CENTRAL HUDSON GAS & ELECTRIC CORP
Form 10-K
February 25, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2012

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 12601-4839 (845) 452-2000	14-1804460
1-3268	Central Hudson Gas & Electric Corporation (Incorporated in New York) 284 South Avenue Poughkeepsie, New York 12601-4839 (845) 452-2000	14-0555980

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
CH Energy Group, Inc. Common Stock, $0.10 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

Title of each class
Central Hudson
Gas & Electric
Corporation
Cumulative
Preferred Stock

4.50% Series
4.75% Series

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

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

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

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

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

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrants' knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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

CH Energy Group, Inc.	Central Hudson Gas & Electric Corporation
Large Accelerated Filer þ	Large Accelerated Filer o
Accelerated Filer o	Accelerated Filer o
Non-Accelerated Filer o	Non-Accelerated Filer þ
Smaller Reporting Company o	Smaller Reporting Company o

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

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

The aggregate market value of the voting and non-voting common equity of CH Energy Group held by non-affiliates as of February 1, 2013, was $972,139,350 based upon the price at which CH Energy Group's Common Stock was last traded on that date, as reported on the New York Stock Exchange listing of composite transactions.

The aggregate market value of the voting and non-voting common equity of CH Energy Group held by non-affiliates as of June 30, 2012, the last business day of CH Energy Group's most recently completed second fiscal quarter, was $981,479,282 computed by reference to the price at which CH Energy Group's Common Stock was last traded on that date, as reported on the New York Stock Exchange listing of composite transactions.

The aggregate market value of the voting and non-voting common equity of Central Hudson held by non-affiliates as of June 30, 2012 was zero.

The number of shares outstanding of CH Energy Group's Common Stock, as of February 1, 2013, was 14,955,990.

The number of shares outstanding of Central Hudson's Common Stock, as of February 1, 2013, was 16,862,087. All such shares are owned by CH Energy Group.

GLOSSARY OF TERMS

The following is a glossary of frequently used abbreviations or acronyms used herein.

CH Energy Group Companies and Investments

CHEC	Central Hudson Enterprises Corporation (the parent company of Griffith Energy Services, Inc. (not regulated by the PSC) and wholly owned subsidiary of CH Energy Group)
Griffith	Griffith Energy Services, Inc. (a wholly owned subsidiary of CHEC)
Lyonsdale	Lyonsdale Biomass, LLC (a former wholly owned subsidiary of CHEC)
CH-Auburn	CH-Auburn Energy, LLC (a former wholly owned subsidiary of CHEC)
CH-Greentree	CH-Greentree, LLC (a former wholly owned subsidiary of CHEC)
CH Shirley Wind	CH Shirley Wind, LLC (a former wholly owned subsidiary of CHEC which owned 90% controlling interest in Shirley Delaware, which owned 100% interest in Shirley Wind)
Shirley Delaware	Shirley Wind (Delaware), LLC (100% owner of Shirley Wind)
Shirley Wind	Shirley Wind, LLC (a 20 megawatt wind project)
Cornhusker Holdings	Cornhusker Energy Lexington Holdings, LLC (a former CHEC investment)

Regulators

NYS	New York State
PSC	NYS Public Service Commission
FERC	Federal Energy Regulatory Commission
DEC	NYS Department of Environmental Conservation

(i)

Terms Related to Business Operations Used By CH Energy Group

1993 PSC Policy	PSC's 1993 Statement of Policy regarding pension and other post-employment benefits
2009 Rate Order	Order Establishing Rate Plan issued by the PSC to Central Hudson on June 22, 2009
2010 Rate Order	Order Establishing Rate Plan issued by the PSC to Central Hudson on June 18, 2010
Dth	Decatherms
Distributed Generation	An electrical generating facility located at a customer's point of delivery which may be connected in parallel operation to the utility system
kWh	Kilowatt-hour(s)
Mcf	Thousand Cubic Feet
MGP	Manufactured Gas Plant
MW / MWh	Megawatt(s) / Megawatt-hour(s)
OPEB	Other Post-Employment Benefits
RDMs	Revenue Decoupling Mechanisms
Retirement Plan	Central Hudson's Non-Contributory Defined Benefit Retirement Income Plan
ROE	Return on Equity
ROW	Right-of-Way
Settlement Agreement	Amended and Restated Settlement Agreement dated January 2, 1998, and thereafter amended, among Central Hudson, PSC Staff, and Certain Other Parties
Temporary State Assessment	New York State Temporary State Energy and Utility Service Conservation Assessment required to be collected from April 4, 2009 to March 31, 2014

Other

COSO	Committee of Sponsoring Organizations of the Treadway Commission
EITF	FASB Emerging Issues Task Force
Exchange Act	Securities Exchange Act of 1934
GAAP	Accounting Principles Generally Accepted in the United States of America
NYISO	New York Independent System Operator
NYSERDA	New York State Energy Research and Development Authority
Registrants	CH Energy Group and Central Hudson

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PART I

FILING FORMAT

This 10-K Annual Report for the fiscal year ended December 31, 2012, is a combined report being filed by two different Registrants: CH Energy Group and Central Hudson. Any references in this 10-K Annual Report to CH Energy Group include all subsidiaries of CH Energy Group, including Central Hudson, except where the context clearly indicates otherwise. Central Hudson makes no representation as to the information contained in this 10-K Annual Report in relation to CH Energy Group and its subsidiaries other than Central Hudson. When this 10-K Annual Report is incorporated by reference into any filing with the SEC made by Central Hudson, the portions of this 10-K Annual Report that relate to CH Energy Group and its subsidiaries, other than Central Hudson, are not incorporated by reference therein.

CH Energy Group's wholly owned subsidiaries include Central Hudson and CHEC. For additional information, see the sub-caption "CHEC and Its Subsidiaries and Investments" in Item 1 - "Business" under the caption "Subsidiaries of CH Energy Group."

FORWARD-LOOKING STATEMENTS

Statements included in this Annual Report on Form 10-K and any documents incorporated by reference which are not historical in nature are intended to be, and are hereby identified as, "forward-looking statements" for purposes of the safe harbor provided by Section 21E of the Exchange Act. Forward-looking statements may be identified by words including "anticipates," "intends," "estimates," "believes," "projects," "expects," "plans," "assumes," "seeks," and similar expressions. Forward-looking statements including, without limitation, those relating to CH Energy Group's and Central Hudson's future business prospects, revenues, proceeds, working capital, investment valuations, liquidity, income, and margins, as well as the acquisition by a subsidiary of Fortis Inc. and the expected timing of the transaction, are subject to certain risks and uncertainties that could cause actual results to differ materially from those indicated in the forward-looking statements, due to several important factors, including those identified from time to time in the forward-looking statements. Those factors include, but are not limited to: the possibility that various conditions precedent to the consummation of the proposed Fortis transaction will not be satisfied or waived, including regulatory approvals of the proposed Fortis transaction and the timing and terms thereof; the impact of delay or failure to complete the proposed Fortis transaction on CH Energy Group's stock price; the costs associated with the proposed Fortis transaction; deviations from normal seasonal weather and storm activity; fuel prices; energy supply and demand; potential future acquisitions; legislative, regulatory, and competitive developments; interest rates; access to capital; market risks; electric and natural gas industry restructuring and cost recovery; the ability to obtain adequate and timely rate relief; changes in fuel supply or costs including future market prices for energy, capacity, and ancillary services; the success of strategies to satisfy electricity, natural gas, fuel oil, and propane requirements; the outcome of pending litigation and certain environmental matters, particularly the status of inactive hazardous waste disposal sites and waste site remediation requirements; and certain presently unknown or unforeseen factors, including, but not limited to, acts of terrorism. CH Energy Group and Central Hudson undertake no obligation to update publicly any forward-looking statements, whether as a result of new information, future events, or otherwise. Given these uncertainties, undue reliance should not be placed on the forward-looking statements.

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Additional Information about the Fortis Transaction and Where to Find It

In connection with the proposed acquisition of CH Energy Group by Fortis, CH Energy Group filed a definitive proxy statement with the SEC on May 9, 2012, and has filed other relevant materials with the SEC as well. Investors and stockholders of CH Energy Group are urged to read the proxy statement and other relevant materials filed with the SEC because they contain important information about the proposed acquisition and related matters. Investors and stockholders may obtain a free copy of the proxy statement and other documents filed by CH Energy Group, at the SEC's Web site, www.sec.gov. These documents can also be obtained by investors and stockholders free of charge from CH Energy Group at CH Energy Group's website at www.chenergygroup.com, or by contacting CH Energy Group's Shareholder Relations Department at (845) 486-5204.

ITEM 1 - Business

CORPORATE STRUCTURE

CH Energy Group is the holding company parent corporation of two principal, wholly owned subsidiaries, Central Hudson and CHEC. Central Hudson is a regulated electric and natural gas subsidiary. CHEC, the parent company of CH Energy Group's unregulated businesses and investments, has one wholly owned subsidiary, Griffith Energy Services, Inc. ("Griffith"). CHEC also has ownership interests in certain subsidiaries that are less than 100% owned. For more information, see sub-caption "Other Subsidiaries and Investments" under caption "CHEC and Its Subsidiaries and Investments." For information concerning revenues, certain expenses, earnings per share, and information regarding assets of Central Hudson's regulated electric and regulated natural gas segments and of Griffith, see Note 13 - "Segments and Related Information."

HOLDING COMPANY REGULATION

CH Energy Group is a "holding company" under Public Utility Holding Company Act of 2005 ("PUHCA 2005") because of its ownership interests in Central Hudson and CHEC. CH Energy Group, however, is exempt from regulation as a holding company under PUHCA 2005, because it derives substantially all of its public utility company revenues from business conducted within a single state, the State of New York. At the present time, CH Energy Group cannot predict whether and when its circumstances may change such that it no longer qualifies for exemption from PUHCA 2005.

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SUBSIDIARIES OF CH ENERGY GROUP

Central Hudson

Central Hudson is a New York State natural gas and electric corporation formed in 1926. Central Hudson purchases, sells at wholesale and retail, and distributes electricity and natural gas at retail in portions of New York State. Central Hudson also generates a small portion of its electricity requirements.

Central Hudson serves a territory comprising approximately 2,600 square miles in the Hudson Valley, with a population estimated at 681,000. Electric service is available throughout the territory, and natural gas service is provided in and about the cities of Poughkeepsie, Beacon, Newburgh, and Kingston, New York, and in certain outlying and intervening territories. The number of Central Hudson employees at December 31, 2012, was 869.

Central Hudson's territory reflects a diversified economy, including manufacturing industries, governmental agencies, public and private institutions, wholesale and retail trade operations, research firms, farms and resorts.

Seasonality and Other Weather Impacts

Central Hudson's delivery revenues have historically varied seasonally in response to weather. Sales of electricity are highest during the summer months, primarily due to the use of air-conditioning and other cooling equipment. Sales of natural gas are highest during the winter months, primarily due to space heating usage. Central Hudson's rates are developed based on forecasts of annual sales volumes. Effective July 1, 2009 and continuing in the 2010 Rate Order through June 30, 2013, Central Hudson's delivery rate structure includes RDMs, which provide the ability to record revenues equal to those forecasted in the development of current rates for most of Central Hudson's customers. As a result, fluctuations in actual sales volumes as a result of weather or other factors as compared to those forecasted in rate proceedings no longer have a significant impact on earnings. However, variations between actual expenses incurred due to storm activity and the amount set in rates may impact Central Hudson's earnings. Central Hudson has the ability to request regulatory recovery of significant incremental costs incurred if certain criteria are met as defined by the PSC and, as such, any adverse impact on earnings for higher storm expenses should be limited to non-material amounts, as long as the other criteria for deferral accounting are met.

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Competition

Central Hudson is a regulated utility with a legal obligation to deliver electricity and natural gas within its PSC-approved franchise territory. Central Hudson has no direct competitors in its electricity distribution business; indirect competitors include distributed generation systems, including net metered systems. Central Hudson's natural gas business competes with other fuels, especially fuel oil and propane. The competitive marketplace continues to develop for electric and natural gas supply markets, and Central Hudson's electric and natural gas customers may purchase energy and related services from other providers. Central Hudson's rate making structure neutralizes any earnings impact of customers' decisions to purchase electricity and natural gas from other providers.

Regulation

Central Hudson is subject to regulation by the PSC regarding, among other things, services rendered (including the rates charged), major transmission facility siting, accounting treatment of certain items, and issuance of securities. For certain restrictions imposed by the Settlement Agreement, see Note 2 - "Regulatory Matters."

Certain activities of Central Hudson, including accounting and the acquisition and disposition of property, are subject to regulation by FERC under the Federal Power Act.

Central Hudson is not subject to the provisions of the Natural Gas Act. Central Hudson's hydroelectric facilities are not required to be licensed under the Federal Power Act but are regulated by the DEC.

Central Hudson is subject to regulation by the North American Electric Reliability Corporation regarding its ownership, operation and use of a bulk power system.

Rates

General: The electric and natural gas rates charged by Central Hudson applicable to service supplied to retail customers within New York State are regulated by the PSC. Costs of service, both for electric and gas delivery service and for electric and gas supply costs, are recovered from customers through PSC approved tariffs, subject to a standard of prudency. Both transmission rates and rates for electricity sold for resale which involve interstate commerce are regulated by FERC.

Since July 2009, Central Hudson's rates have included RDMs which are intended to minimize the earnings impact resulting from reduced energy consumption as energy efficiency programs are implemented by breaking the link between energy sales and utility revenues and profits. Central Hudson's RDMs allow the Company to recognize electric delivery revenues and gas sales per customer at the levels approved in rates for most of Central Hudson's electric and gas customer classes.

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Central Hudson's retail electricity rate structure consists of various service classifications covering delivery service and full service (which includes electricity supply) for residential, commercial, and industrial customers. Retail rates for delivery and supply are shown separately on retail bills to allow customers to see the costs associated with their commodity supply, and thus facilitate retail competition. During 2012, the average price of electricity for full service customers was 14.85 cents per kWh as compared to an average of 14.48 cents per kWh in 2011. The PSC has authorized Central Hudson to recover the costs of the electric commodity from customers, without earning a profit on the commodity costs. The average delivery price in 2012 was 6.24 cents per kWh and 5.60 cents per kWh in 2011. The increase in delivery price was primarily due to the implementation of new rates as part of the 2010 Rate Order. The average delivery prices in 2012 and 2011 also include a surcharge resulting from the Electric RDM.

Central Hudson's retail natural gas rate structure consists of various service classifications covering transport, retail access service, and full service (which includes natural gas supply) for residential, commercial, and industrial customers. During 2012, the average price of natural gas for full-service customers was $13.81 per Mcf as compared to an average of $15.50 per Mcf in 2011. The PSC has authorized Central Hudson to recover the costs of the gas commodity from customers, without earning a profit on the commodity costs. The average delivery price for natural gas for retail and full service in 2012 was $7.52 per Mcf and $6.94 per Mcf in 2011. The increase in delivery price was primarily due to the implementation of new rates as part of the 2010 Rate Order and the result of fixed revenue spread over lower sales due to milder weather conditions. The average delivery price in 2012 includes a refund resulting from the Gas RDM, whereas the average delivery price in 2011 includes a surcharge resulting from the Gas RDM.

For further information regarding the terms of the 2009 Rate Order and 2010 Rate Order under which Central Hudson operated during the current reporting period, see Note 2 - "Regulatory Matters" under the caption "2009 and 2010 Rate Orders."

Cost Adjustment Clauses and RDMs: For information regarding Central Hudson's electric and natural gas cost adjustment clauses and RDMs, see Note 1 - "Summary of Significant Accounting Policies" under the caption "Rates, Revenues and Cost Adjustment Clauses."

Capital Expenditures and Financing

For estimates of future capital expenditures for Central Hudson, see the sub-caption "Anticipated Sources and Uses of Cash" in Item 7 - "Management's Discussion and Analysis of Financial Condition and Results of Operations" of this 10-K Annual Report under the caption "Capital Resources and Liquidity."

Central Hudson's Certificate of Incorporation and its various debt instruments do not contain any limitations upon the issuance of authorized, but unissued, Preferred Stock or unsecured short-term debt.

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Central Hudson has in place certain credit facilities with financial covenants that limit the amount of indebtedness Central Hudson may incur. Additionally, Central Hudson's ability to issue debt securities is limited by authority granted by the PSC. Central Hudson believes these limitations will not impair its ability to issue any or all of the debt described under the sub-caption "Financing Program" in Item 7 - "Management's Discussion and Analysis of Financial Condition and Results of Operations" of this 10-K Annual Report under the caption "Capital Resources and Liquidity."

Purchased Power and Generation Costs

For the year ended December 31, 2012, the sources and related costs of purchased electricity and electric generation for Central Hudson were as follows (In Thousands):

Sources of Energy	Aggregate Percentage of Energy Requirements		Costs in 2012
Purchased Electricity	98.0	%	$172,499
Hydroelectric and Other	2.0		15
Deferred Electricity Cost			3,207
Total	100.0	%	$175,721

Research and Development

Central Hudson is engaged in the conduct and support of research and development ("R&D") activities, which are focused on the improvement of existing energy technologies and the development of new technologies for the delivery and customer use of energy. Central Hudson's R&D expenditures were $4.0 million in 2012, $2.1 million in 2011 and $3.1 million in 2010. These expenditures were for internal research programs and for contributions to research administered by New York State Energy Research and Development Authority ("NYSERDA"), the Electric Power Research Institute, and other industry organizations. The decrease in total R&D expenditures in 2011 as compared to the other periods presented is a result of a PSC Order to cease the collection from customers and payment to NYSERDA of certain energy efficiency research funds in 2011. There was no impact on earnings related to this change and the collections and payments resumed in 2012. R&D expenditures are provided for in Central Hudson's rates charged to customers for electric and natural gas delivery service, with any differences between R&D expense and the rate allowances deferred for future recovery from or return to customers.

Other Central Hudson Matters

Labor Relations: Central Hudson has an agreement with Local 320 of the International Brotherhood of Electrical Workers for its 526 unionized employees, representing construction and maintenance employees, customer service representatives, service workers, and clerical employees (excluding persons in managerial, professional, or supervisory positions). This agreement became effective on May 1, 2011, and remains effective through April 30, 2016.

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CHEC and Its Subsidiaries and Investments

CHEC, a New York corporation, is a wholly owned subsidiary of CH Energy Group. CHEC's wholly owned subsidiary is Griffith. For further discussion of certain energy-related projects within other subsidiaries and investments, see Note 5 - "Acquisitions, Divestitures and Investments."

Griffith

Griffith is an energy services company engaged in fuel distribution, including heating oil, gasoline, diesel fuel, kerosene, and propane, and the installation and maintenance of heating, ventilating, and air conditioning equipment. The number of Griffith employees at December 31, 2012 was 366.

Seasonality

A substantial portion of CHEC's revenues vary seasonally, as Griffith's fuel oil deliveries are directly related to use for space heating and are highest during the winter months. Griffith entered into a weather swap for the period beginning November 1, 2012 through March 31, 2013. The hedge is designed to minimize the impact on earnings of variations from normal temperatures on the sale of products and services whose use is weather sensitive. These products and services include the sale of heating oil, propane, HVAC equipment, and billable service on HVAC equipment. In prior years, Griffith had entered into weather collars which reduced, but did not eliminate, the impact of weather on earnings. Management believes that the weather swap will more effectively mitigate the impact of weather on earnings volatility.

Competition

Griffith participates in a competitive fuel distribution industry that is subject to different risks than those found in the businesses of the regulated utility, Central Hudson. Griffith faces competition from other fuel distribution companies and from companies supplying other sources for heating, such as electricity, natural gas, propane and heat pumps. For a discussion of Griffith's operating revenues and operating income, see the caption "Results of Operations" in Item 7 - "Management's Discussion and Analysis of Financial Condition and Results of Operations" of this 10-K Annual Report.

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ENVIRONMENTAL QUALITY REGULATION

Central Hudson and Griffith are subject to regulation by federal, state, and local authorities with respect to the environmental effects of their operations. Environmental matters may expose Central Hudson and Griffith to potential liability, which, in certain instances, may be imposed without regard to fault or may be premised on historical activities that were lawful at the time they occurred.

Central Hudson and Griffith each monitor their activities in order to determine their impact on the environment and to comply with applicable environmental laws and regulations.

The principal environmental areas relevant to these companies (air, water and industrial and hazardous wastes, other) are described below. Unless otherwise noted, all required permits and certifications have been obtained by the applicable company. Management believes that each company was in material compliance with these permits and certifications during 2012, except as noted in Note 12 – "Commitments and Contingencies" under the caption "Environmental Matters" of this 10-K Annual Report.

Air Quality

The Clean Air Act Amendments of 1990 address attainment and maintenance of national air quality standards and impact Central Hudson electric generating facilities in South Cairo and Coxsackie, NY. See Note 12 – "Commitments and Contingencies" under the caption "Environmental Matters" regarding the investigation by the EPA into the compliance of a former major Central Hudson generating asset.

Water Quality

The Clean Water Act established the basic framework for federal and state regulation of water pollution control and requires facilities that discharge waste or storm water into the waters of the United States to obtain permits. Central Hudson and Griffith have permits regulating pollutant discharges for relevant locations.

Industrial & Hazardous Substances and Wastes

Central Hudson and Griffith are subject to federal, state and local laws and regulations relating to the use, handling, storage, treatment, transportation, and disposal of industrial, hazardous, and toxic wastes. Currently, there are no permit or certification requirements for Griffith. See Note 12 – "Commitments and Contingencies" under the caption "Environmental Matters" for additional discussion regarding, among other things, Central Hudson's former MGP facilities and Little Britain Road.

