Name of Respondent	This Report Is:	Date of Report	Year/Period of Report
CENTRAL HUDSON GAS & ELECTRIC	(1) [X] An Original (2) [ ] A Resubmission	04/14/2014	End of 2013/Q4

NOTES TO FINANCIAL STATEMENTS

1. Use the space below for important notes regarding the Balance Sheet, Statement of Income for the year, Statement of Retained Earnings for the year, and Statement of Cash Flows, or any account thereof. Classify the notes according to each basic statement, providing a subheading for each statement except where a note is applicable to more than one statement.
2. Furnish particulars (details) as to any significant contingent assets or liabilities existing at end of year, including a brief explanation of any action initiated by the Internal Revenue Service involving possible assessment of additional income taxes of material amount, or of a claim for refund of income taxes of a material amount initiated by the utility. Give also a brief explanation of any dividends in arrears on cumulative preferred stock.
3. For Account 116, Utility Plant Adjustments, explain the origin of such amount, debits and credits during the year, and plan of disposition contemplated, giving references to Cormmission orders or other authorizations respecting classification of amounts as plant adjustments and requirements as to disposition thereof.
4. Where Accounts 189, Unamortized Loss on Reacquired Debt, and 257, Unamortized Gain on Reacquired Debt, are not used, give an explanation, providing the rate treatment given these items. See General Instruction 17 of the Uniform System of Accounts.
5. Give a concise explanation of any retained earnings restrictions and state the amount of retained earnings affected by such restrictions.
6. If the notes to financial statements relating to the respondent company appearing in the annual report to the stockholders are applicable and furnish the data required by instructions above and on pages 114-121, such notes may be included herein.
7. For the 3Q disclosures, respondent must provide in the notes sufficient disclosures so as to make the interim information not misleading. Disclosures which would substantially duplicate the disclosures contained in the most recent FERC Annual Report may be omitted.
8. For the 3Q disclosures, the disclosures shall be provided where events subsequent to the end of the most recent year have occurred which have a material effect on the respondent. Respondent must include in the notes significant changes since the most recently completed year in such items as: accounting principles and practices; estimates inherent in the preparation of the financial statements; status of long-term contracts; capitalization including significant new borrowings or modifications of existing financing agreements; and changes resulting from business combinations or dispositions. However were material contingencies exist, the disclosure of such matters shall be provided even though a significant change since year end may not have occurred.
9. Finally, if the notes to the financial statements relating to the respondent appearing in the annual report to the stockholders are applicable and furnish the data required by the above instructions, such notes may be included herein.

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SEE PAGE 123 FOR REQUIRED INFORMATION.

NOTES TO FINANCIAL STATEMENTS

Note 1 - Basis of Presentation - FERC

The financial statements of Central Hudson Gas & Electric Corporation are presented on the basis of accounting requirements of the Federal Energy Regulation Commission (FERC) as set forth in its applicable Uniform System of Accounts and published accounting releases, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America (GAAP).

The principal differences from GAAP include the exclusion of current maturities of long-term debt from current liabilities, the requirement to report deferred tax assets and liabilities on a gross basis rather than a net basis, the classification of accrued asset removal costs as accumulated depreciation rather than as a liability, classification of certain other assets and liabilities between current and long-term presentation and the classification of gain on disposition of property in other income and deductions rather than operating expenses.

The notes provided herein were derived from the notes appearing in the combined Annual Financial Report of CH Energy Group, Inc. and Central Hudson.

NOTE 1A – Summary of Significant Accounting Policies

Corporate Structure

CH Energy Group is the holding company parent corporation of two principal, wholly owned subsidiaries, Central Hudson Gas & Electric Corporation ("Central Hudson") and Central Hudson Enterprises Corporation ("CHEC"). All of CH Energy Group's common stock is indirectly owned by Fortis Inc. ("Fortis"), which is the largest investor-owned gas and electric distribution utility in Canada. Central Hudson is a regulated electric and natural gas subsidiary. CHEC, the parent company of CH Energy Group's non-regulated 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.

Fortis Inc. Acquisition of CH Energy Group

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 13, 2013, the New York Public Service Commission ("PSC") voted to approve acquisition of CH Energy Group by Fortis. On June 27, 2013, after receipt, review and acceptance of the Order Authorizing Acquisition Subject to Conditions, the acquisition was completed.

Basis of Presentation

This Annual Financial Report is a combined report of CH Energy Group and Central Hudson. The Notes to the Consolidated Financial Statements apply to both CH Energy Group and Central Hudson. CH Energy Group's Consolidated Financial Statements include the accounts of CH Energy Group and its wholly owned subsidiaries, which include Central Hudson and CHEC. In 2013, Management commenced with a plan to evaluate and potentially divest Griffith. Based on the bids received and current status of due diligence and negotiations, Management has concluded that as of December 31, 2013, the sale of Griffith is probable to close within the next 12 months. Therefore, operating results of Griffith are reported as discontinued operations for all periods presented in the Consolidated CH Energy Group Statement of Income and as held for sale in the Consolidated CH Energy Group Balance Sheet as of December 31, 2013. In addition, discontinued operations reported on CH Energy Group's 2011 Consolidated Statements of Income include the operating results of CHEC's subsidiaries which were sold in 2011, including Lyonsdale Biomass, LLC ("Lyonsdale"), Shirley Wind, LLC ("Shirley Wind"), CH-Auburn, LLC ("CH-Auburn") and CH-Greentree, LLC ("CH-Greentree"). Inter-company balances and transactions have been eliminated in consolidation. See Note 5 – "Acquisitions, Divestitures and Investments" for further information.

CHEC's investments in limited partnerships ("Partnerships") and limited liability companies are accounted for under the equity method. CH Energy Group's proportionate share of the change in fair value of available for sale securities held by the Partnerships is recorded in CH Energy Group's Consolidated Statement of Comprehensive Income.

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

Reclassification

Certain amounts in the 2012 and 2011 Financial Statements have been reclassified to conform to the 2013 presentation. For more information regarding reclassification of discontinued operations, see Note 5 – "Acquisitions, Divestitures and Investments."

Central Hudson also reclassified amounts related to gas revenue decoupling mechanisms ("RDMs") from deferred charges, current regulatory assets to deferred credits, under current regulatory liabilities. This reclassification was the result of separately stating gas RDMs from electric RDMs. This reclassification resulted in an increase to the December 31, 2012 balance of $1.3 million.

Use of Estimates

Preparation of the financial statements in accordance with GAAP includes the use of estimates and assumptions by management that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. As with all estimates, actual results may differ from those estimated. Expense items most affected by the use of estimates are depreciation and amortization (including amortization of intangible assets), reserves for uncollectible accounts receivable, tax reserves, other operating 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 (as described in this Note under the caption "Depreciation and Amortization"). Amortizable intangible assets include trademarks, covenants not to compete and customer relationships related to Griffith, which are amortized based on an assessment of customer attrition as described in Note 6 - "Goodwill and Other Intangible Assets." These intangible assets are included in Assets held for sale as of December 31, 2013, in the CH Energy Group Consolidated Balance Sheet and the related amortization is included in Discontinued Operations in the CH Energy Group Consolidated Statement of Income.
- Estimates for uncollectible accounts are based on customer accounts receivable aging data as well as consideration of various quantitative and qualitative factors, including special collection issues. In the current year, the decrease in the allowance for doubtful accounts reflects the reclassification of the Griffith allowance for doubtful accounts of $1.9 million to Assets held for sale, as well as the impact of lower energy prices along with enhanced collection efforts at Central Hudson.
- The tax reserve recorded by Central Hudson relates to a change in 2010 to its tax return methodology for claiming deductions for incidental repair and maintenance expenditures on its utility assets. Although Management believes that its methodology for claiming the deduction is consistent with the Internal Revenue Code and case law, Management cannot predict whether the Internal Revenue Service will accept the entirety of the deduction claimed. Accordingly, Central Hudson recorded a reserve based upon the expected outcome on audit. See Note 4 – "Income Tax" for further discussion of the tax reserve established.
- 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 bimonthly 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. Estimated unbilled revenues are reported as current assets, and include amounts recorded both in revenues and as regulatory liabilities. Revenues for both 2013 and 2012 include an estimate for unbilled revenues of $11.2 million and $11.3 million for 2011. Pursuant to regulatory requirements, a portion of unbilled revenue is offset by a regulatory liability and is not included in revenues. The portion of unbilled revenues offset by a regulatory liability at December 31, 2013, 2012 and 2011 was $6.0 million, $6.0 million and $5.0 million, respectively.
- The significant assumptions and estimates used to account for the pension plan and other post-retirement benefit expenses and liabilities are the discount rate, the expected

long-term rate of return on the retirement plan and post-retirement plan assets, the rate of compensation increase, the healthcare cost trend rate, mortality assumptions, and the method of amortizing gains and losses. For more information of the significant assumptions and estimates, see Note 10 – "Post-Employment Benefits."

- Estimates are also reflected for certain commitments and contingencies where there is sufficient basis to project a future obligation. Disclosures related to these certain commitments and contingencies are included in Note 12 - "Commitments and Contingencies."

Rates, Revenues, and Cost Adjustment Clauses

Central Hudson's electric and natural gas retail rates are regulated by the PSC. Transmission rates, facilities charges, and rates for electricity sold for resale in interstate commerce are regulated by the Federal Energy Regulatory Commission ("FERC").

Central Hudson's tariffs for retail electric and natural gas service include purchased electricity and purchased natural gas cost adjustment clauses by which electric and natural gas rates are adjusted to collect the actual purchased electricity and purchased natural gas costs incurred in providing these services.

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.

Revenue Recognition

Central Hudson records revenue on the basis of meters read. In addition, Central Hudson records an estimate of unbilled revenue for service rendered to bimonthly customers whose meters are read in the prior month. The estimate covers 30 days subsequent to the meter-read date. As of December 31, 2013, 2012 and 2011, the portion of estimated electric unbilled revenues that is unrecognized in accordance with current regulatory agreements was $13.0 million, $13.2 million and $11.8 million, respectively. The full amounts of estimated natural gas unbilled revenues are recognized on the Consolidated Balance Sheet.

As required by the PSC, Central Hudson records gross receipts tax revenues and expenses on a gross income statement presentation basis (i.e., included in both revenue and expenses). Sales and use taxes for both Central Hudson and Griffith are accounted for on a net basis (excluded from revenue). As of December 31, 2013 the operating results of Griffith are reported as discontinued operations for all periods presented in the CH Energy Group Consolidated Income Statement.

Griffith records revenue when products are delivered to customers or services have been rendered. Deferred revenues include unamortized payments from fuel oil burner maintenance and tank service agreements, as well as fees paid by customers for price-protected programs. These agreements require a one-time payment from the customer at inception of the agreements. CH Energy Group's deferred revenue balance was $4.7 million and $4.8 million as of December 31, 2013 and 2012. The deferred revenue balance will be recognized in competitive business subsidiaries' operating revenues over the 12-month term of the respective customer contract. This deferred revenue balance as of December 31, 2013, is included in Liabilities held for sale in the CH Energy Group Consolidated Balance Sheet and the related revenue recognized is included in Income from discontinued operations in the CH Energy Group Consolidated Statement of Income.

For Central Hudson and Griffith, payments received from customers who participate in budget billing, whose balance represents the amount paid in excess of deliveries received at December 31, are included in customer advances. As of December 31, 2013, customer advances for Griffith of $7.1 million has been included in Liabilities held for sale.

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows and the Balance Sheet, CH Energy Group and Central Hudson consider temporary cash investments with a maturity (when purchased) of three months or less, to be cash equivalents.

Fuel, Materials and Supplies

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

Company	Valuation Method
Central Hudson	Average cost
Griffith	FIFO

	CH Energy Group		Central Hudson	
	December 31, 2013	December 31, 2012	December 31, 2013	December 31, 2012
Natural gas	$ 8,078	$ 7,638	$ 8,078	$ 7,638
Petroleum products and propane(1)	-	3,942	-	-
Fuel used in electric generation	430	295	430	295
Materials and supplies(1)	10,124	12,621	10,124	11,331
Total	$ 18,632	$ 24,496	$ 18,632	$ 19,264

(1) Petroleum products and propane of $3,857 and materials and supplies of $1,493 related to Griffith have been excluded from the CH Energy Group December 31, 2013 balances and designated as Assets held for sale under current accounting guidance in the CH Energy Group Consolidated Balance Sheet. For further details, see Note 5 - "Acquisitions, Divestitures and Investments."

Utility Plant - Central Hudson

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

The cost of additions to utility plant and replacements of retired units of property are capitalized at original cost. Capitalized costs include labor, materials and supplies, indirect charges for such items as transportation, certain administrative costs, certain taxes, pension and other employee benefits, and allowances for funds used during construction ("AFUDC"), as further discussed below. The replacement of minor items of property is included in operating expenses.

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

The following summarizes the type and amount of assets included in the electric, natural gas, and common categories of Central Hudson's utility plant balances (In Thousands):

	Estimated Depreciable Life in Years	Utility Plant December 31, 2013	Utility Plant December 31, 2012
Electric			
Production	25-75	$ 37,865	$ 37,890
Transmission	28-70	260,669	247,017
Distribution	7-80	816,000	778,634
Other	37	4,018	3,811
Total		$ 1,118,552	$ 1,067,352
Natural Gas			
Transmission	18-70	51,716	48,968
Distribution	25-85	304,469	270,848
Other	N/A	442	442
Total		$ 356,627	$ 320,258
Common			
Land and Structures	50	$ 64,157	$ 61,615
Office and Other Equipment, Radios and Tools	8-35	39,738	38,689
Transportation Equipment	10-12	50,962	46,466
Other	5	20,041	15,582
Total		$ 174,898	$ 162,352

Allowance For Funds Used During Construction

Central Hudson's regulated utility plant includes AFUDC, which is defined as the net cost of borrowed funds used for construction purposes and a reasonable rate on other funds when so used. The concurrent credit for the amount so capitalized is reported in the Consolidated Statement of Income as follows: the portion applicable to borrowed funds is reported as a reduction of interest charges while the portion applicable to other funds (the equity component, a noncash item) is reported as other income. The AFUDC rate was 5.00% in 2013, 3.25% in 2012, and 6.75% in 2011. The amounts recorded for borrowed funds for 2013 was $0.4 million, 2012 was $0.3 million and was $0.2 million for 2011. The equity component of AFUDC recorded for the years 2013, 2012 and 2011 were $0.6 million, $0.3 million and $0.6 million, respectively.

Depreciation and Amortization

For financial statement purposes, Central Hudson's depreciation provisions are computed on the straight-line method using rates based on studies of the estimated useful lives and estimated net salvage values of properties. The anticipated costs of removing assets upon retirement are generally provided for over the life of those assets as a component of depreciation expense. This depreciation method is consistent with industry practice and the applicable depreciation rates have been approved by the PSC.

Current accounting guidance related to asset retirement, precludes the recognition of expected future retirement obligations as a component of depreciation expense or accumulated depreciation. Central Hudson, however, is required to use depreciation methods and rates approved by the PSC under regulatory accounting. In accordance with current accounting guidance for regulated operations, Central Hudson continues to accrue for the future cost of removal for its rate-regulated natural gas and electric utility assets. Central Hudson has classified $46.7 million and $43.4 million of net cost of removal as a regulatory liability as of December 31, 2013 and 2012, respectively.

Central Hudson performs depreciation studies periodically and, upon approval by the PSC, adjusts the depreciation rates of its various classes of depreciable property. Central Hudson's composite rates for depreciation were 2.77% in 2013, 2.79% in 2012 and 2.74% in 2011 of the original average cost of depreciable property. The ratio of the amount of accumulated depreciation to the original cost of depreciable property at December 31, 2013, 2012, and 2011 was 26.4%, 26.8% and 26.7%, respectively.

For financial statement purposes, depreciation provisions at Griffith are computed on the straight-line method using depreciation rates based on the estimated useful lives of the depreciable property and equipment. Expenditures for major renewals and betterments, which extend the useful lives of property and equipment are capitalized. Expenditures for maintenances and repairs are charged to expense when incurred. Retirements, sales and disposals of assets are recorded by removing the cost and accumulated depreciation from the asset and accumulated depreciation accounts with any resulting gain or loss reflected in earnings. At December 31, 2013, Griffith's assets are classified as Assets held for sale on the CH Energy Group Consolidated Balance Sheet and expenses reported as discontinued operations for all reporting periods. See Note 5 - "Acquisitions, Divestitures and Investments" for further details.

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

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 $3.6 million in 2013, $4.0 million in 2012 and $2.1 million in 2011. 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 increase in total R&D expenditures in 2013 and 2012 as compared to 2011 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.

Income Tax

CH Energy Group and its subsidiaries file consolidated federal and state income tax returns. Income taxes are deferred under the asset and liability method in accordance with current accounting guidance for income taxes, resulting in deferred income taxes for all differences between the financial statement and the tax basis of assets and liabilities. Additional deferred income taxes and offsetting regulatory assets or liabilities are recorded by Central Hudson to recognize that income taxes will be recovered or refunded through future revenues. For federal and state income tax purposes, CH Energy Group and its subsidiaries use an accelerated method of depreciation and generally use the shortest life permitted for each class of assets. Deferred investment tax credits are amortized over the estimated life of the properties giving rise to the credits. For state income tax purposes, Central Hudson uses book depreciation for property placed in service in 1999 or earlier in accordance with transition property rules under Article 9-A of the New York State Tax Law. CHEC and Griffith file state income tax returns in those states in which they conduct business. For more information, see Note 4 - "Income Tax."

Equity-Based Compensation

Through June 27, 2013, CH Energy Group had an equity-based employee compensation plan that is described in Note 11 - "Equity-Based Compensation."

