's and Griffith's cash flows benefited from lower energy prices, which provided financing for investing activities and enabled CH Energy Group to redeem Central Hudson's long-term debt of \$20.0 million at maturity and pay down \$35.5 million of short-term borrowings. In April 2009, CH Energy Group issued \$50 million of 5-year notes, the proceeds of which were used primarily for the repayment of short-term debt and for general corporate purposes.

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## Central Hudson - Cash Flow Summary

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

|                                 | Six Months Ended June<br>30, |         |
|---------------------------------|------------------------------|---------|
|                                 | 2010                         | 2009    |
| Net Cash Provided By/(Used In): |                              |         |
| Operating Activities            | \$27.6                       | \$93.0  |
| Investing Activities            | (34.2 )                      | (63.3 ) |
| Financing Activities            | 2.4                          | (21.1 ) |
| Net change for the period       | (4.2 )                       | 8.6     |
| Balance at beginning of period  | 4.8                          | 2.5     |
| Balance at end of period        | \$0.6                        | \$11.1  |

Central Hudson's cash and cash equivalents decreased by \$4.2 million and increased by \$8.6 million for the six months ended June 30, 2010 and 2009, respectively. For the six months ended June 30, 2010, Central Hudson's cash flow from operations was insufficient to fund its investing activities, resulting in the use of short-term debt financing and the use of cash on hand. For the six months ended June 30, 2009, strong cash flow from operations as well as an equity infusion from CH Energy Group provided adequate funding for investment activities and allowed for the redemption of long-term debt and pay down of short-term debt borrowings. Further explanations of cash flow from operating, investing and financing activities are provided below.

Net cash provided by operations was \$27.6 million and \$93.0 million for the six months ended June 30, 2010 and 2009, respectively. For both periods, cash provided by sales exceeded the period's expenses and working capital needs. Strong cash flows from the end of 2009 enabled Central Hudson to accelerate funding of its pension and OPEB plans, which totaled \$35.4 million for the six months ended June 30, 2010 compared to \$6.9 million in the first half of 2009. In February 2010, Central Hudson experienced the most significant storm event in its history. The incremental costs of the storm restoration efforts have been deferred for future recovery from customers. Approximately \$16.6 million of these costs impacted cash flows in the first half of 2010. The remaining \$2.8 million, totaling \$19.4 million of incremental deferred storm costs, is expected to be paid in the third quarter. Central Hudson's MGP site remediation costs in excess of amounts recovered through rates and other regulatory mechanisms totaling \$7.9 million and \$2.0 million in the six months ended June 30, 2010 and 2009, respectively, also impacted cash from operations. These amounts have also been deferred for future recovery from customers.

Net cash used in investing activities of \$34.2 million and \$63.3 million in the six months ended June 30, 2010 and 2009, respectively, was primarily for investments in Central Hudson's electric and natural gas transmission and distribution systems. In June 2009, Central Hudson closed on the purchase of certain real-estate in Kingston, NY, resulting in an increase of approximately \$13.0 million to plant additions.

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Net cash provided by (used in) financing activities was \$2.4 million and \$(21.1) million, respectively for the six months ended June 30, 2010 and 2009. During these periods, Central Hudson retained its net income to invest in its transmission and distribution systems. Short-term borrowings in the first half of 2010 were used primarily to supplement working capital needs. In the first half of 2009, Central Hudson's cash flow benefited from lower energy prices and a \$25 million equity infusion from CH Energy Group, which provided financing for investing activities and enabled the Company to redeem its long-term debt of \$20.0 million at maturity and pay down \$25.5 million of short-term borrowings.

### Capitalization – Issuance of Treasury Stock

In May 2010, performance shares earned as of December 31, 2009 for the award cycle with a grant date of January 25, 2007 were issued to participants. Those recipients electing not to defer this compensation under the CH Energy Group Directors and Executives Deferred Compensation Plan received shares issued from CH Energy Group's treasury stock. A total of 9,983 shares were issued from CH Energy Group's treasury stock in May 2010. Additionally, due to the retirement of one of Central Hudson's executive officers on January 1, 2010, a pro-rated number of shares under the January 24, 2008 and January 26, 2009 grants were paid to this individual on July 1, 2010. An additional 2,134 shares were issued from CH Energy Group's treasury stock on this date in satisfaction of these awards.

For further information regarding the above equity compensation, see Note 11 - "Equity Based Compensation" of this Quarterly Report on Form 10-Q. The Company intends to continue to utilize shares issued from CH Energy Group's treasury stock for the payout of future performance awards.

### 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 \$31.4 million and \$6.6 million for the six months ended June 30, 2010 and 2009, respectively. The increase in year-over-year funding is primarily due to stronger than expected cash flows at the end of 2009, enabling Central Hudson to accelerate funding of the plan.

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Employer contributions for OPEB plans were \$3.8 million and zero during the six months ended June 30, 2010 and 2009, 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. Funding for the remainder of 2010 is expected to total approximately \$1.1 million.