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Environmental Expenditures

2012 actual and 2013 estimated expenditures attributable in whole or in substantial part to environmental considerations are detailed in the table below (In Millions):

	2012	2013
Central Hudson	$4.1	$7.3
Griffith	$0.4	$0.5

The increase in 2013 estimated expenditures relates to MGP remediation activities at the Catskill site, which commenced in September 2012. For further discussion of these activities, see Note 12 – "Commitments and Contingencies" under caption "Former Manufactured Gas Plant Facilities".

Central Hudson and Griffith are also subject to regulation with respect to other environmental matters, such as noise levels, protection of vegetation and wildlife, and limitations on land use, and are in compliance with regulations in these areas.

Regarding environmental matters, except as described in Note 12 - "Commitments and Contingencies" under the caption "Environmental Matters," neither CH Energy Group, Central Hudson nor Griffith are involved as defendants in any material litigation, administrative proceeding, or investigation and, to the best of their knowledge, no such matters are threatened against any of them.

AVAILABLE INFORMATION

CH Energy Group and Central Hudson file annual, quarterly, and current reports and other information with the SEC. CH Energy Group also files proxy statements. The public may read and copy any of the documents each company files at the SEC's Public Reference Room at 100 F Street N.E., Room 1580, Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. SEC filings are also available to the public from the SEC's Internet website at www.sec.gov.

CH Energy Group and Central Hudson make available free of charge at www.CHEnergyGroup.com their annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, as soon as reasonably practicable after it electronically files such material with, or furnishes it to, the SEC. CH Energy Group's proxy statements, governance guidelines, Code of Business Conduct and Ethics, and the charters of its Audit, Compensation, Governance and Nominating, and Strategy and Finance Committees are also available at www.CHEnergyGroup.com. The governance guidelines, the Code of Business Conduct and Ethics, and the charters may also be obtained by writing to the Corporate Secretary, CH Energy Group, Inc., 284 South Avenue, Poughkeepsie, New York 12601-4839.

EXECUTIVE OFFICERS OF CH ENERGY GROUP

All executive officers of CH Energy Group are elected or appointed annually by its Board of Directors. There is no family relationship among any of the executive officers of CH Energy Group. The names of the current executive officers of CH Energy Group, their positions held and business experience during the past five years, and ages (at December 31, 2012) are as follows:

Executive Officers	Age	Current and Prior Positions	Date Commenced CH Energy Group	Central Hudson	CHEC
Steven V. Lant	55	Chairman of the Board	Apr 2004	May 2004	May 2004
		Chief Executive Officer	Jul 2003	Jul 2003	Jul 2003
		President	Jul 2003		Jul 2003
		Director	Feb 2002	Dec 1999	Dec 1999
James P. Laurito[(1)]	56	President		Jan 2010	
		Executive Vice President	Nov 2009	Nov 2009	
		Director		Nov 2009	Nov 2009
Christopher M. Capone	50	President			Sep 2010
		Executive Vice President	Jan 2007	Jan 2007	
		Director		Mar 2005	Mar 2007
		Chief Financial Officer	Sep 2003	Sep 2003	Sep 2003
John E. Gould[(2)]	68	Executive Vice President and General Counsel	Oct 2009	Jan 2010	Jan 2010
		Secretary	Mar 2007	Jun 2007	Jun 2007
Denise D. VanBuren	51	Secretary	Dec 2009	Jan 2010	Jan 2010
		Vice President - Corporate Communications	Dec 2009	Jan 2010	
		Vice President - Public Affairs and Energy Efficiency	Aug 2007	Aug 2007	
Charles A. Freni, Jr.	53	Director		Mar 2011	
		Senior Vice President - Customer Services		Jan 2005	
W. Randolph Groft	51	Executive Vice President			Jan 2003
		Director			Jan 2003

Kimberly J. Wright	45	Vice President - Accounting and Controller	May 2008	
		Controller		Oct 2006

(1) From 2003 to August 2009, served as the President and Chief Executive Officer of New York State Electric and Gas Corporation and of Rochester Gas and Electric Corporation; both companies are gas and electric utilities.

(2) Before October 2009, served as a partner of the law firm of Thompson Hine LLP.

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ITEM 1A - Risk Factors

RISKS RELATED TO THE PROPOSED ACQUISITION BY FORTIS INC.

We May Be Unable to Satisfy the Conditions or Obtain the Approvals Required to Complete the Proposed Acquisition

While the proposed acquisition has been approved by CH Energy Group shareholders, the Federal Energy Regulatory Commission and the Committee on Foreign Investment in the United States, the approval of the PSC has not yet been obtained. The PSC may not approve the acquisition or may seek to impose conditions on the completion of the transaction, which could cause the conditions to the acquisition to not be satisfied or which could delay or increase the cost of the transaction. In addition, the occurrence of a material adverse effect could result in a termination of the agreement by Fortis.

The Proposed Acquisition May Not Be Completed, Which May Have a Material Adverse Effect on Our Share Price

Failure to complete the acquisition could negatively affect our share price, including by reducing it to a level at or below the trading range preceding the announcement of the Fortis transaction.

Termination of the Proposed Acquisition Could Result in CH Energy Group Being Required to Pay Termination Fees to Fortis

CH Energy Group will be obligated to reimburse up to $4 million of FortisUS' expenses if (i) FortisUS or CH Energy Group terminates the merger agreement because the acquisition has not been completed by the outside date of August 20, 2013 or FortisUS terminates the merger agreement based on a breach of the merger agreement by CH Energy Group, and (ii) a competing proposal has been made or publicly disclosed and not withdrawn prior to the termination of the merger agreement or applicable breach. In addition, if within twelve months after such termination, a definitive agreement providing for an acquisition transaction is entered into, or an acquisition transaction is consummated by CH Energy Group with, the person who made the acquisition proposal prior to such termination or applicable breach or with any other third party making an acquisition proposal within three months following such termination, CH Energy Group will be obligated to pay FortisUS a termination fee of $19.7 million (less any expense reimbursement previously paid). In no event will more than one termination fee be payable.

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STORMS AND OTHER EVENTS BEYOND CH ENERGY GROUP'S CONTROL MAY INTERFERE WITH ITS OPERATIONS

Description and Sources of Risk

In order to conduct their businesses, (1) Central Hudson must have access to natural gas and electric supplies and be able to utilize its electric and natural gas infrastructure, and (2) Griffith needs access to petroleum supplies from storage facilities in its service and operating systems territories. In addition, the operations of CH Energy Group and its subsidiaries are dependent on their ability to protect their computer equipment and the information stored in their databases.

Central Hudson has designed its electric and natural gas systems to serve customers under various contingencies in accordance with good utility practice.

However, any one or more of the following could impact either or both of the companies' ability to access supplies and/or utilize critical facilities:

- Storms, natural disasters, wars, terrorist acts, cyber incidents, failure of critical equipment and other catastrophic events occurring both within and outside Central Hudson's and Griffith's service territories.
- Bulk power system and gas transmission pipeline system capacity constraints could impact Central Hudson.
- Unfavorable developments in the world oil markets could impact Griffith.
- Third-party facility owner or supplier financial distress.
- Unfavorable governmental actions or judicial orders.

Potential Impacts

The companies could experience service disruptions leading to lower earnings and/or reduced cash flows if the situation is not resolved in a timely manner or the financial impacts of restoration are not alleviated through insurance policies, regulated rate recovery for Central Hudson or higher sales prices for Griffith. In addition, Central Hudson has experienced one cyber incident and could experience others which could result in the misappropriation, destruction, corruption or unavailability of critical data or confidential customer information which could result in reputational damage and/or litigation.

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CENTRAL HUDSON'S RATES LIMIT ITS ABILITY TO RECOVER ITS COSTS FROM ITS CUSTOMERS

Description and Sources of Risk

Central Hudson's retail rates are regulated by the PSC. Rate plans generally may not be changed during their respective terms. Therefore, rates cannot be modified for higher expenses than those assumed in the current rates, absent circumstances such as an increase in expenses that meet the PSC's threshold requirements for filing for approval of deferral accounting. Central Hudson is operating under a three year rate plan approved by the PSC effective July 1, 2010. The following could unfavorably impact Central Hudson's financial results:

- Higher expenses than reflected in current rates. Higher expenses could result from, among other things, increases in taxes and assessments, unrecoverable storm restoration expense, labor, health care benefits or other expense components.
- Penalties imposed by the PSC for the failure to achieve performance metrics in the rate plan, or violation of PSC Orders.
- Higher electric and natural gas capital project costs resulting from escalation of labor, material and equipment prices, as well as potential delays in the siting and legislative and/or regulatory approval requirements associated with these projects.
- A determination by the PSC that the cost to place a project in service is above a level which is deemed prudent.

Potential Impacts

Central Hudson could have lower earnings and/or reduced cash flows if cost management and/or regulatory relief are not sufficient to alleviate the impact of higher costs.

Additional Information

See Note 2 - "Regulatory Matters" of this 10-K Annual Report.

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UNUSUAL TEMPERATURES IN GRIFFITH'S SERVICE TERRITORIES MAY ADVERSELY IMPACT EARNINGS

Description and Sources of Risk

Griffith serves the Mid-Atlantic region of the United States. This area experiences seasonal fluctuations in temperature. A considerable portion of Griffith's earnings is derived directly or indirectly from the weather-sensitive end uses of space heating and air conditioning. As a result, sales volumes fluctuate and vary from normal expected levels based on variations in weather from historically normal seasonal levels. Such variations could significantly reduce sales volumes. To mitigate this risk, Griffith entered into a weather swap for the period beginning November 1, 2012 through March 31, 2013. The hedge is designed to minimize the impact on earnings of variations from normal temperatures on the sale of weather related products and services. These products and services include the sale of heating oil, propane, HVAC equipment, and billable service on HVAC equipment. In prior years, Griffith had entered into weather collars which reduced, but did not eliminate, the impact of temperature variations. Management believes that the current weather swap will more effectively mitigate the impact of temperature variations on earnings volatility, but cannot provide assurance that similar weather swaps will be available in the future.

Potential Impacts

If effective hedging arrangements such as the weather swap described above are not available in the future, Griffith could experience lower delivery volumes in periods of milder than normal weather, leading to lower earnings and reduced cash flows.

GRIFFITH'S INABILITY TO ATTRACT NEW CUSTOMERS, RETAIN EXISTING CUSTOMERS, MAINTAIN SALES VOLUMES, AND MAINTAIN MARGINS MAY ADVERSELY IMPACT EARNINGS

Description and Sources of Risk

Lower sales can occur for various reasons, including the following:

- Changes in customers' usage patterns driven by customer responses to product prices,
- Economic conditions,
- Energy efficiency programs, and/or
- The loss of major customers, the loss of a large number of residential customers, or the addition of fewer new customers than expected.

Significant increases in wholesale oil prices could negatively impact margins and/or cause current and/or prospective full service customers to reduce their usage and/or purchase fuel from discount distributors.

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Potential Impacts

Any one or more of the following could result from these events:

- An adverse impact on Griffith's ability to attract new full-service residential customers and retain existing full-service residential customers.
- Sales volume reductions, and/or compressed margins.
- Increased working capital requirements stemming from an increase in oil and/or propane prices.

These events could materially reduce Griffith's contribution to CH Energy Group's earnings and cash flow.

CENTRAL HUDSON IS SUBJECT TO RISKS RELATING TO ASBESTOS LITIGATION AND MANUFACTURED GAS PLANT FACILITIES

Description and Sources of Risk

Litigation has been commenced by third parties against Central Hudson arising from the use of asbestos at certain of its previously owned electric generating stations, and Central Hudson is involved in a number of matters arising from contamination at former MGP sites.

Potential Impacts

To the extent not covered by insurance or recovered through rates, remediation costs, court decisions and settlements resulting from any litigation could reduce earnings and cash flows.

Additional Information

See Note 12 - "Commitments and Contingencies" and in particular the sub-captions in Note 12 regarding "Asbestos Litigation" and "Former Manufactured Gas Plant Facilities" under the caption "Environmental Matters."

ITEM 1B - Unresolved Staff Comments
None.

ITEM 2 - Properties

CH Energy Group has no significant properties other than those of Central Hudson and CHEC.

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CENTRAL HUDSON

Electric

Central Hudson owns hydroelectric and gas turbine generating facilities as described below.

Type of Electric Generating Plant	Year Placed in Service/Refurbished	MW[1] Net Capability
Hydroelectric (3 stations)	1920-1986	22.4
Gas turbine (2 stations)	1969-1970	42.5
Total		64.9

(1) Reflects maximum one-hour net capability (winter rating as of December 31, 2012) of Central Hudson's electric generating plants and therefore does not include firm purchases or sales.

Central Hudson owns substations having an aggregate transformer capacity of 5.4 million kilovolt amperes. Central Hudson's electric transmission system consists of 629 pole miles of line. The electric distribution system consists of approximately 7,300 pole miles of overhead lines and 1,400 trench miles of underground lines, as well as customer service lines and meters.

Electric Load and Capacity

Central Hudson's maximum one-hour demand for electricity within its own territory for the year ended December 31, 2012, occurred on July 17, 2012, and amounted to 1,168 MW. Central Hudson's highest peak electric demand reached 1,295 MW on August 2, 2006. Central Hudson's maximum one-hour demand for electricity within its own territory for that part of the 2012-2013 winter capability period through February 22, 2013, occurred on January 24, 2013, and amounted to 906 MW.

Central Hudson owns minimal generating capacity and relies on purchased capacity and energy from third-party providers to meet the demands of its full service customers. For more information, see Note 12 - "Commitments and Contingencies."

Natural Gas

Central Hudson's natural gas system consists of 164 miles of transmission pipelines and 1,193 miles of distribution pipelines, as well as customer service lines and meters. For the year ended December 31, 2012, the total amount of natural gas purchased by Central Hudson from all sources was 11,057,946 Mcf. During 2012, Central Hudson retired and removed its propane-air mixing facilities, one located in Poughkeepsie, New York, and the other in Newburgh, New York. Additional investigation and testing of these sites will be required, which may require additional remediation. The cost to be incurred associated with the retirement of these facilities is not expected to be material and will have no impact on earnings.

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The peak daily demand for natural gas of Central Hudson's customers for the year ended December 31, 2012, and for that part of the 2012-2013 heating season through February 22, 2013, occurred on January 23, 2013 and amounted to 115,070 Mcf. Central Hudson's highest winter period daily peak demand reached 125,496 Mcf on January 27, 2005. Central Hudson's firm peak day natural gas capability in the 2012-2013 heating season was 130,090 Mcf.

Other Central Hudson Matters

Central Hudson owns its corporate headquarters located in Poughkeepsie, New York, as well as several district offices located throughout the Hudson Valley. Central Hudson's electric generating plants and important property units are generally held by it in fee simple, except for certain ROW and a portion of the property used in connection with hydroelectric plants consisting of flowage or other riparian rights. Certain of the Central Hudson properties are subject to ROW and easements that do not interfere with Central Hudson's operations. In the case of certain distribution lines, Central Hudson owns only a partial interest in the poles upon which its wires are installed and the remaining interest is owned by various telecommunications companies. In addition, certain electric and natural gas transmission facilities owned by others are used by Central Hudson under long-term contracts.

During the three-year period ended December 31, 2012, Central Hudson made gross property additions of $270.1 million and property retirements and adjustments of $49.9 million, resulting in a net increase (including construction work in progress) in gross utility plant of $220.2 million, or 16%.

CHEC

CHEC owns a 100% interest in Griffith. Griffith owns or leases several office, warehouse, and bulk petroleum storage facilities. These facilities are located in Delaware, Maryland, Virginia, and West Virginia. The bulk petroleum storage facilities have capacities from 60,000 gallons up to 760,000 gallons. Griffith leases its corporate headquarters, which is located in Columbia, Maryland.

ITEM 3 - Legal Proceedings

For information about developments regarding certain legal proceedings, see Note 12 - "Commitments and Contingencies" of this 10-K Annual Report.

ITEM 4 – Mine Safety Disclosures

Not applicable.

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PART II

ITEM 5 - Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

For information regarding the market for CH Energy Group's Common Stock and related stockholder matters, see Item 7 - "Management's Discussion and Analysis of Financial Condition and Results of Operations" of this 10-K Annual Report under the caption "Capital Resources and Liquidity - Financing Program" and Note 8 - "Capitalization - Common and Preferred Stock."

Under applicable statutes and their respective Certificates of Incorporation, CH Energy Group may pay dividends on its Common Stock and Central Hudson may pay dividends on its Common Stock and its Preferred Stock, in each case only out of surplus.

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The line graph set forth below provides a comparison of CH Energy Group's cumulative total shareholder return on its Common Stock with the Standard and Poor's 500 Index ("S&P 500") and with the Edison Electric Institute Index (the "EEI Index"), which consists of the 51 U.S. shareholder-owned electric utilities. Total shareholder return is the sum of the dividends paid and the change in the market price of the stock. As of December 31, 2012, the cumulative total shareholder return of CH Energy Group of 84.5% was nearly ten times higher than that of the S&P 500 Index and the EEI Index.

		Indexed Returns				
	Base Period	Years Ending				
Company / Index	2007	2008	2009	2010	2011	2012
CH Energy Group, Inc.	$ 100	$122.13	$105.86	$128.11	$159.47	$184.52
S&P 500 Index	$ 100	$63.00	$79.67	$91.68	$93.61	$108.59
EEI Index	$ 100	$74.10	$82.03	$87.80	$105.35	$107.55

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COMMON STOCK DIVIDENDS AND PRICE RANGES

CH Energy Group and its principal predecessors (including Central Hudson) have paid dividends on their respective Common Stock in each year commencing in 1903, and the Common Stock has been listed on the New York Stock Exchange since 1945. The closing price as of December 31, 2012 and December 31, 2011 was $65.22 and $58.38, respectively. The price ranges and the dividends paid for each quarterly period during the last two fiscal years are as follows:

	2012			2011		
	High	Low	Dividend	High	Low	Dividend
1st Quarter	$67.48	$54.76	$ 0.555	$50.75	$47.44	$ 0.540
2nd Quarter	$67.24	$64.00	$ 0.555	$54.44	$48.76	$ 0.540
3rd Quarter	$65.74	$64.72	$ 0.555	$57.12	$48.00	$ 0.540
4th Quarter	$65.69	$64.48	$ 0.555	$59.67	$50.55	$ 0.555

In 2012, the Board of Directors of CH Energy Group declared quarterly dividends of 55.5 cents per share. In declaring future dividends, CH Energy Group will evaluate all circumstances at the time of making such decisions, including business, financial, and regulatory considerations.

On February 21, 2012, CH Energy Group announced that it had entered into an agreement and plan of merger under which it agreed, subject to shareholder approval and the approval of applicable regulatory authorities, to be acquired by Fortis Inc. ("Fortis") for $65 per share of common stock in cash. The agreement permits the declaration or payment of dividends and distributions in the normal course of business, up to 55.5 cents for quarterly dividends paid for periods commencing prior to March 19, 2013, and 57.0 cents for quarterly dividends paid for periods commencing after such date.

CH Energy Group's ability to pay dividends to common shareholders is affected by the ability of its subsidiaries to pay dividends to the parent company. The Federal Power Act limits the payment of dividends by Central Hudson to its level of retained earnings. More restrictive is the PSC's limit on the dividends Central Hudson may pay to CH Energy Group which is 100% of the average annual income available for common stock, calculated on a two-year rolling average basis. Based on this calculation as of December 31, 2012, Central Hudson would be able to pay a maximum of $45.1 million in dividends to CH Energy Group without violating the restrictions imposed by the PSC. Central Hudson's dividend would be reduced to 75% of its average annual income in the event of a downgrade of its senior debt rating below "BBB+" by more than one rating agency if the stated reason for the downgrade is related to CH Energy Group or any of Central Hudson's affiliates. Further restrictions are imposed for any downgrades below this level. During the year ended December 31, 2012, Central Hudson declared and paid dividends of $22.0 million to CH Energy Group. CH Energy Group's other subsidiaries do not have express restrictions on their ability to pay dividends.

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The number of registered holders of Common Stock of CH Energy Group as of December 31, 2012 was 12,815.

All of the outstanding Common Stock of Central Hudson and all of the outstanding Common Stock of CHEC are held by CH Energy Group.

Beginning in the fourth quarter of 2010 and continuing through 2011, CH Energy Group, using excess liquidity largely related to proceeds from divestitures, repurchased shares of its own common stock. For more information regarding CH Energy Group's stock repurchase program, see the "Anticipated Sources and Uses of Cash" section of Item 7 – "Management Discussion and Analysis."

The following table provides a summary of shares repurchased by CH Energy Group for the quarter ended December 31, 2012:

	Total Number of Shares Purchased(1)	Average Price Paid per Share(2)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet be Purchased Under the Plans or Programs(3)
October 1-31, 2012	1,038	$ 65.35	-	-
November 1-30, 2012	1390	$ 64.83	-	-
December 1-31, 2012	1,611	$ 65.07	-	-
Total	3,039	$ 65.13 1	-	

(1) Consists of shares surrendered to CH Energy Group in satisfaction of tax withholdings on the vesting of restricted shares and performance shares.

(2) Value at which reacquired shares of CH Energy Group's common stock credited on the date the stock was surrendered.