Parental Guarantees

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

	December 31, 2013	
Transaction Description	Maximum Potential	Outstanding Liabilities(1)
Heating oil, propane, other petroleum products, weather and commodity hedges (In Thousands)	$ 29,750	$ 7,127

(1) Balance included in CH Energy Group's Consolidated Balance Sheet under Liabilities held for sale.

Management is not aware of any existing condition that would require payment under the guarantees. Upon completion of the sale of Griffith, these guarantees would be cancelled.

Common Stock Dividends

CH Energy Group's ability to pay dividends is affected by the ability of its subsidiaries to pay dividends. The Federal Power Act limits the payment of dividends by Central Hudson to its retained earnings. More restrictive is the PSC's limit on the dividends Central Hudson may pay to CH Energy Group which is 100% of the average annual income available for common stock, calculated on a two-year rolling average basis. In addition, Central Hudson would not be allowed to pay dividends if its average common equity ratio for the 13 months prior to the proposed dividend were more than 200 basis points below the ratio used in setting rates. Based on this annual calculation, Central Hudson was restricted to a maximum payment of $32.8 million in dividends to CH Energy Group for the year ended December 31, 2013. 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 any of CH Energy Group's or Central Hudson's affiliates. Further restrictions are imposed for any downgrades below this level.

During 2013, the Board of Directors of Central Hudson paid dividends of $22.0 million to parent CH Energy Group. CH Energy Group's other subsidiaries do not have express restrictions on their ability to pay dividends. CH Energy Group paid dividends of $10.0 million to FortisUS, Inc. in 2013 and $16.6 million to its shareholders through May 2013, prior to the completion of the acquisition.

See Note 8- "Capitalization-Common and Preferred Stock" for information regarding dividends declared in 2013.

NOTE 2 – Regulatory Matters

Effective June 30, 1998 (and amended March 7, 2000), the PSC approved a settlement agreement (the "Settlement Agreement") between Central Hudson, PSC staff and certain other parties.

The Settlement Agreement included the following major provisions which survived its expiration date: (i) certain limitations on ownership of electric generation facilities by Central Hudson and its affiliates in Central Hudson's franchise territory; (ii) standards of conduct in transactions between Central Hudson, CH Energy Group, and other affiliates of CH Energy Group; (iii) prohibitions against Central Hudson making loans to CH Energy Group or any other subsidiary of CH Energy Group and against Central Hudson guaranteeing debt of CH Energy Group or any other subsidiary of CH Energy Group; (iv) limitations on the transfer of Central Hudson employees to CH Energy Group or other CH Energy Group affiliates; (v) certain dividend payment restrictions on Central Hudson; and (vi) treatment of savings up to the amount of an acquisition's or merger's premium or costs flowing from a merger with another utility company.

Regulatory Accounting Policies

Regulated companies such as Central Hudson apply AFUDC to the cost of construction projects and defer costs and credits on the balance sheet as regulatory assets and liabilities (see the caption "Summary of Regulatory Assets and Liabilities" of this Note) when it is probable that those costs and credits will be recoverable through the rate-making process in a period different from when they otherwise would have been reflected in income. For Central Hudson, these deferred regulatory assets and liabilities, and the related deferred taxes, are then either eliminated by offset as directed by the PSC or reflected in the Consolidated Statement of Income in the period in which the same amounts are reflected in rates. In addition, current accounting practices reflect the regulatory accounting authorized in the most recent settlement agreement or rate order, whichever the case may be.

Summary of Regulatory Assets and Liabilities

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

	December 31, 2013	December 31, 2012
Regulatory Assets (Debits):		
Current:		
Deferred purchased electric and natural gas costs (Note 1)	$ 21,093	$ 11,367
Deferred unrealized losses on derivatives - Electric (Note 14)	-	1,149
Deferred unrealized losses on derivatives - Gas (Note 14)	46	110
PSC General and Temporary State Assessment and carrying charges	3,962	6,260
RDM and carrying charges - Electric	2,451	4,742
Residual natural gas deferred balances	4,554	4,554
Deferred debt expense on re-acquired debt	625	601
Deferred and accrued costs - MGP site remediation and carrying charges (Note 12)	4,605	4,605
Other	290	290
	37,626	33,678
Long-term:		
Deferred pension costs (Note 10)	50,577	146,935
Deferred unrealized losses on derivatives - Electric (Note 14)	-	218
Carrying charges - pension reserve	13,264	9,182
Deferred and accrued costs - MGP site remediation and carrying charges (Note 12)	39,233	10,739
Deferred debt expense on re-acquired debt	4,978	4,737
Deferred Medicare Subsidy taxes	8,400	7,808
Residual natural gas deferred balances and carrying charges	1,060	5,443
Income taxes recoverable through future rates	37,223	29,908
Energy efficiency incentives	2,719	2,719
Deferred storm costs and carrying charges	-	23,274
Other	18,792	15,751
	176,246	256,714
Total Regulatory Assets	$ 213,872	$ 290,392
Regulatory Liabilities (Credits):		
Current:		
RDM and carrying charges - Gas	$ 3,888	$ 1,349
Deferred unrealized gains on derivatives - Electric (Note 14)	8,465	-
Deferred unrealized gains on derivatives - Gas (Note 14)	324	95
Income taxes refundable through future rates	4,209	4,669
Deferred unbilled gas revenues (Note 1)	6,005	5,972
	22,891	12,085
Long-term:		
Customer benefit fund	6,505	2,390
Deferred cost of removal (Note 1)	46,655	43,392
Rate Base impact of tax repair project and carrying charges	12,336	9,099
Excess electric depreciation reserve carrying charges	1,586	1,586
Deferred unrealized gains on derivatives - Electric (Note 14)	1,433	693
Income taxes refundable through future rates	27,484	21,062
Deferred OPEB costs (Note 10)	51,590	7,975
Carrying charges - OPEB reserve	15,197	9,949
PBA - Electric and carrying charges	12,242	-
PBA - Gas and carrying charges	3,105	-
Other	16,388	9,314
	194,521	105,460
Total Regulatory Liabilities	$ 217,412	$ 117,545
Net Regulatory Assets/(Liabilities)	$ (3,540)	$ 172,847

The significant regulatory assets and liabilities include:

PSC General and Temporary State Assessment: In April 2009, the PSC issued an order instituting a new Temporary State Assessment to be collected through utility bills as mandated by NYS. Central Hudson is required to make bi-annual payments of this assessment, in conjunction with its payments of the PSC General Assessment, and collect the amount from customers in subsequent months. Deferral accounting for both these assessments was authorized in this order.

Revenue Decoupling Mechanism ("RDM"): Effective July 1, 2009 and continuing in the 2010 Order Establishing Rate Plan issued by the PSC Central Hudson on June 18, 2010 ("2010 Rate Order") and Order Authorizing Acquisition through June 30, 2015, 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. The difference between actual revenues and forecasted revenues are deferred for further recovery from or refund to customers with the deferred balance subject to carrying charges at the Other Customer Deposit Rate approved annually by the PSC.

Residual Natural Gas Deferred Balances: As a result of the 2009 Order Establishing Rate Plan issued by the PSC to Central Hudson on June 22, 2009 ("2009 Rate Order") and the 2010 Rate Order, certain gas regulatory assets and liabilities were identified for offset and reduced by a depreciation reserve adjustment, resulting in an increase to the net regulatory asset. The remaining balance is being amortized over a four-year period which began July 1, 2010.

Deferred Debt Expense on Reacquired Debt: When long-term debt is reacquired or redeemed, regulatory accounting permits deferral of related unamortized debt expense and reacquisition costs. These costs are being amortized over the remaining life of the original life of the issue retired. The amortization of debt costs for reacquired or redeemed debt is incorporated in the revenue requirement for delivery rates as authorized by the PSC.

Carrying Charges - Pension Reserve: Under the policy of the PSC regarding pension costs, carrying charges are accrued on cash differences between rate allowances and cash contributions to Central Hudson's defined benefit pension plan. For further discussion regarding this plan, see Note 10 - "Post-Employment Benefits."

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

Income Taxes Recoverable: Regulatory asset balance established to offset deferred tax liabilities because it is probable that they will be recoverable from customers.

Energy Efficiency Incentives: 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.

Storm Costs: Central Hudson is authorized to request and the PSC has historically approved deferral accounting for incremental storm restoration costs which meet the following criteria: (1) the expense must be incremental to the amount provided in rates, (2) the incremental costs must be material and extraordinary in nature, and (3) the company's earnings cannot be in excess of the authorized regulatory rate of return. The balance shown for storm costs as of December 31, 2012 relates to the impacts of Tropical Storm Irene, the significant snow storm event in late October 2011 as well as Superstorm Sandy in October 2012. As authorized by the PSC, these amounts were offset against the PBA. See further discussion below.

Positive Benefit Adjustment ("PBA"): Under the PSC issued Order Authorizing Acquisition Subject to Conditions, a $35 million PBA was established to cover expenses normally required to be recovered from ratepayers. In accordance with the order, storm restoration costs of approximately $20.1 million, for storm costs associated with Tropical Storm Irene, the October 2011 snow storm and Superstorm Sandy were offset by the PBA.

Income Taxes Refundable: Regulatory liability balances established to offset deferred tax assets because it is probable that the related balances will be refundable to customers.

Customer Benefit Fund: The 2010 Order prescribes the use of the residual balance to fund economic development.

Rate Base impact of tax repair project: In April 2011, the PSC approved the ratemaking treatment to offset certain incremental storm costs and incremental bad debt expense deferrals with tax refunds resulting from a change in tax return methodology for claiming deductions for incidental repair and maintenance expenditures on its utility assets. The remaining balance of the tax refund not subject to offset has been established as a regulatory liability subject to carrying charges for the benefit of customers.

Excess Electric Depreciation Reserve ("EDR"): Under the 2006 Rate Order, a $40M regulatory liability balance was established and was subject to carrying charges at the pre-tax weighted average cost of capital. Under the 2006, 2009 and 2010 Rate Order, this balance was approved for use in rate moderation. As of December 31, 2012 and 2013, the EDR regulatory liability has been fully utilized, however, the carrying charges accumulated remain as a regulatory liability balance.

Carrying Charges - OPEB Reserve: Under the policy of the PSC regarding OPEB costs, carrying charges are accrued on cash differences between rate allowances and cash contributions to Central Hudson's OPEB plan. For further discussion regarding this plan, see Note 10 - "Post-Employment Benefits."

In terms of the expected timing for recovery, regulatory asset balances at December 31, 2013, reflect the following (In Thousands):

	December 31, 2013
Balances with offsetting accrued liability balances recoverable when future costs are actually incurred:	
Deferred pension related to underfunded status	$ 44,394
Income taxes recoverable through future rates	37,223
Deferred costs - MGP sites	40,803
Deferred Medicare Subsidy taxes	8,400
Other	5,098
	135,918
Balances earning a return via inclusion in rates and/or the application of carrying charges:	
Deferred pension costs undercollected(1)	6,183
PSC General and Temporary State Assessment	3,750
Accrued costs - MGP sites	2,293
Deferred debt expense on re-acquired debt	5,603
Other(1)	13,040
	30,869
Subject to current recovery:	
Deferred purchased electric and natural gas costs	21,093
Residual natural gas deferred balances	4,554
RDM	2,399
Other	21
	28,067
Other:	
Energy Efficiency Incentives(1)	2,719
Other	46
	2,765
Accumulated carrying charges:(1)	
Pension reserve	13,264
Other	2,989
	16,253
Total Regulatory Assets	$ 213,872

(1) Subject to recovery in Central Hudson's future rate proceedings.

2010 Rate Order

The Company's 2010 Rate Order provides for deferral accounting for full recovery of purchased electricity and natural gas, pensions, OPEBs, MGP site remediation, asbestos litigation and variable rate debt. Additionally, they include penalty-only performance mechanisms for customer service quality, electric reliability and natural gas safety.

Other significant components of the 2010 Rate Order include:

Description	2010 Rate Order
Electric delivery revenue increases	\$11.8 million(1) 7/1/10 \$9.3 million(1) 7/1/11 \$9.1 million 7/1/12
Natural gas delivery revenue increases	\$5.7 million 7/1/10 \$2.4 million 7/1/11 \$1.6 million 7/1/12
ROE	10.0%
Earnings sharing	Yes(2)
Capital structure – common equity	48%
Targets with true-up provisions - % of revenue requirement to defer for shortfalls:	
Capital Expenditures	Not applicable
Net plant balances	100%
Transmission and distribution ROW maintenance	100%
RDMs – electric and natural gas(3)	Yes
New deferral accounting for full recovery:	
Fixed debt costs	Yes(4)
Transmission sag mitigation	Yes
New York State Temporary Assessment	Yes
Material regulatory actions	Yes(5)
Property taxes – Deferral for 90% of excess/deficiency relative to revenue requirement	Yes(6)

(1) Moderated by \$12 million and \$4 million bill credits, respectively.
(2) ROE > 10.0%, 50% to customers, > 10.5%, 90% to customers, per Order Authorizing Acquisition Subject to Conditions in Case 12-M-0192.
(3) Electric is based on revenue dollars; gas is based on usage per customer.
(4) Deferral authorization in RY2 and RY3 only.
(5) Legislative, governmental or regulatory actions with individual impacts greater than or equal to 2% of net income of the applicable department.
(6) The Company's pre-tax gain or loss limited to \$0.7 million per rate year.

Case 12-M-0192
Joint Petition of Fortis Inc. et al. and CH Energy Group, Inc. et al. for Approval of the Acquisition of CH Energy Group, Inc. by Fortis Inc. and Related Transactions

On June 26, 2013 the PSC issued its Order Authorizing Acquisition Subject to Conditions in Case 12-M-0192, which was accepted on June 27, 2013. The Order adopted the terms of the Joint Proposal dated January 25, 2013 for the acquisition of CH Energy Group, owner of Central Hudson, by Fortis along with additional commitments by the companies to enhance financial protection for ratepayers and other community and economic development benefits.

Key provisions of the joint proposal as modified and adopted by the PSC include:

- Measures to protect the financial integrity and credit standing of Central Hudson, which include a ban on cross-default provisions, authorization and issuance of a new class of Junior Preferred Stock, or "golden share," designed to restrict a voluntary bankruptcy filing by Central Hudson, and no allowance in customer rates for transaction costs or goodwill costs.
- Assurance that a majority of the Central Hudson board of directors will be independent and that at least two of the independent directors will reside in the Central Hudson service territory.
- A freeze on Central Hudson electric and gas delivery rates through July 1, 2015.
- $35 million in Positive Benefit Adjustments ("PBA") to cover expenses normally required to be recovered from ratepayers, such as storm restoration costs.
- Establishment of a $5 million community benefit fund for economic development and low-income customer assistance programs.
- Guaranteed annual synergy savings of $1.85 million to ratepayers for 5 years.
- A commitment to maintain Central Hudson's active community involvement at no less than 2011 levels through 2022.
- Continuation of customer service, reliability and safety mechanisms with increased negative revenue adjustment for failure to meet targets, and addition of a new metric for violation of certain pipeline safety regulations.
- Prohibition against relocation of Central Hudson's headquarters outside the service territory without approval by the Commission.
- Assurance that there will be no layoff of Central Hudson employees for at least four years.

- Sharing of earnings above 10.0% and up to 10.5%, 50% / 50% between the shareholders and ratepayers and sharing of earnings above 10.5%, 10% / 90% between shareholders and ratepayers.

Other PSC Proceedings

On October 29, 2012, Central Hudson's service territory was impacted by Superstorm Sandy, and approximately 103,000 electric customers were affected. 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. Central Hudson 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. The Sandy storm costs were included in the $20.1 million of storm costs identified in the $35 million of regulatory liabilities to be funded by Fortis upon acquiring CH Energy Group, subject to adjustment following the PSC's review of Central Hudson's deferral petition. Central Hudson cannot predict whether the PSC will approve the petition or the final outcome of this proceeding.

On April 22, 2013, the PSC issued Orders approving deferral of $8.9 million and denying deferral of $3.7 million of the incremental electric storm restoration expense related to Tropical Storm Irene and the October snowstorm, respectively. Regarding the majority of the disallowed costs, the PSC's decision stated that Central Hudson did not meet the third prong requirement which requires Central Hudson not be in an over earnings position. The PSC adopted a staff recommendation to exclude ratemaking normalization adjustments for purposes of calculating authorized electric regulatory earnings, and therefore denied a portion of these petitioned deferrals based on this third prong criterion. In addition, the PSC's Order stated that approximately $0.6 million of the costs related to Tropical Storm Irene should have been allocated to a separate storm, Tropical Storm Lee, and that this separate amount did not meet the materiality threshold for recovery. On May 22, 2013, Central Hudson filed a petition for reconsideration and rehearing on the PSC's April 22, 2013 Orders challenging the exclusion of Central Hudson's normalization adjustments used to measure earnings and seeking recovery of $3.7 million that was denied. Central Hudson cannot predict when or whether the PSC will approve the petition or the final outcome of this proceeding.

Other Regulatory Matters

Non-Utility Land Sales - Central Hudson

Central Hudson did not sell any parcels of non-utility property during 2013 or 2012. Central Hudson had two property sales of non-utility real property resulting in $0.1 million in excess of book value and transaction costs during the year-ended December 31, 2011. This excess is recorded as a reduction to Other Expenses of Operation on the Consolidated CH Energy Group Statement of Income and Central Hudson's Statement of Income.

NOTE 3 - New Accounting Guidance

Newly adopted and soon to be adopted accounting guidance is summarized below, including explanations for any new guidance issued in 2013 (except that which is not currently applicable) and the expected impact on CH Energy Group and its subsidiaries.

