CH ENERGY GROUP INC
Form 10-Q
November 04, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended__________________________September 30, 2008

OR

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

For the transition period from________________to____________________

Commission File Number	Registrant, State of Incorporation Address and Telephone Number	IRS Employer Identification No.
0-30512	CH Energy Group, Inc. (Incorporated in New York) 284 South Avenue Poughkeepsie, New York 12601-4879 (845) 452-2000	14-1804460
1-3268	Central Hudson Gas & Electric Corporation (Incorporated in New York) 284 South Avenue Poughkeepsie, New York 12601-4879 (845) 452-2000	14-0555980

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.

Yes x **No o**

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

Large Accelerated Filer x **Accelerated Filer o**

Non-Accelerated Filer o **Smaller Reporting Company o**

Indicate by check mark whether Central Hudson Gas & Electric Corporation is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer o **Accelerated Filer o**

Non-Accelerated Filer x **Smaller Reporting Company o**

Indicate by check mark whether CH Energy Group, Inc. is a shell company (as defined in Rule 12b-2 of the Exchange Act):

Yes o **No x**

Indicate by check mark whether Central Hudson Gas & Electric Corporation is a shell company (as defined in Rule 12b-2 of the Exchange Act):

Yes o **No x**

As of the close of business on November 3, 2008, (i) CH Energy Group, Inc. had outstanding 15,783,083 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 SEPTEMBER 30, 2008

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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.

PART 1 – FINANCIAL INFORMATION

Item 1 – Consolidated Financial Statements

CH ENERGY GROUP CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)
(In Thousands, except per share amounts)

	For the 3 Months Ended September 30, 2008	2007
Operating Revenues		
Electric	$ 179,001	$ 167,949
Natural gas	21,773	21,622
Competitive business subsidiaries:		
Petroleum Products	88,618	60,431
Other	11,395	10,114
Total Operating Revenues	300,787	260,116
Operating Expenses		
Operation:		
Purchased electricity and fuel used in electric generation	116,900	107,706
Purchased natural gas	13,405	13,579
Purchased petroleum	82,002	54,247
Other expenses of operation - regulated activities	39,247	38,589
Other expenses of operation - competitive business subsidiaries	20,508	17,409
Depreciation and amortization	9,713	8,956
Taxes, other than income tax	9,634	8,990
Total Operating Expenses	291,409	249,476
Operating Income	9,378	10,640
Other Income and Deductions		
Income from unconsolidated affiliates	123	171
Interest on regulatory assets and investment income	1,339	1,685
Other - net	(41)	—
Total Other Income	1,421	1,856
Interest Charges		
Interest on long-term debt	4,926	4,616
Interest on regulatory liabilities and other interest	1,485	1,340
Total Interest Charges	6,411	5,956

Income before income taxes, preferred dividends of subsidiary and minority interest	4,388	6,540
Income Taxes	1,193	1,885
Minority Interest	68	84
Income before preferred dividends of subsidiary	3,127	4,571
Cumulative preferred stock dividends of subsidiary	242	242
Net Income	2,885	4,329
Dividends Declared on Common Stock	8,523	—
Change in Retained Earnings	$ (5,638)	$ 4,329
Common Stock:		
Average shares outstanding		
Basic	15,771	15,762
Diluted	15,819	15,785
Earnings per share		
Basic	$ 0.18	$ 0.27
Diluted	$ 0.18	$ 0.27
Dividends Declared Per Share	$ 0.54	$ —

The Notes to Consolidated Financial Statements are an integral part hereof.

CH ENERGY GROUP CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)
(In Thousands, except per share amounts)

	For the 9 Months Ended September 30, 2008	2007
Operating Revenues		
Electric	$ 468,659	$ 470,069
Natural gas	142,267	126,055
Petroleum Products	379,653	250,627
Other	33,653	27,727
Total Operating Revenues	1,024,232	874,478
Operating Expenses		
Operation:		
Purchased electricity and fuel used in electric generation	291,675	298,974
Purchased natural gas	98,008	84,841
Purchased petroleum	334,982	209,625
Other expenses of operation - regulated activities	123,414	115,747
Other expenses of operation - competitive business subsidiaries	65,716	53,958
Depreciation and amortization	28,722	27,086
Taxes, other than income tax	28,425	26,137
Total Operating Expenses	970,942	816,368
Operating Income	53,290	58,110
Other Income and Deductions		
Income from unconsolidated affiliates	459	1,715
Interest on regulatory assets and investment income	4,404	6,079
Other - net	(159)	(1,018)
Total Other Income	4,704	6,776
Interest Charges		
Interest on long-term debt	15,064	13,603
Interest on regulatory liabilities and other interest	4,116	3,212
Total Interest Charges	19,180	16,815
Income before income taxes, preferred dividends of subsidiary and minority interest	38,814	48,071
Income Taxes	14,102	16,141
Minority Interest	129	(13)
Income before preferred dividends of subsidiary	24,583	31,943

Cumulative preferred stock dividends of subsidiary	727	727
Net Income	23,856	31,216
Dividends Declared on Common Stock	25,564	17,023
Change in Retained Earnings	$ (1,708)	$ 14,193
Common Stock:		
Average shares outstanding		
Basic	15,767	15,762
Diluted	15,815	15,786
Earnings per share		
Basic	$ 1.51	$ 1.98
Diluted	$ 1.51	$ 1.97
Dividends Declared Per Share	$ 1.62	$ 1.08

The Notes to Consolidated Financial Statements are an integral part hereof.

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

	For the 3 Months Ended September 30, 2008	For the 3 Months Ended September 30, 2007
Net Income	$ 2,885	$ 4,329
Other Comprehensive Income:		
Fair value of cash flow hedges - FAS 133:		
Unrealized (losses) gains - net of tax of $125 and ($59)	(188)	89
Reclassification for gains realized in net income - net of tax of $0 and $2	—	(3)
Net unrealized (losses) gains on investments held by equity method investees - net of tax of $61 and ($4)	(91)	6
Other comprehensive (loss) income	(279)	92
Comprehensive Income	$ 2,606	$ 4,421

	For the 9 Months Ended September 30, 2008	For the 9 Months Ended September 30, 2007
Net Income	$ 23,856	$ 31,216
Other Comprehensive Income:		
Fair value of cash flow hedges - FAS 133:		
Unrealized gains (losses) - net of tax of ($867) and $123	1,300	(185)
Reclassification for (gains) losses realized in net income - net of tax of $1,343 and ($425)	(2,014)	638
Net unrealized (losses) gains on investments held by equity method investees - net of tax of $214 and ($401)	(321)	601

Other comprehensive (loss) income	(1,035)	1,054
Comprehensive Income	$ 22,821	$ 32,270

The Notes to Consolidated Financial Statements are an integral part hereof.

CH ENERGY GROUP CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)
(In Thousands)

	For the 9 Months Ended September 30, 2008	2007
Operating Activities:		
Net Income	$ 23,856	$ 31,216
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	28,722	27,086
Deferred income taxes - net	6,674	5,369
Provision for uncollectibles	7,736	3,989
Undistributed equity in earnings of unconsolidated affiliates	844	(225)
Pension expense	9,493	9,760
OPEB expense	7,551	7,761
Regulatory liability - rate moderation	(5,901)	(15,426)
Regulatory asset amortization	3,322	—
Minority interest	129	(13)
Gain on sale of property and plant	(98)	(627)
Changes in operating assets and liabilities - net of business acquisitions:		
Accounts receivable, unbilled revenues and other receivables	15,682	(20,167)
Fuel and materials and supplies	(14,066)	(8,809)
Special deposits and prepayments	4,231	(4,767)
Prepaid income taxes	—	6,801
Accounts payable	11,352	(1,749)
Accrued taxes and interest	(2,264)	(2,213)
Customer advances	2,577	(2,947)
Pension plan contribution	(12,895)	(6,214)
OPEB contribution	(4,200)	(4,747)
Regulatory asset - MGP site remediations	(1,051)	(4,805)
Deferred natural gas and electric costs	(4,832)	(598)
Customer benefit fund	(369)	(614)
Other - net	1,464	12,695
Net cash provided by operating activities	77,957	30,756
Investing Activities:		
Purchase of short-term investments	—	(54,451)
Proceeds from sale of short-term investments	3,545	76,812
Issuance of notes receivable	—	(3,993)
Proceeds from sale of property and plant	181	4,574
Additions to utility and other property and plant	(62,573)	(61,599)
Acquisitions made by competitive business subsidiaries	(9,262)	(17,705)
Other - net	958	(779)
Net cash used in investing activities	(67,151)	(57,141)

Financing Activities:		
Redemption of long-term debt	—	(33,000)
Proceeds from issuance of long-term debt	—	66,000
Borrowings of short-term debt - net	9,000	23,000
Dividends paid on common stock	(25,559)	(25,535)
Other	5,765	(598)
Net cash (used in) provided by financing activities	(10,794)	29,867
Net Change in Cash and Cash Equivalents	12	3,482
Cash and Cash Equivalents at Beginning of Period	11,313	24,121
Cash and Cash Equivalents at End of Period	$ 11,325	$ 27,603
Supplemental Disclosure of Cash Flow Information:		
Interest paid	$ 18,475	$ 17,442
Federal and state income tax paid	$ 9,986	$ 12,496
Additions to plant included in liabilities	$ 16,349	$ 2,599

The Notes to Consolidated Financial Statements are an integral part hereof.