(3) On July 31, 2007, the Board of Directors authorized the repurchase of up to 2,000,000 shares or approximately 13% of CH Energy Group's outstanding common stock on that date, from time to time, over the five year period ending July 31, 2012. Upon expiration, the Board of Directors elected to not extend the repurchase program.

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ITEM 6 - Selected Financial Data of CH Energy Group and Its Subsidiaries

FIVE-YEAR SUMMARY OF CONSOLIDATED OPERATIONS AND SELECTED FINANCIAL DATA[1] (CH ENERGY GROUP)
(In Thousands, except per share data)

	2012	2011	2010	2009	2008
Operating Revenues:					
Electric - Delivery	$336,360	$332,388	$317,023	$275,167	$242,334
Electric - Supply	175,721	206,160	246,116	261,003	365,827
Natural Gas - Delivery	83,158	85,196	81,606	66,916	59,897
Natural Gas - Supply	49,276	76,778	75,189	107,221	129,649
Competitive business subsidiaries	280,204	284,998	240,174	211,250	330,254
Total	924,719	985,520	960,108	921,557	1,127,961
Operating Income	91,318	99,589	99,303	81,585	70,701
Income from continuing operations	39,847	43,184	40,330	33,597	30,968
Income (loss) from discontinued operations, net of tax	-	3,126	(1,128)	10,681	5,186
Preferred Stock redemption premium	342	-	-	-	-
Dividends declared on Preferred Stock of subsidiary	624	970	970	970	970
Net Income attributable to CH Energy Group	38,881	45,340	38,504	43,484	35,081
Dividends Declared on Common Stock	33,169	33,291	34,161	34,119	34,086
Change in Retained Earnings	5,712	12,049	4,343	9,365	995
Retained Earnings - beginning of year	242,391	230,342	225,999	216,634	215,639
Retained Earnings - end of year	$248,103	$242,391	$230,342	$225,999	$216,634
Common Share Data:					
Average shares outstanding - basic	14,909	15,278	15,785	15,775	15,768
Income from continuing operations - basic	$2.61	$2.77	$2.51	$2.08	$1.89
Income (loss) from discontinued operations - basic	$-	$0.20	$(0.07)	$0.68	$0.33
Net Income attributable to CH Energy Group - basic	$2.61	$2.97	$2.44	$2.76	$2.22
Average shares outstanding - diluted	15,099	15,481	15,952	15,881	15,805
Income from continuing operations - diluted	$2.58	$2.73	$2.48	$2.07	$1.89
Income (loss) from discontinued operations - diluted	$-	$0.20	$(0.07)	$0.68	$0.33
Net Income attributable to CH Energy Group - diluted	$2.58	$2.93	$2.41	$2.74	$2.22
Dividends declared per share	$2.22	$2.19	$2.16	$2.16	$2.16
Book value per share (at year-end)	$34.05	$33.72	$34.03	$33.76	$33.17
Total Assets (at year-end)	$1,784,949	$1,720,234	$1,729,275	$1,697,883	$1,730,183
Long-term Debt (at year-end)[2]	$486,926	$446,003	$502,959	$463,897	$413,894
Cumulative Preferred Stock (at year-end)	$9,027	$21,027	$21,027	$21,027	$21,027
Total CH Energy Group Common Shareholders' Equity (at year-end)	$509,290	$502,248	$537,804	$553,502	$523,534

(1) This summary should be read in conjunction with the Consolidated Financial Statements and Notes thereto included in Item 8 - "Financial Statements and Supplementary Data" of this 10-K Annual Report.
(2) Net of current maturities of long-term debt.

For additional information related to the impact of acquisitions and dispositions on the above, this summary should be read in conjunction with Item 7 - "Management Discussion and Analysis of Financial Condition and Results of Operations" of this 10-K Annual Report and Note 5 - "Acquisitions, Divestitures and Investments" of Item 8 - "Financial Statements and Supplementary Data" of this 10-K Annual Report.

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FIVE-YEAR SUMMARY OF CONSOLIDATED OPERATIONS AND SELECTED FINANCIAL DATA[1]
(CENTRAL HUDSON)
(In Thousands)

	2012	2011	2010	2009	2008
Operating Revenues					
Electric - Delivery	$336,360	$332,388	$317,023	$275,167	$242,334
Electric - Supply	175,721	206,160	246,116	261,003	365,827
Natural Gas - Delivery	83,158	85,196	81,606	66,916	59,897
Natural Gas - Supply	49,276	76,778	75,189	107,221	129,649
Total	644,515	700,522	719,934	710,307	797,707
Operating Income	98,513	95,526	94,848	76,338	67,344
Net Income	47,170	45,037	46,118	32,776	27,238
Preferred Stock Redemption Premium	342	-	-	-	-
Dividends Declared on Cumulative Preferred Stock	624	970	970	970	970
Income Available for Common Stock	46,204	44,067	45,148	31,806	26,268
Dividends Declared to Parent - CH Energy Group	22,000	43,000	31,000	-	-
Change in Retained Earnings	24,204	1,067	14,148	31,806	26,268
Retained Earnings - beginning of year	165,965	164,898	150,750	118,944	92,676
Retained Earnings - end of year	$190,169	$165,965	$164,898	$150,750	$118,944
Total Assets (at year-end)	$1,660,367	$1,592,503	$1,539,074	$1,485,600	$1,492,196
Long-term Debt (at year-end)[2]	$459,950	$417,950	$453,900	$413,897	$413,894
Cumulative Preferred Stock (at year-end)	$9,027	$21,027	$21,027	$21,027	$21,027
Total Equity (at year-end)	$469,661	$445,295	$444,228	$430,080	$373,274

(1) This summary should be read in conjunction with the Consolidated Financial Statements and Notes thereto included in Item 8 - "Financial Statements and Supplementary Data" of this 10-K Annual Report.
(2) Net of current maturities of long-term debt.

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ITEM 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations

INTRODUCTION

The following Management's Discussion and Analysis of Financial Condition and Results of Operations are intended to help the reader understand CH Energy Group and Central Hudson.

Please note that the Executive Summary (below) is provided as a supplement to, and should be read together with, the remainder of this Item 7 - "Management's Discussion and Analysis of Financial Condition and Results of Operations," the Consolidated Financial Statements, including the Notes thereto, and the other information included in this 10-K Annual Report.

EXECUTIVE SUMMARY

Business Overview

CH Energy Group's objective is to deliver value to its shareholders through current income, in the form of quarterly dividend payments, and through share appreciation that is expected to result from earnings and dividend growth over the long term.

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

Business Segments:

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

Other Businesses and Investments:

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

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CH Energy Group's asset allocation between Central Hudson, Griffith and Other Businesses and Investments were unchanged from December 31, 2011 to December 31, 2012. The allocation for both periods is as follows:

Central Hudson	Griffith	Other Businesses and Investments

Information Regarding the Fortis Transaction

On February 21, 2012, CH Energy Group announced that it had entered into an agreement and plan of merger under which it agreed, subject to shareholder approval and the approval of applicable regulatory authorities, to be acquired by Fortis Inc. ("Fortis") for $65 per share of common stock in cash. On June 19, 2012, shareholders of CH Energy Group approved the proposed acquisition of the Company by Fortis. As of December 31, 2012, the only outstanding approval needed for the transaction to close is from the New York State Public Service Commission ("PSC"). In January 2013, Fortis, Central Hudson PSC Staff and other parties reached an agreement of terms related to the proposed transaction. This joint proposal was filed with the PSC for its review and approval. While no assurance can be given, the transaction is expected to be approved by the PSC in the second quarter of 2013. Under the terms of the merger agreement, Fortis must close the transaction if all conditions precedent are met, including PSC approval, and a material adverse effect has not occurred. Closing of the transaction would follow shortly after Fortis' acceptance of the PSC's order approving the transaction. Management can provide no assurances regarding the closing.

Fortis' strategy includes the expansion of its utility operations, which are currently concentrated in Canada, into the U.S. CH Energy Group's mission and strategy remains unchanged as discussed in more detail below.

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Mission and Strategy

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

CH Energy Group endeavors to fulfill its mission, providing an attractive risk adjusted return to CH Energy Group shareholders, by executing our plan to:

· Concentrate on energy distribution through Central Hudson in the Mid-Hudson Valley and through Griffith in the Mid-Atlantic region
· Invest primarily in utility electric and natural gas transmission and distribution
· Focus on risk management
  - Limit commodity exposure
  - Manage regulatory affairs effectively
  - Maintain a financial profile that supports a credit rating in the "A" category
  - Limit the impact of weather on Griffith's earnings
· Target stable and predictable earnings, with growth trend expectations of 5% or more per year
· Provide an annualized dividend that is approximately 65% to 70% of annual earnings

Strategy Execution

Based on the current investment and capital structure, CH Energy Group's management believes that it is well positioned to achieve its earnings growth and annualized dividend goals.

Management continues to focus on Central Hudson's electric and natural gas infrastructure as the core growth drivers of CH Energy Group. Central Hudson's capital expenditure program is on course to achieve its targets under its three year rate plan. Central Hudson invested approximately $100 million in 2012 and the five year forecast includes increasing annual capital investments. The capital program provides for continued strengthening of electric and gas infrastructure, as well as prudent investment in technology that will improve reliability and customer satisfaction. Central Hudson has effectively managed its operational challenges, including significant weather events in the past few years and the impact of a significant recession on its customers' ability to pay bills, and has achieved a return approximately equal to its allowed return in 2012.

Griffith's financial results in 2012 were impacted by extremely mild winter weather in the first quarter and escalating wholesale prices, which further dampened demand for its products. Griffith continued its focus on cost management in an effort to reduce the impact of the lower volumes and higher commodity costs on its cost of doing business. Additionally, Griffith's high quality service and brand recognition enabled management to continue its history of increasing margins in an environment of contracting customer demand for petroleum products. Griffith also successfully acquired and tucked-in five companies in 2012, all of which are expected to be accretive in 2013.

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The following information outlines the strategies for each of CH Energy Group's business units, including a description of the business core competencies, investment opportunities, potential risks, and notable activity during 2012. Business unit contributions to operating revenues and net income for years ended December 31, 2012 and 2011 are discussed in more detail in the Results of Operations section of this Management's Discussion and Analysis.

Central Hudson

Business Description and Strategy

Central Hudson's earnings are derived primarily from the revenue it generates from delivering energy to approximately 300,000 electric customers and 80,000 natural gas customers. The delivery rates Central Hudson charges its customers are set by the PSC and are designed to recover the cost of providing safe and reliable service to Central Hudson's customers while providing the opportunity to earn a fair and reasonable return on the capital invested by shareholders.

Central Hudson's strategy is to provide exceptional value to its customers by:
- practicing continuous improvement in everything we do;
- investing in transmission and infrastructure to enhance reliability, improve customer satisfaction and reduce risk;
- moderating cost pressures that increase customer bill levels and variability; and
- advocating on behalf of customers and other stakeholders.

Central Hudson believes that it has strong competencies in safe and efficient utility operations, financial management, risk management and regulatory affairs which will facilitate the achievement of its strategy. Central Hudson's strategic and business planning processes provides goal alignment throughout all levels of the organization in an effort to meet or exceed the expectations of its key stakeholders.

Opportunities and Risks

Earnings growth is primarily expected to come from increases in net utility plant. Central Hudson invests significant capital on an annual basis to strengthen its distribution system by replacing aging infrastructure and to attach new customers to the system. Central Hudson's investments enhance safety and reliability through cost-beneficial solutions, which improve customer satisfaction and reduce risk. Opportunities to enhance transmission and distribution systems and information systems technologies are evaluated and prioritized based on their designed benefits, projected costs and estimated risks. Management continually monitors and evaluates its capital expenditure forecasts and project priorities, which include certain long-term investment opportunities in the system's distribution infrastructure and potentially in gas and electric transmission.

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Future legislative or political actions could result in additional opportunities for infrastructure enhancement. Following Superstorm Sandy, Governor Cuomo formed the Moreland Commission to investigate utility storm preparedness and response. The ultimate recommendations of this Commission, if adopted, could result in increased investment with the goal of reducing damage from storms in the future.

Central Hudson also believes there is an opportunity related to the expansion of its current natural gas customer base. Development of the Marcellus Shale formation and other shale formations has dramatically increased the domestic supply of natural gas and its price has fallen significantly. As a result, natural gas enjoys a significant price advantage over alternative fuels and management believes this will make it more attractive to customers. Central Hudson is surveying its service territory to identify the most cost-effective areas in which to expand its gas distribution system and attach new customers.

Central Hudson continues to advance its cost management efforts and seek opportunities to improve existing business processes utilizing Lean Six Sigma techniques. Lean Six Sigma is a data driven approach to develop processes that are faster, higher quality and less costly. Our incremental process improvements focus on producing more revenue, providing cost savings and creating quality improvements, thereby providing benefits for both CH Energy Group shareholders and Central Hudson customers. Central Hudson also recognizes the importance of innovation and encourages employees to create new value and opportunities to reduce costs and improve quality through the application of technology in new ways and creative problem solving.

The key risks management sees in achieving this strategy are the regulatory environment, cost pressures and the economy in Central Hudson's service territory.

Central Hudson's ability to meet its financial objectives is largely dependent on supportive ratemaking practices by the PSC. Risks related to these practices include reduced allowed returns on equity and/or reduced probabilities of achieving allowed returns, an inability to recover the full costs of doing business, declining support for strong capital structures and credit ratings, changes in deferral accounting that increase volatility of earnings and/or defer cash recovery of our costs, elimination of RDMs and changes in the mechanisms currently in place for recovery of our commodity purchases. Falling interest rates since our last rate case decision could lead to a decrease in the authorized ROE in a future rate proceeding. Management believes Central Hudson's commitments to providing safe and reliable service, customer satisfaction, operational excellence and promoting positive customer and regulatory relations are important for supportive regulatory relationships and obtaining full cost recovery and competitive returns for shareholders.

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In February 2013, Central Hudson experienced a cyber incident that may have exposed certain confidential customer information to an unauthorized third party. Central Hudson commenced an investigation immediately upon becoming aware of the possible unauthorized access and began precautionary communications to Central Hudson customers as well as to the applicable regulatory agencies. Central Hudson has also offered credit monitoring services to the potentially impacted customers free of charge. At this time the investigation is in its early stages, and management has not yet determined whether any customer information was downloaded or misused; therefore no prediction can be made regarding the ultimate outcome of this matter. The financial impact of the costs associated with the communication efforts and credit monitoring services is currently estimated to be approximately $1 million.

The current three-year rate plan, which commenced on July 1, 2010 and will continue until new rates are reset, reduces uncertainty and risk and supports investment in Central Hudson's infrastructure to improve the quality of service to customers. The key provisions of the rate plan include an authorized regulatory return on equity of 10.0% and a 48% regulatory equity ratio; the continuation of a RDM; full recovery and deferral provisions for purchased electric and gas, MGP site remediation, pension and OPEB expenses. The rate plan also contains a number of service quality thresholds; performance below these thresholds entails financial penalties. Additionally, PSC staff approved and incorporated in the development of rates, the revenue requirements associated with Central Hudson's capital expenditure budget for the term of the three-year rate plan, subject to the achievement of certain defined Net Plant targets. The PSC's regulations also provide an opportunity to recover certain extraordinary expenditures that are not reflected in rates. However, the 3-pronged test criteria required for approval may limit Central Hudson from recovering some or all of such costs, reducing earnings for shareholders. Management believes the current rate plan and other regulatory orders under which Central Hudson operates demonstrate a constructive relationship with New York State regulators and the willingness of regulators to enable Central Hudson to earn stable, predictable returns while providing reliable, high quality service and fulfilling New York State energy policy objectives.

The impacts of laws and regulations represent another risk to Central Hudson's strategy. The Moreland Commission formed following Superstorm Sandy was tasked by Governor Cuomo to investigate utility storm preparedness and response. The outcome of the Commission's investigation and recommendations may create potential opportunities, but may also create potential financial risks in terms of new or increased standards of performance, with associated penalties for failure to meet the standards. Central Hudson responded timely to the two subpoenas it received during the Moreland Commission investigation requesting information regarding storm preparedness and restoration. The Moreland Commission issued an Interim Report on January 7, 2013 making recommendations that, if adopted, may affect the regulation of future storm preparedness and response for all New York utilities, including Central Hudson. Central Hudson believes its current storm preparedness and response is excellent, but opportunities for improvement are continuously pursued. For example, Central Hudson's tree trimming program has proven to be a cost-effective measure to enhance reliability and reduce outages caused by falling branches, particularly in times of severe weather. Central Hudson plans to invest in technology to automate the electric distribution system, which is expected to further reduce the frequency of outages. Management believes these programs provide the type of cost-effective measures to improve resilience of the electric distribution system sought by state officials. Furthermore, Central Hudson has been recognized nationally for its storm response by the Edison Electric Institute in each of the past three consecutive years, including its storm response and restoration efforts following Superstorm Sandy in 2012. Central Hudson's dedicated and skilled workforce again demonstrated their ability to organize and execute high quality and efficient restoration for its customers, restoring power to 90% of its customers within four days following Superstorm Sandy. Management does not believe it will be cited with any penalties related to prior storm restoration, however, continued regulatory support for recovery of the cost of these programs, along with recovery of incremental restoration costs will be necessary for Central Hudson to achieve stable and predictable earnings.

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In addition to the recovery of costs of operation, Central Hudson's current rate structure includes a return on its projected rate base. Rate base represents Central Hudson's investment in its utility infrastructure, less depreciation, adjusted for certain required regulatory items. Changes in tax legislation or regulatory accounting can reduce the amount of Central Hudson rate base, reducing Central Hudson's future rates and potential earnings. For example, Central Hudson's election to utilize bonus depreciation as it has been made available in recent years has had just such an impact. In addition, Central Hudson's change in accounting tax method related to costs to repair and maintain utility assets has resulted in an increase in its deferred tax liability and a corresponding decrease in its rate base. For additional discussion of these tax items, see Note 4 – "Income Tax."

Another risk is the ability to effectively manage costs, which is a key component of Central Hudson's strategy. The continued implementation of Lean Six Sigma techniques to streamline existing business processes and innovation to create new value will play critical roles in managing the costs of doing business in a sustainable manner as well as result in continuous improvement in services provided to customers.

The third risk, the economy in Central Hudson's service territory, affects the growth of utility rate base and earnings through a direct relationship to customer additions and peak demand growth as well as affecting our ability to collect receivables. Management believes the economy in Central Hudson's service territory has good long-term growth prospects, but unexpected prolonged downturns could inhibit our ability to meet long-term business objectives. Central Hudson has an economic development program intended to increase job growth and income in its service territory.

Griffith

Business Description and Strategy

Griffith provides fuel distribution products and services to approximately 55,000 customers in Delaware, Washington, D.C., Maryland, Pennsylvania, Virginia and West Virginia. Griffith's revenues, cash flows and earnings are derived from the sale and delivery of heating oil, gasoline, diesel fuel, kerosene and propane and from the installation and maintenance of heating, ventilating and air conditioning ("HVAC") equipment. For a breakdown of Griffith's gross profit by product and service line for the years ended December 31, 2012, 2011 and 2010, see the chart in the Results of Operations under the caption – "Griffith."

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Griffith's strategy is to provide premium service to customers and to increase its profitability and reduce earnings volatility by:

- practicing continuous improvement in everything we do;
- growing through selective "tuck-in" acquisitions;
- managing the impacts of weather on earnings; and
- expanding its service offerings.

Opportunities and Risks

Griffith has a strong regional brand that management believes stands for quality, reliability and value. Griffith intends to continue its marketing efforts and focus on customer satisfaction, which management believes will help to minimize customer attrition.

Management also continues to focus on improving the profitability of operations and expanding products and services in the Mid-Atlantic region. Griffith continues to seek selective oil and HVAC "tuck-in" acquisitions to be funded from internally generated cash. This growth strategy focuses on acquiring and retaining customers in geographic areas that overlap Griffith's existing operations. Griffith also expects to generate additional earnings and cash flow as a result of the organic expansion of its HVAC business. These growth strategies are not expected to result in the growth of CH Energy Group's total invested capital in Griffith.

Management sees three key risks associated with this strategy. The primary factor that could prevent Griffith from achieving earnings growth is a sustained, significant increase in wholesale oil prices, which could reduce residential sales volumes, put downward pressure on margins, increase operating costs and bad debt expense. While management believes that margin expansion would still be possible in this environment as competitors would be forced to increase their prices to cover their increasing costs, management expects that this result would lag the increase in commodity prices. Additionally, weakness in the economy of the Mid-Atlantic region could limit Griffith's ability to expand margins since customers' willingness and ability to pay are typically tied to income levels and unemployment rates. The third risk relates to customer attrition which could be driven by increasing wholesale prices and margin expansion or as a result of the industry contracting due to conversions to alternative heating fuel sources or as a result of competitive pressures from within the industry. Griffith seeks to eliminate the impact of weather on its business through the purchase of weather derivative instruments.

Notable 2012 Activity

In 2012, Griffith continued its successful acquisition strategy by acquiring five fuel distribution and service businesses. Two of the acquisitions were HVAC companies, which totaled approximately half of the acquisition dollars invested in 2012. These strategic acquisitions have already begun contributing to Griffith's earnings and cash flows. However, during 2012 Griffith's earnings were adversely impacted by both unusually warm winter weather and higher fuel prices, which resulted in reduced usage in 2012. Griffith's weather hedging in place in early 2012 mitigated a portion of the weather impact on earnings, but did not provide full protection. Currently, Griffith is invested in weather swaps which management believes will more effectively minimize the impacts of weather on earnings. Griffith also experienced a decline in the number of service installations and repairs under its expanded HVAC program in 2012, which management believes resulted from warmer than normal winter weather. Despite the unfavorable environment, management was successful in continuing its trend of increasing margins and reducing costs through effective cost management measures. Management believes that the reduced level of HVAC installations is temporary and that the long-term outlook of the economy in Griffith's service territory continues to be strong with a stable pool of current and prospective customers that value quality service at a fair price.