Impact	Category	Accounting Reference	Title	Issued Date	Effective Date
1	Balance Sheet (Topic 210)	ASU No. 2011-11	Disclosures about Offsetting Assets and Liabilities	Dec-11	Jan-13
1	Balance Sheet (Topic 210)	ASU No. 2013-01	Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities	Jan-13	Jan-13
1	Comprehensive Income (Topic 220)	ASU No. 2013-02	Reporting Amounts Reclassified Out of Accumulated Other Comprehensive Income	Feb-13	Dec-12
1	Liabilities (Topic 405)	ASU No. 2013-04	Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation is Fixed at the Reporting Date	Feb-13	Dec-13
1	Derivatives and Hedging (Topic 815)	ASU No. 2013-10	Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes	Jul-13	July-13
1	Income Taxes (Topic 740)	ASU No. 2013-11	Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists	Jul-13	Dec-13

Impact Key:

(1) No current impact on the financial condition, results of operations and cash flows of CH Energy Group and its subsidiaries when adopted on the effective date noted. Additional disclosures have been added or presentation of information modified where required.

NOTE 4 – Income Tax

CH Energy Group and its subsidiaries file a consolidated Federal and New York State income tax return. CHEC and Griffith also file state income tax returns in those states in which they conduct business.

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

This change resulted in federal and state net operating income tax losses ("NOL"). For Federal tax purposes, CH Energy Group elected to carry back the NOL, which resulted in tax refunds for the tax years 2004 through 2008. The remaining 2010 and 2011 NOL will be carried forward to future periods. For NYS tax purposes, the 2009 and 2010 NOL will be carried forward to future periods. NOL carryforwards will expire in 20 years if not otherwise utilized. CH Energy Group believes future taxable income will more likely than not be sufficient to utilize substantially all its tax carryforwards prior to their expiration. Future tax benefits resulting from this change are included within "Accumulated Deferred Income Tax" on the CH Energy Group Consolidated Balance Sheet and the Central Hudson Balance Sheet. CH Energy Group and Central Hudson NOL carryforwards are summarized as follows (In Thousands):

			NOL Carryforward Amount	
Year Ended	NOL	NOL Expires	CH Energy Group	Central Hudson
12/31/09	NY State	12/31/29	$ 2,018	$ 18,677
12/31/10	Federal	12/31/30	$ 10,313	$ 0
12/31/10	NY State	12/31/30	$ 47,846	$ 29,799
12/31/11	Federal	12/31/31	$ 1,651	$ 0

At December 31, 2010, the final regulations clarifying what qualifies as deductible repair and maintenance expenditures for prospective tax years had not been issued. Due to uncertainty, in 2010 Central Hudson established reserves against a portion of the tax benefits claimed. For Federal tax purposes, a reserve was recorded for $8.3 million or 25% of the tax benefit claimed as a result of the 2009 NOL that was carried back to prior years and $1.6 million was reserved against the 2010 NOL Deferred Tax Asset carried forward. For NYS tax purposes, an additional $1.6 million was reserved against the 2009 and 2010 NOL Deferred Tax Asset carry forward. In August 2011, the IRS released Revenue Procedure ("Rev Proc") 2011-43, which provided guidance related to repair deductions for electric transmission and distribution property. Based on guidance provided by this Rev Proc, Central Hudson reclassified $6.4 million of the original reserve related to electric transmission and distribution repairs to deferred tax liability accounts. IRS guidance with respect to repairs taken on Gas Transmission and Distribution repairs is still pending. The remaining reserve related to the gas repair deduction is shown as "Tax Reserve" under the Deferred Credits and Other Liabilities section of the CH Energy Group Consolidated Balance Sheet and the Central Hudson

Balance Sheet. Interest on the remaining reserve is being accrued at the applicable IRS rate and is included in "Accrued Interest" under current liabilities on the CH Energy Group Consolidated Balance Sheet and the Central Hudson Balance Sheet and included in "Interest on regulatory liabilities and other interest" under Interest Charges on the CH Energy Group Consolidated Statement of Income and the Central Hudson Statement of Income. No penalties have been recorded related to this uncertain tax position. If CH Energy Group and its subsidiaries incur any penalties on underpayment of taxes, the amounts would be included in "Other" under the Current Liabilities section of the Balance Sheets and "Other-net" under the Other Income and Deductions section of the Statements of Income.

Other than the uncertain tax position related to Central Hudson's accounting method change for gas transmission and distribution repairs, there are no other uncertain tax positions. Increases to the tax reserve during 2013 reflect the continuing uncertainty related to Gas Transmission and Distribution repair deductions. Adjustments reflected during 2012 include the impacts of adopting the Rev Proc as noted above. The following is a summary of activity related to uncertain tax positions (In Thousands):

	Year Ended December 31, 2013	Year Ended December 31, 2012
Tax reserve balance at the beginning of the period	$ 2,000	$ 3,172
Adjustments related to tax accounting method change	539	(1,172)
Tax reserve balance at the end of the period	$ 2,539	$ 2,000

Jurisdiction	Tax Years Open for Audit
Federal(1)	2011 – 2013
New York State	2010 - 2013

(1) Completed audit adjustments for the years 2007-2010 were received from IRS Appeals on December 23, 2013; adjustments are pending final approval by IRS Joint Committee.

Components of Income Tax - CH Energy Group

The following is a summary of the components of state and federal income taxes for CH Energy Group as reported in its Consolidated Statement of Income (In Thousands):

	Year Ended December 31, 2013	2012	2011
Federal income tax	$ -	$ -	$ 733
State income tax	1,011	1,605	502
Deferred federal income tax	7,104	24,827	20,077
Deferred state income tax	2,551	547	128
Total income tax	$ 10,666	$ 26,979	$ 21,440

Reconciliation - CH Energy Group

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

	Year Ended December 31, 2013	2012	2011
Net income attributable to CH Energy Group	$ 8,326	$ 38,881	$ 45,340
Preferred Stock dividends of Central Hudson	92	624	970
Preferred Stock Redemption Premium	764	342	-
Federal income tax	-	-	734
State income tax	1,011	1,605	51
Deferred federal income tax	7,104	24,828	20,077
Deferred state income tax	2,551	546	578
Income before taxes	$ 19,848	$ 66,826	$ 67,750
Computed federal tax at 35% statutory rate	$ 6,947	$ 23,389	$ 23,713
State income tax net of federal tax benefit	2,509	2,113	1,525
Depreciation flow-through	2,968	3,052	2,695
Cost of Removal	(2,418)	(2,297)	(1,887)
Merger Transaction Costs	1,169	3,545	-
Production tax credits	-	(1,271)	(56)
Federal grant	-	-	(2,580)
Other	(509)	(1,552)	(1,970)
Total income tax	$ 10,666	$ 26,979	$ 21,440
Effective tax rate - federal	35.8 %	37.2 %	30.7 %
Effective tax rate - state	17.9 %	3.2 %	0.9 %
Effective tax rate - combined	53.7 %	40.4 %	31.6 %

Net income before tax for the years ended December 31, 2013 and 2012 include certain merger related transaction costs that are facilitative in nature and therefore considered nondeductible for tax purposes. The nondeductible portion of the total merger related transaction costs incurred in the years ended December 31, 2013 and 2012 were $1.0 million and $8.9 million, respectively. Net income before tax for the year ended December 31, 2013, also includes the impact of the Positive Benefit Adjustment ("PBA") of $35 million and the Community Benefit Fund of $5 million recorded upon the closing of the Fortis transaction. The lower net income resulting from the impact of the PBA and Community Benefit Fund has also resulted in a further distortion of the effective rate for 2013. Additionally, as a result of the reclassification of Griffith to discontinued operations, Management expects that its effective tax rate will increase. This resulted in a $3.3 million expense related to the remeasurement of deferred tax assets and liabilities. This significantly contributed to the increase in the state effective tax rate for 2013.

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

	December 31, 2013	December 31, 2012
Accumulated Deferred Income Tax Asset:		
Unbilled revenues	$ 8,305	$ 8,053
Plant-related	9,033	8,157
Regulatory liability - future income tax	27,752	21,078
OPEB expense	38,465	34,746
NOL carryforwards	8,666	9,761
PBA	6,080	-
Contributions in aid of construction	6,885	6,156
Directors and officers deferred compensation	6,437	5,282
Gas Costs	-	771
Other	21,252	18,907
Accumulated Deferred Income Tax Asset	132,875	112,911
Accumulated Deferred Income Tax Liability:		
Depreciation	238,277	213,052
Repair allowance	9,265	9,674
Pension expense	19,657	22,443
Change in tax accounting for repairs	55,590	48,263
Regulatory asset - future income tax	29,970	21,637
Residual deferred gas balance	1,815	3,619
PSC assessments	1,321	2,102
Cost of removal	5,766	5,520
Electric fuel costs	4,771	4,310
Pension reserve carrying charges	5,255	3,637
Revenue decoupling mechanism	950	1,836
Gas costs	4,012	-
Storm deferrals	-	8,846
Other (1)	19,946	22,661
Accumulated Deferred Income Tax Liability	396,595	367,600
Net Deferred Income Tax Liability	263,720	254,689
Net Current Deferred Income Tax Asset (1)	(12,941)	(12,205)
Net Long-term Deferred Income Tax Liability	$ 276,661	$ 266,894

(1) At December 31, 2013, a current deferred tax asset of $412 and a deferred tax liability of $2,737 associated with Griffith, are excluded from the chart above and included as "Assets held for sale" in the CH Energy Group Consolidated Balance Sheet. See Note 5 "Acquisitions, Divestitures and Investments" for further details.

Components of Income Tax - Central Hudson

The following is a summary of the components of state and federal income taxes for Central Hudson as reported in its Statement of Income (In Thousands):

	Year Ended December 31,		
	2013	2012	2011
Federal income tax	$ 1,544	$ -	$ -
State income tax	1,292	1,637	-
Deferred federal income tax	8,259	25,112	24,988
Deferred state income tax	553	2,042	3,189
Total income tax	$ 11,648	$ 28,791	$ 28,177

Reconciliation - Central Hudson

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

		Year Ended December 31,	
	2013	2012	2011
Net income	$ 20,299	$ 47,170	$ 45,037
Federal income tax	1,544	-	-
State income tax	1,292	1,637	-
Deferred federal income tax	8,259	25,112	24,988
Deferred state income tax	553	2,042	3,189
Income before taxes	$ 31,947	$ 75,961	$ 73,214
Computed federal tax at 35% statutory rate	$ 11,181	$ 26,586	$ 25,625
State income tax net of federal tax benefit	1,393	3,106	3,189
Depreciation flow-through	2,968	3,052	2,695
Cost of Removal	(2,418)	(2,297)	(1,887)
Other	(1,476)	(1,656)	(1,445)
Total income tax	$ 11,648	$ 28,791	$ 28,177
Effective tax rate - federal	30.7 %	33.1 %	34.1 %
Effective tax rate - state	5.8 %	4.8 %	4.4 %
Effective tax rate - combined	36.5 %	37.9 %	38.5 %

Net income before tax for the year ended December 31, 2013, includes the impact of the Positive Benefit Adjustment ("PBA") of $35 million and the Community Benefit Fund of $5 million recorded upon the closing of the Fortis transaction. The lower net income resulting from the impact of the PBA and Community Benefit Fund have resulted in a distortion of the effective rate for 2013.

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

	December 31, 2013	December 31, 2012
Accumulated Deferred Income Tax Asset:		
Unbilled revenues	$ 8,305	$ 8,053
Plant-related	9,033	8,157
OPEB expense	38,465	34,746
NOL carryforwards	1,817	5,652
PBA	6,080	-
Contributions in aid of construction	6,885	6,156
Regulatory liability - future income tax	27,752	21,078
Directors and officers deferred compensation	6,437	5,282
Gas costs	-	771
Other	18,440	16,124
Accumulated Deferred Income Tax Asset	123,214	106,019
Accumulated Deferred Income Tax Liability:		
Depreciation	238,277	213,052
Repair allowance	9,265	9,674
Pension expense	19,657	22,443
Change in tax accounting for repairs	55,590	48,263
Regulatory asset - future income tax	29,970	21,637
Residual deferred gas balance	1,815	3,619
PSC assessments	1,321	2,102
Cost of removal	5,766	5,520
Electric fuel costs	4,771	4,310
Pension reserve carrying charges	5,255	3,637
Revenue decoupling mechanism	950	1,836
Gas costs	4,012	-
Storm deferrals	-	8,846
Other	16,461	21,948
Accumulated Deferred Income Tax Liability	393,110	366,887
Net Deferred Income Tax Liability	269,896	260,868
Net Current Deferred Income Tax Asset	(3,280)	(5,313)
Net Long-term Deferred Income Tax Liability	$ 273,176	$ 266,181

NOTE 5 – Acquisitions, Divestitures and Investments

Acquisitions

During the years ended December 31, 2013, 2012 and 2011, Griffith acquired fuel distribution companies as follows (Dollars in Thousands):

Year Ended	# of Acquired Companies	Purchase Price	Total Intangible Assets(1)	Goodwill	Total Tangible Assets
December 31, 2013	-	$ -	$ -	$ -	$ -
December 31, 2012	5	3,499	3,129	1,469	370
December 31, 2011	6	4,451	4,274	1,572	177
Total	11	$ 7,950	$ 7,403	$ 3,041	$ 547

(1) Including goodwill.

Divestitures

In the first quarter of 2011, Griffith reduced its environmental reserve by $0.6 million based on the completion of an environmental study. The reserve adjustment related to the 2009 divestiture of operations in certain geographic locations. During 2011, Griffith recorded an expense adjustment of $0.2 million relating to divested operations. As such, income of $0.3 million, net of tax, has been reflected in income from discontinued operations in the CH Energy Group Consolidated Statement of Income for the year ended December 31, 2011.

During 2011, CHEC divested four of its renewable energy investments. The results of operations of Lyonsdale, Shirley Wind, CH-Auburn and CH-Greentree for the prior period are presented in discontinued operations in the 2011 CH Energy Group Consolidated Statement of Income. Management has elected to include cash flows from discontinued operations of those investments with those from continuing operations in the CH Energy Group Consolidated Statement of Cash Flows.

The details of each of the sales transactions by investment are as follows (In Thousands):

	CH-Auburn	Shirley Wind	Lyonsdale	CH-Greentree
Date of Sale	9/16/2011	8/11/2011	5/1/2011	12/29/2011
Assets:				
Current Assets	$ 174	$ 623	$ 2,099	$ -
Other Assets	-	461	-	-
Property, Plant and Equipment:				
Property, plant and equipment	4,667	32,564	10,670	5,500
Less: Accumulated depreciation	626	657	4,191	1,205
Total property, plant and equipment, net	4,041	31,907	6,479	4,295
Assets sold	$ 4,215	$ 32,991	$ 8,578	$ 4,295
Liabilities:				
Current Liabilities	$ 85	$ 6	$ 322	$ -
Other Liabilities	1,736	-	-	-
Liabilities sold	$ 1,821	$ 6	$ 322	$ -
Net Assets Sold	$ 2,394	$ 32,985	$ 8,256	$ 4,295
Net Proceeds from Sale	$ 3,673	$ 33,100	$ 7,700	$ 3,000
Pre-tax gain (loss) on sales transaction(1)	$ 1,279	$ 115	$ (556)	$ (1,295)
Tax Benefit of Federal Grant Received(2)	$ 277	$ 2,303	$ -	$ -
Net Increase (Decrease) to Earnings	$ 1,050	$ 2,391	$ (328)	$ (769)

(1) Included in the Gain from the sale of discontinued operations line of the CH Energy Group 2011 Consolidated Statement of Income.

(2) Included in the Income tax (benefit) expense from discontinued operations line of the CH Energy Group 2011 Consolidated Statement of Income.

Proceeds from these sales were used primarily for the repurchase of outstanding Common Stock of CH Energy Group. Additionally, a portion of the proceeds from the sale of Shirley Wind were used to pay down private placement debt at CH Energy Group, which provided financing for the construction of this project.

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

	Year Ended December 31,		
	2013	2012	2011
Revenues from discontinued operations	$ 298,367	$ 280,205	$ 291,946
Income from discontinued operations before tax	7,540	5,246	7,956
Loss from sale of discontinued operations	-	-	(457)
Income tax benefit from discontinued operations	3,092	2,152	658

Investments

The value of CHEC's investments as of December 31, 2013 is as follows (In Thousands):

CHEC Investment	Description	Intercompany Debt	Equity Investment	Total
Griffith Energy Services	100% controlling interest in a fuel distribution business	$ 30,000	$ 38,971	$ 68,971
CH-Community Wind	50% equity interest in a joint venture that owns 18% interest in two operating wind projects	-	-	-
Other	Partnerships and an energy sector venture capital fund	-	2,082	2,082
		$ 30,000	$ 41,053	$ 71,053

The remaining investments identified as CH-Community Wind and Other are not considered a part of the core business; however, management intends to retain these investments at this time.

In 2013, Management commenced with a plan to evaluate and potentially divest Griffith. Based on the bids received and current status of due diligence and negotiations, Management has concluded that as of December 31, 2013, the sale of Griffith is probable to close within the next 12 months. As such, the assets and liabilities of Griffith as of December 31, 2013 were recorded at the lower of the carrying value or fair value less costs to sell and reported as held for sale in the Consolidated CH Energy Group Balance Sheet as of December 31, 2013. Operating results of Griffith are reported as discontinued operations for all periods presented in the Consolidated CH Energy Group Statement of Income. Management has elected to include cash flows from discontinued operations of Griffith with those from continuing operations in the CH Energy Group Consolidated Statement of Cash Flows.