CH ENERGY GROUP CONSOLIDATED BALANCE SHEET (UNAUDITED)
(In Thousands)

ASSETS	September 30, 2008	December 31, 2007	September 30, 2007
Utility Plant			
Electric	$ 842,006	$ 807,412	$ 798,503
Natural gas	259,377	248,894	244,166
Common	118,148	113,494	115,343
	1,219,531	1,169,800	1,158,012
Less: Accumulated depreciation	368,065	354,353	353,867
	851,466	815,447	804,145
Construction work in progress	80,302	75,866	60,868
Net Utility Plant	931,768	891,313	865,013
Other Property and Plant - net	32,607	31,236	30,131
Current Assets			
Cash and cash equivalents	11,325	11,313	27,603
Short-term investments - available-for-sale securities	—	3,545	20,250
Accounts receivable from customers - net of allowance for doubtful accounts of $6.5 million, $4.8 million, and $4.5 million, respectively	119,338	139,107	101,907
Accrued unbilled utility revenues	8,087	12,022	7,826
Other receivables	6,854	6,568	4,785
Fuel and materials and supplies	47,794	33,321	38,170
Regulatory assets	52,179	35,012	38,332
Prepaid income tax	—	—	4,443
Fair value of derivative instruments	28	1,218	143
Special deposits and prepayments	23,904	28,108	28,389
Accumulated deferred income tax	7,077	7,378	6,011
Total Current Assets	276,586	277,592	277,859
Deferred Charges and Other Assets			
Regulatory assets - pension plan	40,641	51,393	88,147
Regulatory assets - OPEB	—	15,967	30,394
Regulatory assets	117,075	86,821	84,520
Goodwill	67,564	63,433	58,450
Other intangible assets - net	37,037	35,720	34,508

Unamortized debt expense	4,067	4,345	4,370
Investments in unconsolidated affiliates	9,882	12,226	12,676
Other investments	9,464	8,613	8,390
Other	16,146	16,089	16,218
Total Deferred Charges and Other Assets	301,876	294,607	337,673
Total Assets	$ 1,542,837	$ 1,494,748	$ 1,510,676

The Notes to Consolidated Financial Statements are an integral part hereof.

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

CAPITALIZATION AND LIABILITIES	September 30, 2008	December 31, 2007	September 30, 2007
Capitalization			
Common Stock, 30,000,000 shares authorized: $0.10 par value - 15,783,083 shares outstanding at September 30, 2008; 15,762,000 shares outstanding at December 31, and September 30, 2007; 16,862,087 shares issued	$ 1,686	$ 1,686	$ 1,686
Paid-in capital	350,828	351,230	351,230
Retained earnings	213,931	215,639	221,248
Treasury stock (1,079,004 shares September 30, 2008; 1,100,087 shares December 31, and September 30, 2007)	(45,386)	(46,252)	(46,252)
Accumulated other comprehensive income	138	1,173	525
Capital stock expense	(328)	(328)	(328)
Total Common Shareholders' Equity	520,869	523,148	528,109
Cumulative Preferred Stock			
Not subject to mandatory redemption	21,027	21,027	21,027
Long-term debt	383,893	403,892	403,891
Total Capitalization	925,789	948,067	953,027
Current Liabilities			
Current maturities of long-term debt	20,000	—	—
Notes payable	51,500	42,500	36,000
Accounts payable	54,596	44,880	38,480
Accrued interest	4,288	6,127	3,432
Dividends payable	8,765	8,760	242
Accrued vacation and payroll	6,485	7,640	6,586
Customer advances	25,622	23,045	22,785
Customer deposits	8,413	8,126	8,065
Regulatory liabilities	3,922	9,392	12,226
Fair value of derivative instruments	14,080	1,235	7,284
Accrued environmental remediation costs	7,876	2,703	2,562
Accrued income taxes	409	834	—
Deferred revenues	7,424	7,437	5,724
Other	31,651	16,820	15,689
Total Current Liabilities	245,031	179,499	159,075
Deferred Credits and Other Liabilities			
Regulatory liabilities	128,814	111,663	105,382
Regulatory liabilities - OPEB	10,519	—	—
Operating reserves	4,802	5,212	5,219
Accrued environmental remediation costs	21,860	15,027	15,542

Accrued OPEB costs	30,019	55,560	70,217
Accrued pension costs	474	11,202	43,823
Other	13,795	19,805	13,171
Total Deferred Credits and Other Liabilities	210,283	218,469	253,354
Minority Interest	1,474	1,345	1,454
Accumulated Deferred Income Tax	160,260	147,368	143,766
Commitments and Contingencies			
Total Capitalization and Liabilities	$ 1,542,837	$ 1,494,748	$ 1,510,676

The Notes to Consolidated Financial Statements are an integral part hereof.

CENTRAL HUDSON CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)
(In Thousands)

	For the 3 Months Ended September 30, 2008	2007
Operating Revenues		
Electric	$ 179,001	$ 167,949
Natural gas	21,773	21,622
Total Operating Revenues	200,774	189,571
Operating Expenses		
Operation:		
Purchased electricity and fuel used in electric generation	115,413	106,255
Purchased natural gas	13,405	13,579
Other expenses of operation	39,247	38,589
Depreciation and amortization	7,566	7,083
Taxes, other than income tax	9,452	8,864
Total Operating Expenses	185,083	174,370
Operating Income	15,691	15,201
Other Income and Deductions		
Interest on regulatory assets and other interest income	962	1,002
Other - net	120	18
Total Other Income	1,082	1,020
Interest Charges		
Interest on other long-term debt	4,926	4,616
Interest on regulatory liabilities and other interest	1,374	1,339
Total Interest Charges	6,300	5,955
Income Before Income Taxes	10,473	10,266
Income Taxes	4,346	4,161
Net Income	6,127	6,105

Dividends Declared on Cumulative Preferred Stock	242	242
Income Available for Common Stock	$ 5,885	$ 5,863

The Notes to Consolidated Financial Statements are an integral part hereof.

CENTRAL HUDSON CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)
(In Thousands)

	For the 9 Months Ended September 30, 2008	2007
Operating Revenues		
Electric	$ 468,659	$ 470,069
Natural gas	142,267	126,055
Total Operating Revenues	610,926	596,124
Operating Expenses		
Operation:		
Purchased electricity and fuel used in electric generation	287,156	295,268
Purchased natural gas	98,008	84,841
Other expenses of operation	123,414	115,747
Depreciation and amortization	22,380	21,513
Taxes, other than income tax	27,886	25,720
Total Operating Expenses	558,844	543,089
Operating Income	52,082	53,035
Other Income and Deductions		
Interest on regulatory assets and other interest income	3,290	4,090
Other - net	558	(541)
Total Other Income	3,848	3,549
Interest Charges		
Interest on other long-term debt	15,064	13,603
Interest on regulatory liabilities and other interest	3,589	3,211
Total Interest Charges	18,653	16,814
Income Before Income Taxes	37,277	39,770
Income Taxes	15,212	15,032
Net Income	22,065	24,738

Dividends Declared on Cumulative Preferred Stock	727	727
Income Available for Common Stock	$ 21,338	$ 24,011

The Notes to Consolidated Financial Statements are an integral part hereof.

CENTRAL HUDSON CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)
(In Thousands)

	For the 3 Months Ended September 30,	
	2008	2007
Net Income	$ 6,127	$ 6,105
Other Comprehensive Income	—	—
Comprehensive Income	$ 6,127	$ 6,105

	For the 9 Months Ended September 30,	
	2008	2007
Net Income	$ 22,065	$ 24,738
Other Comprehensive Income	—	—
Comprehensive Income	$ 22,065	$ 24,738

The Notes to Consolidated Financial Statements are an integral part hereof.

CENTRAL HUDSON CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)
(In Thousands)

	For the 9 Months Ended September 30, 2008	2007
Operating Activities:		
Net Income	$ 22,065	$ 24,738
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	22,380	21,513
Deferred income taxes - net	4,090	4,401
Provision for uncollectibles	5,326	3,316
Pension expense	9,493	9,760
OPEB expense	7,551	7,761
Regulatory liability - rate moderation	(5,901)	(15,426)
Regulatory asset amortization	3,322	—
Gain on sale of property and plant	—	(468)
Changes in operating assets and liabilities - net:		
Accounts receivable, unbilled revenues and other receivables	7,751	(21,817)
Fuel and materials and supplies	(15,729)	(8,369)
Special deposits and prepayments	5,093	(1,356)
Prepaid income taxes	—	6,969
Accounts payable	15,857	(2,871)
Accrued taxes and interest	899	(2,213)
Customer advances	(5,194)	(7,223)
Pension plan contribution	(12,895)	(6,214)
OPEB contribution	(4,200)	(4,747)
Regulatory asset - MGP site remediations	(1,051)	(4,805)
Deferred natural gas and electric costs	(4,832)	(598)
Customer benefit fund	(369)	(614)
Other - net	3,360	12,381
Net cash provided by operating activities	57,016	14,118
Investing Activities:		
Proceeds from sale of property and plant	—	862
Additions to utility plant	(58,268)	(59,827)
Other - net	(1,180)	(541)
Net cash used in investing activities	(59,448)	(59,506)
Financing Activities:		
Redemption of long-term debt	—	(33,000)
Proceeds from issuance of long-term debt	—	66,000
(Repayments) borrowings of short-term debt - net	(6,000)	23,000
Dividends paid on cumulative preferred stock	(727)	(727)
Dividends paid to parent - CH Energy Group	—	(8,500)

Other		5,765		(598)
Net cash (used in) provided by financing activities		(962)		46,175
Net Change in Cash and Cash Equivalents		(3,394)		787
Cash and Cash Equivalents - Beginning of Period		3,592		1,710
Cash and Cash Equivalents - End of Period	$	198	$	2,497
Supplemental Disclosure of Cash Flow Information:				
Interest paid	$	17,950	$	17,442
Federal and state income tax paid	$	8,642	$	12,322
Plant additions in liabilities	$	16,349	$	2,599

The Notes to Consolidated Financial Statements are an integral part hereof.