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Other Businesses and Investments

As of December 31, 2012, CHEC's remaining investments are not considered a part of our core business. These investments are immaterial at 0.1% of assets and no further capital investment in them is planned. Management intends to retain these remaining investments, but will continue to monitor market conditions to evaluate the fair market value of these investments and consider whether the opportunity exists to create greater shareholder value through divestitures. For further discussions relating to CHEC's renewable energy investments, see Note 5 – "Acquisitions, Divestitures and Investments."

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EARNINGS PER SHARE AND OVERVIEW OF YEAR-TO-DATE RESULTS

The following discussion and analyses include explanations of significant changes in revenues and expenses between the year ended December 31, 2012 and 2011 and the year ended December 31, 2011 and 2010 for Central Hudson's regulated electric and natural gas businesses, Griffith, and the Other Businesses and Investments.

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

Earnings

Earnings per share (basic and diluted) of CH Energy Group's Common Stock are computed on the basis of the average number of common shares outstanding (basic and diluted) during the subject year. The number of average shares outstanding of CH Energy Group Common Stock, the earnings per share, and the rate of return earned on average common equity, which is net income as a percentage of a monthly average of common equity, are as follows (Shares In Thousands):

	2012	2011	2010
Average shares outstanding:			
Basic	14,909	15,278	15,785
Diluted	15,099	15,481	15,952
Earnings per share from continuing operations:			
Basic	$2.61	$2.77	$2.51
Diluted	$2.58	$2.73	$2.48
Earnings per share from discontinued operations:			
Basic	$-	$0.20	$(0.07)
Diluted	$-	$0.20	$(0.07)
Earnings per share:			
Basic	$2.61	$2.97	$2.44
Diluted	$2.58	$2.93	$2.41
Return earned on average common equity	7.6 %	8.7 %	7.4 %

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2012 AS COMPARED TO 2011

CH Energy Group Consolidated

Earnings per Share (Basic)

	Year Ended December 31, 2012	2011	Change
Central Hudson - Electric	$2.50	$2.22	$0.28
Central Hudson - Natural Gas	0.60	0.66	(0.06)
Griffith	0.05	0.10	(0.05)
Other Businesses and Investments	(0.54)	(0.01)	(0.53)
Total CH Energy Group Consolidated Earnings, as reported	$2.61	$2.97	$(0.36)
Significant Events:			
Central Hudson	$(0.13)	$(0.20)	$0.07
Griffith	(0.12)	-	(0.12)
Other Businesses and Investments	(0.57)	(0.06)	(0.51)
Total Significant Events	$(0.82)	$(0.26)	$(0.56)
CH Energy Group Consolidated Adjusted Earnings Per Share (non-GAAP):			
Central Hudson	$3.23	$3.08	$0.15
Griffith	0.17	0.10	0.07
Other Businesses and Investments	0.03	0.05	(0.02)
Total CH Energy Group Consolidated Adjusted Earnings Per Share (non-GAAP)	$3.43	$3.23	$0.20

Earnings for CH Energy Group for the year ended December 31, 2012 compared to 2011 were negatively impacted by costs incurred in the current year associated with the pending Fortis acquisition and the impact of weather on Griffith's earnings. These impacts were only partially offset by earnings on increased capital investments at Central Hudson.

The Significant Events noted for each business unit above and further detailed below represent items impacting earnings during the respective years which Management does not consider representative of core earnings of each business unit. Management considers core earnings to include the results of operations excluding the effect of unusual events or transactions not reflective of ongoing performance, such as the impacts of extreme weather or an incentive earned outside the normal course of business. Overall the Company believes that providing investors with a view of core earnings as described above provides increased transparency and clarity into the operational results of the business; improves visibility to management decisions and their impacts on operational performance; and allows the company to provide a long-term strategic view of the business going forward.

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Details by business unit were as follows:

Central Hudson

Earnings per Share (Basic)

	Year Ended December 31, 2012	2011	Change
Central Hudson - Electric	$2.50	$2.22	$0.28
Central Hudson - Natural Gas	0.60	0.66	(0.06)
Total Central Hudson Earnings	$3.10	$2.88	$0.22
Significant Events:			
Weather related restoration costs	$-	$(0.14)	$0.14
Storm Deferral Adjustment	(0.13)	(0.17)	0.04
Energy efficiency incentives	-	0.11	(0.11)
Central Hudson Adjusted Earnings Per Share	$3.23	$3.08	$0.15

	Change
Delivery revenue	$0.46
Share accretion due to fewer shares outstanding	0.07
Lower trimming costs	0.06
Higher depreciation	(0.17)
Higher property and other taxes	(0.12)
Higher operating expenses	(0.12)
Higher other distribution maintenance	(0.06)
Other	0.03
	$0.15

(1) Amount represents incremental costs incurred for weather related service restoration, including costs for outside contractor assistance in restoration efforts and higher than average internal expenses (such as overtime and materials), which did not meet the PSC criteria for deferral and therefore have not been deferred for future recovery from customers.

The increase in earnings from Central Hudson's electric and natural gas operations in the year ended December 31, 2012 compared to 2011 reflect the earnings on the additional capital investment in the business and the impact of accretion from repurchase of shares in 2011. The increase in delivery rates effective July 2011 and July 2012 were necessary to cover the increasing costs of operating the business and to provide a reasonable return on our additional capital investments in electric and natural gas infrastructure. Accretion of $0.07 per share in 2012 is attributable to CH Energy Group's repurchase of nearly $49 million of common stock primarily in the second half of 2011. In addition to these items, other significant events affecting year-over-year results include:

• In 2011, Central Hudson was impacted by several weather related events, which did not meet the PSC criteria for deferral, and as such the incremental restoration costs associated with these events impacted earnings.

• In December 2011 and during the first half of 2012, Central Hudson recorded additional expenses and reduced its deferred incremental storm restoration costs associated with the significant snow storm event in late October 2011 ("SnowFall") to adjust earnings so that the return on common equity for the twelve months ending June 30, 2012 would not exceed the authorized rate of return of 10%.

• In 2011, Central Hudson earned incentives upon achieving certain energy efficiency targets established by the PSC regarding its internal programs.

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Griffith

Earnings per Share (Basic)

	Year Ended December 31, 2012	2011	Change
Griffith - Fuel Distribution Earnings	$0.05	$0.10	$(0.05)
Significant Events:			
Weather impact on sales	$(0.12)	$(0.02)	$(0.10)
Discontinued operations	-	0.02	(0.02)
Griffith Adjusted Earnings Per Share	$0.17	$0.10	$0.07

	Change
Gross margin on petroleum sales	$0.07
Operating expenses	0.02
Gross margin on services	0.02
Acquisitions	0.02
Weather-normalized sales (including conservation)	(0.06)
	$0.07

Griffith's earnings decreased $0.05 per share in the year ended December 31, 2012 compared to 2011 primarily due to lower volumes sold resulting from the unusually warm winter season in early 2012 compared to the colder than normal winter season in early 2011. In addition, Griffith's 2011 earnings benefited from reducing the environmental reserve associated with the 2009 divestiture. Excluding the impact of these items, Griffith's weather-normalized core earnings for 2012 were $0.07 higher than 2011. Griffith was able to effectively expand its margins and manage its operational costs which more than offset the impact of lower weather-normalized sales volumes driven primarily by customer conservation in response to high commodity prices. Also impacting the year-over-year results is the additional income generated from the tuck-in acquisitions completed in 2011.

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Other Businesses and Investments

Earnings per Share (Basic)

	Year Ended December 31, 2012	2011	Change
Other Businesses & Investments Earnings	$(0.54)	$(0.01)	$(0.53)
Significant Events:			
Renewable Investments:			
Wind investment impairment in 2011	$-	$(0.14)	$0.14
Payment for early retirement of debt	-	(0.11)	0.11
Operations	-	(0.09)	0.09
Tax impacts of divestitures	0.04	0.02	0.02
Federal tax grant benefit in 2011	-	0.17	(0.17)
Gain on divestitures	0.01	0.07	(0.06)
Income taxes related to deductions for prior periods	0.02	0.02	-
Merger related costs	(0.64)	-	(0.64)
Other Businesses and Investments Adjusted Earnings Per Share	$0.03	$0.05	$(0.02)

	Change
Lower net interest income	$(0.03)
Other	0.01
	$(0.02)

The earnings of CH Energy Group (the holding company) and CHEC's partnerships and other investments decreased in the year ended December 31, 2012 compared to 2011 primarily due to the costs associated with the Fortis acquisition. Excluding the significant events listed above, core earnings for this business unit decreased during the year ended December 31, 2012 compared to the prior period primarily due to a decrease in intercompany interest income as a result of a decrease in borrowings by Griffith. The warmer winter weather in 2012 lowered Griffith's working capital needs, despite the increasing price of fuel oil.

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2011 AS COMPARED TO 2010

CH Energy Group Consolidated

Earnings per Share (Basic)

	Year Ended December 31, 2011	2010	Change
Central Hudson - Electric	$2.22	$2.10	$0.12
Central Hudson - Natural Gas	0.66	0.76	(0.10)
Griffith	0.10	0.11	(0.01)
Other Businesses and Investments	(0.01)	(0.53)	0.52
	$2.97	$2.44	$0.53
Significant Events:			
Central Hudson	$(0.12)	$0.12	$(0.24)
Griffith	-	(0.02)	0.02
Other Businesses and Investments	(0.06)	(0.44)	0.38
Total Significant Events:	$(0.18)	$(0.34)	$0.16
CH Energy Group Consolidated Adjusted Earnings Per Share (non-GAAP)			
Central Hudson	$3.00	$2.74	$0.26
Griffith	0.10	0.13	(0.03)
Other Businesses and Investments	0.05	(0.09)	0.14
Total CH Energy Group Consolidated Adjusted Earnings Per Share (non-GAAP)	$3.15	$2.78	$0.37

Earnings for CH Energy Group totaled $2.97 per share in 2011, an increase of $0.53 per share from the same period in 2010 when earnings had been negatively impacted by impairments on two of its non-utility assets.

Detail by business unit were as follows:

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Central Hudson

Earnings per Share (Basic)

	Year Ended December 31, 2011	2010	Change
Central Hudson - Electric	$2.22	$2.10	$0.12
Central Hudson - Natural Gas	0.66	0.76	(0.10)
Total Central Hudson Earnings	$2.88	$2.86	$0.02
Significant Events:			
Uncollectible deferral in 2010	$-	$0.12	$(0.12)
Higher weather related restoration costs[1]	(0.31)	-	(0.31)
Energy efficiency incentives	0.10	-	0.10
Share accretion	0.09	-	0.09
Central Hudson Adjusted Earnings Per Share	$3.00	$2.74	$0.26

	Change
Delivery revenue	$0.42
Higher property and other taxes	(0.12)
Higher depreciation	(0.11)
Higher trimming costs	(0.02)
Other	0.09
	$0.26

(1) Amount represents incremental costs incurred for weather related service restoration, including costs for outside contractor assistance in restoration efforts and higher than average internal expenses (such as overtime and materials), which did not meet the PSC criteria for deferral and therefore have not been deferred for future recovery from customers.

Earnings from Central Hudson's electric and natural gas operations increased in the year ended December 31, 2011 compared to 2010. After adjusting Central Hudson's earnings per share for the significant items displayed above, including incremental storm-related restoration costs, earnings were $0.26 per share higher year over year. The single largest driver was an increase in delivery revenue resulting from mid-year delivery rate increases in both 2011 and 2010. This additional revenue was needed to cover projected increases in operating costs such as those noted above and to cover revenue requirements associated with increases in rate base.

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Griffith

Earnings per Share (Basic)

	Year Ended December 31, 2011	2010	Change
Griffith - Fuel Distribution Earnings	$0.10	$0.11	$(0.01)
Significant Events:			
Discontinued operations	$0.02	$-	$0.02
Weather impact on sales	(0.02)	(0.02)	-
Griffith Adjusted Earnings Per Share	$0.10	$0.13	$(0.03)

	Change
Weather normalized sales (including conservation)	$(0.13)
Gross margin on petroleum sales	0.09
Operating expenses	0.03
Other	(0.02)
	$(0.03)

Griffith's earnings decreased for the year ended December 31, 2011 compared to the same period in 2010. This decrease was primarily attributable to contractions in volume due to customer conservation that was brought on by a combination of the continued weak economy and higher wholesale fuel prices. Improved margins and lower operating costs offset a majority of this impact.

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Other Businesses and Investments

Earnings per Share (Basic)

	Year Ended December 31, 2011	2010	Change
Other Businesses & Investment Earnings	$(0.01)	$(0.53)	$0.52
Significant Events:			
Ethanol investment impairment in 2010	$-	$(0.44)	$0.44
Biomass investment impairment in 2010	-	(0.08)	0.08
Wind investment impairment in 2011	(0.14)	-	(0.14)
Gain from sales of renewable investments	0.17	-	0.17
Pre-payment penalty on early retirement of debt following 2011 divestiture	(0.11)	-	(0.11)
Operations	(0.02)	(0.03)	0.01
Tax impacts	0.02	-	0.02
Income taxes related to deductions for prior periods	0.02	0.11	(0.09)
Other Businesses and Investments Adjusted Earnings Per Share	$0.05	$(0.09)	$0.14

	Change
Higher interest income	$0.05
Lower interest income	0.02
Lower income taxes	0.05
Other	0.02
	$0.14

The earnings of CH Energy Group (the holding company) and CHEC's partnerships and other investments increased in the year ended December 31, 2011 compared to the same period in 2010. Net of the impacts of renewable investment activity and prior period income tax adjustments noted above, Other Businesses and Investments adjusted earnings per share increased $0.14 per share. This increase was primarily due to higher interest income related to intercompany debt and lower interest expense related to the pay down of debt with the proceeds from the sale of renewable investments.

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RESULTS OF OPERATIONS

Central Hudson

The following discussion and analysis includes explanations of significant changes in operating revenues, operating expenses, volumes delivered, other income, interest charges, and income taxes between the years ended December 31, 2012 and 2011, and December 31, 2011 and 2010 for Central Hudson's regulated electric and natural gas businesses.

Income Statement Variances
(Dollars In Thousands)

	Year Ended December 31,		Increase/(Decrease) in	
	2012	2011	Amount	Percent
Operating Revenues	$644,515	$700,522	$(56,007)	(8.0)%
Operating Expenses:				
Purchased electricity, fuel and natural gas	224,997	282,938	(57,941)	(20.5)
Depreciation and amortization	38,139	35,475	2,664	7.5
Other operating expenses	282,866	286,583	(3,717)	(1.3)
Total Operating Expenses	546,002	604,996	(58,994)	(9.8)
Operating Income	98,513	95,526	2,987	3.1
Other Income, net	7,104	6,879	225	3.3
Interest Charges	29,656	29,191	465	1.6
Income before income taxes	75,961	73,214	2,747	3.8
Income Taxes	28,791	28,177	614	2.2
Net income	$47,170	$45,037	$2,133	4.7%

	Year Ended December 31,		Increase/(Decrease) in	
	2011	2010	Amount	Percent
Operating Revenues	$700,522	$719,934	$(19,412)	(2.7)%
Operating Expenses:				
Purchased electricity, fuel and natural gas	282,938	321,305	(38,367)	(11.9)
Depreciation and amortization	35,475	33,815	1,660	4.9
Other operating expenses	286,583	269,966	16,617	6.2
Total Operating Expenses	604,996	625,086	(20,090)	(3.2)
Operating Income	95,526	94,848	678	0.7
Other Income, net	6,879	3,282	3,597	109.6
Interest Charges	29,191	25,848	3,343	12.9
Income before income taxes	73,214	72,282	932	1.3
Income Taxes	28,177	26,164	2,013	7.7
Net income	$45,037	$46,118	$(1,081)	(2.3)%

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Delivery Volumes

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

The following chart reflects the change in the level of electric and natural gas deliveries for Central Hudson in 2012 compared to 2011, and in 2011 compared to 2010. Deliveries of electricity and natural gas to residential and commercial customers have historically contributed the most to Central Hudson's earnings. Industrial sales and interruptible sales have a negligible impact on earnings. Central Hudson's delivery rate structure includes revenue decoupling mechanisms ("RDMs"), which provide the ability to record revenues equal to those forecasted in the development of current rates for most of Central Hudson's customers. As a result, fluctuations in actual delivery volumes do not have a significant impact on Central Hudson's earnings.

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Electric Deliveries
(In Gigawatt-Hours)

	Actual Deliveries Year Ended December 31,		Variation in		Weather Normalized Deliveries[1] Year Ended December 31,		Variation in	
	2012	2011	Amount	Percent	2012	2011	Amount	Percent
Residential	2,044	2,113	(69)	(3)%	2,052	2,064	(12)	(1)%
Commercial	1,931	1,962	(31)	(2)	1,923	1,939	(16)	(1)
Industrial and other	1,094	1,114	(20)	(2)	1,092	1,111	(19)	(2)
Total Deliveries	5,069	5,189	(120)	(2)%	5,067	5,114	(47)	(1)%

	Actual Deliveries Year Ended December 31,		Variation in		Weather Normalized Deliveries[1] Year Ended December 31,		Variation in	
	2011	2010	Amount	Percent	2011	2010	Amount	Percent
Residential	2,113	2,092	21	1 %	2,064	2,053	11	1 %
Commercial	1,962	1,968	(6)	-	1,939	1,946	(7)	-
Industrial and other	1,114	1,150	(36)	(3)	1,111	1,149	(38)	(3)
Total Deliveries	5,189	5,210	(21)	- %	5,114	5,148	(34)	(1)%

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

Natural Gas Deliveries
(In Million Cubic Feet)

	Actual Deliveries Year Ended December 31,		Variation in		Weather Normalized Deliveries[1] Year Ended December 31,		Variation in	
	2012	2011	Amount	Percent	2012	2011	Amount	Percent
Residential	4,314	5,169	(855)	(17)%	5,172	5,272	(100)	(2)%
Commercial	5,027	5,743	(716)	(12)	5,740	5,873	(133)	(2)
Industrial and other	298	422	(124)	(29)	348	430	(82)	(19)
Total Deliveries	9,639	11,334	(1,695)	(15)%	11,260	11,575	(315)	(3)%

	Actual Deliveries Year Ended December 31,		Variation in		Weather Normalized Deliveries[1] Year Ended December 31,		Variation in	
	2011	2010	Amount	Percent	2011	2010	Amount	Percent
Residential	5,169	4,802	367	8 %	5,272	5,081	191	4 %
Commercial	5,743	5,238	505	10	5,873	5,474	399	7
Industrial and other	422	403	19	5	430	421	9	2
Total Deliveries	11,334	10,443	891	9 %	11,575	10,976	599	5 %

(1)

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

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2012 vs. 2011

The year-over-year variance in electric and natural gas deliveries to residential and commercial customers was driven primarily by the unfavorable impacts of the warmer than normal winter season in the beginning of 2012 compared to the colder than normal winter season in 2011. Lower sales per customer primarily due to conservation contributed to the slight decline in weather normalized deliveries year over year. The lower industrial and other volumes were driven by the loss of a few large customers in 2012.

2011 vs. 2010

Total electric deliveries to residential, commercial, and industrial customers were essentially unchanged for the year ended December 31, 2011 as compared to the prior year. The favorable impacts of colder weather in the first half of the year were offset by unfavorable impacts of cooler weather during the summer compared to the prior year as well as warmer weather at the end of 2011 compared to 2010. The lower industrial and other volumes were driven by the loss of a large customer in 2011.

Total natural gas deliveries to residential and commercial customers increased during the year ended December 31, 2011 as compared to 2010 which is due to both an increase in sales per customer as well as the favorable impact of colder weather experienced during heating season peak months in the first half of 2011 compared to 2010.

Revenues

Central Hudson's revenues consist of two major categories: those that offset specific expenses in the current period (matching revenues), and those that impact earnings. Matching revenues recover Central Hudson's actual costs for particular expenses. Any difference between these revenues and the actual expenses incurred is deferred for future recovery from or refund to customers and therefore does not impact earnings.