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

	December 31, 2013
ASSETS	
Current Assets	
Cash	$ 2,457
Accounts receivable from customers - net of $1.9 million allowance for doubtful accounts	30,399
Other receivables	2,609
Fuel, materials and supplies	5,351
Accumulated deferred income tax	412
Fair value of derivative instruments	9
Prepaid income taxes	777
Other current assets	2,792
Total current assets	44,806
Property, Plant and Equipment	
Property, plant and equipment	34,643
Less: Accumulated depreciation	24,297
Total property, plant and equipment, net	10,346
Other Assets	
Goodwill	38,981
Other intangible assets - net	9,679
Other	1,339
Total other assets	49,999
Assets held for sale	$ 105,151
LIABILITIES	
Current Liabilities	
Accounts payable	$ 8,296
Accrued vacation and payroll	1,390
Customer advances	7,079
Deferred revenue	4,659
Accrued environmental remediation costs	356
Customer deposits	53
Accumulated deferred income tax	2,737
Other	3,559
Total current liabilities	28,129
Other Liabilities	
Operating reserves	770
Accrued environmental remediation costs	690
Other	294
Total other liabilities	1,754
Liabilities held for sale	$ 29,883

NOTE 6 – Goodwill and Other Intangible Assets

Goodwill, customer relationships, trademarks and covenants not to compete associated with acquisitions are related to Griffith and are reflected on CH Energy Group's Consolidated Balance Sheet as "Assets held for sale" at December 31, 2013 and "Goodwill" and "Other intangible assets – net" at December 31, 2012. 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. Intangible amortization expense for all periods presented have been reflected in "income from discontinued operations" on the CH Energy Group Consolidated Statement of Income. See Note 5 – "Acquisitions, Divestitures and Investments" for additional details regarding classification of intangibles as held for sale at December 31, 2013 and amortization expense as discontinued operations.

In accordance with current accounting guidance related to goodwill and other intangible assets, goodwill and other intangible assets that have indefinite useful lives are no longer amortized, but instead are periodically reviewed for impairment.

In the fourth quarter, management performed a qualitative assessment of any potential impairment of Griffith's goodwill. 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. Additionally, management believes that no event has occurred which would trigger impairment since the last quantitative test performed. Based on these and other factors, including recent market bids for the purchase of Griffith, management believes that it is more likely than not that the fair market value ("FMV") is more than the carrying value of Griffith and therefore, the first and second steps of the impairment test prescribed in guidance were not necessary.

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

	December 31, 2013		December 31, 2012	
	Gross Carrying Amount	Accumulated	Gross Carrying Amount	Accumulated
Customer relationships	$ 37,709	$ 28,531	$ 37,709	$ 26,017
Trademarks	318	32	318	-
Covenants not to compete	411	196	411	97
Total Amortizable Intangibles (1)	$ 38,438	$ 28,759	$ 38,438	$ 26,114

(1) December 31, 2013 balance reflected as "Assets held for sale" in the CH Energy Group Consolidated Balance Sheet.

	Year Ended December 31,		
	2013	2012	2011
Intangibles Amortization Expense (In Thousands) (1)	$ 2,645	$ 2,509	$ 2,396

(1) Included in "Income from discontinued operations" on the CH Energy Group Consolidated Statement of Income.

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.

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

	2014	2015	2016	2017	2018
Estimated Amortization Expense	$ 2,636	$ 2,374	$ 988	$ 683	$ 451

NOTE 7 – Short-Term Borrowing Arrangements

Description	CH Energy Group		Central Hudson	
Revolving Credit Facilities:(1)				
Limit	$100 million		$150 million(2)	
Expiration	October 2015		October 2016	
	December 31,		December 31,	
(In Thousands)	2013	2012	2013	2012
Outstanding	$ -	$ 19,500	$ -	$ -
Total Weighted Average Interest Rate	1.09%	0.82%	1.01%	1.08%
Uncommitted Credit:(3)	None			
Outstanding			$ -	$ -

(1) Providing committed credit.
(2) Pursuant to PSC authorization, through December 31, 2015, Central Hudson is authorized to increase this limit to $175 million. Such an increase could provide greater liquidity to support construction forecasts, seasonality of the business, volatile energy markets, adverse borrowing environments and other unforeseen events.
(3) To diversify cash sources and provide competitive options to minimize Central Hudson's cost of short-term debt.

On October 19, 2012, CH Energy Group amended and restated its $150 million credit facility with JPMorgan Chase Bank, N.A., Bank of America, N.A., HSBC Bank USA, N.A. and KeyBank National Association as the participating banks, extending the term to October 19, 2015 and reducing the maximum amount that can be borrowed to $100 million. The reduction in the borrowing amount reflects CH Energy Group's projected liquidity needs in accordance with its current business strategy, which no longer includes business development of renewable energy projects. CH Energy Group will be re-evaluating its credit needs upon the closing of the Griffith sale. If the participating lenders are unable to fulfill their commitments under this facility, funding may not be available as needed.

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 expires on October 19, 2016. If these lenders are unable to fulfill their commitments under these facilities, funding may not be available as needed.

Griffith's short-term financing needs are currently provided by CH Energy Group through intercompany notes.

Debt Covenants

CH Energy Group's and Central Hudson's credit facilities require compliance with certain restrictive covenants, including maintaining a ratio of total consolidated debt to total consolidated capitalization of no more than 0.65 to 1.00. Currently, both CH Energy Group and Central Hudson are in compliance with all of their respective debt covenants.

NOTE 8 – Capitalization – Common and Preferred Stock

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

On June 26, 2013, immediately prior to the completion of the Fortis acquisition and pursuant to the Order Authorizing Acquisition Subject to Conditions, Central Hudson issued one share of a new class of Limited Voting Junior Preferred Stock, $100 par value per share ("Junior Preferred Stock"), with no dividend rights. The share has a voting right solely with respect to whether Central Hudson may file a voluntary bankruptcy petition, a petition for receivership or institute any other liquidation or similar proceeding.

On June 27, 2013, at the effective time of the closing of the Fortis acquisition, all shares of CH Energy Group Common Stock that immediately prior to the effective time were issued and outstanding or held in treasury, were cancelled and cease to exist. Subsequently, 14,961,400 shares of new common stock, at $0.01 par value, were issued to FortisUS, Inc. which became the sole shareholder of CH Energy Group. Following the closing of the transaction, FortisUS, Inc. purchased an additional one million shares of the new common stock of CH Energy Group for $65.0 million.

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 initially chose to meet its matching obligation in common stock. Upon the effective time of the closing of the Fortis acquisition, all CH Energy Group Common Stock held by the SIP was converted into $65 per share in cash. No future contributions will be made in the form of CH Energy Group Common Stock, which no longer is an investment option for the participants in the SIP.

In 2013, the Board of Directors of CH Energy Group declared dividends of $18.3 million, of which $10.0 million was paid to FortisUS Inc., the sole shareholder of CH Energy Group as of June 27, 2013. In January 2014, the Board of Directors of CH Energy Group declared dividends of $5.0 million, payable to FortisUS Inc. The dividends were paid on January 31, 2014.

In 2013, the Board of Directors of Central Hudson declared and paid dividends of $22.0 million to parent CH Energy Group. In January 2014, the Board of Directors of Central Hudson declared dividends of $5.0 million, payable to parent CH Energy Group. The dividends were paid on January 31, 2014. In 2012 and 2011, Central Hudson paid $22.0 million and $43.0 million of dividends to parent CH Energy Group.

Other than the one share of a new class of Junior Preferred Stock mentioned above, Central Hudson has no outstanding preferred stock as of December 31, 2013.

Cumulative Preferred Stock

Central Hudson, $100 par value; 210,300 shares authorized, not subject to mandatory redemption. On March 21, 2013, Central Hudson redeemed its two outstanding series of preferred stock:

	Redemption Price Per Share			Shares Outstanding December 31,	
Series	Stated	Accrued & Unpaid Dividends	Total	2013	2012
4.50%	$ 107.00	1.00	108.00	-	70,285
4.75%	106.75	1.056	107.806	-	19,980
				-	90,265

The premiums paid in connection with the redemption of the preferred stock were recorded as a reduction of Retained Earnings on Central Hudson's Balance Sheet and as Premium on Preferred Stock Redemption on Central Hudson's Income Statement.

NOTE 9 - Capitalization - Long-Term Debt

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

Series	Maturity Date	December 31, 2013	2012
Central Hudson:			
Promissory Notes:			
2008 Series F (6.854%)(5)	Nov. 01, 2013	-	30,000
2004 Series D (4.73%)(3)	Feb. 27, 2014	7,000	7,000
2004 Series E (4.80%)(4)	Nov. 05, 2014	7,000	7,000
2007 Series F (6.028%)(5)	Sep. 01, 2017	33,000	33,000
2004 Series E (5.05%)(4)	Nov. 04, 2019	27,000	27,000
1998 Series A (6.50%)(1)	Dec. 01, 2028	-	16,700
2006 Series E (5.76%)(4)	Nov. 17, 2031	27,000	27,000
1999 Series B(1)(2)	Jul. 01, 2034	33,700	33,700
2005 Series E (5.84%)(4)	Dec. 05, 2035	24,000	24,000
2007 Series F (5.804%)(5)	Mar. 23, 2037	33,000	33,000
2009 Series F (5.80%)(5)	Nov. 01, 2039	24,000	24,000
2010 Series A (4.30%)(6)	Sep. 21, 2020	16,000	16,000
2010 Series B (5.64%)(6)	Sep. 21, 2040	24,000	24,000
2010 Series G (2.756%)(6)	Apr. 01, 2016	8,000	8,000
2010 Series G (4.15%)(6)	Apr. 01, 2021	44,150	44,150
2010 Series G (5.716%)(6)	Apr. 01, 2041	30,000	30,000
2011 Series G (3.378%)(6)	Apr. 01, 2022	23,400	23,400
2011 Series G (4.707%)(6)	Apr. 01, 2042	10,000	10,000
2012 Series G (4.776%)(6)	Apr. 01, 2042	48,000	48,000
2012 Series G (4.065%)(6)	Oct. 01, 2042	24,000	24,000
2013 Series C (2.45%)(7)	Nov. 1, 2018	30,000	-
2013 Series D (4.09%)(7)	Dec. 2, 2028	16,700	-
		489,950	489,950
Less: Current Portion		(14,000)	(30,000)
Central Hudson Net Long-term debt		$ 475,950	$ 459,950
CH Energy Group:			
Promissory Notes:			
2009 Series A (6.58%)	Apr. 17, 2014	$ 6,500	$ 6,500
2009 Series B (6.80%)	Dec. 15, 2025	20,475	21,552
Less: Current Portion		(7,650)	(1,076)
CH Energy Group Net Long-term debt		$ 495,275	$ 486,926

(1) Promissory Notes issued in connection with the sale by NYSERDA of tax-exempt pollution control revenue bonds.
(2) Variable (auction) rate notes.
(3) Issued pursuant to a 2001 PSC Order approving the issuance by Central Hudson prior to June 30, 2004, of up to $100 million of unsecured medium-term notes.
(4) Issued pursuant to a 2004 PSC Order approving the issuance by Central Hudson prior to December 31, 2006, of up to $85 million of unsecured medium-term notes.
(5) Issued pursuant to a 2006 PSC Order approving the issuance by Central Hudson prior to December 31, 2009, of up to $120 million of unsecured medium-term notes.
(6) Issued pursuant to a 2009 PSC Order approving the issuance by Central Hudson prior to December 31, 2012, of up to $250 million of unsecured medium-term notes or other forms of long-term indebtedness.
(7) Issued pursuant to a 2012 PSC Order approving the issuance by Central Hudson prior to December 31, 2015, of up to $250 million of unsecured medium-term notes or other forms of long-term indebtedness.

On October 16, 2013, Central Hudson entered into a Note Purchase Agreement to issue and sell, in a private placement exempt from registration under the Securities Act of 1933, $47.6 million of senior unsecured notes in two series, Series C and Series D. Series C notes issued on November 1, 2013 bear interest at the rate of 2.45% per annum on a principal amount of $30 million and will mature on November 1, 2018. The Series D notes issued on December 2, 2013 bear interest at the rate of 4.09% per annum on a principal amount of $16.7 million and will mature on December 2, 2028. Central Hudson used the proceeds from the sale of the notes for refunding maturing long term debt, redemption of high coupon debt, and for general corporate purposes.

Griffith had no third-party long-term debt outstanding as of December 31, 2013 or 2012.

Long-Term Debt Maturities

See Note 15 - "Fair Value Measurements" for a schedule of long-term debt maturing or to be redeemed during the next five years and thereafter.

On September 14, 2012, the PSC authorized Central Hudson to enter into a multi-year committed credit up to $175 million and to issue up to $250 million of long-term debt through December 31, 2015. The Order authorized Central Hudson to issue the long-term debt to finance its construction expenditures, refund maturing long-term debt, redeem existing callable debt and preferred stock, and refinance its 1999 NYSERDA Bonds, Series B.

NYSERDA

The principal amount of Central Hudson's outstanding Series B NYSERDA Bonds totaled $33.7 million at December 31, 2013. These 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 of these bonds. As such, variations between the actual interest rates on these bonds and the interest rate included in the current delivery rate structure for these bonds are deferred for future recovery from or refund to customers and therefore do not impact earnings.

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 equal to the outstanding 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. The rate cap replaced an expiring rate cap with substantially similar terms. See Note 14 – "Accounting for Derivative Instruments and Hedging Activities" for fair value disclosures related to this instrument.

Debt Expense

Expenses incurred in connection with CH Energy Group's or Central Hudson's debt issuance and any discount or premium on debt are deferred and amortized over the lives of the related issues. Expenses incurred and unamortized costs written off on redemptions of Central Hudson's debt prior to maturity have been deferred and are amortized over the remaining lives of the related extinguished issues, as directed by the PSC.

Debt Covenants

CH Energy Group's $27.0 million of privately placed notes require compliance with certain restrictive covenants including maintaining a ratio of total consolidated debt to total consolidated capitalization of no more than 0.65 to 1.00 and not permitting certain debt, other than the privately placed notes, associated with the unregulated operations of CH Energy Group to exceed 10% of total consolidated assets. Currently, CH Energy Group is in compliance with all of these debt covenants. CH Energy Group will be re-evaluating its credit needs upon the closing of the Griffith sale.

NOTE 10 – Post-Employment Benefits

Pension Benefits

Central Hudson has a non-contributory Retirement Income Plan ("Retirement Plan") covering substantially all of its employees hired before January 1, 2008. The Retirement Plan is a defined benefit plan, which provides pension benefits based on an employee's compensation and years of service. In 2007, Central Hudson amended the Retirement Plan to eliminate these benefits for managerial, professional, and supervisory employees hired on or after January 1, 2008. The Retirement Plan for unionized employees was similarly amended for all employees hired on or after May 1, 2008. The Retirement Plan's assets are held in a trust fund ("Trust Fund"). Central Hudson has provided periodic updates to the benefit formulas stated in the Retirement Plan.

Decisions to fund Central Hudson's Retirement Plan are based on several factors, including, but not limited to, corporate resources, projected investment returns, actual investment returns, inflation, the value of plan assets relative to plan liabilities, regulatory considerations, interest rate assumptions and the Pension Protection Act of 2006 ("PPA"). Based on the funding requirements of the PPA, Central Hudson plans to make contributions that maintain the target funded percentage at 80% or higher. Contributions to the Retirement Plan during the years ended December 31, 2013 and 2012 were $26.0 million and $28.0 million, respectively.

Overall, Central Hudson's unfunded liability decreased by approximately $95.8 million, $53.8 million from an increase in plan assets and $42.0 million from a decrease in plan liabilities. The increase in plan assets was primarily driven by the strength of the financial markets. An increase in the plan's discount rate caused the reduction in the liability. Contributions for 2014 are expected to be approximately $16.4 million. As noted above, actual contributions could vary significantly based upon a range of factors that Central Hudson considers in its funding decisions.

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

	December 31, 2013	December 31, 2012
Accrued pension costs	$ 18,083	$ 113,885

These balances include the difference between the projected benefit obligation ("PBO") for pensions and the market value of the pension assets, and any liability for SERP.

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

	December 31, 2013	December 31, 2012
Prefunded pension costs prior to funding status adjustment	$ 26,311	$ 25,172
Additional liability required	(44,394)	(139,057)
Total accrued pension costs	$ (18,083)	$ (113,885)
Total offset to additional liability - Regulatory assets - Pension Plan	$ 44,394	$ 139,057

Gains or losses and prior service costs or credits that arise during the period but that are not recognized as components of net periodic pension cost would typically be recognized as a component of other comprehensive income, net of tax. However, Central Hudson has PSC approval to record regulatory assets rather than adjusting comprehensive income to offset the additional liability.

The valuation of the current and prior year PBO was determined at December 31, 2013 and 2012, using discount rates of 4.6% and 3.8% respectively, as determined from the Mercer Pension Discount Yield Curve reflecting projected pension cash flows. A 0.25% change in the discount rate would affect the projection of the pension PBO by approximately $17.6 million. Central Hudson accounts for pension activity in accordance with PSC-prescribed provisions, which among other things, requires a ten-year amortization of actuarial gains and losses.

The 2010 Rate Order includes an increase in the rate allowance for pension and OPEB expense which more closely approximates the recent cost of providing these benefits. Authorization remains in effect for the deferral of any differences between rate allowances and actual costs under the 1993 PSC Policy to counteract the volatility of these costs. The 2010 Rate Order again authorized Central Hudson to offset significant deferred balances for pension and OPEB expense for the electric department with available deferred credit balances due to customers. The 2010 Rate Order also authorized the continuation of the amortization of natural gas department deferred pension and

OPEB costs. The accumulated deferred balance of these costs at June 30, 2010 is being recovered via a four-year amortization that began July 1, 2010.

In addition to the Retirement Plan, a portion of CH Energy Group's and Central Hudson's executives are covered under the non-qualified SERP.