Adverse conditions in the economy and financial markets over the past few years significantly reduced the value of the assets held in the Retirement Plan and the OPEB plans, and had a negative impact on the funded status of the plans. Although conditions improved recently, asset values have not fully recovered to their pre-recession levels. If future market conditions do not continue to improve, additional contributions will likely be required in future years. Management expects that such contributions will be incorporated in Central Hudson's ratemaking process over time. Central Hudson has investment policies for these plans, which include asset allocation ranges designed to achieve a reasonable return over the long-term, recognizing the impact of market volatility. Management cannot currently predict what impact the recent performance of the financial markets may have on the expected rate of return on plan assets or on future funding decisions.

During the first quarter of 2010, Management began a transition to a long-duration investment strategy for its fixed income pension plan assets. The transition is expected to take between two and three years and result in changing the asset allocation to a 50/50 split between debt and equity. Management's intent in making the change is 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. In addition, the Plan's investment policy is intended to:

- Achieve a positive rate of return for the Plan over the long-term that contributes to meeting the Plan's current and future obligations, including actuarial interest and benefit payment obligations.
- Earn long-term returns from capital appreciation and current income that at least keep pace with inflation over the long term by meeting or exceeding the benchmark index net of fees.

## 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 and performance share awards earned, no equity issuance is currently planned for 2010. CH Energy Group Common Stock has maintained a market premium to its book value.

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At June 30, 2010, 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 Key Bank National Association. If these lenders are unable to fulfill their commitment under these facilities, funding may not be available as needed.

Outstanding Balances  
(In Thousands)

|                                                            | June 30,<br>2010 | December<br>31,<br>2009 | June 30,<br>2009 |
|------------------------------------------------------------|------------------|-------------------------|------------------|
| <b>CH Energy Group:</b>                                    |                  |                         |                  |
| Uncommitted lines of credit at Central Hudson              | \$3,000          | \$-                     | \$-              |
| Current maturities of long-term debt at Central Hudson     | 24,000           | 24,000                  | -                |
| \$150 million revolving credit facility at Holding Company | -                | -                       | -                |
| \$125 million revolving credit facility at Central Hudson  | -                | -                       | -                |
| <b>Central Hudson:</b>                                     |                  |                         |                  |
| \$125 million revolving credit facility                    | -                | -                       | -                |
| Uncommitted lines of credit                                | 3,000            | -                       | -                |
| Current maturities of long-term debt                       | 24,000           | 24,000                  | -                |

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. During the second quarter of 2010, Moody's Investors Service ("Moody's")<sup>1</sup> raised Central Hudson's senior unsecured debt rating/outlook from 'A3'/negative to 'A3'/stable.

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 1999 NYSERDA Bonds, Series B, C, and D, totaling \$115.9 million, 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 the interest costs from Central Hudson's three series of variable rate 1999 NYSERDA Bonds. As a result, variations in interest rates on these bonds are deferred for future recovery from or refund to customers and therefore Central Hudson does not expect variations in interest rates to have any adverse impact on earnings.

<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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To mitigate the potential 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. Effective April 1, 2010, Central Hudson replaced the expiring one year rate caps for the bond series with three new rate caps with Key Bank National Association to protect against unexpected short-term interest rate increases. Two of the rate caps are one-year in length with notional amounts aligned to Series C and Series D. The third rate cap is two years in length with a notional amount that aligns with Series B. 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.

Central Hudson is currently evaluating what actions, if any, it may take in the future in connection with its 1999 NYSERDA Bonds, Series B, C and D. 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.

## 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 as of June 30, 2010, Central Hudson would be able to pay a maximum of \$34.4 million in dividends to CH Energy Group without violating the restriction by the PSC. 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. 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>2</sup> CH Energy Group's other subsidiaries do not have express restrictions on their ability to pay dividends.

Reference is made to the caption "Common Stock Dividends and Price Ranges" of Part II, Item 7 of the Corporations' 10-K Annual Report for a discussion of CH Energy Group's dividend payments. On June 17, 2010, the Board of Directors of CH Energy Group declared a quarterly dividend of \$0.54 per share, payable August 2, 2010, to shareholders of record as of July 9, 2010.

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<sup>2</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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REGULATORY MATTERS – PSC PROCEEDINGS

2010 Electric and Natural Gas Rate Increase  
(Case #09-E-0588 and #09-G-0589)

Background: On July 31, 2009, Central Hudson filed an electric and natural gas rate case with the PSC seeking to increase, effective July 1, 2010, electric and natural gas delivery rates, which have been in effect since July 1, 2009.

On February 3, 2010, a Settlement Joint Proposal, with the Company, PSC Staff and Multiple Intervenors as signatories, establishing rates for three years beginning July 1, 2010 (“RY1”), 2011 (“RY2”) and 2012 (“RY3”) was filed with the PSC. The major components of the Joint Proposal include:

- Electric delivery increases of \$30.2 million over the three year term with annual delivery rate increases of \$11.8 million, \$9.3 million and \$9.1 million effective July 1, 2010, 2011 and 2012, respectively. A natural gas delivery rate increase of \$9.7 million is to be phased in over three years with annual delivery increases of \$5.7 million, \$2.4 million and \$1.6 million effective July 1, 2010, 2011 and 2012, respectively. The electric rate increase will be moderated by the continuation of the electric Bill Credit mechanisms from Case 08-E-0887 reduced from \$20 million in the current rate year, to \$12 million and \$4 million in RY1 and RY2, respectively, after which the credit mechanism ceases.
  - A common equity ratio of 48% of permanent capital and a base return on common equity of 10% with earnings up to 10.5% retained by Central Hudson.