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Change in Central Hudson Revenues - Electric
(In Thousands)

	Year Ended December 31, 2012	2011	Increase / (Decrease)	Year Ended December 31, 2011	2010	Increase / (Decrease)
Revenues with Matching Expense Offsets:(1)						
Energy cost adjustment	$171,735	$201,731	$(29,996)	$201,731	$241,709	$(39,978)
Sales to others for resale	3,986	4,429	(443)	4,429	4,407	22
Other revenues with matching offsets	81,960	83,533	(1,573)	83,533	81,678	1,855
Subtotal	257,681	289,693	(32,012)	289,693	327,794	(38,101)
Revenues Impacting Earnings:						
Customer sales	236,283	230,272	6,011	230,272	220,338	9,934
Energy efficiency incentives	-	2,719	(2,719)	2,719	-	2,719
RDM and other regulatory mechanisms	9,283	5,652	3,631	5,652	4,753	899
Pole attachments and other rents	4,466	4,215	251	4,215	4,085	130
Finance charges	2,983	3,428	(445)	3,428	3,297	131
Other revenues	1,385	2,569	(1,184)	2,569	2,872	(303)
Subtotal	254,400	248,855	5,545	248,855	235,345	13,510
Total Electric Revenues	$512,081	$538,548	$(26,467)	$538,548	$563,139	$(24,591)

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

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

	Year Ended December 31, 2012	2011	Increase / (Decrease)	Year Ended December 31, 2011	2010	Increase / (Decrease)
Revenues with Matching Expense Offsets:(1)						
Energy cost adjustment	$30,019	$57,120	$(27,101)	$57,120	$52,689	$4,431
Sales to others for resale	19,797	20,228	(431)	20,228	23,023	(2,795)
Other revenues with matching offsets	18,476	21,420	(2,944)	21,420	19,360	2,060
Subtotal	68,292	98,768	(30,476)	98,768	95,072	3,696
Revenues Impacting Earnings:						
Customer sales	55,872	59,053	(3,181)	59,053	52,665	6,388
RDM and other regulatory mechanisms	4,301	(192)	4,493	(192)	5,398	(5,590)
Interruptible profits	2,522	2,527	(5)	2,527	2,325	202
Finance charges	830	1,117	(287)	1,117	1,005	112
Other revenues	617	701	(84)	701	330	371
Subtotal	64,142	63,206	936	63,206	61,723	1,483

Total Natural Gas Revenues	$132,434	$161,974	$(29,540)	$161,974	$156,795	$5,179

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

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Electric revenues decreased for the year ended December 31, 2012 as compared to 2011, primarily due to lower energy cost adjustment revenues, lower energy efficiency incentives earned in 2012 and lower other revenues with matching offsets, partially offset by higher customer sales and an increase in revenue collected through RDMs. The decrease in the energy cost adjustment revenues was primarily driven by lower wholesale prices, but was also impacted by lower purchased volumes and a decrease in revenues for the recovery of previously deferred costs. An incentive earned through the Energy Efficiency Portfolio Standard in 2011 but not in 2012 also contributed to the year-over-year decrease in electric revenues. The decrease in revenues was partially offset by increased revenue from energy deliveries, which resulted primarily from the increase in delivery rates as prescribed in the 2010 Rate Order.

Electric revenues decreased for the year ended December 31, 2011 as compared to 2010, primarily due to lower energy cost adjustment revenues. The lower energy cost adjustment revenues were due to lower wholesale prices, and to a lesser extent, lower purchased volumes, partially offset by an increase in revenues recovered for previously deferred purchased electricity costs. An increase in delivery revenues as a result of higher delivery rates as prescribed in the 2010 Rate Order, and the 2011 incentive earned through the Energy Efficiency Portfolio Standard also partially offset the decrease in electric revenues.

Natural gas revenues decreased for the year ended December 31, 2012 as compared to the same period in 2011, primarily due to lower energy cost adjustment revenues, lower customer usage and lower other revenues with matching offsets, which was partially offset by an increase in revenue collected through RDMs. The decrease in energy cost adjustment revenues was driven by lower wholesale prices and lower revenues recovered from previously deferred gas costs, partially offset by an increase in purchased volumes. The decrease in customer usage was due to the warmer winter heating season in 2012 as compared to the prior year. This more than offset the increase in delivery rates as prescribed in the 2010 Rate Order.

Natural gas revenues increased for the year ended December 31, 2011 as compared to the same period in 2010 primarily due to higher customer usage, energy cost adjustment revenues and other revenues with matching offsets. These increases were partially offset by lower RDMs and lower sales to others for resale. Increased gas revenues from sales to customers are due to higher delivery rates as prescribed in the 2010 Rate Order. The higher gas energy cost adjustment revenues for 2011 resulted primarily from higher revenues recovered from previously deferred gas costs partially reduced by lower purchased volumes and lower wholesale gas prices.

Regulatory adjustments to revenues for RDMs can fluctuate from year to year based on the actual sales volumes compared to those projected in the 2010 Rate Order. Electric RDM targets are total class volume based while Gas RDM targets are based on a projected use per customer. In general, positive RDMs are a result of actual delivery volumes that are below the levels projected in the PSC approved rates for that period. Negative RDMs are a result of actual delivery volumes exceeding the levels projected in PSC approved rates. These amounts are deferred for future recovery from or return to customers.

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Other revenues with matching offsets for both electric and natural gas decreased for the year ended December 31, 2012 as compared to the prior period in 2011 and increased for the year ended December 31, 2011 as compared to same period in 2010. The fluctuations in both periods were primarily driven by fluctuations in costs related to NYS energy efficiency programs, the NYS Temporary State Assessment and pension costs.

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Incentive Arrangements

Under certain earnings incentive provisions approved by the PSC, Central Hudson shares with its customers certain revenues and/or cost savings exceeding predetermined levels or is penalized in some cases for shortfalls from certain performance standards.

Earnings sharing arrangements are currently effective for interruptible natural gas deliveries and natural gas capacity release transactions. Performance standards apply to electric service reliability, certain aspects of customer service, natural gas safety and customer satisfaction.

The net results of these and previous earnings sharing arrangements had the effect of increasing pre-tax earnings by $0.9 million in 2012, $0.8 million in 2011, and $0.5 million in 2010. Based on the defined sharing provisions of these arrangements, the portion of revenues returned to customers was $5.7 million in 2012, $5.3 million in 2011, and $3.4 million in 2010.

In addition to the above-noted items, for the period from July 1, 2009 through June 30, 2010, Central Hudson was no longer required per the 2009 Rate Order to share earnings. Beginning July 1, 2010 through June 30, 2013, per the 2010 Rate Order, Central Hudson is once again required to share with customers earnings over an earned ROE of 10.5%. Central Hudson did not record shared earnings in 2012, 2011 or 2010. See Note 2 - "Regulatory Matters" of this 10-K Annual Report under the caption "2010 Rate Order" for a description of earnings sharing formulas approved by the PSC for Central Hudson.

In 2008, Central Hudson received approval through the Energy Efficiency Portfolio Standard ("EEPS") proceedings to implement various programs to electric and natural gas residential and commercial customers. In December 2010, the PSC issued an order combining energy savings targets to create a single 2009-2011 target and continuing the system of utility shareholder financial incentives established in the EEPS proceeding. As of December 31, 2011, Central Hudson achieved enough projected savings through committed contracts with residential and commercial customers to earn $2.7 million in incentives under the 2009-2011 defined targets.

In October 2011, the PSC issued a new order for the period January 1, 2012 through December 31, 2015 and established a cumulative program for the 4-year period with goals and financial incentives related to EEPS. The program results are determined at the end of the 4-year period and there are no penalties associated with the current EEPS portfolio. There were no EEPS incentives earned in 2012.

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Operating Expenses

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

Total utility operating expenses decreased 10% in 2012 compared to the same period in 2011 and decreased 3% in 2011 as compared to 2010. The following table summarizes the change in operating expenses:

Change in Central Hudson Operating Expenses
(In Thousands)

	Year Ended December 31, 2012	Year Ended December 31, 2011	Increase / (Decrease)	Year Ended December 31, 2011	Year Ended December 31, 2010	Increase / (Decrease)
Expenses Currently Matched to Revenues:[1]						
Purchased electricity	$175,721	$206,160	$(30,439)	$206,160	$246,116	$(39,956)
Purchased natural gas	49,816	77,348	(27,532)	77,348	75,712	1,636
Temporary State Assessment	19,739	20,524	(785)	20,524	18,781	1,743
Pension	22,175	25,826	(3,651)	25,826	28,539	(2,713)
OPEB	6,682	6,634	48	6,634	6,722	(88)
NYS energy programs	26,573	27,722	(1,149)	27,722	25,640	2,082
MGP site remediations	4,577	4,488	89	4,488	3,624	864
Other matched expenses	20,690	19,759	931	19,759	17,732	2,027
Subtotal	325,973	388,461	(62,488)	388,461	422,866	(34,405)
Other Expense Variations:						
Tree trimming	13,402	14,898	(1,496)	14,898	14,354	544
Other distribution maintenance	8,962	7,458	1,504	7,458	7,360	98
Property and school taxes[2]	38,062	35,064	2,998	35,064	31,173	3,891
Weather related service restoration [3]	9,615	15,090	(5,475)	15,090	7,062	8,028
Depreciation	38,139	35,475	2,664	35,475	33,815	1,660
Uncollectible expense	5,616	7,157	(1,541)	7,157	7,644	(487)
Uncollectible deferrals	-	-	-	-	(3,702)	3,702
Purchased natural gas incentive arrangements	(540)	(570)	30	(570)	(523)	(47)
Other expenses	106,773	101,963	4,810	101,963	105,037	(3,074)
Subtotal	220,029	216,535	3,494	216,535	202,220	14,315
Total Operating Expenses	$546,002	$604,996	$(58,994)	$604,996	$625,086	$(20,090)

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

(2) In accordance with the 2010 Rate Order, Central Hudson is authorized to defer 90% of any difference between actual property tax expense and the amounts provided in rates for each Rate Year.

(3) Years ended December 31, 2012, 2011 and 2010 do not include $9.7 million, $15.3 million and $19.7 million, respectively of incremental storms costs which met the PSC criteria for deferral accounting and therefore were deferred for future recovery from customers. See further discussions within Regulatory Matters - PSC Proceedings related to these significant storm events.

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In addition to the required adjustment to match revenues collected from customers, the decrease in purchased electricity and purchased natural gas for the year ended December 31, 2012 compared to the same period in the prior year was driven primarily by lower wholesale prices. Variations in volumes and revenues collected for the recovery of previously deferred purchased electric and gas costs also impacted year-over-year variations as discussed under the previous Revenues subcaption.

Variations in costs associated with NYS energy programs, pension and other matched expenses were due to a change in the level of expenses recorded, with a corresponding change in revenues, resulting from the change in the amounts included in delivery rates as authorized in the 2010 Rate Order. The costs associated with the Temporary State Assessment are adjusted to match revenues collected from customers over the applicable period. Variations in the Temporary State Assessment year over year primarily relate to variations in delivery volumes to which the surcharge is applied.

Weather related service restoration costs can fluctuate from year to year based on changes in the number and severity of storms each year. During 2010, 2011 and 2012, Central Hudson's service territory experienced disruption from the four largest storm events in its history; February 2010 Twin Peaks Storm, Tropical Storm Irene in August 2011, October 2011's SnowFall and Superstorm Sandy in October 2012. The weather related service restoration expense line noted above does not include the incremental costs from these major storm events which, based on the PSC's three prong test, Management believes are probable of future recovery from customers and therefore have been deferred.

On April 24, 2012, Central Hudson filed a petition with the PSC to defer for future recovery with carrying charges $8.6 million of total incremental electric storm restoration expense associated with the SnowFall October snow storm. The Company believes that it is entitled to fully recover all of these incremental expenses and has filed its petition with the PSC to reflect that belief. Central Hudson recorded a $1.1 million reversal in March 2012, $2.1 million reversal in June 2012 and $0.1 million in July 2012 of deferred storm costs associated with the October 2011 SnowFall event so that the return on common equity for the twelve months ending June 30, 2012 would not exceed the authorized rate of return of 10%.

Absent these adjustments, weather-related storm restoration costs decreased for year ended December 31, 2012 as compared to the same period in 2011. This result was driven by other storm activity in 2011, none of which individually met the PSC criteria for deferral accounting and therefore were not deferred. These weather events included
a severe ice storm affecting portions of the electric service territory, weather related gas emergencies as a result of other severe weather experienced early in 2011 and damage to our gas system due to Tropical Storm Irene.

For the February 2010 storm, Central Hudson filed a petition with the PSC for approval and recovery on September 23, 2010. Based on the results of the 2011 proceedings on this case, Central Hudson recorded $0.5 million of additional storm costs in 2011 related to the February 2010 Twin Peaks storm, which were not approved for recovery by the PSC. $18.8 million related to the storm was approved for recovery.

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Expenses associated with tree-trimming decreased during the year ended December 31, 2012 as compared to 2011 primarily as a result of additional trimming costs in 2011 to complete the first cycle of distribution line clearance by December 31, 2011 as prescribed by the rate plan and to take advantage of crew availability and favorable contract pricing. In addition, the redeployment of trimming crews to assist in the restoration effort for Central Hudson as well as providing mutual aid assistance to other neighboring utilities following Superstorm Sandy contributed to lower trimming costs in 2012. Trimming costs delayed due to the storm will be incurred prior to June 30, 2013 to meet the level of expenditures required over the three year rate plan.

The increase in other distribution maintenance during the year ended December 31, 2012 as compared to 2011 primarily related to the expense component of capital distribution improvement projects. Weather conditions in 2012 were more favorable for completing distribution improvement projects and resulted in an increase in the amount of activity expense associated with these projects.

Bad debt expense decreased in the year ended December 31, 2012 as compared to the same period in 2011 primarily as a result of lower write-offs of customer receivables and a decrease in the amount recorded as a reserve for future uncollectible accounts. Management believes this is primarily a result of enhanced collection efforts, including increased resources, improved planning, improvements in the business processes related to its customer payment agreements and lower commodity prices.

Other Income

Other income and deductions for Central Hudson for the year ended December 31, 2012, increased $0.2 million, compared to the same period in 2011, primarily due to an increase in carrying charges on regulatory assets related to the deferred storm costs and pension costs. These increases were partially offset by decreases in carrying charges on regulatory assets relating to MGP and interest on over collected gas cost adjustments.

Other income and deductions for Central Hudson for the year ended December 31, 2011 increased $3.6 million, compared to the same period in 2010, due primarily to increases in regulatory adjustments related to changes in interest costs on Central Hudson's variable rate debt resulting from the redemption of Series C and D Medium-Term notes in December 2010 with proceeds from the Series G Medium-Term notes. Additional increases during 2011 resulted from increases in carrying charges related to pension costs, MGP and property taxes, as well as interest on under collected gas cost adjustments and 2011 earnings on Deferred Compensation Plan assets. These increases were partially offset by decreases in carrying charges from customers relating to deferred uncollectible accounts expense, and under collected Temporary State Assessment and RDM balances.

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Interest Charges

Central Hudson's interest charges increased $0.5 million during the year ended December 31, 2012 compared to the same period in 2011. This increase was the result of an increase in carrying charges due to customers, primarily due to an increase in the underlying reserve balance for OPEB costs. The impact of the higher outstanding debt balance for the year ended December 31, 2012 as compared to the prior period was more than offset by the lower interest rates.

Central Hudson's interest charges increased $3.3 million for the year ended December 31, 2011, compared to the same period in December 31, 2010, primarily due to higher interest rates on debt, a higher average debt balance and the net impact of carrying charges on regulatory liabilities. The higher interest rates associated with the $82.2 million medium-term notes issued in December 2010 compared to the $82.2 million variable rate series C and D notes retired in December 2010 increased interest expense year over year. In addition, a full year of interest was recorded in 2011 on $40 million of Series A and B notes issued in September 2010. The net increase in carrying charges on regulatory liabilities was primarily related to an increase in the underlying reserve balance for OPEBs and the impact of the tax repair project on rate base partially reduced by the impacts of a lower net regulatory electric liability.

The following table sets forth pertinent data on Central Hudson's outstanding debt (Dollars in Thousands):

	2012	2011	2010
Long-Term Debt:			
Debt retired	$36,000	$33,400	$106,150
Debt issued	$72,000	$33,400	$122,150
Outstanding at year-end:			
Amount (including current portion)	$489,950	$453,950	$453,900
Weighted average interest rate	4.93 %	5.12 %	5.28 %
Short-Term Debt:			
Average daily amount outstanding	$12,697	$1,151	$12,007
Weighted average interest rate	1.08 %	0.72 %	0.61 %
Overall weighted average interest rate	4.83 %	5.11 %	5.16 %

See Note 7 - "Short-Term Borrowing Arrangements" and Note 9 - "Capitalization - Long-Term Debt" for additional information on short-term and long-term debt of CH Energy Group and/or Central Hudson.

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Income Taxes

Income taxes for Central Hudson increased $0.6 million for the year ended December 31, 2012 when compared to the same period in 2011 primarily due to the increase in pre-tax book income.

Income taxes for Central Hudson increased $2.0 million for the year ended December 31, 2011 when compared to the same period in 2010. In 2010, a one-time reclassification of funded deferred taxes to a regulatory liability account was recorded, resulting in a reduction to the tax provision of $2.3 million.

CH Energy Group

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

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Income Statement Variances
(Dollars In Thousands)

	Year Ended December 31, 2012	2011	Increase/(Decrease) in Amount	Percent
Operating Revenues	$924,719	$985,520	$(60,801)	(6.2)%
Operating Expenses:				
Purchased electricity, fuel, natural gas and petroleum	449,993	511,094	(61,101)	(12.0)
Depreciation and amortization	42,781	40,055	2,726	6.8
Merger related costs	10,058	-	10,058	N/A
Other operating expenses	330,569	334,782	(4,213)	(1.3)
Total Operating Expenses	833,401	885,931	(52,530)	(5.9)
Operating Income	91,318	99,589	(8,271)	(8.3)
Other Income (Deductions), net	7,178	2,566	4,612	179.7
Interest Charges	31,741	35,158	(3,417)	(9.7)
Income before income taxes, non-controlling interest and preferred dividends of subsidiary	66,755	66,997	(242)	(0.4)
Income Taxes	26,908	23,813	3,095	13.0
Net income from continuing operations	39,847	43,184	(3,337)	(7.7)
Net income from discontinued operations, net of tax	-	3,126	(3,126)	(100.0)
Dividends declared on Preferred Stock of subsidiary	624	970	(346)	(35.7)
Preferred Stock Redemption Premium	342	-	342	N/A
Net income attributable to CH Energy Group	$38,881	$45,340	$(6,459)	(14.2)%

	Year Ended December 31, 2011	2010	Increase/(Decrease) in Amount	Percent
Operating Revenues	$985,520	$960,108	$25,412	2.6%
Operating Expenses:				
Purchased electricity, fuel, natural gas and petroleum	511,094	504,058	7,036	1.4
Depreciation and amortization	40,055	38,275	1,780	4.7
Other operating expenses	334,782	318,472	16,310	5.1
Total Operating Expenses	885,931	860,805	25,126	2.9
Operating Income	99,589	99,303	286	0.3
Other Income (Deductions), net	2,566	(10,674)	13,240	124.0
Interest Charges	35,158	29,085	6,073	20.9
Income before income taxes, non-controlling interest and preferred dividends of subsidiary	66,997	59,544	7,453	12.5
Income Taxes	23,813	19,214	4,599	23.9
Net income from continuing operations	43,184	40,330	2,854	7.1
Net income (loss) from discontinued operations, net of tax	3,126	(1,128)	4,254	377.1
Non-controlling interest in subsidiary	-	(272)	272	100.0
Dividends declared on Preferred Stock of subsidiary	970	970	-	-
Net income attributable to CH Energy Group	$45,340	$38,504	$6,836	17.8%

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Griffith

Sales Volumes

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

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

Actual & Weather Normalized Deliveries
(In Thousands of Gallons)

	Actual Deliveries				Weather Normalized Deliveries[1]			
	Year Ended December 31,		Increase / (Decrease) in		Year Ended December 31,		Increase / (Decrease) in	
	2012	2011	Amount	Percent	2012	2011	Amount	Percent
Heating Oil:								
Base company volume[2]	24,169	30,255	(6,086)	(20)%	29,377	31,408	(2,031)	(6)%
Acquisitions volume	779	466	313	67	950	717	233	32
Total Heating Oil	24,948	30,721	(5,773)	(19)	30,327	32,125	(1,798)	(6)
Motor Fuels:								
Base company volume[2]	44,102	42,311	1,791	4	44,102	42,311	1,791	4
Acquisitions volume	2,937	2,935	2	-	2,937	2,935	2	-
Total Motor Fuels	47,039	45,246	1,793	4	47,039	45,246	1,793	4
Propane and Other:								
Base company volume[2]	753	1,012	(259)	(26)	893	1,055	(162)	(15)
Total Propane and Other	753	1,012	(259)	(26)	893	1,055	(162)	(15)
Total:								
Base company volume[2]	69,024	73,578	(4,554)	(6)	74,372	74,774	(402)	(1)
Acquisitions volume	3,716	3,401	315	9	3,887	3,652	235	6
Total	72,740	76,979	(4,239)	(6)%	78,259	78,426	(167)	- %

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

(2) For the purpose of this chart, "Base company" excludes any impact from acquisitions made by Griffith in 2012 and 2011.