Retirement Plan Estimates of Long-Term Rates of Return

The expected long-term rate of return on the Retirement Plan assets for 2014 is 6.50%, net of investment expense. In determining the expected long-term rate of return on plan assets, Central Hudson considered forward-looking estimated returns evaluated in light of current economic conditions and based on internally consistent economic models. The expected long-term rate of return is a weighted average based on each plan's investment mix and the forward-looking estimated returns for each investment class. Central Hudson monitors actual performance against target asset allocations and adjusts actual allocations and targets in accordance with the Retirement Plan strategy. A 25 basis point decrease in the expected long-term rate of return would have increased the 2013 net periodic benefit cost by $1.3 million.

Retirement Plan Policy and Strategy

Central Hudson's Retirement Plan investment policy seeks to achieve long-term growth and income to match the long-term nature of its funding obligations. The investment policy also reduces the volatility of the plan's funded status and the level of contributions by more closely aligning the characteristics of plan assets with liabilities. Due to market value fluctuations, RIP assets will require rebalancing from time to time to maintain the asset allocation within target ranges. Central Hudson cannot assure that the RIP's return objectives or funded status objectives will be achieved.

Asset allocation targets in effect for the year ended December 31, 2013 as well as actual asset allocations as of December 31, 2013 and December 31, 2012 expressed as a percentage of the market value of the Retirement Plan's assets, are summarized in the table below:

Asset Class	December 31, 2012	Minimum	Target Average	Maximum	December 31, 2013
Equity Securities	50.5 %	41 %	50 %	59 %	52.2 %
Debt Securities	47.4 %	45 %	50 %	55 %	45.3 %
Other(1)	2.1 %	- %	- %	10 %	2.5 %

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

Retirement Plan Investment Valuation

The Retirement Plan assets are valued under the current fair value framework. See Note 14 - "Accounting for Derivative Instruments and Hedging Activities" for further discussion regarding the definition and levels of fair value hierarchy established by accounting guidance.

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. Below is a listing of the major categories of plan assets held as of December 31, 2013 and 2012, as well as the associated level within the fair value hierarchy in which the fair value measurements in their entirety fall (Dollars in Thousands):

Investment Type	Market Value at 12/31/13	% of Total	Market Value at 12/31/12	% of Total
Level 1:				
Cash	$ 59	- %	$ 98	- %
Level 2:				
Investment Funds - Equities(1)	286,373	52.2	249,641	50.5
Investment Funds - Fixed Income(1)	248,044	45.3	234,430	47.4
Cash Equivalents(2)	12,581	2.3	8,839	1.8
Other Investments	1,159	0.2	1,434	0.3
	$ 548,216	100.0 %	$ 494,442	100.0 %

(1) Reported at net asset value, which equals redemption price on that date.
(2) Reported at stated value, which approximates fair value on that date.

Other Post-Retirement Benefits

Central Hudson provides certain health care and life insurance benefits for retired employees through its post-retirement benefit plans. Substantially all of Central Hudson's unionized employees and managerial, professional and supervisory employees ("non-union") hired prior to January 1, 2008, may become eligible for these benefits if they reach retirement age while employed by Central Hudson. Central Hudson amended its OPEB programs for existing non-union and certain retired employees effective January 1, 2008. Benefit plans for non-union active employees were similarly amended. Programs were also amended to eliminate post-retirement benefits for non-union employees hired on or after January 1, 2008. In order to reduce the total costs of these benefits, plan changes were negotiated with the IBEW Local 320 for unionized employees and certain retired employees effective May 1, 2008. Plans were also amended to eliminate post-retirement benefits for union employees hired on or after May 1, 2008. Benefits for retirees and active employees are provided through insurance companies whose premiums are based on the benefits paid during the year.

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

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

Central Hudson's liability (i.e. the under-funded status) for OPEB at December 31, 2013 and 2012, was $18.0 million and $58.4 million, respectively. The cumulative amount of net periodic benefit cost in excess of employer contributions at December 31, 2013 and December 31, 2012 was $60.3 million and $64.7 million, respectively. The difference between these amounts, $42.3 million at December 31, 2013 and $6.3 million at December 31, 2012, will be recognized in Central Hudson's future expense and have been recorded as a regulatory asset in accordance with the 1993 PSC Policy.

Central Hudson and Griffith each participate in a 401(k) retirement plan for their employees. Griffith also provides a discretionary profit-sharing benefit for their employees. The 401(k) plans provide for employee tax-deferred salary deductions for participating employees and their respective employer matches contributions made. The matching benefit varies by employer and employee group. For Central Hudson, the costs of their matching contributions were $2.3 million for 2013 and $2.1 million for both 2012 and 2011. Beginning in 2011, the 401(k) plan also provides an additional company contribution of 3% of annualized base salary for eligible employees who do not qualify for Central Hudson's Retirement Income Plan. For Griffith, the costs of their matching contributions were $0.5 million for 2013, 2012 and 2011, respectively. Profit-sharing contributions made by Griffith were $0.3 million in 2013 and 2012 and $0.1 million in 2011.

OPEB Estimates of Long-Term Rates of Return

The expected long-term rate of return on OPEB assets is 7.33%, 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. A 25 basis point decrease in the expected long-term rate of return would have increased the 2013 net periodic benefit cost by $0.2 million. Central Hudson monitors actual performance against target asset allocations and adjusts actual allocations and targets as deemed appropriate in accordance with the Plan's strategy.

OPEB Policy and Strategy

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

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

Asset Class	December 31, 2012	Minimum	Target Average	Maximum	December 31, 2013
Equity Securities	63.5%	55%	65%	75%	65.9%
Debt Securities	36.2%	25%	35%	45%	33.8%
Other	0.3%	- %	- %	- %	0.3%

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

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

OPEB Investment Valuation

The OPEB Plan assets are valued under the current fair value framework. See Note 14 - "Accounting for Derivative and Hedging Activities" for further discussion regarding the definition and levels of fair value hierarchy established by guidance.

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. Below is a listing of the major categories of plan assets held as of December 31, 2013 and 2012, as well as the associated level within the fair value hierarchy in which the fair value measurements in their entirety fall.

401 (h) Plan Assets

(Dollars in Thousands)

Investment Type	Market Value at 12/31/13	% of Total	Market Value at 12/31/12	% of Total
Level 1:				
Cash	$ 2	- %	$ 3	- %
Level 2:				
Investment Funds - Equities(1)	9,228	52.2	7,364	50.5
Investment Funds - Fixed Income(1)	7,993	45.3	6,916	47.4
Cash Equivalents(2)	406	2.3	261	1.8
Other Investments	37	0.2	42	0.3
	$ 17,666	100.0 %	$ 14,586	100.0 %

(1) Reported at net asset value, which equals redemption price on that date.
(2) Reported at stated value, which approximates fair value on that date.

Union VEBA Plan Assets

(Dollars In Thousands)

Investment Type	Market Value at 12/31/13	% of Total	Market Value at 12/31/12	% of Total
Level 1:				
Investment Funds - Money Market Mutual Fund	$ 244	0.3 %	$ 213	0.3 %
Investment Funds - Fixed Income Mutual Funds	18,899	19.6	18,483	21.9
Investment Funds - Equity Securities Mutual Funds	43,688	45.4	37,236	44.1
Level 2:(1)				
Fixed Income Commingled Fund	13,679	14.2	12,087	14.3
Investment Funds - Equity Securities Commingled Fund	19,726	20.5	16,345	19.4
	$ 96,236	100.0 %	$ 84,364	100.0 %

(1) The Level 2 funds do not have market data available; however, the underlying securities held by those funds do have published market data available.

Reconciliations of Central Hudson's pension and other post-retirement plans' benefit obligations, plan assets, and funded status, as well as the components of net periodic pension cost and the weighted average assumptions are reported on the following chart (Dollars In Thousands):

	Pension Benefits		Other Benefits	
	2013	2012	2013	2012
Change in Benefit Obligation:				
Benefit obligation at beginning of year	$ 608,327	$ 554,690	$ 157,362	$ 141,999
Service cost	12,291	10,964	2,670	2,569
Interest cost	22,928	24,712	5,261	6,183
Participant contributions	-	-	759	477
Plan amendments	5,419	456	-	-
Benefits paid	(27,278)	(28,170)	(6,105)	(6,314)
Actuarial (gain)/loss	(55,388)	45,675	(28,009)	12,448
Benefit Obligation at End of Plan Year	$ 566,299	$ 608,327	$ 131,938	$ 157,362
Change in Plan Assets:				
Fair Value of plan assets at beginning of year	$ 494,442	$ 432,128	$ 98,950	$ 88,944
Adjustment / other	(24)	32	24	(32)
Actual return on plan assets	55,936	63,421	17,448	12,675
Employer contributions	26,658	28,658	2,894	3,269
Participant contributions	-	-	759	477
Benefits paid	(27,278)	(28,170)	(6,105)	(6,314)
Administrative expenses	(1,518)	(1,627)	(68)	(69)
Fair Value of Plan Assets at End of Plan Year	$ 548,216	$ 494,442	$ 113,902	$ 98,950
Reconciliation of Funded Status:				
Funded Status at end of year	$ (18,083)	$ (113,885)	$ (18,036)	$ (58,412)
Amounts Recognized on Balance Sheet:				
Current liabilities	$ (586)	$ (658)	$ -	$ -
Noncurrent liabilities	(17,497)	(113,227)	(18,036)	(58,412)
Net amount recognized on Balance Sheet	(18,083)	(113,885)	(18,036)	(58,412)
Regulatory asset:				
Net (gain)/loss	34,009	132,360	(14,365)	27,462
Prior service costs (credit)	10,385	6,697	(27,920)	(33,779)
Transition obligation	-	-	-	6
Components of Net Periodic Benefit Cost:				
Service cost	$ 12,291	$ 10,964	$ 2,670	$ 2,569
Interest cost	22,928	24,712	5,261	6,183
Expected return on plan assets	(30,792)	(27,074)	(7,098)	(6,754)
Amortization of prior service cost (credit)	1,731	2,002	(5,859)	(5,859)
Amortization of transitional obligation	-	-	6	2,547
Amortization of actuarial net loss	19,362	23,151	3,862	8,139
Net Periodic Benefit Cost	$ 25,520	$ 33,755	$ (1,158)	$ 6,825

	Pension Benefits		Other Benefits	
	2013	2012	2013	2012
Other Changes in Plan Assets and Benefit Obligation Recognized in Regulatory Assets:				
Net (gain)/loss	$ (78,989)	$ 10,924	$ (37,965)	$ 5,782
Amortization of actuarial net loss	(19,362)	(23,151)	(3,862)	(8,139)
Prior service credit	5,419	456	-	-
Amortization of prior service (cost) credit	(1,731)	(2,002)	5,859	5,859
Amortization of transitional obligation	-	-	(6)	(2,547)
Total recognized in regulatory asset	$ (94,663)	$ (13,773)	$ (35,974)	$ 955
Total recognized in net periodic benefit cost and regulatory asset	$ (69,143)	$ 19,982	$ (37,132)	$ 7,780
Weighted-average assumptions used to determine benefit obligations:				
Discount rate	4.60%	3.80%	4.60%	3.70%
Rate of compensation increase (average)	4.00%	4.00%	4.00%	4.00%
Measurement date	12/31/13	12/31/12	12/31/13	12/31/12
Weighted-average assumptions used to determine net periodic benefit cost for years ended December 31:				
Discount rate	3.80%	4.50%	3.70%	4.50%
Expected long-term rate of return on plan assets	6.25%	6.25%	7.33%	7.80%
Rate of compensation increase (average)	4.00%	5.00%	4.00%	5.00%
Assumed health care cost trend rates at December 31:				
Health care cost trend rate assumed for next year	N/A	N/A	7.60%	7.85%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	N/A	N/A	4.50%	4.50%
Year that the rate reaches the ultimate trend rate	N/A	N/A	2029	2029
Pension plans with accumulated benefit obligations in excess of plan assets:				
Projected benefit obligation	$ 566,299	$ 608,327	N/A	N/A
Accumulated benefit obligation	$ 522,067	$ 553,490	N/A	N/A
Fair Value of plan assets	$ 548,216	$ 494,442	N/A	.N/A

The estimated net loss and prior service cost for the defined benefit pension plans that will be amortized from regulatory assets into net periodic benefit cost over the next fiscal year are $10.1 million and $1.6 million, respectively. The estimated net loss and prior service credit for the other defined benefit post-retirement plans that will be amortized from regulatory assets into net periodic benefit cost over the next fiscal year is $0.1 million and $5.8 million, respectively. The amount of transitional obligation to be amortized from regulatory assets is immaterial.

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	One Percentage Point Decrease
Effect on total of service and interest cost components for 2013	$ 381	$ (325)
Effect on year-end 2013 post-retirement benefit obligation	$ 3,650	$ (3,202)

For 2013, the PBO for Central Hudson's obligation for OPEB costs was determined using a 4.6% discount rate. This rate was determined using the Mercer Pension Discount Yield Curve reflecting projected cash flows. A 0.25% decrease in the discount rate would have increased the projection of the OPEB obligation by approximately $4.2 million.

Central Hudson's contributions for OPEB totaled $2.9 million and $3.3 million during the years ended December 31, 2013 and 2012. Contribution levels are determined by various factors including the discount rate, expected return on plan assets, medical claims assumptions used, mortality assumptions used, benefit changes, corporate resources and regulatory considerations. In January 2014, Central Hudson made a $2.2 million contribution for OPEB. No further contributions are expected for 2014.

Estimated Future Benefit Payments

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

Year	Pension Benefits - Gross	Other Benefits - Gross	Other Benefits - Net(1)
2014	$ 30,209	$ 7,329	$ 6,638
2015	30,907	7,628	6,903
2016	31,399	7,897	7,138
2017	32,047	8,202	7,409
2018	33,168	8,572	7,749
2019 - 2023	179,378	47,937	43,309

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

NOTE 11 – Equity-Based Compensation

On June 25, 2013, prior to the completion of the acquisition of CH Energy Group by Fortis, the CH Energy Group, Inc. 2011 Long-Term Equity Incentive Plan (the "2011 Plan") was terminated, and no new awards may be granted under such plan.

Immediately prior to the completion of the acquisition, all unvested awards under the 2011 Plan became vested and were converted into the right to receive $65.00 per share. There were no awards outstanding under the 2011 Plan at the time of its termination.

Performance Shares

Performance shares granted February 7, 2011, February 6, 2012 and February 5, 2013 became vested immediately prior to the acquisition of CH Energy Group by Fortis. The holders of performance shares received $65 per share for all shares earned as a result of the vesting and were paid in July 2013. There were no performance shares outstanding as of December 31, 2013.

Restricted Shares and Restricted Stock Units

Restricted shares and restricted stock units, the vesting of which was accelerated immediately prior to the acquisition of CH Energy Group were cancelled in the acquisition in exchange for cash in the amount of $65 per share. There were no restricted shares or restricted stock units outstanding as of December 31, 2013. Shares and restricted stock units that vested were paid in July 2013.

Compensation Expense

The following table summarizes expense for equity-based compensation by award type for the years ended December 31, 2013, 2012 and 2011 (In Thousands):

	CH Energy Group			Central Hudson		
	Year Ended December 31,			Year Ended December 31,		
	2013	2012	2011	2013	2012	2011
Performance shares	$ 7,292	$ 3,589	$ 3,545	$ 1,222	$ 2,185	$ 2,949
Restricted shares and stock units	$ 875	$ 455	$ 459	$ 134	$ 254	$ 264
Recognized tax benefit of restricted shares and stock units	$ 349	$ 182	$ 180	$ 54	$ 101	$ 105

Prior to the acquisition of CH Energy Group by Fortis, compensation expense for performance shares was recognized over the three year performance period based on the fair value of the awards at the end of each reporting period and the time elapsed within each grant's performance period. The fair value of performance shares was determined based on the shares' current market value at the end of each reporting period, estimated forfeitures for each grant, and expected payout based on management's best estimate including analysis of historical performance in accordance with the defined metrics of each grant. Compensation expense was recorded as performance shares are earned over the relevant three-year life of the performance share grant prior to its award.

Compensation expense for restricted shares prior to the acquisition by Fortis was recognized over the defined vesting periods based on the grant date fair value of the awards. There was no stock option expense recognized during the year ended December 31, 2013. Stock option expense recognized over the years ended December 31, 2012 and 2011 was not material.

The market price of CH Energy Group stock increased approximately $8 per share immediately following the February 21, 2012 announcement that CH Energy Group had entered into a merger agreement with Fortis. CH Energy Group's equity-based compensation expense for the years ended December 31, 2013 and 2012 included approximately $0.1 million and $1.0 million attributable to the increase in stock price on outstanding performance share awards, which has been recognized at the holding company as a transaction cost resulting from the acquisition of CH Energy Group by Fortis and not allocated to its subsidiaries. Immediately prior to the completion of the acquisition of the CH Energy Group acquisition by Fortis, all remaining unvested performance shares and restricted stock shares and restricted stock units vested and were cancelled in exchange for cash payments. As a result of the acceleration, additional expense of $5.8 million related to performance shares and $0.7 million related to restricted shares and restricted stock units were recognized at the CH Energy Group holding company in the second quarter of 2013 and not allocated to its subsidiaries.

Deferred Stock Units

Prior to the acquisition of CH Energy Group by Fortis Inc., CH Energy Group provided equity compensation for its non-employee Directors. Each Director was required to accumulate within 5 years, and to hold during his or her service on the Board, at least 6,000 shares of CH Energy Group's Common Stock (which may be in the form of deferred stock units). Following the merger, non-employee directors are no longer provided equity compensation.

Total equity compensation expense to non-employee Directors recognized by CH Energy Group was $0.3 million for the year ended December 31, 2013, $0.6 million for the year ended December 31, 2012 and $0.5 million for the year ended December 31, 2011.

For additional discussion regarding the dilutive effects of equity-based compensation, see Note 1 - "Summary of Significant Accounting Policies" under the caption "Earnings Per Share."