CENTRAL HUDSON CONSOLIDATED BALANCE SHEET (UNAUDITED)
(In Thousands)

ASSETS	September 30, 2008	December 31, 2007	September 30, 2007
Utility Plant			
Electric	$ 842,006	$ 807,412	$ 798,503
Natural gas	259,377	248,894	244,166
Common	118,148	113,494	115,343
	1,219,531	1,169,800	1,158,012
Less: Accumulated depreciation	368,065	354,353	353,867
	851,466	815,447	804,145
Construction work in progress	80,302	75,866	60,868
Net Utility Plant	931,768	891,313	865,013
Other Property and Plant - net	413	415	416
Current Assets			
Cash and cash equivalents	198	3,592	2,497
Accounts receivable from customers - net of allowance for doubtful accounts of $3.6 million, $2.8 million, and $2.7 million, respectively	72,206	81,264	70,438
Accrued unbilled utility revenues	8,087	12,022	7,826
Other receivables	2,774	2,858	1,654
Fuel and materials and supplies - at average cost	39,999	24,270	31,173
Regulatory assets	52,179	35,012	38,332
Prepaid income tax	—	—	3,508
Special deposits and prepayments	19,415	24,481	22,365
Accumulated deferred income tax	5,754	6,676	5,064
Total Current Assets	200,612	190,175	182,857
Deferred Charges and Other Assets			
Regulatory assets - pension plan	40,641	51,393	88,147
Regulatory assets - OPEB	—	15,967	30,394
Regulatory assets	117,075	86,821	84,520
Unamortized debt expense	4,067	4,345	4,370
Other investments	9,325	8,570	8,357
Other	3,338	3,695	4,108

Total Deferred Charges and Other Assets	174,446	170,791	219,896
Total Assets	$ 1,307,239	$ 1,252,694	$ 1,268,182

The Notes to Consolidated Financial Statements are an integral part hereof.

CENTRAL HUDSON CONSOLIDATED BALANCE SHEET (CONT'D) (UNAUDITED)
(In Thousands)

CAPITALIZATION AND LIABILITIES	September 30, 2008	December 31, 2007	September 30, 2007
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	174,980	174,980	174,980
Retained earnings	114,014	92,676	84,221
Capital stock expense	(4,961)	(4,961)	(4,961)
Total Common Shareholders' Equity	368,344	347,006	338,551
Cumulative Preferred Stock			
Not subject to mandatory redemption	21,027	21,027	21,027
Long-term debt	383,893	403,892	403,891
Total Capitalization	773,264	771,925	763,469
Current Liabilities			
Current maturities of long-term debt	20,000	—	—
Notes payable	36,500	42,500	36,000
Accounts payable	43,992	29,771	27,936
Accrued interest	4,275	6,127	3,432
Dividends payable - preferred stock	242	242	242
Accrued vacation and payroll	4,537	5,235	5,005
Customer advances	5,648	10,842	8,684
Customer deposits	8,285	7,990	7,943
Regulatory liabilities	3,922	9,392	12,226
Fair value of derivative instruments	14,080	1,235	7,284
Accrued income taxes	6,040	3,289	—
Accrued environmental remediation costs	7,680	2,450	2,304
Other	25,666	10,695	10,276
Total Current Liabilities	180,867	129,768	121,332
Deferred Credits and Other Liabilities			
Regulatory liabilities	128,814	111,663	105,382
Regulatory liabilities - OPEB	10,519	—	—
Operating reserves	3,776	4,243	4,171
Accrued environmental remediation costs	20,640	13,679	14,161
Accrued OPEB costs	30,019	55,560	70,217
Accrued pension costs	474	11,202	43,823
Other	13,225	19,390	12,502

Total Deferred Credits and Other Liabilities	207,467	215,737	250,256
Accumulated Deferred Income Tax	145,641	135,264	133,125
Commitments and Contingencies			
Total Capitalization and Liabilities	$ 1,307,239	$ 1,252,694	$ 1,268,182

The Notes to Consolidated Financial Statements are an integral part hereof.

NOTES TO CONSOLIDATED 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's wholly owned subsidiary Griffith Energy Services, Inc. ("Griffith") and CHEC's Lyonsdale Biomass, LLC ("Lyonsdale") subsidiary are consolidated in the financial statements of CH Energy Group. The minority interest shown on CH Energy Group's Consolidated Financial Statements represents the minority owner's proportionate share of the income and equity of Lyonsdale. Intercompany balances and transactions have been eliminated in consolidation.

The Consolidated Financial Statements were prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP"), which for regulated public utilities, includes the Financial Accounting Standards Board's ("FASB") Statement of Financial Accounting Standards ("SFAS") No. 71, Accounting for the Effects of Certain Types of Regulation ("SFAS 71").

Unaudited Consolidated Financial Statements

The accompanying Consolidated Financial Statements of CH Energy Group and 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 condensed, unaudited, quarterly Consolidated Financial Statements do not contain the detail or footnote disclosures concerning accounting policies and other matters which would be included in annual Consolidated Financial Statements and, accordingly, should be read in conjunction with the audited Consolidated 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, 2007 (the "Corporations' 10-K Annual Report").

CH Energy Group's and Central Hudson's balance sheets as of September 30, 2007, are not required to be included in this Quarterly Report on Form 10-Q; however, these balance sheets are included for supplemental analysis purposes.

Reclassification

Certain amounts in the 2007 Consolidated Financial Statements have been reclassified to conform to the 2008 presentation.

Cash and Cash Equivalents

For purposes of the Consolidated Statement of Cash Flows and the Consolidated Balance Sheet, CH Energy Group and Central Hudson consider temporary cash investments with a maturity (when purchased) of three months or less, to be cash equivalents. The Company reclassifies cash overdrafts to other current liabilities. Cash overdrafts included in other current liabilities were $5.8 million as of September 30, 2008. There were no cash overdrafts as of December 31, 2007 and September 30, 2007.

Revenue Recognition

Reference is made to the caption “Revenue Recognition” of Note 1 – “Summary of Significant Accounting Policies” to the Consolidated Financial Statements of the Corporations’ 10-K Annual Report. CH Energy Group’s deferred revenue balances as of September 30, 2008, December 31, 2007 and September 30, 2007 were $7.4 million, $7.4 million, and $5.7 million, respectively. The deferred revenue balance will be recognized in competitive business subsidiaries operating revenues over the 12-month term of the respective customer contract.

As required by the New York State Public Service Commission (“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).

Depreciation and Amortization

Reference is made to the caption “Depreciation and Amortization” of Note 1 – “Summary of Significant Accounting Policies” to the Consolidated Financial Statements of the Corporations’ 10-K Annual Report. For financial statement purposes, Central Hudson’s depreciation provisions are computed on the straight-line method using rates based on studies of the estimated useful lives and estimated net salvage value of properties. The anticipated costs of removing assets upon retirement are provided for over the life of those assets as a component of depreciation expense. This depreciation method is consistent with industry practice and the applicable depreciation rates have been approved by the PSC.

SFAS No. 143, titled *Accounting for Asset Retirement Obligations* (“SFAS 143”), 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 SFAS 71, Central Hudson continues to accrue for the future cost of removal for its rate-regulated natural gas and electric utility assets. In accordance with SFAS 143, Central Hudson has classified $49.5 million, $47.8 million, and $47.2 million of net cost of removal as regulatory liabilities as of September 30, 2008, December 31, 2007, and September 30, 2007, respectively. For further information, see Note 1 – "Summary of Significant Accounting Policies" under the caption "Depreciation and Amortization" to the Consolidated Financial Statements of the Corporations' 10-K Annual Report.

For financial statement purposes, both Griffith and Lyonsdale have depreciation provisions that are computed on the straight-line method using depreciation rates based on the estimated useful lives of depreciable property and equipment. Expenditures for major renewals and betterments, which extend the useful lives of property and equipment, are capitalized. Expenditures for maintenance and repairs are charged to expense when incurred. Retirements, sales, and disposals of assets are recorded by removing the cost and accumulated depreciation from the asset and accumulated depreciation accounts with any resulting gain or loss reflected in earnings.

CH Energy Group's depreciation expense, which includes Central Hudson, Griffith, and Lyonsdale, was $25.6 million and $24.6 million for the nine months ended September 30, 2008, and September 30, 2007, respectively.

Accumulated depreciation for Griffith was $22.7 million, $20.5 million, and $19.7 million as of September 30, 2008, December 31, 2007, and September 30, 2007, respectively.

Accumulated depreciation for Lyonsdale was $2.0 million, $1.3 million, and $1.1 million as of September 30, 2008, December 31, 2007, and September 30, 2007, respectively.

Amortization of intangibles (other than goodwill) is computed on the straight-line method over an asset's expected useful life. See Note 6 – "Goodwill and Other Intangible Assets" for further discussion.

Earnings Per Share

Reference is made to the caption "Earnings Per Share" of Note 1 – "Summary of Significant Accounting Policies" to the Consolidated Financial Statements of the Corporations' 10-K Annual Report.

In the calculation of earnings per share (basic and diluted) of CH Energy Group's common stock ("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 was 47,827 shares and 23,097 shares for the quarters ended September 30, 2008 and 2007, respectively.

The average dilutive effect of CH Energy Group's stock options, performance shares and restricted shares was 47,814 shares and 23,473 shares for the nine months ended September 30, 2008 and 2007, respectively. Certain stock options are excluded from the calculation of diluted earnings per share because the exercise prices of those options were greater than the average market price per share of Common Stock for some of the periods presented. Excluded from the calculation were options for 39,980 shares for the three and nine months ended September 30, 2008, and 18,420 shares for the three and nine months ended September 30, 2007. For additional information regarding stock options and performance shares, see Note 11 – "Equity-Based Compensation."

Equity-Based Compensation

CH Energy Group has an equity-based employee compensation plan that is described in Note 11 – "Equity-Based Compensation."

Parental Guarantees

Reference is made to the captions "Parental Guarantees" of Note 1 – "Summary of Significant Accounting Policies" to the Consolidated Financial Statements of the Corporations' 10-K Annual Report. CH Energy Group and CHEC have issued guarantees in conjunction with certain commodity and derivative contracts that provide financial or performance assurance to third parties on behalf of a subsidiary. The guarantees are entered into primarily to support or enhance the creditworthiness otherwise attributed to a subsidiary on a stand-alone basis, thereby facilitating the extension of sufficient credit to accomplish the relevant subsidiary's intended commercial purposes.

The guarantees described above have been issued to counter-parties to assure the payment, when due, of certain obligations incurred by CH Energy Group subsidiaries in physical and financial transactions related to heating oil, propane, other petroleum products, and weather and commodity hedges. At September 30, 2008, the aggregate amount of subsidiary obligations covered by these guarantees was $21.4 million. Where liabilities exist under the commodity-related contracts subject to these guarantees, these liabilities are included in CH Energy Group's Consolidated Balance Sheet.