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Actual & Weather Normalized Deliveries
(In Thousands of Gallons)

	Actual Deliveries Year Ended December 31, 2011	2010	Increase / (Decrease) in Amount	Percent	Weather Normalized Deliveries[1] Year Ended December 31, 2011	2010	Increase / (Decrease) in Amount	Percent
Heating Oil:								
Base company volume[2]	29,891	35,189	(5,298)	(15)%	31,256	35,048	(3,792)	(11)%
Acquisitions volume	830	179	651	364	869	178	691	388
Total Heating Oil	30,721	35,368	(4,647)	(13)	32,125	35,226	(3,101)	(9)
Motor Fuels:								
Base company volume[2]	42,257	45,774	(3,517)	(8)	42,257	45,774	(3,517)	(8)
Acquisitions volume	2,989	22	2,967		2,989	22	2,967	
Total Motor Fuels	45,246	45,796	(550)	(1)	45,246	45,796	(550)	(1)
Propane and Other:								
Base company volume[2]	1,012	1,104	(92)	(8)	1,055	1,100	(45)	(4)
Total Propane and Other	1,012	1,104	(92)	(8)	1,055	1,100	(45)	(4)
Total:								
Base company volume[2]	73,160	82,067	(8,907)	(11)	74,568	81,922	(7,354)	(9)
Acquisitions volume	3,819	201	3,618		3,858	200	3,658	
Total	76,979	82,268	(5,289)	(6)%	78,426	82,122	(3,696)	(5)%

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

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

Griffith in 2011 and 2010.
Percentage change greater than 500%

Actual and Weather Normalized Delivery Volumes as % of Total Volumes

	Year Ended December 31, 2012		2011		2010	
	Actual	Weather Normalized	Actual	Weather Normalized	Actual	Weather Normalized
Heating Oil:						
Base company	33 %	38 %	39 %	40 %	43 %	43 %
Acquisitions	1 %	1 %	1 %	1 %	- %	- %
Motor Fuels:						
Base company	61 %	56 %	55 %	54 %	56 %	56 %
Acquisitions	4 %	4 %	4 %	4 %	- %	- %
Propane and Other:						
Base company	1 %	1 %	1 %	1 %	1 %	1 %
Total	100 %	100 %	100 %	100 %	100 %	100 %

Sales of petroleum products decreased 6% in the year ended December 31, 2012 compared to the same period in 2011 due primarily to the cumulative impact of warmer than normal weather, as measured by heating degree days.

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Sales of petroleum products decreased 6% in the year ended December 31, 2011 compared to the same period in 2010 due primarily to customer conservation in response to higher oil prices and a decrease in motor fuel volume which continues to be depressed by the sluggish economy. These decreases were partially offset by an increase in sales related to acquisitions.

Gross Profit

A breakdown of Griffith's gross profit by product and service line for the years ended December 31, 2012, 2011 and 2010 are illustrated below (Dollars in Thousands):

	Year Ended December 31,					
Product and Service Line	2012		2011		2010	
Heating oil - Base company	$19,933	40 %	$23,665	47 %	$25,341	50 %
Heating oil - Acquisitions	561	1	291	1	-	-
Motor fuels - Base company	10,728	22	10,081	20	10,415	20
Motor fuels - Acquisitions	921	2	783	1	-	-
Propane and Other - Base company	1,007	2	1,292	3	1,467	3
Service and installations - Base company	13,020	26	12,520	25	13,156	26
Service and installations - Acquisitions	470	1	78	-	-	-
Other - Base company	2,711	6	1,798	3	543	1
Total	$49,351	100%	$50,508	100%	$50,922	100%

Revenues

Change in Griffith Revenues
(In Thousands)

	Year Ended December 31,			Year Ended December 31,		
	2012	2011	Increase / (Decrease)	2011	2010	Increase / (Decrease)
Revenues:						
Heating oil(1)	$95,917	$111,949	$ (16,032)	$110,627	$104,496	$ 6,131
Heating oil - Acquisitions	3,021	1,690	1,331	3,012	548	2,464
Motor Fuels(1)	147,072	137,707	9,365	137,518	111,771	25,747
Motor Fuels - Acquisitions	9,938	9,655	283	9,844	60	9,784
Other(1)	4,908	5,065	(157)	5,065	3,643	1,422
Service Revenues(1)	18,668	18,813	(145)	18,658	19,580	(922)
Service Revenues - Acquisitions	680	119	561	274	76	198
Total	$280,204	$284,998	$ (4,794)	$284,998	$240,174	$ 44,824

(1) These line items exclude the impact of acquisitions made by Griffith in 2012 and 2011 for the analysis which compares December 31, 2012 to 2011 and the impact of acquisitions made by Griffith in 2011 and 2010 for the analysis which compares December 31, 2011 to 2010.

Note: The above chart reflects revenues net of weather hedging contracts.

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Revenues decreased in the year ended December 31, 2012 compared to the same period in 2011, due primarily to a decline in sales volume which was partially offset by an increase in wholesale prices.

Revenues increased in the year ended December 31, 2011 compared to the same period in 2010, due primarily to an increase in wholesale prices partially offset by a decline in sales volume.

Operating Expenses

For the year ended December 31, 2012, operating expenses decreased $3.6 million, or 1%, from $280.3 million in 2011 primarily due to lower costs of petroleum products due to lower sales volumes.

For the year ended December 31, 2011, operating expenses increased $45.6 million, or 19%, from $234.7 million in 2010. The cost of petroleum products increased $45.2 million, or 24%, due to higher wholesale market prices, partially offset by a decline in sales volume.

Other Businesses and Investments

All revenue and operating expenses of Lyonsdale, Shirley Wind, CH-Auburn and CH-Greentree during the years ended December 31, 2011 and 2010 are included in the discontinued operations section in the Consolidated Financial Statements of CH Energy Group as a result of the divestitures during 2011.

Operating expenses of other businesses and investments increased $10.1 million for the year ended December 31, 2012 as compared to the same period in 2011 as a result of costs related to the agreement and plan of merger entered into with Fortis. These costs relate to professional services of approximately $9.1 million and $1.0 million increase in the cost of outstanding performance share awards under CH Energy Group's equity-based compensation plans. This $1.0 million has been recognized at the holding company as a merger-related transaction cost and not allocated to its subsidiaries.

Revenues and operating expenses included in discontinued operations for the year ended December 31, 2011 decreased $5.2 million and $8.9 million compared to 2010. The primary driver of these results was the sale of CHEC's four largest renewable energy investments in 2011, partially reduced by operations of CH Shirley Wind, which began in December 2010.

Other income and deductions and interest charges for the balance of CH Energy Group, primarily the holding company and CHEC's investments in partnerships and other investments (other than Griffith), for the year ended December 31, 2012 increased by $4.4 million and decreased by $3.9 million as compared to the same period in 2011, respectively. The increase in other income and deductions was primarily the result of impairment charges for a wind investment of $3.6 million in the third quarter of 2011. The decrease in interest charges was due to a $3.0 million make-whole payment in 2011 triggered by the early repayment of $20.0 million of debt following the sale of Shirley Wind.

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Other income and deductions and interest charges for the balance of CH Energy Group, primarily the holding company and CHEC's investments in partnerships and other investments (other than Griffith), for the year ended December 31, 2011 increased by $9.5 million and $2.6 million as compared to the same period in 2010, respectively. The increase in other income and deductions was primarily the result of impairment charges for 100% of CHEC's subordinated debt, accrued interest and equity investment in Cornhusker Holdings of $11.4 million in the third quarter of 2010 and a wind investment impairment of $3.6 million discussed above. The additional increase in 2011 compared to the prior period is due to the losses incurred during 2010 related to Cornhusker operations as compared to modest income in 2011 which related to CHEC's share of a small ethanol producer's tax credit. In addition, following the sale of Shirley Wind, CH Energy Group Holding Company paid down $20 million of its 2009 Series A private placement debt. As a result of this early repayment, a make-whole payment of approximately $3.0 million was incurred. The decrease in interest charges was due to the $20 million repayment of Series A private placement debt discussed above.

CH Energy Group – Income Taxes

Income taxes on income from continuing operations for CH Energy Group increased $3.1 million for the year ended December 31, 2012 compared to the same period in 2011, primarily due to costs incurred by CH Energy Group related to the proposed acquisition of CH Energy Group by Fortis. Acquisition costs incurred to date of $8.9 million consisting of professional fees are being treated as non-deductible for tax purposes, which resulted in higher tax expense as well as higher Federal and NY State effective tax rates for the year ended December 31, 2012. Additionally, tax expense and the effective tax rates for the year ended December 31, 2011 were impacted by the tax benefit related to federal grants received.

Income taxes on income from continuing operations for CH Energy Group increased $4.6 million for the year ended December 31, 2011, compared to the same period in 2010, primarily due to an increase in pre-tax book income. Also, in 2010, a one-time reclassification of funded deferred taxes to a regulatory liability account was recorded, resulting in a reduction to the tax provision of $2.3 million.

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CAPITAL RESOURCES AND LIQUIDITY

Cash Flow Summary - CH Energy Group and Central Hudson

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

	CH Energy Group			Central Hudson		
	Year Ended December 31,			Year Ended December 31,		
	2012	2011	2010	2012	2011	2010
Net Cash Provided By/(Used In):						
Operating Activities	$131.9	$120.9	$87.0	$132.1	$123.9	$99.1
Investing Activities	(114.6)	(36.7)	(108.6)	(108.7)	(87.9)	(76.5)
Financing Activities	(2.1)	(98.3)	(22.4)	(1.5)	(43.1)	(17.8)
Net change for the period	15.2	(14.1)	(44.0)	21.9	(7.1)	4.8
Balance at beginning of period	15.3	29.4	73.4	2.5	9.6	4.8
Balance at end of period	$30.5	$15.3	$29.4	$24.4	$2.5	$9.6

For all three periods, both Central Hudson's and CH Energy Group's working capital needs were provided by cash from operations and supplemented with short-term financing as needed. Capital expenditures in all three periods were funded primarily with excess cash from operations and long-term financing in the current and prior year. Additional discussions regarding cash flow from operating, investing and financing activities for each period are provided below.

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Cash provided by sales exceeded the period's expenses and working capital needs in all three periods for both Central Hudson and CH Energy Group, including the incremental storm restoration costs paid by Central Hudson for storm events in each of the three periods. The estimated recoverable incremental storm restoration costs associated with four significant storm events in these years, which met the PSC criteria for deferral, have been deferred for future recovery from customers. As of December 31, 2012 there is approximately $4.4 million for invoices not yet received or paid related to storm restoration costs included in liabilities resulting from the impact of Superstorm Sandy on Central Hudson's service territory. Other significant operating activities in each period presented include:

- Central Hudson utilized cash from operations in excess of working capital needs to fund contributions to its pension and OPEB plans which significantly impacted all three years' cash with $31.8 million in 2012, $33.9 million in 2011 and $69.6 million in 2010. Additional funding was made in 2010 utilizing income tax refunds received as a result of a change in tax accounting method for repair and maintenance costs of Central Hudson's utility assets.
- Costs spent for MGP remediation efforts in excess of amounts collected in rates during the year ended December 31, 2010 negatively impacted the cash from operations. Increased costs in 2010 for the completion of remediation at the Newburgh site were funded partially through an increase in delivery rates effective July 1, 2010. Costs above the amount provided in rates have been deferred for future recovery from customers. In 2012 and 2011, amounts collected in rates for MGP site remediation were greater than remediation costs as a result of the completion of remediation efforts at Newburgh. These amounts were applied against the accumulated undercollected balance for MGP site remediation.
- In 2012, the warmer winter weather in the first quarter combined with lower electric and natural gas prices compared to 2011 resulted in lower working capital needs for Central Hudson. The warmer weather also lowered Griffith's working capital needs in 2012, despite the increasing price of fuel oil. Net cash provided by operating activities at CH Energy Group was negatively impacted during the years ended December 31, 2011 and 2010 primarily due to an increase in Griffith's working capital needs.
- CH Energy Group's net cash provided by operating activities was also negatively impacted during 2012 due to merger related transaction costs paid.

Central Hudson's net cash used in investing activities was primarily for investments in Central Hudson's electric and natural gas transmission and distribution systems. Central Hudson has increased its annual investment in electric and natural gas infrastructure each year. In 2011, proceeds from the sale of CHEC investments in renewable energy and proceeds from the receipt of federal grants related to Shirley Wind and CH-Auburn in 2011 also impacted CH Energy Group's cash from investing activities and were used to pay down debt at CH Energy Group and repurchase outstanding common stock as discussed further below. Capital expenditures at Shirley Wind totaling $29.6 million in 2010 were funded primarily with cash from Griffith's partial divestiture in December 2009. CH Energy Group's investing activities also include Griffith's acquisitions as well as modest investments in Griffith's property and plant in all three years.

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Financing activities at CH Energy Group and Central Hudson were used primarily to fund capital expenditures and to refinance maturing and redeemed debt. Short-term borrowings are used for working capital needs and other corporate uses. Significant financing activities in each period presented include:

- In 2012, Central Hudson issued $72.0 million of long-term debt which was used in part to refinance $36.0 million of maturing debt, to fund the redemption of two of its series of Cumulative Preferred Stock totaling $12.2 million and for funding of future capital investments planned for 2013.
- In 2011, Central Hudson issued $33.4 million of medium term notes, the proceeds of which were used to refund the 1999 NYSERDA Series A bonds in November of 2011.
- In 2010, proceeds from the sale of medium term notes at fixed interest rates were used to retire Central Hudson's 1999 NYSERDA Series C and D variable rate debt prior to maturity.
- After retaining earnings for several years to increase its equity ratio, Central Hudson resumed paying dividends to parent CH Energy Group in 2010. Dividends of $22.0 million, $43.0 and $31.0 million were paid by Central Hudson to CH Energy Group, in 2012, 2011 and 2010, respectively.
- Payment of annual dividends to holders of CH Energy Group Common Stock totaled $33.1 million, $33.6 million and $34.2 million in 2012, 2011 and 2010, respectively. The decrease in 2012 and 2011 is a result of lower shares outstanding due to the share repurchase program partially reduced by the impact of the increase in the quarterly dividend declared beginning in the fourth quarter of 2011 from 54 cents per share to 55.5 cents per share.
- In 2011, CH Energy Group used the proceeds from the sale of CHEC renewable energy investments to repay $20 million of debt at CH Energy Group Holding Company and to repurchase Common Stock outstanding. CH Energy Group repurchased approximately $48.7 million, totaling 949,000 shares of outstanding CH Energy Group Common Stock and returned the shares to treasury during the year ended December 31, 2011.
- Also in 2012, CH Energy Group paid final settlement costs associated with the Accelerated Share Repurchase program of $3.0 million in addition to $48.7 million paid in 2011 for the repurchases of CH Energy Group Common Stock.

Capitalization – Issuance of Treasury Stock

Effective July 1, 2011, employer matching contributions to an eligible employee's Savings Incentive Plan ("SIP") account could be paid in either cash or in CH Energy Group Common Stock, and CH Energy Group chose to meet its matching obligation in Common Stock. Since March 1, 2012, the Company has been using cash for all of its matching obligations, except for matching associated with classified employees of Central Hudson. The classified employees will continue to receive matching contributions in CH Energy Group Common Stock. As of December 31, 2012, 49,246 shares had been issued from treasury related to employer matching contributions, of which 29,690 shares and 19,556 shares were issued in 2012 and 2011, respectively.

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For information regarding equity compensation and the purchase of treasury shares, see Note 11 - "Equity Based Compensation" of this Annual Report on Form 10-K.

Capital Structure

CH Energy Group's consolidated capital structure reflects the external debt and preferred stock of Central Hudson and privately placed external debt at CH Energy Group. CHEC's long-term debt is comprised entirely of intercompany loans from CH Energy Group that are eliminated upon consolidation.

Effective July 1, 2010, Central Hudson began operating under the 2010 Rate Order, and delivery rates are based on a capital structure that reflects 48% common equity. This ratio is calculated according to a PSC methodology, which excludes short-term debt and includes customer deposits. Central Hudson dividend payments are expected to correspond to maintenance of a target equity ratio, excluding short-term debt, of approximately 48% or higher.

Central Hudson's current senior unsecured debt rating/outlook is 'A'/CreditWatch Negative by Standard & Poor's Rating Services ("Standard & Poor's"), 'A'/stable by Fitch Ratings and 'A3'/stable by Moody's Investors Service ("Moody's").[1]

On February 22, 2012, Standard & Poor's placed its ratings of Central Hudson on CreditWatch with negative implications, following the February 21, 2012 announcement that CH Energy Group had agreed to be acquired by Fortis. Standard & Poor's stated that they expect to resolve the CreditWatch listing as the merger nears completion and additional information is available. CH Energy Group is unable to predict the outcome of that resolution. The CreditWatch listing is not expected to have a material impact on the financial performance of Central Hudson or CH Energy Group.

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

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Year-end capital structures for CH Energy Group and its subsidiaries are set forth below as of December 31:

CH Energy Group

	2012	2011	2010
Long-term debt	49.1 %	47.7 %	47.4 %
Short-term debt	1.8 %	0.6 %	- %
Preferred stock	0.9 %	2.1 %	2.0 %
Common equity	48.2 %	49.6 %	50.6 %
	100.0%	100.0%	100.0%

Central Hudson

	2012	2011	2010
Long-term debt	50.6 %	49.2 %	49.4 %
Short-term debt(2)	- %	0.2 %	- %
Preferred stock	0.9 %	2.3 %	2.3 %
Common equity	48.5 %	48.3 %	48.3 %
	100.0%	100.0%	100.0%

CHEC

	2012	2011	2010
Long-term debt(1)	40.3 %	42.4 %	49.9 %
Short-term debt	- %	- %	- %
Preferred stock	- %	- %	- %
Common equity	59.7 %	57.6 %	50.1 %
	100.0%	100.0%	100.0%

(1) Based on stand-alone financial statements and including intercompany balances which are eliminated upon consolidation.
(2) Excluded from the common equity ratio under the PSC's methodology for Central Hudson delivery rates.

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Contractual Obligations

A review of capital resources and liquidity should also consider other contractual obligations and commitments, which are further disclosed in Note 12 - "Commitments and Contingencies."

The following is a summary of the contractual obligations for CH Energy Group and its affiliates as of December 31, 2012 (In Thousands):

	Projected Payments Due By Period				
	Less than 1 year	Years Ending 2014-2015	Years Ending 2016-2017	Thereafter	Total
Long-Term Debt[1]	$31,076	$22,880	$43,721	$420,325	$518,002
Interest Payments - Long-Term Debt[1]	25,398	45,506	43,717	306,574	421,195
Operating Leases	2,557	4,887	4,258	3,939	15,641
Construction/Maintenance & Other Projects[2]	63,647	89,987	12,398	7,270	173,302
Purchased Electric Contracts[3]	32,264	9,005	6,099	15,461	62,829
Purchased Natural Gas Contracts[3]	29,422	27,981	19,849	20,182	97,434
Purchased Fixed Liquid Petroleum Contracts[4]	1,035	-	-	-	1,035
Purchased Variable Liquid Petroleum Contracts[4]	29,857	-	-	-	29,857
Total Contractual Obligations[5]	$215,256	$200,246	$130,042	$773,751	$1,319,295

(1) Includes fixed rate obligations and variable interest rate bonds with estimated variable interest payments based on the actual interest paid in 2012.

(2) Including Specific, Term, and Service Contracts, briefly defined as follows: Specific Contracts consist of work orders for construction; Term Contracts consist of maintenance contracts; Service Contracts include consulting, educational, and professional service contracts.

(3) Purchased electric and purchased natural gas costs for Central Hudson are fully recovered via their respective regulatory cost adjustment mechanisms.

(4) Estimated based on pricing on December 31, 2012.

(5) The estimated present value of CH Energy Group's total contractual obligations is $893 million, assuming a discount rate of 3.8%.

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The following is a summary of the contractual obligations for Central Hudson as of December 31, 2012 (In Thousands):

	Projected Payments Due By Period				
	Less than 1 year	Years Ending 2014-2015	Years Ending 2016-2017	Thereafter	Total
Long-Term Debt(1)	$30,000	$14,000	$41,000	$404,950	$489,950
Interest Payments - Long-Term Debt(1)	23,522	42,625	41,390	301,763	409,300
Operating Leases	1,728	3,419	3,376	3,376	11,899
Construction/Maintenance & Other Projects(2)	63,647	89,987	12,398	7,270	173,302
Purchased Electric Contracts(3)	32,264	9,005	6,099	15,461	62,829
Purchased Natural Gas Contracts(3)	29,422	27,981	19,849	20,182	97,434
Total Contractual Obligations(4)	$180,583	$187,017	$124,112	$753,002	$1,244,714

(1) Includes fixed rate obligations and variable interest rate bonds with estimated variable interest payments based on the actual interest paid in 2012.
(2) Including Specific, Term, and Service Contracts, as defined in footnote (2) of the preceding chart.
(3) Purchased electric and purchased natural gas costs for Central Hudson are fully recovered via their respective regulatory cost adjustment mechanisms.
(4) The estimated present value of Central Hudson's total contractual obligations is $828 million, assuming a discount rate of 3.8%.

In addition to the amounts included in the table above, Central Hudson has an obligation to meet its contractual benefit payment obligations. Decisions on funding of Retirement Plan obligations are made at least annually and are primarily affected by the discount rate used to determine benefit obligations, current asset values, the projection of Retirement Plan assets and corporate resources. Based on the funding requirements of the Pension Protection Act, Central Hudson plans to make contributions that maintain the funded percentage at 80% or higher. Central Hudson's contribution in 2012 to fund the Retirement Plan was $28.0 million and its 2013 contribution is expected to total approximately $26.0 million, resulting in a funded status that meets Central Hudson's objective. The actual contributions could vary significantly based upon actual and projected investment returns, interest rate assumptions and corporate resources. Actual funded status could vary significantly based on asset returns and changes in the discount rate used to estimate the present value of future obligations.

Central Hudson's contributions in 2012 to fund OPEBs were $3.3 million and its contributions for 2013 are expected to be $2.9 million resulting in a funded status that meets Central Hudson's objectives. The actual contributions could vary significantly based upon actual and projected investment returns, interest rate assumptions and corporate resources. Actual funded status could vary significantly based on asset returns and changes in the discount rate used to estimate the present value of future obligations.