NOTE 12 – Commitments and Contingencies

Electricity Purchase Commitments

Central Hudson is obligated to supply electricity to its retail electric customers. Under the Settlement Agreement, Central Hudson's retail customers may elect to procure electricity from third-party suppliers or may continue to rely on Central Hudson. As part of its requirement to supply customers who continue to rely on Central Hudson for their energy supply, Central Hudson entered into an agreement with Constellation to purchase capacity and energy, comprising approximately 9% of the output of Unit No. 2 of the Nine Mile Point Nuclear Generating Station ("Nine Mile 2 Plant") at negotiated prices during the ten-year period beginning on November 7, 2001 and ending November 30, 2011. The agreement was "unit-contingent" in that Constellation is only required to supply electricity if the Nine Mile 2 Plant is operating. For the year 2011, the energy supplied under this agreement cost approximately $25.9 million. Following the expiration of this purchase agreement, a revenue sharing agreement began with Constellation, which provides that, for the 10 years following the expiration of NMP2 Power Purchase Agreement, Central Hudson may share in a portion of NMP LLC's power sales revenues for electricity generated at NMP2, depending on the actual price of electricity. In 2013, actual pricing of electricity exceeded contractual pricing, therefore, there was no revenue collected by Central Hudson under the agreement. There are no circumstances under the agreement in which Central Hudson be required to make payments.

On June 30, 2010 and September 9, 2010, Central Hudson entered into agreements with Entergy Nuclear Power Marketing, LLC to purchase electricity (but not capacity) on a unit-contingent basis at defined prices from January 1, 2011 through December 31, 2013. For the twelve months ended December 31, 2012 and 2011, energy supplied under these agreements cost approximately $21.4 and $20.1 million. For the twelve months ended December 31, 2013, energy supplied under these agreements cost approximately $20.1 million, which represents approximately 14% of Central Hudson's full-service customer requirements on an annual basis.

These contracts meet the definition of a normal purchase and are therefore excluded from current accounting requirements related to derivatives. In the event the above noted counterparty is unable to fulfill its commitment to deliver under the terms of the agreements, Central Hudson would obtain the supply from the New York Independent System Operator ("NYISO") market, and under Central Hudson's current ratemaking treatment, recover the full cost from customers. As such, there would be no impact on earnings.

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

Operating Leases

CH Energy Group and its subsidiaries have entered into agreements with various companies which provide products and services to be used in their normal operations. These agreements include operating leases for the use of data processing and office equipment and vehicles. The provisions of these leases generally provide for renewal options and some contain escalation clauses.

Operating lease rental payment amounts charged to expense by Central Hudson were $1.7 million each year for 2013, 2012 and 2011.

In addition to Central Hudson's operating lease rental payments, CH Energy Group had additional operating lease rental payments of $0.8 million for 2013 and $0.7 million for both 2012 and 2011, which are related to Griffith and therefore are included in Discontinued Operations on the CH Energy Group Consolidated Statement of Income.

Future minimum lease payments excluding executory costs, such as property taxes and insurance, are included in the following table of Other Commitments. All leases are non-cancelable, and rent expense is recognized on a straight-line basis over the minimum lease term.

Other Commitments

The following is a summary of commitments for CH Energy Group and its affiliates as of December 31, 2013 (In Thousands):

	Projected Payments Due By Period(2)						
	Less than	Year Ending 2015	Year Ending 2016	Year Ending 2017	Year Ending 2018	Thereafter	Total
Operating Leases	$ 1,829	$ 1,810	$ 1,800	$ 1,644	$ 1,642	$ 1,623	$ 10,348
Purchased Electric Contracts(1)	9,585	5,705	5,664	5,546	3,127	8,577	38,204
Purchased Natural Gas Contracts(1)	35,724	17,085	16,350	14,860	10,620	19,450	114,089
Repayments of Long-Term Debt	21,650	1,230	9,315	34,406	31,503	418,821	516,925
Interest Obligations on Long-Term Debt	23,597	22,770	22,685	21,876	20,286	289,083	400,297
Total	$ 92,385	$ 48,600	$ 55,814	$ 78,332	$ 67,178	$ 737,554	$ 1,079,863

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

(2) Projected payments exclude Griffith due to the anticipated sale in 2014.

The following is a summary of commitments for Central Hudson as of December 31, 2013 (In Thousands):

	Projected Payments Due By Period						
	Less than	Year Ending 2015	Year Ending 2016	Year Ending 2017	Year Ending 2018	Thereafter	Total
Operating Leases	$ 1,829	$ 1,810	$ 1,800	$ 1,644	$ 1,642	$ 1,623	$ 10,348
Purchased Electric Contracts(1)	9,585	5,705	5,664	5,546	3,127	8,577	38,204
Purchased Natural Gas Contracts(1)	35,724	17,085	16,350	14,860	10,620	19,450	114,089
Repayments of Long-Term Debt	14,000	-	8,000	33,000	30,000	404,950	489,950
Interest Obligations on Long-Term Debt	22,010	21,476	21,476	20,758	19,266	285,290	390,276
Total	$ 83,148	$ 46,076	$ 53,290	$ 75,808	$ 64,655	$ 719,890	$ 1,042,867

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

In November 2013, Central Hudson entered into a contract to purchase 200 MWs of installed capacity for the period beginning on May 1, 2014 and ending on April 30, 2017. The NYISO has been authorized by FERC to create a new capacity zone in the Lower Hudson Valley, which is expected to be implemented by May 1, 2014, to maintain system reliability and attract investments in new and existing generation. Since the NYISO is in the process of working through the details of the new capacity zone, future capacity prices remain uncertain and Management is unable to estimate the contractual obligation at this time. The key terms of the contract provide that Central Hudson will pay the settlement price in the NYISO Capacity Spot Market auction for the relevant month of delivery minus $0.175 per kW-month times the contract quantity of the product delivered during the monthly delivery period.

Other Contractual Obligations

Capital Expenditures: Central Hudson is a regulated utility, and as such is obligated to provide service to customers within its service territory. Central Hudson's capital expenditures are largely driven by the need to ensure continued and enhanced performance, reliability and safety of the electric and gas systems and to meet customer growth. Central Hudson's capital expenditure program is forecasted to be approximately $117 million for 2014.

Central Hudson has an obligation to meet its contractual benefit payment obligations. Decisions about how to fund the Retirement Plan to meet these obligations are made annually and are primarily affected by the discount rate used to determine benefit obligations, current asset values, corporate resources and the projection of Retirement Plan assets. 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 contributions for 2014 are expected to total approximately $16.4 million, resulting in a funded status that meets Central Hudson's objective. The actual contributions could vary significantly based upon economic growth, projected investment returns, inflation, and interest rate assumptions. Actual funded status could vary significantly based on asset returns and changes in the discount rate used to estimate the present value of future obligations.

Environmental Matters

Central Hudson

- Former Manufactured Gas Plant Facilities

Central Hudson and its predecessors owned and operated manufactured gas plants ("MGPs") to serve their customers' heating and lighting needs. These plants manufactured gas from coal and oil beginning in the mid to late 1800s with all sites ceasing operations by the 1950s. This process produced certain by-products that may pose risks to human health and the environment.

The New York State Department of Environmental Conservation ("DEC"), which regulates the timing and extent of remediation of MGP sites in New York State, has notified Central Hudson that it believes Central Hudson or its predecessors at one time owned and/or operated MGPs at seven sites in Central Hudson's franchise territory. The DEC has further requested that Central Hudson investigate and, if necessary, remediate these sites under a Consent Order, Voluntary Cleanup Agreement, or Brownfield Cleanup Agreement. The DEC has placed all seven of these sites on the New York State Environmental Site Remediation Database. As authorized by the PSC, Central Hudson is currently permitted to defer for future recovery the differences between actual costs for MGP site investigation and remediation and the associated rate allowances, with carrying charges to be accrued on the deferred balances at the authorized pre-tax rate of return. In the June 26, 2013 Order (Case 12-M-192), the PSC modified the deferral for MGP Site Investigation and Remediation ("SIR") Costs authorized to apply to all Environmental SIR costs incurred by Central Hudson during the period from July 1, 2013 to June 30, 2015. Management does not currently expect any material impact based on this Order.

MGP site investigation and remediation can be divided into various stages of completion based on the milestones of activities completed and reports reviewed. Central Hudson accrues for remediation costs based on the amounts that can be reasonably estimated at a point in time. These stages, the types of costs accrued during various stages and the sites currently in each stage, include:

- *Investigation* – Begins with preliminary investigations and is completed upon filing and approval by DEC of a Remedial Investigation ("RI") Report. Central Hudson accrues for estimated investigation costs, Remediation Alternative Analysis ("RAA"), and Remedial Design costs.
- *Remedial Alternatives Analysis* – Engineering analysis of alternatives for remediation

based on the RI is compiled into a RAA Report. Upon completion of the RAA and the filing with the DEC, management accrues for an estimate of remediation costs developed and quantified in the RAA based on DEC approved methods, as well as an estimate of post-remediation operation, maintenance and monitoring costs ("OM&M"). These amounts represent a significant portion of the total costs to remediate and are subject to change based on further investigations, final remedial design and associated engineering estimates, regulatory comments and requests, remedial design changes/negotiations, and changed or unforeseen conditions during the remediation or additional requirements following the remediation. Prior to the completion of the RAA, management cannot reasonably estimate what cost will be incurred for remediation or post-remediation activities.

- **Site #5 – North Water Street** (Poughkeepsie, NY) – Remedial Alternatives Analysis in progress
  - The Interim Remedial Measure ("IRM"), Construction Completion Report ("CCR") and Interim Site Management Plan ("SMP") associated with the southern portion of this site, were approved by the DEC in May 2013.
  - Field activities associated with the former propane tank area investigation were completed in 2013 and the report of findings associated with this investigation was submitted to the DEC for review and approval. Based on the results of this investigation some level of future remediation may be required in this area.
  - Preparation of the RAA is in process and it is anticipated that the RAA Report will be submitted to the DEC for review and approval during the first quarter of 2014, at which time an estimate of the costs for remediation and OM&M will be accrued.
  - Amounts currently accrued represent an estimate for completion of the RAA and Remedial Design.
- **Site #6 – Kingston** (NY) – Remedial Alternative Analysis in Progress
  - The RAA Report was submitted to the DEC for review and approval.
  - Accrual amount increased approximately $33 million in December 2013 based on scope of work and cost estimate developed for remediation and OM&M activities in the RAA.

- *Remedial Design* - Upon approval of the RAA and final decision of remediation approach based on alternatives presented, a Remedial Design is developed and filed with the DEC for approval.
- *Remediation* – Completion of the work plan as defined in the approved Remedial Design. Upon completion, final reports are filed with the DEC for approval and may include a CCR, Final Engineering Report ("FER"), or other reports required by the DEC based on the work performed.
  - **Site #4 – Catskill** (NY) – Post-Remediation In Progress
    - Remediation activities were essentially complete in 2013.
    - Post remediation monitoring well installation and development of the wells was completed in 2013.
    - Associated updates with the post-remediation permit requirements, were submitted to the DEC and the United States Army Corps of Engineers ("USACE") for review.
    - Central Hudson continues to work both internally and with the DEC to complete the

required Environmental Easements for this site.
  - The draft FER was submitted to the DEC for review in 2013. It is anticipated that the SMP will be submitted for review and approval in the first quarter of 2014.
  - Amounts accrued represent an estimate of costs to complete the post-remediation and OM&M.

- *Post-Remediation Monitoring* – Entails the OM&M as directed by the DEC based on the approved final report of remediation. The activities are typically defined in a SMP, which is approved by the DEC. The extent of activities during this phase may increase or decrease based on the results of ongoing monitoring being performed and future potential usage of the property.
  - **Site #2 – Newburgh** (NY) – Post-Remediation In Progress
    - Amounts accrued represent an estimate of costs for OM&M and execution of the draft SMP.
    - In 2012, Central Hudson retired and removed propane air facilities located on Area A. A work plan to investigate the former propane tank area was approved by the DEC in 2013.
    - A work plan regarding recovery well installation in Area A and B and the recovery well system near NMW-46 (Area B) was approved by the DEC and completed in 2013.
    - It is anticipated that the investigation summary report will be submitted to the DEC for review and approval during the first quarter of 2014.
    - Depending on the results from the former propane tank area investigation some level of future remediation may be required in this area. Management cannot currently estimate the work that may be required related to potential remediation of the former propane tank area.
  - **Site #3 – Laurel Street** (Poughkeepsie, NY) – Post-Remediation In Progress
    - Central Hudson continues to work both internally and with the DEC to complete an Environmental Easement for the portion of the site not owned by Central Hudson.
    - Amounts accrued represent an estimate of costs for OM&M.
- *No Action Required*
  - **Site #1 – Beacon** (NY) – No Action Required
    - SMP submitted to the DEC and release letter for the site was received in 2013.
    - No further costs are expected and no amounts are accrued as of December 31, 2013 related to this site.
    - If the building at this site were to be removed, further investigation and testing would be required related to the soil under the building, which may require additional remediation. Management cannot currently estimate the likelihood of the building being removed or the costs that may be incurred related to this.
  - **Site #7 – Bayeaux Street** (Poughkeepsie, NY) – No further investigation or remedial action is currently required. However, per the DEC this site still remains on the list for potential future investigation.

A summary of amounts accrued and spent are detailed in the chart below (In Thousands):

Site #	Liability Recorded as of 12/31/12	Amounts Spent in 2013(1)	Liability Adjustment	Liability Recorded as of 12/31/13	Current Portion of Liability at 12/31/13	Long-Term Portion of Liability at 12/31/13
2, 3, 4	$ 12,210	$ 5,949	$ 484	$ 6,745	$ 381	$ 6,364
5, 6	1,743	304	32,618	34,057	852	33,205
	$ 13,953	$ 6,253	$ 33,102	$ 40,802	$ 1,233	$ 39,569

(1) Amounts spent in 2013 as shown above do not include legal fees of approximately $23 thousand.

Based on a cost model analysis completed in 2012 of possible remediation and future OM&M costs for sites #2 through #6, Central Hudson believes there is a 90% confidence level that the total costs to remediate these sites will not exceed $152.0 million over the next 30 years. The cost model involves assumptions relating to investigation expenses, results of investigations, remediation costs, potential future liabilities, and post-remedial OM&M costs, and is based on a variety of factors including projections regarding the amount and extent of contamination, the location, size and use of the sites, proximity to sensitive resources, status of regulatory investigations, and information regarding remediation activities at other MGP sites in New York State. The cost model also assumes that proposed or anticipated remediation techniques are technically feasible and that proposed remediation plans receive DEC and New York State Department of Health ("NYSDOH") for approval.

Future remediation activities, including OM&M and related costs may vary significantly from the assumptions used in Central Hudson's current cost estimates, and these costs could have a material adverse effect (the extent of which cannot be reasonably determined) on the financial condition, results of operations and cash flows of CH Energy Group and Central Hudson if Central Hudson were unable to recover all or a substantial portion of these costs via collection in rates from customers and/or through insurance.

Central Hudson expects to recover its remediation costs from its customers. The current components of this recovery include:

- The 2010 Rate Order included cash recovery from customers of $13.6 million spread equally over the three year settlement period ending June 30, 2013. The 2013 Joint Petition ("JP") continues cash recovery from customers of $9.2 million from July 1, 2013 through Rate Year ending June 30, 2015.
- As part of the 2010 Rate Order and JP, Central Hudson maintained previously granted deferral authority and subsequent recovery for amounts spent over the rate allowance.
- Total MGP Site Investigation and Remediation costs recovered through rates and other regulatory mechanisms from July 1, 2007 through December 31, 2013 was approximately $29.0 million, with $4.6 million recovered in 2013.
- The total spent in 2013 related to site investigation and remediation was approximately $6.3 million.
- The regulatory asset balance as of December 31, 2013 was $48.3 million, which represents the difference between amounts spent or currently accrued as a liability and the

amounts recovered through rate allowance, as well as carrying charges accrued. Upon completion of investigation at site #5, when remediation and post-remediation costs will be able to be reasonably estimated and therefore will be recorded as a liability, this regulatory asset balance will likely increase significantly. Management projects that the investigation at this site to be completed within the first quarter of 2014.

Central Hudson has put its insurers on notice and intends to seek reimbursement from its insurers for its costs. Certain of these insurers have denied coverage. In addition to the rate allowance amounts noted above, Central Hudson has previously recovered approximately $2.3 million from insurance. There were no insurance recoveries in 2013. However, we do not expect insurance recoveries to offset a meaningful portion of total costs.

- Little Britain Road property owned by Central Hudson

There has been no change to this site in 2013, however, the relevant disclosure is provided as required. In 2000, Central Hudson and the DEC entered into a Voluntary Cleanup Agreement ("VCA") whereby Central Hudson removed approximately 3,100 tons of soil and conducted groundwater sampling. Central Hudson believes that it has fulfilled its obligations under the VCA and should receive the release provided for in the VCA, but the DEC has proposed that additional groundwater work be done to address groundwater sampling results that showed the presence of certain contaminants at levels exceeding the DEC criteria. Central Hudson believes that such work is not necessary and has completed a soil vapor intrusion study showing that indoor air at the facility met Occupational Safety and Health Administration ("OSHA") and NYSDOH standards. In October 2011, the DEC requested a 'non-committal' meeting with Central Hudson to discuss the site and possible next steps. At the annual MGP meeting with Central Hudson in October 2012, the DEC discussed the Little Britain Road property requesting an upcoming meeting to discuss the site and possible next steps. Central Hudson responded that we are available for such a meeting. A meeting date has yet to be established.