Final Order: On June 18, 2010, the PSC issued its Order Establishing Rate Plan adopting the terms of the February 3, 2010 Joint Proposal.

Petition of Central Hudson Gas & Electric Corporation for Authority to Defer Gas Debt Net Write-Off Expense for the Twelve Months Ended June 30, 2009  
(Case 09-M-0788)

Background: In October 2009, Central Hudson filed a petition with the PSC seeking approval to defer \$2.4 million of incremental electric and \$0.4 million of incremental gas net bad debt write-off expense incurred during the twelve months ended June 30, 2009 (Rate Year 3 of the 2005 Rate Plan) over the amounts provided for in our rates during that time period and over the gas deferral amount provided in Case 09-M-0140 for calendar year 2008.

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Final Order: In an Order issued May 14, 2010, the PSC granted approval of the Company's filed electric incremental bad debt expense, as modified by PSC Staff for bad debt expense associated with supply costs, and authorized deferral of \$2.3 million for the rate year. Because the period in this proceeding overlapped the period in the Commission's August 2009 approval of incremental gas bad debt expense in Case 09-M-0140, the PSC concluded the gas portion of the request in this proceeding should be based on the twelve months ended December 31, 2009 and authorized deferral on \$1.6 million of incremental gas bad debt expense. This change to the gas period resulted in an increase of \$1.1 million over the deferral recorded for this petition in the fall of 2009.

OTHER PSC PROCEEDINGS AND ADMINISTRATION INITIATIVES

CH Energy Group and Central Hudson continue to monitor a number of generic and specific regulatory proceedings. Neither CH Energy Group nor Central Hudson can predict the final outcome of New York State's energy policies, or the following PSC proceedings.

The ARRA Project Funding

(Case 09-E-0310 - In the Matter of American Recovery and Reinvestment Act of 2009 - Utility Filings for New York Economic Stimulus)

Background: The American Recovery and Reinvestment Act of 2009 ("ARRA") includes a United States Department of Energy ("DOE") administered program for Electric Delivery and Energy Reliability ("EDER"). The sum of \$4.5 billion is appropriated by ARRA for the EDER program to be dispersed by DOE through a competitive grant process. Additional funds may also be available through programs such as Transportation Electrification.

Notable Activity:

2010:

- Ø On April 1, 2010, Central Hudson submitted its compliance filing to implement an EDER surcharge to recover the revenue requirement associated with electric delivery and energy reliability projects as authorized by the PSC's Order that are determined to be eligible for recovery and are not being recovered through the Company's base rates.
- Ø On April 22, 2010, Central Hudson executed the sub award agreement with the NYISO associated with the phasor measurement unit and statewide capacitor program smart grid projects which have received funding from the DOE as part of the Smart Grid Investment Program.

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Energy Efficiency Programs (“EEPS”) and System Benefit Charge Collections

(Case 07-E-0548 - Proceeding on the Motion of the Commission Regarding an Energy Efficiency Program)

Final Order: In an Order issued June 24, 2010, the PSC approved new energy efficiency programs and additional gas and electric EEPS System Benefit Charge collections. The three Central Hudson approved programs include a Home Energy Reporting Program (electric and gas), the Small and Mid-Size Commercial Gas Efficiency Program, and the reinstatement of the Gas Residential HVAC program, that previously had over expended the original budget. The Order authorizes additional electric and gas EEPS collections of \$1.5 and \$1.3 million, respectively through 2011.

During the second quarter of 2010, there has been no significant activity related to the following proceedings:

- Renewable Portfolio Standard
  - Management Audit

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.

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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, 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; legislative, regulatory, and competitive developments; interest rates; access to capital; market risks; corn and ethanol prices; 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. Central Hudson replaced an expiring rate cap, effective April 1, 2010, with two one-year rate cap agreements covering certain issues of variable rate debt and a two-year rate cap covering another issue of such debt. The caps are based on the monthly weighted average of an index of tax-exempt variable rate debt, multiplied by 175% to align with the maximum rate formula of the three series of variable rate 1999 NYSERDA Bonds. The interest rate caps are evaluated quarterly and Central Hudson, under the terms of all three caps, would receive a payout for a particular series if the bonds of that series reset at rates above 5.0%. All three rate cap agreements were made with Key Bank National Association. 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 7A - "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.

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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.

CENTRAL HUDSON:

Former Manufactured Gas Plant Facilities

Little Britain Road

Asbestos Litigation

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.

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: August 5, 2010

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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.

Regulation

S-K

Item 601

Designation Exhibit Description

|               |                                                                                                                                                             |
|---------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <u>12</u>     | Statements Showing Computation of the Ratio of Earnings to Fixed Charges and the Ratio of Earnings to Combined Fixed Charges and Preferred Stock 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.                                                                                                              |