Other Guarantees

Central Hudson has a reimbursement obligation with respect to a $6.8 million standby letter of credit issued by a financial institution to support a real estate transaction that is expected to close in mid-2009. No premium has been received or is receivable by Central Hudson in connection with this letter of credit. This uncollateralized letter of credit was issued February 29, 2008 and expires September 30, 2009. The maximum potential amount of future payments Central Hudson could be required to make under this reimbursement obligation is $6.8 million. As of September

30, 2008, no events or circumstances had arisen that would require Central Hudson to perform under this reimbursement obligation, and the carrying amount of the liability was zero.

Product Warranties

Griffith offers a multi-year warranty on heating system installations and has recorded liabilities for the estimated costs of fulfilling its obligations under these warranties. CH Energy Group's approximate aggregate potential liability for product warranties at September 30, 2008, December 31, 2007 and September 30, 2007 was not material. CH Energy Group's liabilities for these product warranties were determined by accruing the present value of future warranty expense based on the number and type of contracts outstanding and historical costs for these contracts.

FASB Interpretation Number (FIN) 46R – Consolidation of Variable Interest Entities

Reference is made to the caption "FIN 46 – Consolidation of Variable Interest Entities" of Note 1 – "Summary of Significant Accounting Policies" to the Consolidated Financial Statements of the Corporations' 10-K Annual Report.

CH Energy Group and its subsidiaries do not have any interests in special purpose entities and do not have material affiliations with any variable interest entities that require consolidation under the provisions of FIN 46R.

Fair Value Measurements

CH Energy Group adopted SFAS No. 157, *Fair Value Measurements* ("SFAS 157") on January 1, 2008. The guidance in SFAS 157 establishes a framework for measuring fair value in GAAP, improves consistency and comparability in reporting fair value, and expands disclosures regarding fair value measurements.

SFAS 157 establishes a fair value hierarchy to prioritize the inputs used in valuation techniques based on observable and unobservable data, but not the valuation techniques themselves. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing an asset or a liability. Classification of inputs is determined based on the lowest level input that is significant to the overall valuation. The fair value hierarchy prioritizes the inputs to valuation techniques into the three categories described below.

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

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

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

On September 30, 2008, CH Energy Group reported one major category of assets at fair value: derivative contracts. Derivative contracts are measured on a recurring basis. The fair value of CH Energy Group's reportable assets and liabilities at September 30, 2008 by category and hierarchy level follows.

		Fair Value Measure at September 30, 2008 Using		
Asset or Liability Category	**Fair Value as of September 30, 2008**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Liabilities				
Derivative Contracts				
Central Hudson - Electric	$ (3,807)	$ —	$ —	$ (3,807)
Central Hudson - Natural Gas	(10,273)	(10,273)	—	—
TOTAL LIABILITIES	**$ (14,080)**	**$ (10,273)**	**$ —**	**$ (3,807)**

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 for the three and nine months ended September 30, 2008:

	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2008
	(in Thousands)	
Balance at Beginning of Period	$ 8,362	$ 77
Unrealized gains and (losses)	(12,130)	(2,697)
Realized gains and (losses)	(39)	(1,187)
Purchases, issuances, sales and settlements	—	—
Transfers in and/or out of Level 3	—	—
Balance at End of Period	$ (3,807)	$ (3,807)
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 September 30, 2008	$ —	$ —

Derivative Contracts – CH Energy Group's derivative contracts are typically either exchange-traded or over-the counter ("OTC") instruments. Exchange-traded and OTC derivatives are valued based on listed market prices. On September 30, 2008, Central Hudson's derivative contracts were comprised of wholesale contracts for differences ("Swap Contracts") for electricity and natural gas. Electric Swap Contracts are valued using the New York Independent System Operator ("NYISO") Swap Futures Closing Price as posted on NYMEX Clearport and have been classified as Level 3 assets in the fair value hierarchy since Clearport uses unobservable inputs in its determination of the futures closing price. Management believes these prices approximate fair value for these instruments. Natural gas Swap Contracts are valued using the NYMEX Natural Gas Futures Closing Price plus the NYMEX Clearport Natural Gas Basis Swap Futures Closing Price or counterparty valuations, and have been classified within Level 1 of the fair value hierarchy. For natural gas Swap Contracts valued using the NYMEX Natural Gas Futures Closing Price plus the NYMEX Clearport Natural Gas Basis Swap Futures Closing Price, the latter component is immaterial. As of September 30, 2008, all of Central Hudson's open electric and natural gas Swap Contracts were in a liability position and therefore the only credit risk considered in the fair value assessment is that associated with Central Hudson. Based on Central Hudson's current senior unsecured debt ratings by Moody's, S&P and Fitch, management has concluded that the credit risk associated with Central Hudson's nonperformance related to these instruments is not significant and therefore no adjustment was made to the fair value. Unrealized gains and losses on Central Hudson's derivative contracts have no impact on earnings. Realized gains and losses on Central Hudson's derivative instruments are conveyed to or recovered from customers through PSC-authorized deferral accounting mechanisms, with no impact on cash flows, results of operations, or liquidity. Realized gains and losses on Central Hudson's Level 3 energy derivative assets are reported as part of purchased electricity and fuel used in electric generation in Central Hudson's Consolidated Statement of Income as the corresponding amounts are either recovered from or returned to customers through electric cost adjustment clauses in revenues. Central Hudson's derivative contracts also include weather hedging instruments and interest rate call options, the fair values of which are immaterial.

The fair value of Griffith's derivative positions on September 30, 2008 was immaterial.

For additional information about CH Energy Group's derivative contracts, see Note 14 – "Accounting for Derivative Instruments and Hedging Activities."

Income Tax

Reference is made to Note 4 – "Income Tax" to the Consolidated Financial Statements of the Corporations' 10-K Annual Report.

Common Stock Dividends

CH Energy Group's ability to pay dividends may be 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. 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 is currently rated "A" or the equivalent. As of September 30, 2008, the amount of Central Hudson's retained earnings that were free of restrictions was $30.2 million. CH Energy Group's other subsidiaries do not have restrictions on their ability to pay dividends.

On September 30, 2008, the Board of Directors of CH Energy Group declared a quarterly dividend of $0.54 per share, payable November 3, 2008, to shareholders of record as of October 10, 2008.

On October 2, 2007, the Board of Directors of CH Energy Group declared a quarterly dividend of $0.54 per share, payable November 1, 2007, to shareholders of record as of October 12, 2007. Although this dividend was declared at the beginning of the fourth quarter, it represented the third quarter 2007 dividend declaration.

NOTE 2 – REGULATORY MATTERS

Reference is made to the captions “2001 Rate Order” and “2006 Rate Order” of Note 2 – “Regulatory Matters” to the Consolidated Financial Statements of the Corporations’ 10-K Annual Report.

Summary of Regulatory Assets and Liabilities

The following table sets forth Central Hudson's regulatory assets and liabilities:

	September 30, 2008	December 31, 2007	September 30, 2007
		(In Thousands)	
Regulatory Assets (Debits):			
Current:			
Deferred purchased electric and natural gas costs	$ 34,309	$ 29,477	$ 26,765
FAS 133 - deferred unrealized losses	14,080	1,235	7,284
Residual natural gas deferred balances	3,790	4,300	4,283
	52,179	35,012	38,332
Long-term:			
Deferred pension costs	40,641	51,393	88,147
Carrying charges - pension reserve	9,621	6,477	5,275
Deferred costs - manufactured gas sites	30,704	17,386	17,459
Deferred OPEB costs	—	15,967	30,394
Deferred debt expense on re-acquired debt	5,589	6,032	6,180
Residual natural gas deferred balances	21,909	25,298	26,181
Income taxes recoverable through future rates	38,312	22,399	20,557
Other	10,940	9,229	8,868
	157,716	154,181	203,061
Total Regulatory Assets	$ 209,895	$ 189,193	$ 241,393
Regulatory Liabilities (Credits):			
Current:			
Rate moderation - excess electric depreciation reserve	$ —	$ 5,930	$ 8,748
Income taxes refundable through future rates	3,922	3,462	3,478
	3,922	9,392	12,226
Long-term:			
Customer benefit fund	4,496	4,865	5,145
Deferred cost of removal	49,513	47,819	47,167
Excess electric depreciation reserve	32,399	32,371	32,552
Income taxes refundable through future rates	17,732	9,488	9,452
Deferred OPEB costs	10,519	—	—
Other	24,674	17,120	11,066

		139,333		111,663		105,382
Total Regulatory Liabilities	$	143,255	$	121,055	$	117,608
Net Regulatory Assets	$	66,640	$	68,138	$	123,785

NOTE 3 - NEW ACCOUNTING STANDARDS AND OTHER FASB PROJECTS

Reference is made to the captions "Standards Under Assessment" and "Standards Implemented" of Note 3 – "New Accounting Standards and Other FASB Projects" to the Financial Statements of the Corporations' 10-K Annual Report.

New accounting standards are summarized below, and explanations of the underlying information for all standards (except those not currently applicable to CH Energy Group and its subsidiaries) follow the chart.