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

- Eltings Corners

Central Hudson owns and operates a maintenance and warehouse facility. In the course of Central Hudson's hazardous waste permit renewal process for this facility, sediment contamination was discovered within the wetland area across the street from the main property. Based on the investigation worked completed by Central Hudson, the DEC and Central Hudson agreed late in 2013 that no additional investigation efforts are necessary. As requested by the DEC, Central Hudson submitted a draft Corrective Measures Study (CMS) scoping document for review by the DEC. Although the extent of the contamination has now been established the timing and costs for any future remediation efforts cannot be reasonably estimated at this time.

CHEC

During the twelve months ended December 31, 2013, Griffith spent $0.4 million on remediation efforts in Maryland, Virginia and Connecticut.

Griffith's reserve for environmental remediation is $1.0 million as of December 31, 2013, of which $0.4 million is expected to be spent in the next twelve months.

In connection with the 2009 sale of operations in certain geographic locations, Griffith agreed to indemnify the purchaser for certain claims, losses and expenses arising out of any breach by Griffith of the representations, warranties and covenants Griffith made in the sale agreement, certain environmental matters and all liabilities retained by Griffith. Griffith's indemnification obligation is subject to a number of limitations, including a five-year limitation within which certain claims must be brought, an aggregate deductible of $0.8 million applicable to certain types of non-environmental claims and other deductibles applicable to certain specific environmental claims, and caps on Griffith's liability with respect to certain of the indemnification obligations. The sale agreement includes an aggregate cap of $5.7 million on Griffith's obligation to indemnify the purchaser for breaches of many of Griffith's representations and warranties and for certain environmental liabilities. In 2009, the Company reserved $2.6 million for environmental remediation costs it may be obligated to pay based on its indemnification obligations under the sale agreement. To date, Griffith has paid approximately $1.5 million under its environmental remediation cost obligation. In the first quarter of 2011, Griffith reduced the reserve by $0.6 million based on the completion of an environmental study. The balance as of December 31, 2013 related to the divestiture is $0.5 million. Management believes this is the most likely amount Griffith would pay with respect to its indemnification obligations under the sale agreement.

Certain Litigation Related to the Fortis Transaction

Following the announcement of the proposed acquisition of CH Energy Group by Fortis on February 21, 2012, several complaints were filed by purported CH Energy Group shareholders in the Supreme Court of the State of New York, County of New York (the "New York County Court") and the Supreme Court of the State of New York, County of Dutchess, challenging the proposed merger. The Dutchess County actions have been transferred to the New York County Court, and all actions have been joined under the master caption In re CH Energy Group, Inc. Shareholder Litigation, Index No. 775,000/2012.

On April 9, 2012, a master amended complaint was filed in the joined litigation related to the proposed acquisition of CH Energy Group by Fortis. The master amended complaint, which was filed on behalf of a putative class of CH Energy Group public shareholders, names as defendants CH Energy Group, its directors, Fortis, FortisUS, and Cascade Acquisition Sub, Inc. and generally alleges that the individual defendants breached their fiduciary duties in connection with the proposed transaction and that the entity defendants aided and abetted that breach. The master amended complaint further alleges that the preliminary proxy filed in connection with the proposed transaction with Fortis contains material misstatements and omissions. The master complaint seeks, among other things, an order preliminarily and permanently enjoining the proposed transaction with Fortis, damages, and plaintiffs' fees and expenses.

On May 9, 2012, the parties executed a memorandum of understanding that embodies their agreement in principle on the structure of a proposed settlement. The proposed settlement, which is subject to certain conditions, including court approval following notice to a proposed settlement class consisting of all CH Energy Group shareholders during the period from February 19, 2012 through the date of the consummation of the proposed merger (the "Class"), would, among other things, dismiss all causes of action asserted in the master amended complaint and release all claims that members of the Class may have arising out of or relating in any manner to the proposed merger. Pursuant to the terms of the proposed settlement, defendants agreed to make certain disclosures to shareholders. In the meantime, the plaintiffs and their counsel have agreed, among other things, to stay the litigation and not to initiate any proceedings (including, but not limited to, a motion for a preliminary injunction) other than those incident to effecting the settlement.

Absent court approval of the proposed settlement, the defendants intend to vigorously defend themselves against the action.

Other Matters

Asbestos Litigation

As of December 31, 2013, of the 3,342 asbestos cases brought against Central Hudson, 1,170 remained pending. Of the cases no longer pending against Central Hudson, 2,017 have been dismissed or discontinued without payment by Central Hudson, and Central Hudson has settled 155 cases. Central Hudson is presently unable to assess the validity of the remaining asbestos lawsuits; however, based on information known to Central Hudson at this time, including Central Hudson's experience in settling asbestos cases and in obtaining dismissals of asbestos cases, Central Hudson believes that the costs which may be incurred in connection with the remaining lawsuits will not have a material adverse effect on the financial position, results of operations or cash flows of either CH Energy Group or Central Hudson.

Central Hudson and Griffith are involved in various other legal and administrative proceedings incidental to their businesses, which are in various stages. While these matters collectively could involve substantial amounts, based on the facts currently known, it is the opinion of management that their ultimate resolution will not have a material adverse effect on either of CH Energy Group's or the individual segment's financial positions, results of operations or cash flows.

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

NOTE 13 – Segments and Related Information

CH Energy Group's reportable operating segments are the regulated electric utility business and regulated natural gas utility business of Central Hudson and the unregulated fuel distribution business of Griffith. Other activities of CH Energy Group, which do not constitute a business segment, include CHEC's renewable energy investments and the holding company's activities, which consist primarily of financing its subsidiaries, and are reported under the heading "Other Businesses and Investments."

Certain additional information regarding these segments is set forth in the following tables. General corporate expenses and Central Hudson's property common to both electric and natural gas segments have been allocated in accordance with practices established for regulatory purposes.

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

In 2013, Management commenced with a plan to evaluate and potentially divest Griffith. Based on the bids received and current status of due diligence and negotiations, Management has concluded that as of December 31, 2013, the sale of Griffith is probable to close within the next 12 months. Therefore, operating results of Griffith are reported as discontinued operations for all periods presented in the Consolidated CH Group Statement of Income and as held for sale in the Consolidated CH Energy Group Balance Sheet as of December 31, 2013. The segment information presented below for Griffith includes the operating results for this segment. The reclassification of these results to discontinued operations is presented in the Elimination column in order to reconcile the total to the amounts presented in the Consolidated CH Energy Group Statement of Income for all periods presented.

CH Energy Group Segment Disclosure

(In Thousands)

	Year Ended December 31, 2013					
	Segments			Other Businesses and Investments	Eliminations	Total
	Central Hudson		Griffith			
	Electric	Natural Gas				
Revenues from external customers	$ 532,539	$ 135,904	$ 298,367 (5)	$ -	$ (298,367)	$ 668,443
Intersegment revenues	11	245	-	-	(256)	-
Total revenues	532,550	136,149	298,367 (5)	-	(298,623)	668,443
Depreciation and amortization	31,436	8,782	4,994	-	(4,994)	40,218
Operating Income (loss)	41,114	15,333	6,334 (1)	(16,485)	(7,298)	38,998
Interest and investment income	5,015	823	-	2,289	(2,243)	5,884
Interest charges	25,073	6,650	2,248 (5)	2,036	(2,248)	33,759
Income (loss) before income taxes	22,054	9,893	4,333 (1)	(18,675)	(5,297)	12,308
Income tax expense (benefit)	7,237	4,411	1,777 (1)	(3,679)	(2,172)	7,574
Net Income (loss) Attributable to	14,141	5,302	2,557 (2)	(13,674) (3)	-	8,326
Segment assets at December 31	1,232,979	430,775	110,361 (4)	10,940	(721)	1,784,334
Capital expenditures	75,945	32,872	2,155	-	-	110,972

(1) This amount includes ($964) of overhead charges and associated tax benefit billed to Griffith that will be re-allocated to Central Hudson in future years upon the completion of the Griffith sale. As such, the amount shown in the Elimination column related to the reclassification of discontinued operations for this line item does not remove the impact of the overhead charges previously discussed.

(2) Includes net income from discontinued operations of $3,125 related to Griffith's earnings that are allocated to discontinued operations.

(3) Includes net income from discontinued operations of $1,323 related to interest income at the Holding Company for funding of Griffith debt.

(4) Includes assets held for sale of $105,151 related to Griffith.

(5) Amount represents discontinued operations and has been classified as such in the CH Energy Group Consolidated Statement of Income. This amount is included in the Eliminations column as a reconciliation to the Income Statement presentation.

CH Energy Group Segment Disclosure

(In Thousands)

	Year Ended December 31, 2012					
	Segments			Other Businesses and Investments		
	Central Hudson					
	Electric	Natural Gas	Griffith		Eliminations	Total
Revenues from external customers	$ 512,081	$ 132,434	$ 280,204 (5)	$ -	$ (280,204)	$ 644,515
Intersegment revenues	13	144	-	-	(157)	-
Total revenues	512,094	132,578	280,204 (5)	-	(280,361)	644,515
Depreciation and amortization	29,996	8,143	4,642	-	(4,642)	38,139
Operating income (loss)	76,242	22,271	3,499 (2)	(10,516)	(5,327)	86,169
Interest and investment income	5,177	950	-	2,266	(2,215) (1)	6,178
Interest charges	23,397	6,259	2,217 (5)	2,083	(2,311) (1)	31,645
Income (loss) before income taxes	58,766	17,195	1,295 (2)	(12,553)	(3,123)	61,580
Income tax expense (benefit)	20,674	8,117	532 (2)	(3,215)	(1,281)	24,827
Net Income (loss) Attributable to CH Energy Group	37,330	8,874	763 (3)	(8,086) (4)	-	38,881
Segment assets at December 31	1,292,382	369,334	111,101	14,195	(714)	1,786,298
Goodwill	-	-	38,981	-	-	38,981
Capital expenditures	79,733	29,052	2,871	-	-	111,656

(1) This amount includes ($93) for the elimination of inter-company interest income (expense) generated from temporary lending activities between CH Energy Group (the holding company) and Central Hudson. The intercompany interest expense at Griffith of $2,217 associated taxes are shown in the Elimination column due to the reclassification to discontinued operations.

(2) This amount includes ($1,828) of overhead charges and associated tax benefit billed to Griffith that will be re-allocated to Central Hudson in future years upon the completion of the Griffith sale. As such, the amount shown in the Elimination column due to the reclassification of discontinued operations for this line item does not remove the impact of the overhead charges previously discussed.

(3) Includes net income from discontinued operations of $1,842 related to Griffith's earnings that are allocated to discontinued operations.

(4) Includes net income from discontinued operations of $1,252 related to interest income at the Holding Company for funding of Griffith debt.

(5) Amount represents discontinued operations and has been classified as such in the CH Energy Group Consolidated Statement of Income. This amount is included in the Eliminations column as a reconciliation to the Income Statement presentation.

CH Energy Group Segment Disclosure

(In Thousands)

	Year Ended December 31, 2011					
	Segments			Other Businesses and Investments	Eliminations	Total
	Central Hudson		Griffith			
	Electric	Natural Gas				
Revenues from external customers	$ 538,548	$ 161,974	$ 284,998 (5)	$ -	$ (284,998)	$ 700,522
Intersegment revenues	15	392	-	-	(407)	-
Total revenues	538,563	162,366	284,998 (5)	-	(285,405)	700,522
Depreciation and amortization	27,832	7,643	4,580	-	(4,580)	35,475
Operating income	73,206	22,320	4,656 (1)	(1,000)	(6,249)	92,933
Interest and investment income	4,126	1,343	-	2,663	(2,625)	5,507
Interest charges	23,077	6,114	2,648 (5)	5,944	(2,648)	35,135
Income (Loss) before income taxes	55,412	17,802	2,078 (1)	(11,370)	(3,671)	60,251
Income tax expense	20,714	7,463	852 (1)	(6,742)	(1,505)	20,782
Net Income (Loss) Attributable to CH Energy Group	33,936	10,131	1,503 (3)	(230) (2)	-	45,340
Segment assets at December 31	1,219,388	373,115	109,697	18,827	(793)	1,720,234
Goodwill	-	-	37,512	-	-	37,512
Capital expenditures	66,650	18,510	2,385	2,867 (4)	-	90,412

(1) This amount Includes ($1,593) of overhead charges billed to Griffith that will be re-allocated to Central Hudson in future years upon the completion of the Griffith sale. As such, the amount shown in the Elimination column related to the reclassification of discontinued operations for this line item does not remove the impact of the overhead charges previously discussed.

(2) Includes income from discontinued operations of divested CHEC investments of $2,849 and net income of $1,549 related to interest income at the Holding Company for funding of Griffith debt.

(3) Includes income from discontinued operations of $2,443 related to Griffith's earnings that are allocated to discontinued operations.

(4) Does not include 1603 Grant proceed reimbursements of $1.6 million pertaining to CH-Auburn and $13.2 million pertaining to Shirley Wind.

(5) Amount represents discontinued operations and has been classified as such in the CH Energy Group Consolidated Statement of Income. This amount is included in the Eliminations column as a reconciliation to the Income Statement presentation.

NOTE 14 - Accounting for Derivative Instruments and Hedging Activities

Purpose of Derivatives

CH Energy Group and its subsidiaries enter into derivative contracts in conjunction with the Company's energy risk management program to hedge certain risk exposure related to its business operations. The derivative contracts are typically either exchange-traded or over-the-counter ("OTC") instruments. The primary risks the Company seeks to manage by using derivative instruments are interest rate risk, commodity price risk and adverse or unexpected weather conditions. Central Hudson uses derivative contracts to reduce the impact of volatility in the prices of natural gas and electricity and to hedge exposure to volatility in interest rates for its variable rate long-term debt. Griffith uses derivative instruments to reduce the impact of volatility in the price of heating oil purchased for delivery to its customers as well as the impact of abnormal weather conditions on sales. All derivative transactions are associated with commodity purchases and are not used for speculative purposes. CH Energy Group and its subsidiaries derivative activities consist of the following:

- Interest rate caps are used to minimize interest rate risks and to improve the matching of assets and liabilities. An interest rate cap is an interest rate option agreement in which payments are made by the seller of the option when the reference rate exceeds the specified strike rate (or the set rate at which the option contract can be exercised). The purpose of these agreements is to reduce exposure to rising interest rates while still having the ability to take advantage of falling interest rates by putting a "cap" on the interest rate Central Hudson pays on debt for which such caps are purchased.
- Natural gas futures are used to minimize commodity price volatility for natural gas purchases. A natural gas futures contract is a standardized contract to buy or sell a specified commodity (natural gas) of standardized quality at a certain date in the future, at a market determined price (the futures price). Central Hudson's reason for purchasing these contracts is to reduce the risk of price fluctuations for natural gas and the impact of volatility in the commodity markets on its customers.
- Natural gas swaps and contracts for differences (electricity swaps) are used to minimize commodity price volatility for natural gas and electricity purchases for Central Hudson's full service customers. A swap contract or a contract for differences is the exchange of two payment streams between two counterparties where the cash flows are dependent on the price of the underlying commodity. In an effort to moderate commodity price volatility, Central Hudson enters into contracts to pay a fixed price and receive market price for a defined commodity and volume. These contracts are aligned with Central Hudson's actual commodity purchases at market price, resulting in a net fixed price payment.

At December 31, 2013, Central Hudson had open derivative contracts related to natural gas purchases during January 2014 - March 2014, for 1.25 million Dth, which covers approximately 37.9% of Central Hudson's projected total natural gas supply requirements during this period. In

2013, derivative transactions covered approximately 27.3% of Central Hudson's total natural gas supply requirements as compared to 34.5% in 2012.

Additionally, Central Hudson had open derivative contracts related to electricity purchases at December 31, 2013 for 3.3 million MWh, which covers the following approximate percentages of its projected electricity requirements in 2014 – 2017:

Year	Percentage
2014	47.7%
2015	39.5%
2016	23.6%
2017	7.8%

In 2013, OTC derivative contracts covered approximately 41.2% of Central Hudson's total electricity supply requirements as compared to 43.4% in 2012.

- On March 18, 2011, Central Hudson entered into a total return master swap agreement with Bank of America with the intent to enter into future swap contracts to exchange total returns on CH Energy Group, Inc. common stock for fixed payments to Bank of America. The purpose was to reduce the volatility to earnings from deferred stock units under CH Energy Group's Directors and Executives Deferred Compensation Plan. On September 28, 2012, the total return swap agreement expired. During 2012 and 2011, the swap resulted in income of approximately $0.6 million and $0.4 million, respectively.
- Option contracts on heating oil are used to establish ceiling prices to limit Griffith's exposure to changes in heating oil prices for forecasted heating oil supply requirements for capped price programs that are not covered by firm purchase commitments. An option contract is the right, but not the obligation, to buy (for a call option) or sell (for a put option) a specific amount of the given commodity, at a specified price (the strike price) during a specified period of time.
  At December 31, 2013, Griffith had open OTC call option positions covering approximately 0.3% of its anticipated fuel oil supply requirements for the period January 2014 through May 2014. In 2013, derivative instruments covered 0.7% of total fuel oil requirements as compared to 1.6% in 2012.
- Weather derivative contracts are used to limit the effect on earnings of significant variances in weather conditions from normal patterns. Weather derivatives are financial instruments that can be used as part of a risk management strategy to reduce risk associated with adverse or unexpected weather conditions.

Accounting for Derivatives

The gains and losses associated with Central Hudson's derivatives are included as part of Central Hudson's commodity cost and/or price-reconciled in its natural gas and electricity cost adjustment charge clauses, and are not designated as hedges. Additionally, Central Hudson has been authorized to fully recover the interest costs associated with its variable rate debt, which includes costs and gains and losses associated with its interest rate cap contracts. As a result, derivative activity at Central Hudson does not impact earnings.