During 2012, the value of the Retirement Plan and OPEB assets increased by $62.3 million and $10.0 million, respectively. However, the decrease in discount rates from 2011 increased the present value of the plans' liabilities. The net effect on the funded status of the Retirement Plan was a decrease in the unfunded liability, conversely, the net effect on the funded status of OPEBs was an increase in unfunded liability and as such, additional contributions will likely become necessary. Management expects that such contributions will be recovered through the rate making process over time. Management has transitioned to an investment strategy with a target of 50% long-duration fixed income assets which is intended to reduce the year-to-year volatility of the funded status of the plan and of the level of contributions by more closely aligning the characteristics of plan assets and liabilities. Management cannot currently predict what impact future financial market volatility may have on the funded status of the plan or future funding decisions.

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

Anticipated Sources and Uses of Cash

CH Energy Group's cash flow is primarily generated by the operations of its direct subsidiaries, Central Hudson and CHEC. Generally, the subsidiaries do not accumulate cash but rather provide cash to CH Energy Group in the form of dividends and, in the case of CHEC, repayments on its intercompany loans.

Central Hudson's planned capital expenditures for construction and removal during 2013 total approximately $115 million. Central Hudson expects to fund capital expenditures with cash from operations and a combination of short-term and long-term borrowings. Central Hudson may alter its plan for capital expenditures as its business needs require.

Central Hudson intends to fund growth in its long-lived assets in a manner that maintains an equity ratio of approximately 48% or higher excluding short-term debt balances. Central Hudson plans to utilize short-term debt to fund seasonal and temporary variations in working capital requirements. If wholesale energy prices increase, Central Hudson would expect a corresponding increase in its current level of working capital.

Excluding acquisitions, capital expenditures at Griffith are expected to be approximately $2.3 million during 2013. In accordance with its business strategy, Griffith expects to fund any acquisitions from internally generated cash flow.

Griffith is financed by intercompany loans and equity investments from CH Energy Group in a manner that maintains an equity ratio of approximately 55% before seasonal working capital needs. CH Energy Group plans to utilize short-term debt to fund seasonal and short-term variations in Griffith's working capital needs. If wholesale energy prices increase, Griffith would expect a corresponding increase in its current level of working capital.

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CH Energy Group believes cash generated from operations and funds obtained from its financing program will be sufficient in 2013 and the foreseeable future to meet working capital needs, pay dividends on its Common Stock, and fund investments and acquisitions to fulfill its public service obligations and growth objectives.

CH Energy Group's secondary sources of funds are its cash reserves and its credit facility. CH Energy Group's ability to use its credit facility is contingent upon maintaining certain financial covenants. CH Energy Group does not anticipate that those covenants will restrict its access to funds in 2013 or the foreseeable future.

Effective July 31, 2007, CH Energy Group's Board of Directors extended and amended the Common Stock Repurchase Program of the Company (the "Repurchase Program"), which was originally authorized in 2002. As amended, the Repurchase Program authorized the repurchase of up to 2,000,000 shares (excluding shares repurchased before July 31, 2007) or approximately 13% of CH Energy Group's outstanding Common Stock, from time to time, through July 31, 2012. As of the end of the authorized period in July 2012, CH Energy Group had purchased 948,676 shares under the Repurchase Program.

As part of this Repurchase Program, on August 16, 2011, CH Energy Group implemented an accelerated share repurchase program ("ASR") through which, CH Energy Group paid $30 million and received 554,017 shares. Following the announcement of the proposed acquisition of CH Energy Group by Fortis on February 21, 2012, the agent elected to terminate the agreement. As a result of the termination, CH Energy Group paid an additional $3.0 million to the agent in final settlement of the ASR program. As a result of the increase in its stock price subsequent to August 16, 2011, CH Energy Group paid an additional $3.0 million to the agent in final settlement of the ASR program. There was no change in the number of shares purchased.

Financing Program

CH Energy Group believes that it is well positioned with a strong balance sheet and strong liquidity. CH Energy Group entered 2013 with modest short-term debt liabilities and significant available capacity under CH Energy Group's and Central Hudson's committed credit facilities. Central Hudson's strong investment-grade credit ratings help facilitate access to long-term debt; however, despite improving conditions in financial markets, management can make no assurance regarding the availability of financing or its terms and costs.

On October 19, 2012, CH Energy Group entered into a new three year $100 million revolving credit agreement with several commercial banks to provide committed liquidity for a term of three years. CH Energy Group felt that its strategic transition, including the disposition of certain CHEC assets, warranted a reduction in the size of the credit facility. The previous $150 million facility was terminated as of the effective date of the new agreement. At December 31, 2012, CH Energy Group had $19.5 million in outstanding borrowings under its credit agreement. The lenders under this $100 million credit agreement consist of JPMorgan Chase Bank, N.A., Bank of America, N.A., HSBC Bank USA, N.A., and KeyBank National Association.

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Central Hudson maintains a $150 million committed revolving credit facility with JPMorgan Chase Bank, N.A., Bank of America, N.A., HSBC Bank USA, N.A., KeyBank National Association and RBS Citizens Bank, N.A. as the participating banks. The credit facility has a term of five years, ending on October 19, 2016. In addition to this credit facility, Central Hudson maintains several uncommitted lines of credit with various banks. These arrangements give Central Hudson competitive options to minimize the cost of its short-term borrowings. At December 31, 2012, Central Hudson had no outstanding balance under its uncommitted lines of credit or its committed credit facility.

The availability of these facilities is contingent upon the ability of the lenders to fulfill their commitments. If one or more banks are deemed at risk of being unable to meet their commitments, CH Energy Group and Central Hudson may seek alternative sources of committed credit to supplement the current agreements. However, alternate sources may not be readily available. CH Energy Group and Central Hudson plan for such a situation in part by reserving portions of the total commitment for unforeseen events.

Central Hudson meets its need for long-term debt financing through a medium-term notes program and privately placed debt. As a regulated electric and natural gas utility company, Central Hudson is required to obtain authorization from the PSC to issue securities with maturities greater than 12 months.

On September 14, 2012, the PSC authorized Central Hudson to enter into a multi-year committed credit in the principal amount of up to $175 million and to issue up to $250 million of long-term debt through December 31, 2012. The Order authorized Central Hudson to issue the long-term debt to finance its construction expenditures, refund maturing long-term debt, redeem existing debt and preferred stock and refinance its 1999 NYSERDA Bonds, Series B.

On March 30, 2012, Central Hudson issued $48.0 million of its Series G registered unsecured Medium-Term Notes. The notes bear interest at the rate of 4.776% per annum on a principal amount of $48.0 million and mature on April 1, 2042. The proceeds of the sale of the Notes were used by Central Hudson to repay short-term borrowings of $36.0 million incurred to refinance its 6.64% Series D Medium-Term Notes that matured March 28, 2012, and to redeem its Cumulative Preferred Stock, Series D (4.35%), with an aggregate redemption price of approximately $6.1 million, and its 4.96% Cumulative Preferred Stock, Series E, with an aggregate redemption price of approximately $6.1 million on May 18, 2012.

On November 20, 2012, Central Hudson issued $24.0 million of its Series G registered unsecured Medium-Term Notes. The notes bear interest at the rate of 4.065% per annum on a principal amount of $24.0 million and mature on October 1, 2042.

Central Hudson has two outstanding series of tax-exempt pollution control revenue bonds, totaling $50.4 million in principal amount, which were issued through NYSERDA. These NYSERDA bonds are insured by Ambac Assurance Corporation ("Ambac"), and the ratings on these bonds reflect the higher of the credit rating of Ambac or Central Hudson, which currently is the rating of Central Hudson.

Central Hudson's Series B 1999 NYSERDA Bonds total $33.7 million and are tax-exempt multi-modal bonds that are currently in a variable rate mode. In its Orders, the PSC has authorized deferral accounting treatment for variations in the interest costs under these bonds. As such, variations between the actual interest rates on these bonds and the interest rate included in the current delivery rate structure for these bonds are deferred for future recovery from or refund to customers. As a result, variations in interest rates do not have any impact on earnings.

To mitigate the potential cash flow impact from unexpected increases in short-term interest rates on the Series B Bonds, Central Hudson purchased an interest rate cap based on an index of the short-term tax-exempt debt. The rate cap is two years in length with a notional amount aligned with the principal amount of the Series B and will expire on April 1, 2014. The cap is based on the monthly weighted average of an index of tax-exempt variable rate debt, multiplied by 175%. Central Hudson would receive a payout if the adjusted index exceeds 5.0% for a given month. As of December 31, 2012, no payout is expected and as such the fair value of this instrument is zero.

Central Hudson is currently evaluating what actions, if any, it may take in the future in connection with its 1999 NYSERDA Series B Bonds. Potential actions may include converting the debt to another interest rate mode and/or refinancing with taxable bonds.

In November 2013, outstanding Medium-Term notes issued by Central Hudson totaling $30 million will mature. Central Hudson expects to refinance these notes using either publicly or privately placed debt.

Costs incurred in the issuance of the unsecured Series G Medium-Term notes have been allocated proportionately across the issuances and will be amortized over their respective terms. The amortization of debt costs for both outstanding and redeemed debt are incorporated in the revenue requirement for delivery rates as authorized by the PSC.

Griffith's debt financing of $33.0 million, as of December 31, 2012, is provided by CH Energy Group through intercompany loans at market rates.

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For more information on CH Energy Group's and Central Hudson's financing program, see Note 7 - "Short-Term Borrowing Arrangements," Note 8 - "Capitalization - Common and Preferred Stock," and Note 9 - "Capitalization - Long-Term Debt."

Parental Guarantees

For information on parental guarantees issued by CH Energy Group and CHEC, see Note 1 - "Summary of Significant Accounting Policies" under the caption "Parental Guarantees."

Product Warranties

For information on product warranties issued by Griffith, see Note 1 - "Summary of Significant Accounting Policies" under the caption "Product Warranties."

Environmental Matters

For information on environmental matters related to CH Energy Group, Central Hudson, CHEC, and Griffith, see sub-caption "Environmental Matters" in Note 12 - "Commitments and Contingencies" under the caption "Contingencies."

Related Parties

For information on related parties to CH Energy Group and Central Hudson, see Note 1 - "Summary of Significant Accounting Policies" under the caption "Related Party Transactions."

REGULATORY MATTERS – PSC PROCEEDINGS

Fortis – Central Hudson Gas & Electric Corporation Section 70 Joint Petition
(Case 12-M-0192 – Proceeding on the Joint Petition for Approval of the Acquisition of CH Energy Group, Inc. by Fortis Inc. and Related Transactions)

Background: On April 20, 2012, CH Energy Group, Central Hudson, Fortis, FortisUS Inc. ("FortisUS"), and Cascade Acquisition Sub Inc. ("Petitioners"), submitted a joint petition to the PSC for approval of the acquisition of CH Energy Group by Fortis and related transactions. The petition describes how the acquisition of Central Hudson by Fortis will produce benefits for constituencies that include customers, employees and communities in Central Hudson's service territory as well as positive public benefits. The petition categorizes the public benefits into three major areas: 1) FortisUS' commitments and intention to preserve and build on the existing strength of Central Hudson as a "stand-alone" company, 2) comprehensive financial protections to mitigate any potential financial risks of the merger consistent with the PSC's disposition of specific issues that have arisen in prior utility merger proceedings in New York State and 3) identifiable financial customer benefits resulting from avoidance of costs otherwise owed to customers by shareholders and cost savings made possible by the merger. The petition includes proposals and commitments that effectively mitigate any potential risks to Central Hudson's customers from foreign holding company ownership and rate increase risk. The petitioners have quantified the economic value of the proposals in the merger to be in excess of $50 million.

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Notable Activity:
Pursuant to the schedule adopted by the ALJs in the proceeding:

- On October 12, 2012, the PSC's Staff and other interested parties filed testimony and comments regarding the proposed acquisition.
- On November 5, 2012, the PSC Trial Staff filed Supplemental Testimony and Exhibits to correct errors related to their calculation of a Public Benefit Adjustment.
- On November 27, 2012, Petitioners submitted Reply Comments and Rebuttal Testimony and PSC Staff filed Rebuttal Testimony.
- On December 4, 2012, PSC filed surrebuttal testimony.
- Parties filed their lists of Disputed Issues of Material Fact on December 4, 2012.
- Pursuant to a Notice of Potential Settlement filed by the Petitioners on December 12, 2012, a series of settlement discussions were held between December 17, 2012 and January 11, 2013.
- On January 25, 2013, a Joint Proposal with the Company, Fortis, PSC Staff, Multiple Intervenors, the Department of State Utility Intervention Unit (consumer advocate), and Dutchess, Orange and Ulster counties as signatories, was submitted to the PSC. The signatory parties have concluded that, based on the terms of the Settlement Agreement, the acquisition is in the public interest pursuant to the New York State Public Service Law, Section 70, and recommended approval by the Commission.
- Statements in Support/Opposition to the Joint Proposal were due February 8, 2013, with Statement Replies due February 15, 2013.
- A PSC order regarding the Joint Proposal is expected in the second quarter of 2013.

The major components of the Joint Proposal include:

- Quantified benefits, in addition to a one-year rate freeze for the period July 1, 2013 through June 30, 2014 including:
  - synergy savings/guaranteed future rate mitigation of $1.85 million per year for 5 years, totaling $9.25 million;
  - $35 million to write off existing deferred regulatory assets and to provide additional future rate mitigation;
  - establishment of a Community Benefit Fund of $5 million to be used for economic development and low income programs;
  - earnings sharing was modified to reduce the threshold from 10.5% to 10% with 50/50 sharing beginning at 10%; and
  - a provision that Central Hudson file a formal Superstorm Sandy deferral petition as soon as reasonably practicable for review by the Commission on an expedited basis. This petition was filed on February 6, 2013.

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The Joint Proposal also includes various governance, corporate and financial protection conditions. These protections include goodwill and acquisition cost conditions, credit quality and dividend restriction conditions, money pooling conditions and establishing a special class of preferred stock. In addition, the Joint Proposal established provisions for financial transparency and reporting, affiliate transactions, cost allocations and code of conduct. Finally, the terms of the Joint Proposal provide additional customer service protections and benefits.

Potential Impacts: A PSC order regarding the Joint Proposal is expected in the second quarter of 2013. Central Hudson believes the merger is in the public interest and should be approved on the basis of the proposals set forth in the petition. Failure to complete the acquisition could negatively affect our share price, including by reducing it to a level at or below the trading range preceding the announcement of the Fortis transaction. No assurance can be given regarding the outcome of the matter at this time.

Petition of Central Hudson Gas & Electric Corporation for Commission Approval of Deferred Incremental Costs Associated with Superstorm Sandy
(Case 13-E-0048)

Background: On October 29, 2012, Central Hudson's service territory was impacted by Superstorm Sandy, and approximately 103,000 electric customers were affected. The Sandy storm costs were included in the estimate of $22 million storm costs identified in the $35 million of regulatory liabilities to be funded by Fortis. Consistent with the Joint Proposal, on February 6, 2013, Central Hudson filed a petition with the PSC seeking expedited Commission approval to recover $9.7 million of incremental electric storm restoration expense, with carrying charges. These storm costs represent the amount Central Hudson deferred on its books as of December 31, 2012, based on actual costs incurred, bills received and an estimate for bills outstanding and are above the respective rate allowance during the twelve months ended June 30, 2013, which is the third rate year established by the PSC in its approval of a Joint Proposal in Case 09-E-0588. The Company believes the incremental costs associated with this storm meet the PSC's criteria for deferral: 1) the amount is incremental to the amount in rates; 2) the incremental amount is material and extraordinary in nature and 3) the utility's earnings are below the authorized rate of return on common equity.

Potential Impacts: If the PSC approves any amount less than the $9.7 million reflected in the petition, Central Hudson's expenses would increase by the unapproved amount during the quarter in which the PSC's order is issued.

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

Background: In February 2011, the PSC initiated a proceeding to review and evaluate the treatment of MGP SIR costs. Among the approaches explored during the proceeding were adoption of a generic cost sharing policy and other cost recovery mechanisms.

Notable Activity:

- On November 28, 2012, the Commission issued its Order in this proceeding. The Order does not call for an allocation of costs between ratepayers and shareholders due to concerns that instituting such a policy could lead to adverse credit action against utilities by rating agencies. Therefore, no change in the current recovery structure of MGP SIR costs was ordered. However there is a possibility of sharing on a case by case basis and the PSC cited two particular circumstances under which it would consider sharing:

1) As incentive to constrain SIR costs of companies that appear to need such an incentive; and
2) In negotiation in rate plans where an earnings sharing mechanism is a provision, utilities may be directed to allocate some of the excess earnings to pay down deferred SIR costs.

- The SIR Order also adopted the following requirements:

1) annual reporting of SIR costs due at the same time utilities file their PSC Annual Report;
2) filings of an inventory of best practices for SIR cost containment based on the utilities' efforts to date; and
3) testimony in any future rate filing in which SIR cost recovery is sought to include: 1) confirmation that the remediation process is in compliance with DEC requirements or existing timetable, 2) data on the Company's SIR cost control efforts (including reference to the best practice inventory), and 3) information related to the results of the Company's review of any internal processes with respect to SIR procedures, specifically with respect to internal controls.

Potential Impacts: A change to the current recovery structure of MGP SIR costs could have an adverse impact on Central Hudson earnings and cash flow. For further discussion about Central Hudson's SIR activities, see Note 12 – "Commitments and Contingencies" under the caption "Former Manufactured Gas Plant Facilities" to the Consolidated Financial Statements of this 10-K Annual Report. The outcome of this proceeding did not have any impact on Central Hudson's current accounting and recovery of MGP SIR costs.

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Petition of Central Hudson Gas & Electric Corporation for Commission Approval of Deferred Incremental Costs Associated with Tropical Storm Irene
(Case 11-E-0651)

Background: On November 28, 2011, Central Hudson filed a petition with the PSC to defer for future recovery with carrying charges $11.4 million of incremental electric storm restoration expenses above the respective rate allowance during the twelve months ended June 30, 2012. These incremental costs represent the amount Central Hudson deferred on its books as of October 31, 2011 based on actual costs incurred, bills received and an estimate for bills outstanding. The Company believes the incremental costs associated with this storm meet the PSC's criteria for deferral: 1) the amount is incremental to the amount in rates; 2) the incremental amount is material and extraordinary in nature and 3) the utility's earnings are below the authorized rate of return on common equity.

Potential Impacts: If the PSC approves any amount less than the $11.4 million reflected in the petition, Central Hudson's expenses would increase by the unapproved amount during the quarter in which the PSC's order is issued.

Petition of Central Hudson Gas & Electric Corporation for Commission Approval of Deferral of October 29, 2011 SnowFall Costs
(Case 12-M-0204)

Background: On October 29, 2011, Central Hudson experienced an unusual winter storm with snow accumulations of up to 20 inches in the service territory, resulting in electric service outages to over 150,000 customers, extensive damage to the electric system and significant restoration costs. Following Tropical Storm Irene, the October snowstorm represented the second extraordinary storm event that occurred within the second rate year established by the PSC in its Rate Plan adopting the terms of a Joint Proposal in Case 09-E-0588. On April 24, 2012, Central Hudson filed a petition with the PSC to defer for future recovery with carrying charges $8.6 million of total incremental electric storm restoration expense. The Company believes that it is entitled to fully recover all of these incremental expenses and has filed its petition with the PSC to reflect that position. However, because the petition requests the PSC to deviate from its prior precedents, the amount the PSC may grant could be lower. Accordingly, management deferred only the portion of the incremental costs that strictly follows Commission practice used in the Company's previous requests to defer incremental storm costs. Approximately $3.7 million and $3.3 million of incremental restoration expense associated with this storm was expensed in 2011 and 2012, respectively, so that the return on common equity for the twelve months ending June 30, 2012 did not exceed the authorized rate of return of 10%.

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Potential Impacts: Depending on the amount approved by the PSC, Central Hudson's expenses could be impacted as follows:

- Any amount approved in excess of $1.7 million would reduce Central Hudson's expenses.
- If the PSC approves less than $1.7 million, Central Hudson's expenses would increase by the difference between the amount approved and $1.7 million.

Central Hudson Gas & Electric Corporation Financing Petition
(Case 12-M-0172 - Petition of Central Hudson Gas & Electric Corporation for Authority to enter into multi-year committed credit agreements and issue and sell long-term debt)
Background: On April 13, 2012, Central Hudson filed a petition with the PSC seeking approval to (a) enter into multi-year committed credit agreements to provide committed funding to meet expected liquidity needs, in amounts not to exceed $175 million in the aggregate and maturities not to exceed five years, and (b) approval to issue and sell long-term debt, commencing immediately upon issuance of an order regarding the petition, and from time to time through December 31, 2015, in an amount not to exceed $250 million in the aggregate.
Final Order: On September 14, 2012, the PSC issued its Order Authorizing Issuance of Securities for Central Hudson in this proceeding. The Order grants the authorization requested for $175 million of committed credit; grants the authorization requested, with conditions, for $250 million of long-term debt; and revokes the authorization granted in the prior financing order, avoiding the overlap in orders (the prior financing order covered a period ending December 31, 2012 and the new order is effective immediately).

Impacts on Financing Needs: The PSC's order provides Central Hudson with the ability to meet its projected working capital, construction financing and maturing debt needs.

Gas Expansion Case
(Case 12-G-0297 – Proceeding on Motion of the Commission to Examine Polices Regarding the Expansion of Natural Gas Services)

Background: On November 30, 2012, the PSC issued an order instituting a new proceeding to examine and evaluate Commission policies, both within existing franchises and in cases of franchise expansions, to consider policy revisions in hopes of expanding natural gas delivery service in order to take full advantage of prices and other benefits of natural gas. The Order directed Staff to convene a Technical Conference which was held on January 9, 2013, with presentations from each of the utilities consisting of an overview of their gas system, current practices and policies, plans for expansions and addressing specific questions posed in the proceeding related to barriers to extension and expansion of natural gas faculties, rate and ratepayer considerations, economic development, public/private partnerships and environmental impact. Three working groups consisting of 1) customers already within 100 feet of a gas main, 2) customers more than 100 feet from an existing main but within the franchised service territory and 3) customers outside of any existing natural gas franchise have been established to develop approaches to address expansion of gas service for each customer group.