Impact*	Status	Category	Reference	Title	Issued Date	Effective Date
1	Under Assessment	Credit Derivatives	FSP No. FAS 133-1and FIN 45-4	Disclosures About Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161	Sep-08	Jan-09
1	Under Assessment	GAAP Hierarchy	SFAS 162	The Hierarchy of Generally Accepted Accounting Principles	May-08	TBD
1	Under Assessment	Share-Based Payments	FSP EITF 03-6-1	Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities	May-08	Jan-09
1	Under Assessment	Derivative Instruments	SFAS 161	Disclosures About Derivative Instruments and Hedging Activities	Mar-08	Jan-09
1	Under Assessment	Business Combinations	SFAS 141R	Business Combinations - Revised	Dec-07	Jan-09
1	Under Assessment	Noncontrolling Interests	SFAS 160	Noncontrolling Interest in Consolidated Financial Statements	Dec-07	Jan-09
1	Under Assessment	Intangible Assets	FSP 142-3	Determining the Useful Life of Intangible Assets	Nov-07	Jan-09
1	Implemented	Fair Value	SFAS 157	Fair Value Measurement	Sep-06	Jan-08
2	Implemented	Fair Value	FSP 157-1	Application of SFAS No. 133 and Other Accounting Pronouncements that Address Fair Value Measurements for Purposes of Lease Classification or Measurement Under SFAS No. 13	Feb-08	Jan-08
2	Implemented	Fair Value	FSP 157-2	Effective Date of SFAS No. 157	Feb-08	Jan-08
2	Implemented	Fair Value	FSP 157-3	Effective upon issuance	Oct-08	Oct-08
2	Implemented	Pension, Postretirement	SFAS 158	Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - Measurement Date Change	Sep-06	Jan-08
2	Implemented	Fair Value	SFAS 159	Establishing the Fair Value Option for Financial Assets and Liabilities	Feb-07	Jan-08
2	Implemented	Derivative Instruments	FIN 39-1	Amendment of FIN No. 39, Offsetting of Amounts Related to Certain Contracts	Apr-07	Jan-08
3	Not Currently Applicable	Financial Guarantee Insurance Contracts	SFAS 163	Accounting for Financial Guarantee Insurance Contracts - an Interpretation of FASB Statement No. 60	May-08	Jan-09
3	Not Currently Applicable	Convertible Debt	FSP APB 14-1	Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion	May-08	Jan-09
3	Not Currently Applicable	Financial Assets	FSP 140-3	Accounting for Transfers of Financial Assets and Repurchase Financing Transactions	Feb-08	Jan-09
3			EITF 07-1		Nov-07	Jan-09

Not Currently Applicable	Collaborative Arrangements	Accounting for Collaborative Arrangements

*Impact Key:

1 - No significant impact on the financial condition, results of operations and cash flows of CH Energy Group and its subsidiaries expected.

2 - Following the chart, the impacts are separately disclosed as of standard effective dates.

3 - No current impact on the financial condition, results of operations and cash flows of CH Energy Group and its subsidiaries.

Standards Under Assessment

FSP No. FAS 133-1 and FIN 45-4 require more detailed disclosures about credit derivatives, including the potential adverse effects of changes in credit risk on the financial position, financial performance, and cash flows of the sellers of the instruments. The guidance also amends SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, to require increased disclosures by sellers of credit derivatives, including credit derivatives embedded in hybrid instruments. The FSP also amends FIN 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others*, to require an additional disclosure about the current status of the payment or performance risk of a guarantee. Finally, the FSP clarifies that SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities – an amendment of SFAS No. 133*, is effective for any reporting period beginning after November 15, 2008.

SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles in the United States (the GAAP hierarchy). It is not expected that this Statement will result in a change in current practice.

FSP No. EITF 03-6-1 clarifies that instruments granted in share-based payment transactions are considered participating securities prior to vesting if they contain non-forfeitable rights to dividends or dividend equivalents and therefore need to be included in the computation of EPS under the two-class method described in SFAS No. 128, *Earnings Per Share*. This FSP is effective for financial statements issued for fiscal years beginning after December 15, 2008 with early application not permitted. Upon adoption, all prior-period EPS data presented shall be adjusted retrospectively to conform with the provisions of this FSP.

SFAS 161 requires entities to provide qualitative disclosures about the objectives and strategies for using derivatives, and quantitative data about the fair value of and gains and losses on derivative contracts. SFAS 161 also requires more information about the location and amounts of derivative instruments in financial statements, how derivatives are accounted for under SFAS 133, and how hedges affect the entity's financial position, financial performance and cash flows.

The objective of SFAS 141R is to improve the relevance, representational faithfulness, and comparability of the information that an entity provides in its financial reports about a business combination and its effects. This standard applies to all transactions or events in which an entity obtains control of one or more businesses, and to combinations achieved without the transfer of consideration. Under SFAS 141R acquisition-related costs can no longer be capitalized and included as a cost of the acquired business, but rather these costs must be expensed in the period incurred. The Company will implement this standard as of January 1, 2009. Early adoption of this standard is prohibited. However, the company will expense acquisition-related costs incurred in the current year that relate to an acquisition not expected to close until after the adoption of SFAS 141R. These amounts will not provide future economic benefits and therefore should not be considered an asset in accordance with SFAS No. 6, titled *Elements of Financial Statements*.

SFAS 160 amends Accounting Research Bulletin (“ARB”) 51 to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. The objective of SFAS 160 is to improve the relevance, comparability and transparency of the financial information that an entity provides in its consolidated financial statements.

FASB Staff Position (“FSP”) No. FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of recognized intangible assets under SFAS 142, titled *Goodwill and Other Intangible Assets*. The guidance is intended to improve consistency between the recognized useful asset life, and the period of expected cash flows used to measure the fair value of the asset.

Standards Implemented

CH Energy Group adopted SFAS 157 on January 1, 2008. SFAS 157 changes the definition of fair value, establishes a framework for measuring it in accordance with GAAP, and expands disclosures about fair value measurements. CH Energy Group did not record a transitional adjustment upon adoption of SFAS 157. CH Energy Group also adopted FSP No. FAS 157-1, and FSP No. FAS 157-2 on January 1, 2008.

FSP No. FAS 157-1 amends SFAS 157 to exclude SFAS 13, titled *Accounting for Leases*, and other accounting pronouncements that address fair value measurements for purposes of lease classification or measurement under SFAS 13. However, the scope exception does not apply to assets acquired and liabilities assumed in a business combination that are required to be measured at fair value under SFAS 141 or 141R regardless of whether those assets and liabilities are related to leases. FSP No. FAS 157-2 delays the effective date of SFAS 157 for non-financial assets and non-financial liabilities to fiscal years beginning after November 15, 2008. Non-financial assets or liabilities that are recognized or disclosed at fair value at least once a year are excluded from this deferral. As a result of this partial deferral, CH Energy Group has not applied the provisions of SFAS 157 to its asset retirement obligation, goodwill, and other non-financial assets and liabilities acquired in its business combinations. FSP No. FAS 157-3 provides guidance on how to value securities in markets that are not active. For additional information on fair value measurements, see Note 1 – “Summary of Significant Accounting Policies.”

SFAS 158 requires an employer that sponsors a defined benefit pension or other post-retirement plans to report the current economic status (i.e., the overfunded or underfunded status) of each such plan in its statement of financial position by measuring plan assets and benefit obligations on the same date as the employer's assets and liabilities. SFAS 158 became effective for fiscal years ending after December 15, 2006, with an exception for the provision to change the measurement date, which is effective and was implemented by CH Energy Group on January 1, 2008. For additional information about the impact of this adjustment, see Note 10 – "Post-Employment Benefits." Reference is made to Note 10 – "Post-Employment Benefits" to the Consolidated Financial Statements of the Corporations' 10-K Annual Report.

SFAS 159 permits entities to choose to elect, at specified election dates, to measure eligible financial instruments at fair value. CH Energy Group adopted SFAS 159 on January 1, 2008, but did not make any fair value elections for instruments eligible under this standard upon adoption, or in the nine months ended September 30, 2008.

CH Energy Group adopted FSP No. FIN 39-1 on January 1, 2008. FSP No. FIN 39-1 permits a reporting entity to offset fair value amounts recognized for the rights to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) against fair value amounts recognized for derivative agreements if the receivable or payable arises from the same master netting arrangement as the derivative instrument. This FSP also replaces the terms "conditional contracts" and "exchange contracts" with the term "derivative contracts" (as defined by SFAS 133). In accordance with FSP No. FIN 39-1, CH Energy Group has elected net presentation for its derivative contracts under master netting agreements. At September 30, 2008, Central Hudson was the only subsidiary with master netting agreements in place for its derivatives, and had no collateral posted against the fair value amount of derivatives under any of these agreements. If collateral were posted, CH Energy Group's policy is to also report the collateral positions on a net basis. For more information regarding CH Energy Group's derivative contracts, see Note 14 – "Accounting for Derivative Instruments and Hedging Activities."

NOTE 4 – INCOME TAX

Reference is made to Note 4 – "Income Tax" to the Consolidated Financial Statements of the Corporations' 10-K Annual Report.

FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements in accordance with SFAS 109, titled *Accounting for Income Taxes*. Due to no uncertain tax positions, no interest or penalties have been recorded in the financial statements. If CH Energy Group and its subsidiaries incur any interest or penalties on underpayment of income taxes, the amounts would be included on the line "Other liabilities" on the Consolidated Balance Sheet and on the line "Other – net" on the Consolidated Statement of Income. 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. The statute of limitations for federal tax years 2004 through 2007 are still open for audit. The New York State income tax return is currently open for audit for tax years 2002 through 2007, and tax years 2002 through 2004 are currently under audit.

NOTE 5 - ACQUISITIONS AND INVESTMENTS

Reference is made to Note 5 - "Acquisitions and Investments" to the Consolidated Financial Statements of the Corporations' 10-K Annual Report.

Acquisitions

During the nine months ended September 30, 2008, Griffith acquired fuel distribution companies as follows (In Millions):

3 Month Period Ended	# of Acquired Companies	Purchase Price	Total Intangible Assets(1)	Goodwill(2)	Total Tangible Assets(3)
March 31, 2008	3	$ 9.2	$ 8.4	$ 4.1	$ 0.8
June 30, 2008	1	$ 0.1	$ 0.1	$ —	$ —
September 30, 2008	—	$ —	$ —	$ —	$ —
Total	4	$ 9.3	$ 8.5	$ 4.1	$ 0.8

(1) Including goodwill.

(2) The amount of purchase price assigned to goodwill is based upon initial assessments and may be subject to adjustment.

(3) Total tangible assets include $0.4 million in liquid petroleum and spare parts inventory, and $0.4 million in vehicles.

NOTE 6 - GOODWILL AND OTHER INTANGIBLE ASSETS

Reference is made to Note 6 – "Goodwill and Other Intangible Assets" to the Consolidated Financial Statements of the Corporations' 10-K Annual Report.

Intangible assets include separate, identifiable, intangible assets such as customer relationships, trademarks, and covenants not to compete. Intangible assets with finite lives are amortized over their useful lives. The estimated useful life for customer relationships is 15 years, which is believed to be appropriate in view of average historical customer turnover. The estimated useful lives of trademarks range from 5 to 15 years and are based upon management's assessment of several variables such as brand recognition, management's plan for the use of the trademark, and other factors that will affect the duration of the trademark's life. The useful life of a covenant not to compete is based on the expiration date of the covenant, generally between two and ten years. Intangible assets with indefinite useful lives and goodwill are no longer amortized, but instead are periodically reviewed for impairment. Griffith tests the goodwill and intangible assets remaining on the balance sheet for impairment annually in the fourth quarter, and retests between annual tests if an event should occur or circumstances arise that would more likely than not reduce the fair value below its carrying amount.