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

Derivative Risks

The basic types of risks associated with derivatives are market risk (that the value of the derivative will be adversely impacted by changes in the market, primarily the change in interest and exchange rates) and credit risk (that the counterparty will not perform according to the terms of the contract). The market risk of the derivatives generally offset the market risk associated with the hedged commodity.

The majority of Central Hudson and Griffith's derivative instruments contain provisions that require the company to maintain specified issuer credit ratings and financial strength ratings. Should the company's ratings fall below these specified levels, it would be in violation of the provisions, and the derivatives' counterparties could terminate the contracts and request immediate payment.

To help limit the credit exposure of their derivatives, Central Hudson and Griffith enter into master netting agreements with counterparties whereby contracts in a gain position can be offset against contracts in a loss position. Central Hudson and Griffith both hold contracts for derivative instruments under master netting agreements. Of the nineteen total agreements held by both companies, eleven contain credit-risk related contingent features. As of December 31, 2013, there were 14 open derivative contracts under these eleven master netting agreements containing credit-risk related contingent features, none of which were in a liability position.

CH Energy Group and Central Hudson have elected gross presentation for their derivative contracts under master netting agreements and collateral positions. On December 31, 2013, neither Central Hudson nor Griffith had collateral posted against the fair value amount of derivatives.

The net presentation for CH Energy Group's and Central Hudson's derivative assets and liabilities as of December 31, 2013 and December 31, 2012 (In Thousands):

Description	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Financial Position	Net Amount of Assets Presented in the Statement of Financial Position	Gross Amounts Not Offset in the Statement of Financial Position: Financial Instruments	Cash Collateral Received	Net Amount
As of December 31, 2013						
Derivative Contracts:						
Central Hudson - electric	$ 9,898	$ -	$ 9,898	$ -	$ -	$ 9,898
Central Hudson - gas	324	-	324	40	-	284
Total Central Hudson and CH Energy Group Assets	$ 10,222	$ -	$ 10,222	$ 40	$ -	$ 10,182
As of December 31, 2012						
Derivative Contracts:						
Central Hudson - electric	$ 693	$ -	$ 693	$ 664	$ -	$ 29
Central Hudson - gas	95	-	95	18	-	77
Total Central Hudson Assets	$ 788	$ -	$ 788	$ 682	$ -	$ 106
Griffith - heating oil	$ 26	$ -	$ 26	$ -	$ -	$ 26
Total CH Energy Group Assets	$ 814	$ -	$ 814	$ 682	$ -	$ 132

Description	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Financial Position	Net Amount of Liabilities Presented in the Statement of Financial Position	Gross Amounts Not Offset in the Statement of Financial Position: Financial Instruments	Cash Collateral Received	Net Amount
As of December 31, 2013						
Derivative Contracts:						
Central Hudson - electric	$ -	$ -	$ -	$ -	$ -	$ -
Central Hudson - gas	46	-	46	40	-	6
Total CH Energy Group and Central Hudson Liabilities(1)	$ 46	$ -	$ 46	$ 40	$ -	$ 6
As of December 31, 2012						
Derivative Contracts:						
Central Hudson - electric	$ 1,367	$ -	$ 1,367	$ 664	$ -	$ 703
Central Hudson - gas	110	-	110	18	-	92
Total Central Hudson Liabilities	$ 1,477	$ -	$ 1,477	$ 682	$ -	$ 795
Griffith - heating oil	$ -	$ -	$ -	$ -	$ -	$ -
Total CH Energy Group Liabilities	$ 1,477	$ -	$ 1,477	$ 682	$ -	$ 795

(1) Griffith heating oil derivatives have been excluded from the December 31, 2013 CH Energy Group balances above and are designated as held for sale under current accounting guidance. For further details see Note 5 - "Acquisitions, Divestitures and Investment."

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

Gross Fair Value of Derivative Instruments

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

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

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

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

Derivative contracts are measured at fair value on a recurring basis. As of December 31, 2013 and December 31, 2012, CH Energy Group's and Central Hudson's derivative assets and liabilities by category and hierarchy level are as follows (In Thousands):

Asset or Liability Category	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
As of December 31, 2013(1),(2)				
Assets:				
Derivative Contracts:				
Central Hudson - electric	$ 9,898	$ -	$ -	$ 9,898
Central Hudson - natural gas	324	324	-	-
Total CH Energy Group and Central Hudson Assets	$ 10,222	$ 324	$ -	$ 9,898
Liabilities:				
Derivative Contracts:				
Central Hudson - electric	$ -	$ -	$ -	$ -
Central Hudson - natural gas	(46)	(46)	-	-
Total CH Energy Group and Central Hudson Liabilities	$ (46)	$ (46)	$ -	$ -
As of December 31, 2012(1)				
Assets:				
Derivative Contracts:				
Central Hudson - electric	$ 693	$ -	$ -	$ 693
Central Hudson - natural gas	95	95	-	-
Total Central Hudson Assets	$ 788	$ 95	$ -	$ 693
Griffith - heating oil	$ 26	$ 26	$ -	$ -
Total CH Energy Group Assets	$ 814	$ 121	$ -	$ 693
Liabilities:				
Derivative Contracts:				
Central Hudson - electric	$ (1,367)	$ -	$ -	$ (1,367)
Central Hudson - natural gas	(110)	(110)	-	-
Total CH Energy Group and Central Hudson Liabilities	$ (1,477)	$ (110)	$ -	$ (1,367)

(1) Interest rate cap agreement is not shown in the above table because the FMV at each period stated was zero.
(2) Derivative balances related to Griffith, which are designated as held for sale are excluded from December 31, 2013 CH Energy Group balances

Central Hudson obtains forward pricing for Level 3 derivatives from an independent third party provider of derivative pricing. Significant unobservable inputs utilized in their pricing model are bi-lateral contracts and projected activity of certain major participants. Generally, a change in any of the underlying assumptions would result in a positively correlated change in fair value measurement.

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

	Year Ended December 31, 2013	Year Ended December 31, 2012
Balance at Beginning of Period	$ (674)	$ (16,830)
Unrealized gains	10,572	16,156
Realized gains/(losses)	2,571	(23,853)
Purchases	-	-
Issuances	-	-
Sales and settlements	(2,571)	23,853
Transfers in and/or out of Level 3	-	-
Balance at End of Period	$ 9,898	$ (674)
The amount of total gains or losses for the period included in earnings attributable to the change in unrealized gains or losses relating to derivatives still held at end of period	$ -	$ -

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

CH Energy Group's derivative contracts are typically either exchange-traded or over-the-counter ("OTC") instruments. Exchange-traded and OTC derivatives are valued based on listed market prices. On December 31, 2013, Central Hudson's derivative contracts were comprised of swap contracts for electricity and natural gas. Electric swap contracts through December 2016 are valued using the New York Independent System Operator ("NYISO") Swap Futures Closing Price as posted on NYMEX Clearport. The electric swap contracts from January 2017 through December 2017 are valued using NYISO forward prices provided by a broker, OTC Global Holdings, as posted on the SNL Financial website. All of the electric swap contracts have been classified as Level 3 assets in the fair value hierarchy, since Clearport uses unobservable inputs, such as bi-lateral contracts, projected activity and pricing data from major market participants in its determination of the futures closing price and OTC Global Holdings provides pricing from its forward power curve. Management believes these prices approximate fair value for these instruments. Generally, a change in any of the underlying assumptions would result in a positively correlated change in the fair value measurement. The credit risk considered in the fair value assessment of contracts in a liability position is that associated with Central Hudson. Based on Central Hudson's current senior unsecured debt ratings by Moody's, S&P and Fitch, management has concluded that the credit risk associated with Central Hudson's non-performance related to these instruments is not significant, and therefore, no adjustment was made to the fair value. For those contracts in an asset position, management believes the credit risk of non-performance by counterparties is not significant due to the fact that Central Hudson utilizes multiple counterparties, all of which have ratings by Moody's, S&P and Fitch, which denote expectations of a low default risk. Additionally, unrealized gains and losses on Central Hudson's derivative contracts have no impact on earnings. Based on the credit ratings by Moody's, S&P and Fitch of the counterparty, management has concluded that the credit risk associated with the counterparty's non-performance on call options in an asset position is not significant. Therefore, no adjustment related to credit risk has been made to the fair value of contracts in an asset position.

The Effect of Derivative Instruments on the Statements of Income

Realized gains and losses on Central Hudson's derivative instruments are conveyed to or recovered from customers through PSC authorized deferral accounting mechanisms, with no material impact on cash flows, results of operations or liquidity. Realized gains and losses on Central Hudson's energy derivative instruments are reported as part of purchased electricity and fuel used in electric generation in Central Hudson's Statement of Income as the corresponding amounts are either recovered from or returned to customers through electric cost adjustment clauses in revenues.

For years ended December 31, 2013, 2012 and 2011, neither CH Energy Group nor Central Hudson had derivatives designated as hedging instruments. The following table summarizes the effects of CH Energy Group and Central Hudson derivatives on the statements of income (In Thousands):

	Amount of Gain (Loss) Recognized as Increase/(Decrease) in the Income Statement			
	Year Ended December 31,			
	2013	2012	2011	Location of Gain (Loss)
Central Hudson:				
Electricity swap contracts	$ 2,571	$ (23,853)	$ (13,195)	Regulatory (asset)/liability(1)
Natural gas swap contracts	(325)	(2,219)	(2,311)	Regulatory (asset)/liability(1)
Total return swap contracts	-	557	448	Other-net
Total Central Hudson	$ 2,246	$ (25,515)	$ (15,058)	
Griffith:				
Heating oil call option contracts	$ (8)	$ 5	$ 3	Discontinued operations
Total Griffith	$ (8)	$ 5	$ 3	
Total CH Energy Group	$ 2,238	$ (25,510)	$ (15,055)	

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

In addition to the above, Griffith uses weather derivative contracts to hedge the effect on earnings of significant variances in weather conditions from normal patterns, if such contracts can be obtained on reasonable terms. Weather derivative contracts are accounted for in accordance with guidance specific to accounting for weather derivatives. In the year ended December 31, 2013, approximately $0.6 million of expense was recorded. In the years ended December 31, 2012 and December 31, 2011, approximately $1.6 million and $0.7 million of income was recorded to the income statement related to Griffith's weather derivatives, respectively. These amount are included in Income from discontinued operations in the CH energy Group Consolidated Statement of Income for each period.

NOTE 15 – Other Fair Value Measurements

Other Assets Recorded at Fair Value

In addition to the derivatives reported at fair value discussed in Note 14 – "Accounting for Derivative Instruments and Hedging Activities", CH Energy Group reports certain other assets at fair value in the Consolidated Balance Sheets. The following table summarizes the amount reported at fair value related to these assets as of December 31, 2013 and December 31, 2012, (In Thousands):

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
As of December 31, 2013:				
Other investments	$ 5,800	$ 5,800	$ -	$ -
As of December 31, 2012:				
Other investments	$ 1,603	$ 1,603	$ -	$ -

As of December 31, 2013 and December 31, 2012, a portion of the trust assets for the funding of CH Energy Group's Directors and Executives Deferred Compensation Plan and SERP were invested in mutual funds and money market accounts, which are measured at fair value on a recurring basis. These investments are valued at quoted market prices in active markets and as such are Level 1 investments as defined in the fair value hierarchy. These amounts are included in the line titled "Other investments" within the Deferred Charges and Other Assets section of the CH Energy Group Consolidated and Central Hudson Balance Sheets.

In the third quarter of 2011, CHEC recorded an impairment loss for the full value of its investment in CH-Community Wind. An impairment analysis was performed and based on this analysis, the present value of the after-tax projected cash flows using a market participant's expected return, is insufficient for CHEC to recover any of its investment. This analysis used significant unobservable inputs including a discount rate and projected cash flows for the entity and as such this is a Level 3 investment. As of December 31, 2013, management believes the fair value of this investment remains at zero and is therefore appropriately reserved.

Other Fair Value Disclosure

Financial instruments are recorded at carrying value in the financial statements, however, the fair value of these instruments is disclosed below in accordance with current accounting guidance related to financial instruments.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and Cash Equivalents: Carrying amount (Level 1)

Long-term Debt: Quoted market prices for the same or similar issues (Level 2) Valuations were obtained for each issue using the observed Treasury market in conjunction with secondary market trading levels and recent new issuances of comparable companies.

Notes Payable: Carrying amount (Level 2)
Due to the short-term nature (typically one month or less) of our Notes Payable borrowings, the carrying value is equivalent to the current FMV.

Long-term Debt Maturities and Fair Value - CH Energy Group

(Dollars in Thousands)

	Fixed Rate		Variable Rate		Total Debt Outstanding	
Expected Maturity Date	Amount	Estimated Effective Interest Rate	Amount	Estimated Effective Interest Rate	Amount	Estimated Effective Interest Rate
As of December 31, 2013:						
2014	$ 21,650	5.52 %	$ -	- %		
2015	1,230	6.86 %	-	- %		
2016	9,315	3.36 %	-	- %		
2017	34,406	6.13 %	-	- %		
2018	31,503	2.67 %	-	- %		
Thereafter	385,121	5.06 %	33,700	0.17 %		
Total	$ 483,225	4.99 %	$ 33,700	0.17 %	$ 516,925	4.68 %
Fair Value	$ 508,673		$ 33,700		$ 542,373	
As of December 31, 2012:						
2013	$ 31,076	6.93 %	$ -	- %		
2014	21,650	5.50 %	-	- %		
2015	1,230	6.86 %	-	- %		
2016	9,315	3.36 %	-	- %		
2017	34,406	6.13 %	-	- %		
Thereafter	386,625	5.13 %	33,700	0.28 %		
Total	$ 484,302	5.31 %	$ 33,700	0.28 %	$ 518,002	5.03 %
Fair Value	$ 562,855		$ 33,700		$ 596,555	

Long-term Debt Maturities and Fair Value - Central Hudson

(Dollars in Thousands)

	Fixed Rate		Variable Rate		Total Debt Outstanding	
Expected Maturity Date	Amount	Estimated Effective Interest Rate	Amount	Estimated Effective Interest Rate	Amount	Estimated Effective Interest Rate
As of December 31, 2013:						
2014	$ 14,000	4.81 %	$ -	- %		
2015	-	- %	-	- %		
2016	8,000	2.78 %	-	- %		
2017	33,000	6.10 %	-	- %		
2018	30,000	2.46 %	-	- %		
Thereafter	371,250	4.99 %	33,700	0.17 %		
Total	$ 456,250	4.89 %	$ 33,700	0.17 %	$ 489,950	4.56 %
Fair Value	$ 478,053		$ 33,700		$ 511,753	
As of December 31, 2012:						
2013	$ 30,000	6.93 %	$ -	- %		
2014	14,000	4.81 %	-	- %		
2015	-	- %	-	- %		
2016	8,000	2.78 %	-	- %		
2017	33,000	6.10 %	-	- %		
Thereafter	371,250	5.06 %	33,700	0.28 %		
Total	$ 456,250	5.22 %	$ 33,700	0.28 %	$ 489,950	4.93 %
Fair Value	$ 529,710		$ 33,700		$ 563,410	

NOTE 16 – Related Party Transactions

Thompson Hine LLP serves as outside counsel to CH Energy Group and Central Hudson. One partner in that firm served as Assistant Secretary of each corporation during the year and effective on November 1, 2013 began serving as each corporation's General Counsel. CH Energy Group paid legal fees to Thompson Hine LLP of $1.7 million in 2013, $1.5 million in 2012, and $1.8 million in 2011. Central Hudson paid legal fees to Thompson Hine LLP of $0.9 million in 2013, $0.6 million in 2012, and $1.3 million in 2011.

CH Energy Group may provide services to, and receive services from, Fortis Inc, and other subsidiaries of Fortis Inc. The costs of these services are reimbursed by the beneficiary company through accounts receivable and accounts payable, as necessary. The Company also incurs charges from Fortis for the recovery of general corporate expenses incurred by Fortis Inc or other affiliate. Central Hudson also provides services to, and receives from, its parent company, CH Energy Group or other affiliate and incurs charges from CH Energy Group for the recovery of general corporate expenses incurred. Central Hudson also incurs charges directly with Fortis Inc or other subsidiary of Fortis Inc. These transactions are in the normal course of business and are recorded at their exchange amounts. Related party transactions included in operating expenses in the years ended December 31, 2013, 2012 and 2011, and accounts receivable at December 31, 2013 and 2012 are as follows (in Thousands):

Year ended December 31,	2013
CH Energy Group (1), (2)	Fortis
Operating Expenses	$ 226
A/R	$ 151

Year ended December 31,	2013			2012		2011
	CHEG	Fortis	Other Affiliates	CHEG	Other Affiliates	CHEG
Central Hudson (1), (2)						
Operating Expenses	$ 866			$ 736		$ 669
A/R	$ 17	$ 151	$ 489	$ -	$ 275	
A/P	$ -	$ -	$ -	$ 253	$ -	

(1) Prior to the acquisition of CH Energy Group by Fortis Inc in 2013, there were no related Fortis Inc or Fortis Inc subsidiary charges in 2012 or 2011 related to CH Energy Group or Central Hudson.

(2) Fortis amounts reported above include Fortis Inc and all Fortis subsidiaries.

NOTE 17 – Subsequent Events

In addition to items disclosed in the footnotes, CH Energy Group has performed an evaluation of events subsequent to December 31, 2013 through the date the financial statements were issued and noted one additional item to disclose.

In January 2014 CH Energy Group entered into a definitive agreement to sell its non-regulated subsidiary, Griffith, for approximately $70 million plus working capital, which will be determined on closing. The sale is expected to close in the first quarter of 2014. As a result, the assets and liabilities of Griffith have been classified as held for sale on the consolidated balance sheet as at December 31, 2013 and the results of operations have been presented as discontinued operations on the consolidated statement of earnings. Management expects to recognize a modest gain upon closing.