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Potential Impacts: No prediction can be made regarding the outcome of the matter or the potential impacts to the Company at this time.

AC Transmission Upgrades Proceeding
(Case 12-T-0532 – Proceeding on Motion to Examine Alternating Current Transmission Upgrades)

Background: Following the release of the Governor's New York Energy Highway Blueprint, the PSC issued an order on November 30, 2012 instituting a new proceeding to solicit Statements of Intent from transmission owners and developers to address solutions for selected congested transmission corridors. The PSC held a Technical Conference on December 17, 2012 to provide technical assistance to potential developers and transmission owners contemplating the submittal of Statements of Intent. On January 25, 2013, the New York Transco comprised of Central Hudson and the other New York Transmission Owners ("NYTOs") filed their Statement of Intent, outlining five transmission infrastructure projects totaling $1.2 billion of investment that improve grid reliability, relieve system bottlenecks, provide economic benefits and protect the environment.

Potential Impacts: No prediction can be made regarding the outcome of the matter or the potential impacts to the Company at this time.

Moreland Commission

Background: On November 13, 2012, Governor Cuomo signed an Executive Order to establish a commission under the Moreland Act that will investigate the response, preparation and management on New York State's power utility companies with major storms that hit the state over the past two years which include Tropical Storm Irene, Tropical Storm Lee and Superstorm Sandy. The Moreland Commission was tasked to undertake a thorough review of all actions taken by companies before and after these emergencies and make specific recommendations to reform and modernize oversight, regulation and management of New York State's power delivery services. During their investigation, Central Hudson received and responded to two subpoenas from the Commission seeking documents and information. On January 7, 2013, the Moreland Commission issued an Interim Report making the following recommendations: 1) strengthen state oversight of utilities, 2) unify state energy programs and policy and 3) restructure the Long Island Power Authority ("LIPA"). The Moreland Commission continues to review utility and LIPA operations and will conduct additional public hearings in storm affected areas across the state. A final report with additional recommendations is expected to be issued in the coming months.

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Potential Impacts: Enactment of many of the Moreland Commission's recommendations requires legislative action and some recommendations, if adopted, may affect the regulation of all NYS utilities', including Central Hudson's future storm preparedness and response as well as its investment plans and maintenance practices.

Other PSC Proceedings

For the year ended December 31, 2012, there has been no significant activity related to the following proceedings:

- Advanced Metering Infrastructure
- The American Recovery and Reinvestment Act of 2009
- Management Audit
- Energy Efficiency Portfolio Standard and State Energy Planning

Non-Utility Land Sales

For further information regarding non-utility land sales, see Note 2 - "Regulatory Matters."

Electric Reliability Performance

For further information regarding Central Hudson's electric reliability performance, see Note 2 - "Regulatory Matters."

OTHER MATTERS

Pension Protection Act

Under the Pension Protection Act signed into law in 2006, new defined benefit funding rules are effective for plan years beginning after December 31, 2007. Certain transition rules apply for 2008 through 2010. For additional discussion regarding the Pension Protection Act, please see the "Retirement Plan" discussion that follows.

Changes In Accounting Standards

See Note 3 - "New Accounting Guidance" for a discussion of the status of new accounting guidance issued.

Off-Balance Sheet Arrangements

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

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Retirement Plan

See Note 10 – "Post-Employment Benefits" and Critical Accounting Policies for a discussion of the Retirement Plan.

Climate

While it is possible that some form of global climate change program will be adopted at the federal level in the next term of Congress, it is too early to determine what impact such program will have on CH Energy Group. It should be noted, however, that the Company's calculated CO_2 emission levels are relatively small, mainly because the Company does not generate electricity in significant quantities and the electricity it does generate is primarily from zero emission hydroelectric plants. Therefore, federally mandated greenhouse gas reductions or limits on CO_2 emissions are not expected to have a material impact on the Company's financial position or results of operations. However, the Company can make no prediction as to the outcome of this matter. If the cost of CO_2 emissions causes purchased electricity and natural gas costs to rise, such increases are expected to be collected through automatic adjustment clauses. If sales are depressed by higher costs through price elasticity, the RDMs are expected to prevent an earnings impact on the Company.

CRITICAL ACCOUNTING POLICIES

Regulation

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

Use of Estimates

Preparation of the Consolidated Financial Statements in accordance with GAAP includes the use of estimates and assumptions by management that affect financial results. Actual results may differ from those estimated; however the methods used by CH Energy Group to prepare estimates have historically produced reliable results.

Expense items most affected by the use of estimates are depreciation and amortization (including amortization of intangible assets), reserves for uncollectible accounts receivable, other operating reserves, tax reserves, unbilled revenues, and pension and other post-retirement benefits.

Depreciation and amortization is based on estimates of the useful lives and estimated net salvage value of properties. For Central Hudson, these estimates are subject to change as the result of a future rate proceeding. Historical changes have not been material to the Company's financial results. For Griffith, any changes in estimates used for depreciation are not expected to have a material impact on CH Energy Group's financial results. The amortization of CH Energy Group's other intangible assets is discussed in detail below under the caption "Goodwill and Other Intangible Assets."

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During 2010, Central Hudson elected to change its tax return methodology for claiming deductions for incidental repair and maintenance expenditures on its utility assets. The change accelerates the recognition of the tax deduction from later periods. Although the Company believes that its methodology for claiming the deduction is consistent with the Internal Revenue Code and case law, it is unclear whether the Internal Revenue Service will accept the entirety of the deduction claimed. Accordingly, Central Hudson recorded a reserve in 2010 based upon the expected outcome on audit. In August 2011, the IRS released Revenue Procedure 2011-43, which provides a safe harbor method of accounting for determining the amount of expenditures required to be capitalized. The Revenue Procedure applies to electric transmission and distribution property only. It also provides procedures for obtaining automatic consent to change to the safe harbor method of accounting. Central Hudson adopted this Revenue Procedure effective with the filing of its 2011 Federal Income Tax return; therefore the electric portion of the reserve established in 2010 has been reclassified to deferred tax liability accounts. A similar Revenue Procedure related to the gas repair deduction is expected in 2013. See Note 4 – "Income Tax" for further discussion of the tax reserve established.

Estimates for uncollectible accounts are based on customer accounts receivable aging data as well as consideration of various quantitative and qualitative factors, including economic factors such as future outlooks for the economy, unemployment rates, energy prices and special collection issues. The estimates for other operating reserves are based on assessments of future obligations related to injuries and damages and workers compensation claims. Unbilled revenues are determined based on the estimated sales for bi-monthly accounts that have not been billed by Central Hudson in the current month. The estimation methods used in determining these sales are the same methods used for billing customers when actual meter readings cannot be obtained. Historical changes to these items have not been material to the Company's financial results.

See caption "Post-Employment Benefits" below for discussion of significant estimates and assumptions used in the accounting for pension and other post-retirement benefits.

See Note 1 - "Summary of Significant Accounting Policies" under the caption "Use of Estimates" to the Consolidated Financial Statements of this 10-K Annual Report for additional discussion.

Goodwill and Other Intangible Assets

The balances reflected on CH Energy Group's Consolidated Balance Sheet at December 31, 2012 and December 31, 2011 for "Goodwill" and "Other intangible assets - net" relate to Griffith. Goodwill represents the excess of cost over the fair value of the net tangible and identifiable intangible assets of businesses acquired as of the date of acquisition.

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In accordance with current accounting guidance related to goodwill and other intangible assets, both goodwill and intangible assets not subject to amortization are reviewed at least annually for impairment and whenever events or circumstances make it more likely than not that an impairment may have occurred. Events such as a significant adverse change in the business climate or a decision to sell or dispose of a reporting unit are examples of likely circumstances. In assessing whether an impairment exists, the fair value of the reporting unit is compared to the carrying amount of assets. In the fourth quarter, management performed a qualitative assessment of any potential impairment of Griffith's goodwill. Based upon the qualitative analysis, management believes that it is more likely than not that the fair market value is more than the carrying value of Griffith and therefore, the first and second steps of the impairment test prescribed in the guidance was deemed not necessary. The carrying amount for goodwill was $39.0 million as of December 31, 2012 and $37.5 million as of December 31, 2011. If the operating cash flows of Griffith decline significantly relative to CH Energy Group's investment in Griffith in the future, the result could be recognition of a goodwill impairment charge to operations and the amount could be material to CH Energy Group's Consolidated Financial Statements.

The last quantitative analysis of impairment was performed as of September 30, 2010, which reflected that the fair value of Griffith exceeded its carrying value by approximately $34.2 million. Fair value of goodwill is estimated using a weighted average of the discounted cash flow and market approach methodologies. In applying this methodology to the discounted cash flow, reliance is placed on a number of factors, including actual operating results, future business plans, economic projections and market data. The most significant assumptions used in the discounted cash flow valuation regarding Griffith's fair value in connection with goodwill valuations are: 1) detailed five-year cash flow projections; 2) the risk adjusted discount rate; and 3) Griffith's expected long-term growth rate, which approximates the growth rate imputed from the discrete period cash flow projections on key aspects of the business. The primary drivers of Griffith's cash flow projections include sales volumes, margin rates and expense inflation, particularly for labor. The risk adjusted discount rate represents Griffith's weighted average cost of capital and is established based on: 1) the 30 year risk-free rate; 2) Griffith's indicated market-based rate of return on equity; and 3) the current after-tax rate of return on debt. In valuing its goodwill for 2010, Griffith used an average discount rate of 10.4%. Had the discount rate been 25 basis points higher, the aggregate estimated fair value of the reporting units would have decreased by $1.2 million, or 1.4%. In addition, Griffith used an average expected terminal growth rate of 0.5%. If the expected terminal growth rate was 25 basis points lower, the aggregate estimated fair value of the reporting units would have decreased by $0.8 million, or 0.9%. Had each year in Griffith's five-year cash flow projections been lower by 1.0%, the aggregate estimated fair value of the reporting units would have decreased by $0.2 million, or 0.3%.

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Other intangible assets - net relate to Griffith and are comprised of customer relationships, trademarks and covenants not to compete. If events indicate that an impairment exists, these assets are tested for impairment by comparing the carrying amount to the sum of undiscounted cash flows expected to be generated by the asset.

In accordance with current accounting guidance, intangible assets that have finite useful lives continue to be 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 attrition. The useful lives of trademarks were estimated to be 10 years based upon Management's assessment of several variables such as brand recognition, Management's expected use of the trademark, and other factors that may have affected 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 three and ten years. Amortization expense was $2.5 million, $2.4 million and $2.3 million for the years ended December 31, 2012, 2011 and 2010, respectively. The weighted average amortization period for all assets acquired in the current year is 13 years. The weighted average amortization periods for customer relationships, trademarks and covenants not to compete are 15 years, 10 years and 4 years, respectively. The estimated useful life of Griffith's customer relationships is tested annually based on actual experience. The amortizable life of these assets has not changed since Griffith was acquired.

The estimated annual amortization expense for each of the next five years, assuming no new acquisitions or divestitures, is as follows (In Thousands):

	2013	2014	2015	2016	2017
Estimated Amortization Expense	$2,645	$2,636	$2,374	$988	$683

See Note 6 - "Goodwill and Other Intangible Assets" of this 10-K Annual Report for additional discussion.

Post-Employment Benefits

In accordance with the terms of the 2009 and 2010 Rate Orders, Central Hudson is authorized to defer any differences between rate allowances and actual costs for both its Retirement and OPEB plans. As a result, Central Hudson expects to fully recover its net periodic pension and OPEB costs over time.

Central Hudson's reported costs of providing non-contributory defined pension benefits as well as certain health care and life insurance benefits for retired employees are dependent upon numerous factors resulting from actual plan experience and assumptions of future plan performance.

The significant assumptions and estimates used to account for the Retirement Plan and other post-retirement benefit expenses and liabilities are the discount rate, the expected long-term rate of return on the pension plan and other post-retirement plan assets, health care cost trend rate, the rate of compensation increase, mortality assumptions, termination assumptions, retirement assumptions and the method of amortizing gains and losses.

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For 2012, the Projected Benefit Obligation ("PBO") for Central Hudson's Retirement Plan ($608 million) and its obligation for OPEB costs ($157 million) were determined using a 3.8% and a 3.7% discount rate, respectively. These rates were determined using the Mercer Pension Discount Yield Curve reflecting projected cash flows. As of November 30, 2012, the Mercer Pension Discount Yield Curve bond selection criteria was expanded to reflect a broader representation of the high quality corporate bond universe. The impact of this change on the resulting discount rate at December 31, 2012 was not material. A 0.25% change in the discount rate would affect the projection of the pension PBO by approximately $20.3 million and the OPEB obligation by approximately $5.3 million.

Actuarial gains and losses, which include investment returns, discount rates and demographic experience that are different than anticipated based on the actuarial assumptions, are amortized in accordance with procedures set forth by the PSC which require the full gain or loss arising each year to be amortized uniformly over ten years. The cumulative experience for the years 2003 through 2012, which has not yet been amortized into pension expense, is a net loss of $132.4 million. This net loss includes a significant decline in asset values in 2008 and a decrease in the discount rate in recent years. This cumulative net loss will be reflected in future pension expense for the next ten years in accordance with a set amortization schedule.

During the year ended December 31, 2012, Central Hudson contributed $28.0 million and $3.3 million to its Retirement and OPEB plans, respectively. The total value of the Retirement Plan assets increased by $62.3 million and the OPEB plan assets increased in value by $10.0 million. A decrease in discount rates from 2011 increased the present value of the plans' liabilities at December 31, 2012. The net effect on the funded status of the Retirement Plan was a decrease in the unfunded Retirement Plan liability of $8.7 million. The net effect on the funded status of OPEBs was an increase in the unfunded OPEB liability of $5.4 million. A 0.25% change in the discount rate would impact the net periodic benefit cost by $1.8 million for the Retirement Plan and $0.4 million for OPEBs. Additional contributions will likely become necessary under the terms of the Pension Protection Act of 2006. Management expects that such contributions will continue to be incorporated in the rate making process over time. The rate of compensation increase was based on historical and current compensation practices of Central Hudson giving consideration to any anticipated changes in this practice. Central Hudson has investment policies for these plans which include asset allocation ranges designed to achieve a reasonable return over the long-term, recognizing the impact of market volatility. Central Hudson monitors actual performance against target asset allocations and adjusts actual allocations and targets as deemed appropriate in accordance with both the Retirement Plan and OPEBs investment strategies.

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Central Hudson's pension and other post-retirement plans' weighted average asset allocations at December 31, 2012 and 2011, by asset category are as follows:

	Pension Plan		Other Plans	
	2012	2011	2012	2011
Equity Securities	50.5 %	35.8 %	61.6 %	60.4 %
Debt Securities	47.4	54.4	37.9	38.1
Other	2.1	9.8	0.5	1.5
Total	100.0%	100.0%	100.0%	100.0%

The expected long-term rate of return on Retirement Plan and OPEB assets are 6.25% and 7.8%, net of investment expense. In determining the expected long-term rate of return on plan assets, Central Hudson considered forward-looking estimated returns for each asset class evaluated in light of current economic conditions. The expected long-term rate of return is a weighted average based on each plan's investment mix and the forward-looking estimated returns for each investment class. The actual annual return on Central Hudson's Retirement Plan and OPEB assets over the previous three years are summarized as follows:

Calendar Year Performance	2012	2011	2010
Central Hudson Retirement Plan	14.1%	8.1 %	13.3%
Central Hudson OPEB (1)	14.3%	1.2 %	14.1%
Central Hudson OPEB (1)	14.1%	8.1 %	11.8%

(1) OPEB assets are comprised of two separate groups of investment funds.

A 25 basis point decrease in the expected long-term rate of return on Retirement Plan and OPEB assets would have the following impact: increase the net periodic benefit cost by $1.1 million for the pension plan and $0.2 million for OPEBs. The expected long-term rate of return is reviewed annually in the fourth quarter and updated if the determinants have changed.

The estimates of health care cost trend rates are based on a review of actual recent trends and projected future trends. Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plan. A 1% change in assumed health care cost trend rates would have the following effects (In Thousands):

	One Percentage Point	
	Increase	Decrease
Effect on total of service and interest cost components for 2012	$447	$ (382)
Effect on year end 2012 post retirement benefit obligation	$4,916	$ (4,292)

See Note 10 - "Post-Employment Benefits" of this 10-K Annual Report for additional discussion.

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Accounting for Derivatives

CH Energy Group and its subsidiaries use derivatives to manage their commodity and financial market risks; they do not enter into derivative instruments for speculative purposes. As a result of deferrals under Central Hudson's regulatory mechanisms and offsetting changes of commodity prices for both Central Hudson and Griffith, derivatives that CH Energy Group and Central Hudson enter into do not materially impact earnings.

All derivatives, other than those specifically excepted, are reported on the Consolidated Balance Sheet at fair value. For discussions relating to market risk and derivative instruments, see Item 7A - "Quantitative and Qualitative Disclosure About Market Risk" and Note 14 - "Accounting for Derivative Instruments and Hedging Activities" of this 10-K Annual Report.

ITEM 7A - Quantitative and Qualitative Disclosure About Market Risk

The practices employed by CH Energy Group and Central Hudson to mitigate risks discussed below continue to operate effectively. For related discussion on this activity, see Item 7 - "Management's Discussion and Analysis of Financial Condition and Results of Operations" under the sub-caption "Capital Resources and Liquidity," Note 14 - "Accounting for Derivative Instruments and Hedging Activities" and Note 9 – "Long-Term Debt" within this 10-K Annual Report.

The primary market risks for CH Energy Group and its subsidiaries and investments are commodity price risk and interest rate risk. Commodity price risk, related primarily to purchases of natural gas, electricity, and petroleum products for resale to retail customers, is mitigated in several different ways. Central Hudson, as authorized by the PSC, collects its actual purchased electricity and purchased natural gas costs from its customers through cost adjustment clauses in its rates. These adjustment clauses provide for the collection of costs, including risk management and working capital costs, to reflect the actual costs incurred in obtaining supply. Risk management costs are defined by the PSC as "costs associated with transactions that are intended to reduce price volatility or reduce overall costs to customers. These costs include transaction costs and gains and losses associated with risk management instruments." Depending on market conditions, Central Hudson may enter into long-term fixed supply and long-term forward supply contracts for the purchase of these commodities. Central Hudson also uses natural gas storage facilities, which enable it to purchase and hold quantities of natural gas at pre-heating season prices for use during the heating season. Griffith may increase the prices charged for the commodities it sells in response to changes in costs; however, its ability to raise prices is generally limited by what the competitive market in which it participates will bear.

Central Hudson and Griffith have in place an energy risk management program within their operations. This risk management program permits the use of derivative financial instruments for hedging purposes but does not permit their use for trading or speculative purposes. Central Hudson and Griffith have entered into either exchange-traded futures contracts or over-the-counter ("OTC") contracts with third parties to hedge commodity price risk associated with the purchase of natural gas, electricity, and petroleum products and to hedge the effect on earnings due to significant variations in weather conditions from historical patterns. The types of derivative instruments typically used include natural gas futures and swaps to hedge natural gas purchases, contracts for differences to hedge electricity purchases, put and call options to hedge oil purchases, and degree-day based weather derivatives to hedge weather variations. In this latter case, Griffith uses such derivative instruments to dampen the impact of weather variations on delivery revenues. OTC derivative transactions are entered into only with counterparties that meet certain credit criteria. The creditworthiness of these counterparties is determined primarily by reference to published credit ratings.

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The use of derivative instruments for hedging purposes is discussed in more detail in Note 14 -"Accounting for Derivative Instruments and Hedging Activities," which incorporates sensitivity analysis for each type of derivative instrument.

Interest rate risk affects Central Hudson but is managed through the issuance of fixed-rate debt with varying maturities and of variable rate debt for which interest is reset on a periodic basis to reflect current market conditions. In the case of Central Hudson's variable rate debt, the difference between costs associated with actual variable interest rates and costs embedded in customer rates is deferred for eventual refund to or recovery from customers. The variability in interest rates is also managed with the use of a derivative financial instrument known as an interest rate cap agreement, for which the premium cost and any realized benefits also pass through the aforementioned regulatory recovery mechanism. To mitigate the potential cash flow impact from unexpected increases in short-term interest rates on Series B NYSERDA Bonds, on March 28, 2012, Central Hudson purchased an interest rate cap based on an index of short-term tax-exempt debt. The rate cap is two years in length with a notional amount aligned with Series B and will expire on April 1, 2014.

The cap is based on the monthly weighted average of an index of tax-exempt variable rate debt, multiplied by 175%. Central Hudson would receive a payout if the adjusted index exceeds 5.0% for a given month. The rate cap replaced an expiring rate cap with substantially similar terms. Please refer to Note 9 - "Capitalization - Long-Term Debt," Note 15 - "Other Fair Value Measurements" and Item 7 - "Management's Discussion and Analysis of Financial Condition and Results of Operations" under the sub-caption "Capital Resources and Liquidity" for additional disclosure related to long-term debt.

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ITEM 8 - Financial Statements and Supplementary Data

I - INDEX TO FINANCIAL STATEMENTS:

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