The weighted average amortization periods for customer relationships, trademarks and covenants not to compete are 15 years, 11 years, and 8.7 years, respectively. The weighted average amortization period for all amortizable intangible assets is 14.6 years.

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

	September 30, 2008		December 31, 2007		September 30, 2007	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Customer Relationships	$ 55,141	$ 21,328	$ 51,451	$ 18,593	$ 51,854	$ 17,578
Trademarks	2,956	300	2,490	101	—	—
Covenants Not to Compete	1,660	1,092	1,420	947	1,415	1,183
Total Amortizable Intangibles	$ 59,757	$ 22,720	$ 55,361	$ 19,641	$ 53,269	$ 18,761

Amortization expense was $3.1 million and $2.5 million for each of the nine months ended September 30, 2008, and 2007, respectively. The estimated annual amortization expense for each of the next five years, assuming no new acquisitions, is approximately $4.0 million. The carrying amount for goodwill was $67.6 million as of September 30, 2008, $63.4 million as of December 31, 2007, and $58.4 million as of September 30, 2007.

NOTE 7 – FUEL AND MATERIALS AND SUPPLIES

Fuel and materials and supplies for CH Energy Group are valued using the following accounting methods:

Company	Valuation Method
Central Hudson	Average cost
Griffith	FIFO
Lyonsdale	Weighted average cost

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

	CH Energy Group (In Thousands)		
	September 30, 2008	December 31, 2007	September 30, 2007
Natural gas	$ 32,019	$ 16,250	$ 23,138
Petroleum products and propane	5,367	6,794	4,758
Fuel used In electric generation	822	696	721
Materials and supplies	9,586	9,581	9,553
Total	$ 47,794	$ 33,321	$ 38,170

	Central Hudson (In Thousands)		
	September 30, 2008	December 31, 2007	September 30, 2007
Natural gas	$ 32,019	$ 16,250	$ 23,138
Petroleum products and propane	557	554	557
Fuel used In electric generation	344	371	371
Materials and supplies	7,079	7,095	7,107
Total	$ 39,999	$ 24,270	$ 31,173

NOTE 8 - SHORT-TERM BORROWING ARRANGEMENTS

CH Energy Group maintains a $150 million revolving credit agreement with several commercial banks to provide committed liquidity. This agreement's term expires in February 2013. As of September 30, 2008, CH Energy Group's outstanding loan balance under this agreement was $15 million. As of December 31, 2007 and September 30, 2007, there were no borrowings under this agreement.

Central Hudson maintains a revolving credit agreement with several commercial banks, pursuant to PSC authorization, in the amount of $125 million, for a five-year term ending January 2, 2012. As of September 30, 2008, Central Hudson's loan under this agreement was $15 million. As of December 31, 2007 and September 30, 2007, there were no borrowings under Central Hudson's revolving credit agreement.

Central Hudson also maintains certain uncommitted lines of credit that diversify its sources and provide competitive options to minimize its cost of short-term debt. As of September 30, 2008, December 31, 2007 and September 30, 2007, Central Hudson's outstanding balance on these lines of credit, in aggregate was $21.5 million, $42.5 million and $36.0 million, respectively.

As of September 30, 2008, Central Hudson had $20 million in current maturities of long-term debt in addition to the $36.5 million in total short-term notes payable discussed above.

On January 18, 2008, Griffith established an uncommitted line of credit of up to $25 million with a commercial bank for the purpose of funding seasonal working capital, and for general corporate purposes. As of September 30, 2008 there were no borrowings under this agreement. The obligations of Griffith under the line of credit are guaranteed by CH Energy Group and CHEC.

NOTE 9 – LONG-TERM DEBT

Reference is made to Note 9 – “Capitalization – Long-term Debt” to the Consolidated Financial Statements of the Corporations’ 10-K Annual Report.

On January 15, 2009, Central Hudson’s $20 million 1999 Series C 6.0% notes will mature, which Central Hudson plans to refinance. These notes are classified as a current maturity of long-term debt in the consolidated balance sheet.

NYSERDA

Central Hudson has five debt series that were issued in conjunction with the sale of tax-exempt pollution control revenue bonds by New York State Energy Research and Development Authority (“NYSERDA”). These NYSERDA bonds, totaling $166 million, are insured by AMBAC Assurance Corporation (“AMBAC”). On June 5, 2008, Standard & Poor’s Rating Services (“Standard & Poor’s”) lowered its financial strength ratings on AMBAC to ‘AA’ from ‘AAA’ and placed the ratings on Credit Watch with negative implications. On August 14, 2008, Standard & Poor’s removed AMBAC from review for downgrade, but maintained a negative outlook. On June 19, 2008, Moody’s Investors Service (“Moody’s”) downgraded the insurance financial strength ratings of AMBAC to Aa3 from Aaa, and assigned a negative outlook. On September 18, 2008, Moody’s placed its Aa3 insurance financial strength rating for AMBAC under review for possible downgrade. Rating actions by Standard & Poor’s and Moody’s extend to Central Hudson’s five AMBAC-insured issues. Central Hudson is not able to predict the impact that the downgrade of AMBAC and other bond insurers will have on the market for insured municipal debt, but does not currently believe this situation will have a significant impact on the Company’s earnings or its ability to obtain debt financing. The underlying rating and outlook on these bonds and Central Hudson’s other senior unsecured debt is A/stable by Standard & Poor’s and Fitch Ratings and A2/negative by Moody’s.

Central Hudson’s 1998 NYSERDA Series A Bonds, totaling $16.7 million have a term interest rate of 3.0% that is scheduled to re-set on December 1, 2008. Central Hudson plans to re-market the bonds at then-current rates under the terms of the applicable indenture.

Central Hudson's 1999 NYSERDA Series A Bonds, totaling $33.4 million, have an interest rate that is fixed to maturity in 2027 at 5.45%.

Central Hudson's 1999 NYSERDA Bonds, Series B, C, and D, totaling $115.9 million, are multi-modal bonds that are currently in auction rate mode. Beginning in 1999 when the bonds were issued, the bonds' interest rate has been reset every 35 days in a dutch auction. Auctions in the market for municipal auction rate securities have experienced widespread failures since early in 2008. Generally, an auction failure occurs because there is an insufficient level of demand to purchase the bonds and the bondholders who want to sell must hold the bonds for the next interest rate period. Since February 2008, all auctions for Central Hudson's three series of auction rate bonds have failed. As a consequence, the interest rate paid to the bondholders has been set to the then prevailing maximum rate defined in the trust indenture. Central Hudson's maximum rate results in interest rates that are generally higher than expected results from the auction process. For the foreseeable future, Central Hudson expects the maximum rate, determined on the date of each auction, to be 175% of the yield on an index of tax-exempt short-term debt, or its approximate equivalent. Since the first auction failure in February, the applicable maximum rate for Central Hudson's bonds has ranged from 2.62% to 9.01%. In its Orders, the PSC has authorized deferral accounting treatment for the interest costs from Central Hudson's three series of 1999 NYSERDA Bonds. As a result, variations in interest rates on these bonds are deferred for future recovery or refunding to customers and Central Hudson does not expect the auction failures to have a material 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 for short-term tax-exempt debt. A two-year, 4.5% cap on $115.9 million of debt expired March 31, 2008. Central Hudson replaced the expiring cap, effective April 1, 2008, with a one-year cap set at 3.0%. The interest rate cap is evaluated quarterly and Central Hudson would receive a payout under the terms of the cap if the index for short-term tax-exempt debt exceeds an average of 3.0% for the quarter.

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 from auction rate to other interest rate modes 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. Managerial, professional and supervisory employees ("non-union") hired prior to January 1, 2008, may become eligible for these benefits if they reach retirement age while employed by Central Hudson. In order to reduce the total costs of these benefits, other postretirement benefit ("OPEB") plan changes were negotiated with the IBEW Local 320 for unionized employees and certain retired employees effective May 1, 2008. Plans were also amended to eliminate post-retirement benefits for union employees hired after May 1, 2008.

The following are the components of Central Hudson's net periodic benefit costs for its pension and OPEB plans for the three and nine months ended September 30, 2008 and 2007. The OPEB amounts for both years reflect the effect of the Medicare Prescription Drug, Improvement and Modernization Act of 2003 under the provisions of FSP No. FAS 106-2, titled *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003*.

	Three Months Ended September 30,			
	Pension Benefits		OPEB	
	2008	2007	2008	2007
	(In Thousands)		(In Thousands)	
Service cost	$ 1,942	$ 1,977	$ 513	$ 1,414
Interest cost	6,238	5,928	1,862	3,538
Expected return on plan assets	(7,578)	(6,999)	(1,774)	(1,739)
Amortization of:				
Prior service cost (credit)	517	494	(1,571)	(314)
Transitional obligation (asset)	—	—	642	642
Recognized actuarial loss	3,102	3,344	1,687	2,731
Net periodic benefit cost	$ 4,221	$ 4,744	$ 1,359	$ 6,272

	Nine Months Ended September 30,			
	Pension Benefits		OPEB	
	2008	2007	2008	2007
	(In Thousands)		(In Thousands)	
Service cost	$ 5,826	$ 5,931	$ 1,540	$ 3,241
Interest cost	18,716	17,783	5,586	7,694
Expected return on plan assets	(22,734)	(20,998)	(5,322)	(4,907)
Amortization of:				
Prior service cost (credit)	1,551	1,482	(4,713)	(942)
Transitional obligation (asset)	—	—	1,925	1,924
Recognized actuarial loss	9,306	10,033	5,061	5,249
Net periodic benefit cost	$ 12,665	$ 14,231	$ 4,077	$ 12,259

In accordance with the measurement date provisions of SFAS 158, Central Hudson changed its measurement date for its pension plan (the "Retirement Plan") from September 30 to December 31 for its financial statements for the year ended December

31, 2008. Central Hudson elected the “15-month-transition approach” and recorded an adjustment in the first quarter of 2008 to recognize the effects of the change in measurement date. This adjustment represents 3/15ths of the net periodic pension cost determined for the period from October 1, 2007 to December 31, 2008; the remaining 12/15ths of the net periodic pension cost is being recorded over the twelve months ended December 31, 2008. The recording of this adjustment increased Central Hudson’s pension liability by $0.4 million, comprised of the following components (In Thousands):

Adjustment for 3/15ths of net periodic pension costs	$	2,788
Adjustment for amortization of prior service costs and actuarial losses [(a)]		(2,426)
Net increase to pension liability	$	362

(a) Liability recognized previously on Consolidated Balance Sheet upon initial implementation of SFAS 158

The valuation of the pension benefit obligation (“PBO”) reported in Note 10 - “Post-Employment Benefits” to the Consolidated Financial Statements of the Corporations’ 10-K Annual Report was determined for the Retirement Plan ($409 million) using a 6.2% discount rate and for the OPEB plan ($148 million) using a 6.4% discount rate (as determined using the Citigroup Pension Discount Curve reflecting projected pension cash flows). The measurement date of September 30, 2007 was used for this valuation. It should be noted that based on these modifications resulting from the union negotiations previously discussed, the estimated PBO for the OPEB plan has decreased from $148 million at December 31, 2007 to approximately $120 million.

Decisions to fund Central Hudson’s Retirement Plan are based on several factors, including the value of plan assets relative to plan liabilities, legislative requirements, regulatory considerations, and available corporate resources. The liabilities are affected by the discount rate used to determine benefit obligations and the accruing of additional benefits. Central Hudson considers the provisions of the Pension Protection Act of 2006 to determine funding requirements for the near-term and future periods. Funding for the 2008 Retirement Plan year totaled $12.5 million as of September 30, 2008. No additional funding is expected in 2008.

Employer contributions for OPEB totaled $4.2 million and $4.7 million during the nine months ended September 30, 2008, and 2007, 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, and corporate resources. No further funding is anticipated in 2008.

For additional information related to pensions and OPEB, reference is made to Note 10 – “Post-Employment Benefits” to the Consolidated Financial Statements of the Corporations’ 10-K Annual Report.

NOTE 11 - EQUITY-BASED COMPENSATION

Reference is made to Note 11 – “Equity-Based Compensation Incentive Plans” to the Consolidated Financial Statements of the Corporations’ 10-K Annual Report, to the description of CH Energy Group’s Long-Term Performance-Based Incentive Plan (the “2000 Plan”), and to the description of CH Energy Group’s Long-Term Equity Incentive Plan (the “2006 Plan”) described therein.

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

Grant Date	Performance Shares Granted	Performance Shares Outstanding at September 30, 2008
April 25, 2006	20,710	18,290
January 25, 2007	21,330	20,240
January 24, 2008	33,440	33,440

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 following table summarizes compensation expense for performance shares through September 30, 2008 and 2007.

	Three Months Ended September 30,		Nine Months Ended September 30,	
Description	2008	2007	2008	2007
Performance shares - compensation expense	$ 228,000	$ 339,000	$ 294,000	$ 696,000

On May 1, 2008, performance shares earned as of December 31, 2007 for the award cycle with a grant date of March 24, 2005 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 8,674 shares were issued from CH Energy Group’s treasury stock on May 1, 2008. These shares are presented in the consolidated balance sheet as an increase in common shares outstanding and as a reduction in treasury stock as of September 30, 2008. The carrying amount of treasury shares exceeded the quoted market value on the date of issue, therefore, the difference has been reflected as additional paid in capital in the consolidated balance sheet as of September 30, 2008. These shares were also included in the calculation of the average number of common shares outstanding used in the basic EPS calculation in the consolidated statement of income for the three and nine months ended September 30, 2008.

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. On July 2, 2008, due to the retirement of one of Central Hudson's executive officers as of January 1, 2008, a pro-rated number of shares under the April 25, 2006 and January 25, 2007 performance share grants were paid to this individual. A total of 309 shares were issued from CH Energy Group's treasury stock on that date in satisfaction of these awards. These shares are presented in the consolidated balance sheet as an increase in common shares outstanding and as a reduction in treasury stock as of September 30, 2008. The carrying amount of treasury shares exceeded the quoted market value on the date of issue, therefore, the difference has been reflected as additional paid in capital in the consolidated balance sheet as of September 30, 2008. These shares were also included in the calculation of the average number of common shares outstanding used in the basic EPS calculation in the consolidated statement of income for the three and nine months ended September 30, 2008.

The following table summarizes information concerning stock options granted through September 30, 2008:

Date of Grant	Exercise Price	Number of Options Granted	Number of Options Outstanding	Weighted Average Remaining Life in Years	Number of Options Exercisable
January 1, 2000	$ 31.94	30,300	320	1.25	320
January 1, 2001	$ 44.06	59,900	21,560	2.25	21,560
January 1, 2003	$ 48.62	36,900	18,420	4.25	18,420
		127,100	40,300	3.16	40,300

A summary of the status of stock options awarded to executives and non-employee Directors of CH Energy Group and its subsidiaries under the 2000 Plan is as follows:

		Stock Option Shares	Weighted Average Exercise Price	Weighted Average Remaining Life in Years
Outstanding at	12/31/07	40,300	$ 46.05	3.91
	Granted	—	—	
	Exercised	—	—	
	Expired / Forfeited	—	—	
Outstanding at	9/30/08	40,300	$ 46.05	3.16
		Total Shares Outstanding	15,783,083	
		Potential Dilution	0.3%	

There was no compensation expense related to stock options for the three and nine months ended September 30, 2008 and the compensation expense was not material for the same periods in the prior year. The balance accrued for and the intrinsic value of outstanding options was not material as of September 30, 2008 and 2007. No non-qualified stock options were exercised during the nine months ended September 30, 2008.

Effective January 2, 2008, 12,100 restricted shares with a fair value upon issuance of $536,000 were granted under the 2006 Plan to certain officers and key employees of Griffith and an officer of CHEC. The shares granted were issued from CH Energy Group's treasury stock on January 2, 2008. These shares were issued at fair market value on the date of grant, and for Griffith, are subject to a three-year vesting period contingent upon continued employment of each individual. Shares granted to the officer of CHEC vest ratably over the three-year vesting period contingent upon continued employment. Dividends paid on restricted shares held by Griffith officers and key employees will be automatically deferred and re-invested in additional restricted shares.

In accordance with SFAS 123(R), the 12,100 restricted shares granted on January 2, 2008 are presented in the Consolidated Balance Sheet as an increase in common shares outstanding and as a reduction in treasury stock as of September 30, 2008. The carrying amount of treasury shares exceeded the quoted market value on the date of grant, therefore, the difference has been reflected as additional paid in capital in the Consolidated Balance Sheet at September 30, 2008. However, in the Consolidated Statement of Income for the three and nine months ended September 30, 2008, the number of common shares outstanding used in the basic EPS calculation did not change from December 31, 2007, and will not change until 2009, when vesting begins.

NOTE 12 - COMMITMENTS AND CONTINGENCIES

Electricity Purchase Commitments

Reference is made to the caption "Electric Purchase Commitments" of Note 12 – "Commitments and Contingencies" to the Consolidated Financial Statements of the Corporations' 10-K Annual Report.

On November 12, 2002, Central Hudson entered into an agreement with Entergy Nuclear Indian Point 2, LLC and Entergy Nuclear lndian Point 3, LLC to purchase electricity (but not capacity) on a unit-contingent basis at defined prices from January 1, 2005 to and including December 31, 2007. On March 6, 2007,Central Hudson entered into new agreements 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 contracts represents approximately 16% of Central Hudson's full-service customer requirements, or approximately 850,000 MWh. Purchases under these contracts are supplemented by shorter-term contracts, such as the Dynegy contract discussed below, contracts for differences, and by purchases from the NYISO, which oversees the bulk electricity transmission system, and the capacity market in New York State, and other parties. On January 30, 2008, Central Hudson entered into an 11-month agreement with Dynegy Power Marketing, Inc. to purchase 589,200 MWh of electricity on a unit-contingent basis at defined prices from February 1, 2008 to December 31, 2008. The electricity purchased through the Dynegy contracts represents approximately 12% of Central Hudson's full-service customer requirements for the eleven-month period.

Contingencies

CH Energy Group and Central Hudson face a number of contingencies which arise during the normal course of business and which have been discussed in Note 12 – "Commitments and Contingencies" to the Consolidated Financial Statements of the Corporations' 10-K Annual Report and to which reference is made.

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, has denied liability, and is defending the lawsuits. Based on information known to Central Hudson at this time, including information from discovery proceedings in the lawsuits, Central Hudson believes that the likelihood it will have a material liability in these lawsuits is remote.

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. Central Hudson presently has insufficient information with which to predict the outcome of this matter.

Former Manufactured Gas Plant Facilities

Like most late 19^{th} and early 20^{th} 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 five of these sites on the New York State Environmental Site Remediation Database. A number of the eight sites are now owned by third parties and have been redeveloped for other uses. The current status of the eight sites is as follows:

SITE		STATUS
#1	Beacon, NY	Remediation complete. Final Report Approved by the DEC. Preparing ongoing Site Management Plan.
#2	Newburgh, NY	Remediation complete in one area under the terms of the DEC-approved plan. Construction Completion Report filed with DEC on 2/1/08 and comments received. Remedial Design/Remedial Action Work Plan and Schedule was submitted to the DEC on 3/10/08 for two additional areas under a DEC-approved consent agreement. As remedial design alternatives continue to be evaluated and discussed, Central Hudson formally requested and received approval for a two-month extension for submission of the draft Remedial Design (due 12/1/08).
#3	Laurel Street Poughkeepsie, NY	Remediation Work Plan submitted to the DEC on 3/14/08 under a Voluntary Cleanup Agreement; DEC approval was received on 8/22/08. Remediation work is underway.
#4	North Water Street Poughkeepsie, NY	Investigation currently underway under DEC-approved Brownfield Cleanup Agreement.
#5	Kingston, NY	Brownfield Cleanup Agreement was executed on 9/25/08. Final Citizen Participation Plan (CPP) was submitted to DEC on 10/6/08. Central Hudson expects to meet with DEC during the fourth quarter to discuss the development of the Remedial Investigation Work Plan.
#6	Catskill, NY	Investigation currently underway under DEC-approved Brownfield Cleanup Agreement.
#7	Saugerties, NY	Central Hudson does not believe it has any liability for this site.
#8	Bayeaux Street Poughkeepsie, NY	Central Hudson does not believe it has any liability for this site.

In the second quarter, Central Hudson updated the estimate of potential remediation and future operating, maintenance and monitoring costs for sites # 2, 3, 4, 5 and 6 indicating that the total cost for the five sites could exceed $165 million over the next 30 years. The updated estimate for sites 2 and 3 was based on completed remedial investigations and feasibility studies. As such, the estimate is subject to change based on the current investigations, final remedial design (and associated engineering estimates), DEC and New York State Department of Health (“NYSDOH”) comments and requests, remedial design changes/negotiations and changed or unforeseen conditions during remediation. The updated estimate for sites 4, 5 and 6 was based on partially completed remedial investigations and current DEC and

NYSDOH preferences related to site remediation and is considered conceptual and preliminary. The updated estimate reflected updated cost information along with the latest information from the investigation and remediation work being done on MGP sites # 2, 3 and 4 and to include site # 6. 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. This 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.

Prior to 2008, Central Hudson recorded a $21.2 million estimated liability for sites # 2 and 3 based on estimates of remediation costs for the proposed clean-up plans. Based on the updated cost study, the estimated liability for sites # 2 and 3 has been increased to $33.2 million. As of September 30, 2008, $26.7 million of this recorded estimated liability has not been spent; $6.8 million of this recorded estimated liability is expected to be spent over the next twelve months.

No amounts have been recorded in connection with the physical remediation of sites # 4, 5 and 6, for which Central Hudson has developed estimated future costs based on conceptual and preliminary plans. Absent DEC-approved remediation plans, management cannot estimate what cost, if any, will actually be incurred. The portion of the $165 million referenced above that is related to these three sites is approximately $121 million. Central Hudson had recorded a $1.4 million estimated liability in connection with estimated costs for preliminary investigations, site testing and development of remediation plans for sites # 4, 5 and 6 through 2010. Based on the updated cost study, this estimated liability has been increased to $2.0 million. As of September 30, 2008, $1.6 million of this recorded estimated liability has not been spent; $0.9 million of this recorded estimated liability is expected to be spent over the next twelve months. This estimated amount may change in the future as additional information is obtained regarding the results of site-testing, the scope of site investigation plans approved by the DEC and NYSDOH, and the evolving development of new technologies. Central Hudson cannot predict the results of site testing, or the nature, timing or extent of comments from the DEC and NYSDOH, or changes in technology. The impact of these uncertainties on the estimate cannot be determined.

With regard to sites # 7 and 8, Central Hudson does not have sufficient information to estimate its potential remediation cost if any; as previously stated, Central Hudson believes that it has no liability for these sites.

Central Hudson spent approximately $2.3 million in the nine months ended September 30, 2008 related to site investigation and remediation. Based on the Order

Establishing Rate Plan issued by the PSC to Central Hudson on July 24, 2006 ("2006 Order"), on July 1, 2007, Central Hudson started the recovery of a rate allowance for MGP Site Investigation & Remediation Costs. This recovery totaled $2.1 million as of September 30, 2008 with $1.2 million recovered in the 2008.

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. Pursuant to the 2006 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.

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 has conducted a routine groundwater sampling program since that time. Groundwater sampling results show the presence of certain contaminants at levels exceeding DEC criteria. Deep groundwater wells were installed in 2005 and 2006, which also show contaminants exceeding DEC criteria. The DEC responded with a request for a plan to address the contamination. Central Hudson has submitted a proposal to the DEC for limited additional site work, including an assessment of vapor intrusion into a building on the site, and closure of the VCA. Negotiations between DEC and Central Hudson regarding additional site work and closure of the VCA are ongoing. Central Hudson has completed a soil vapor intrusion study. Results indicated that indoor air met Occupational Safety and Health Administration ("OSHA") and NYSDOH standards, however, concentrations beneath the building's concrete slab warranted installation of a mitigation system. Additional characterization has been completed and design and installation are expected to be completed by end of 2008. Installation costs for the vapor intrusion mitigation system are not expected to exceed $100,000. At this time Central Hudson does not have sufficient information to estimate potential ground water 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. Neither CH Energy Group nor Central Hudson can predict the outcome of this matter.

Newburgh Consolidated Iron Works

By letter from the EPA dated November 28, 2001, Central Hudson, among others, was served with a Request For Information pursuant to the Comprehensive Environmental Response, Compensation and Liability Act (“CERCLA”) regarding any shipments of scrap or waste materials that Central Hudson may have made to Consolidated Iron and Metal Co., Inc. (“Consolidated Iron”), a Superfund site located in Newburgh, New York. Sampling by the EPA indicated that lead and polychlorinated biphenyls (or “PCBs”) are present at the site, and the EPA subsequently commenced a remedial investigation and feasibility study at the site. No records were found which indicate that the material shipped by Central Hudson to Consolidated Iron contained or was a hazardous substance. In April 2008 Central Hudson received a letter from the Consolidated Iron Joint Defense Group (“JDG”), a group of potentially responsible parties asserting a contribution claim against Central Hudson. The JDG had reached an agreement in principle with the EPA to resolve claims at the Consolidated Iron site under a consent decree to be filed with the court. Central Hudson has made no payment to JDG. In June 2008, counsel for the JDG informed Central Hudson that the EPA plans to pursue certain parties who may have shipped automotive batteries to the site that it believes fall outside of the recycling exemption at CERCLA Section 127. The JDG provided Central Hudson with an EPA database on which Central Hudson is identified as a party who shipped batteries to the site. In July 2008, counsel for the JDG recommended continuing settlement negotiations between the JDG and Central Hudson after the consent decree is lodged. Central Hudson did not join the consent decree, and to date the Company has not been further contacted by the EPA or the JDG. 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. Neither CH Energy Group nor Central Hudson can predict the outcome of this investigation at the present time.

Asbestos Litigation

As of October 10, 2008, of the 3,312 asbestos cases brought against Central Hudson, 1,183 remain pending. Of the cases no longer pending against Central Hudson, 1,978 have been dismissed or discontinued without payment by Central Hudson, and Central Hudson has settled 151 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 either of CH Energy Group’s or Central Hudson’s financial position, results of operations, or cash flows.

CHEC:

Griffith has a voluntary environmental program in connection with the West Virginia Division of Environmental Protection regarding Griffith's Kable Oil Bulk Plant, located in West Virginia. Griffith has completed environmental clean-up at this site and has received a final closure letter from the State of West Virginia. During the nine months ended September 30, 2008, $7,900 was spent on site remediation efforts. In addition, Griffith spent $176,200 on remediation efforts in Maryland, Virginia, and Connecticut in 2008. Griffith is to be reimbursed $268,000 from the State of Connecticut under an environmental agreement and has recorded this amount as a receivable.

Griffith has a reserve for environmental remediation which is $1.4 million as of September 30, 2008, of which approximately $0.2 million is expected to be spent in the next twelve months.

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

Reference is made to Note 13 – "Segments and Related Information" to the Consolidated Financial Statements of the Corporations' 10-K Annual Report.

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. The investments and business development activities of CH Energy Group and the renewable energy and investment activities of CHEC, including its ownership interests in ethanol, wind, and biomass energy projects, 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, Central Hudson property common to both electric and natural gas segments, and the depreciation of Central Hudson's common property 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.

CH Energy Group, Inc. Segment Disclosure

(In Thousands, except) Earnings per Share)	Three Months Ended September 30, 2008					
	Central Hudson					
	Electric	Natural Gas	Griffith	Other Businesses and Investments	Eliminations	Total
Revenues from external customers	$ 179,001	$ 21,773	$ 97,049	$ 2,964	$ —	$ 300,787
Intersegment revenues	4	28	—	—	(32)	—
Total revenues	179,005	21,801	97,049	2,964	(32)	300,787
Interest and investment income	549	413	17	1,502	(1,142) (1)	1,339
Interest expense	4,945	1,355	1,130	123	(1,142) (1)	6,411
Income before income taxes	12,642	(2,411)	(7,395)	1,242	—	4,078
Net Income	7,659	(1,774)	(4,438)	1,438	—	2,885
Earnings per share - diluted	0.48	(0.11)	(0.28)	0.09 (2)	—	0.18
Segment assets at September 30, 2008	$ 966,553	$ 340,686	$ 195,037	$ 43,503	$ (2,942) (3)	$ 1,542,837

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

(2) The amount of EPS attributable to CHEC's other businesses and investments was $0.05 per share, with the balance of $0.04 per share resulting primarily from interest income.

(3) Includes minority owner's interest of $1,474 related to Lyonsdale.

CH Energy Group, Inc. Segment Disclosure

(In Thousands, except) Earnings per Share)	Three Months Ended September 30, 2007					
	Central Hudson					
	Electric	Natural Gas	Griffith	Other Businesses and Investments	Eliminations	Total
Revenues from external customers	$ 167,949	$ 21,622	$ 67,725	$ 2,820	$ —	$ 260,116
Intersegment revenues	5	34	—	—	(39)	—
Total revenues	167,954	21,656	67,725	2,820	(39)	260,116
Interest and investment income	571	431	28	1,760	(1,105) (1)	1,685
Interest expense	4,566	1,389	988	118	(1,105) (1)	5,956
Income before income taxes	12,586	(2,562)	(5,525)	1,715	—	6,214

Net Income	7,587	(1,724)	(3,315)	1,781	—	4,329
Earnings per share - diluted	0.48	(0.11)	(0.21)	0.11 (2)	—	0.27
Segment assets at September 30, 2007	$ 959,633	$ 308,549	$ 163,400	$ 79,565	$ (471) (3)	$ 1,510,676

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

(2) The amount of EPS attributable to CHEC's other businesses and investments was $0.04 per share, with the balance of $0.07 per share resulting primarily from interest income

(3) Includes minority owner's interest of $1,454 related to Lyonsdale.

CH Energy Group, Inc. Segment Disclosure