CENTRAL HUDSON GAS & ELECTRIC CORP
Form 10-Q
May 05, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended ____ March 31, 2008

OR

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

For the transition period from ________________ to ____

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

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

Yes x **No** o

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

Large Accelerated Filer x **Accelerated Filer** o

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

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

Large Accelerated Filer o **Accelerated Filer** o

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

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

Yes o **No** x

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

Yes o **No** x

As of the close of business on May 2, 2008, (i) CH Energy Group, Inc. had outstanding 15,774,100 shares of Common Stock ($0.10 per share par value) and (ii) all of the outstanding 16,862,087 shares of Common Stock ($5 per share par value) of Central Hudson Gas & Electric Corporation were held by CH Energy Group, Inc.

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

FORM 10-Q FOR THE QUARTER ENDED March 31, 2008

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Filing Format

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

PART 1 – FINANCIAL INFORMATION

Item 1 – Consolidated Financial Statements

CH ENERGY GROUP, INC.
CONSOLIDATED STATEMENT OF INCOME
(UNAUDITED)

	For the 3 months Ended March 31,	
	2008	2007
	(Thousands of Dollars)	
Operating Revenues		
Electric	$ 143,814	$ 151,675
Natural gas	76,219	64,191
Competitive business subsidiaries	189,759	127,512
Total Operating Revenues	409,792	343,378
Operating Expenses		
Operation:		
Purchased electricity and fuel used in electric generation	84,334	94,036
Purchased natural gas	53,138	43,336
Purchased petroleum	150,858	94,560
Other expenses of operation – regulated activities	42,913	37,657
Other expenses of operation – competitive business subsidiaries	23,668	18,792
Depreciation and amortization	9,460	9,105
Taxes, other than income tax	9,463	8,488
Total Operating Expenses	373,834	305,974
Operating Income	35,958	37,404
Other Income and Deductions		
Income from unconsolidated affiliates	269	1,195
Interest on regulatory assets and investment income	1,273	2,140
Other – net	441	(488)
Total Other Income	1,983	2,847

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

CH ENERGY GROUP, INC.
CONSOLIDATED STATEMENT OF INCOME (CONT'D)
(UNAUDITED)

	For the Three Months Ended March 31, 2008	2007
	(Thousands of Dollars)	
Interest Charges		
Interest on long-term debt	5,089	4,492
Interest on regulatory liabilities and other interest	1,288	949
Total Interest Charges	6,377	5,441
Income before income taxes, preferred dividends of subsidiary and minority interest	31,564	34,810
Income Taxes	11,937	12,963
Minority Interest	84	(93)
Income before preferred dividends of subsidiary	19,543	21,940
Cumulative preferred stock dividends of subsidiary	242	242
Net Income	19,301	21,698
Dividends Declared on Common Stock	8,518	8,511
Balance Retained in the Business	$ 10,783	$ 13,187
Common Stock:		
Average Shares Outstanding - Basic	15,762	15,762
- Diluted	15,818	15,790
Earnings Per Share - Basic	$ 1.23	$ 1.38
- Diluted	$ 1.22	$ 1.37
Dividends Declared Per Share	$ 0.54	$ 0.54

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

CH ENERGY GROUP, INC
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(UNAUDITED)

	For the 3 Months Ended March 31, 2008	2007
	(Thousands of Dollars)	
Net Income	$ 19,301	$ 21,698
Other Comprehensive Income:		
Fair Value of cash flow hedges – FAS 133:		
Unrealized gains - net of tax of $(181) and $(4)	273	7
Reclassification for (gains) losses realized in net income – net of tax of $465 and $(229)	(699)	342
Net unrealized (losses) gains on investments held by Equity method investees – net of tax of $186 and $(111)	(279)	167
Other comprehensive income	(705)	516
Comprehensive Income	$ 18,596	$ 22,214

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

CH ENERGY GROUP, INC
CONSOLIDATED BALANCE SHEET
(UNAUDITED)

ASSETS	March 31, 2008	December 31, 2007	March 31, 2007
	(Thousands of Dollars)		
Utility Plant			
Electric	$ 824,584	$ 807,412	$ 774,857
Natural gas	255,028	248,894	240,683
Common	117,656	113,494	114,232
	1,197,268	1,169,800	1,129,772
Less: Accumulated depreciation	359,978	354,353	351,477
	837,290	815,447	778,295
Construction work in progress	60,650	75,866	59,208
Net Utility Plant	897,940	891,313	837,503
Other Property and Plant – net	31,100	31,236	33,917
Current Assets			
Cash and cash equivalents	13,078	11,313	22,654
Short-term investments – available-for-sale securities	—	3,545	30,549
Accounts receivable from customers - net of allowance for doubtful accounts of $5.4 million, $4.8 million, and $5.5 million, respectively	155,714	139,107	115,371
Accrued unbilled utility revenues	11,433	12,022	9,995
Other receivables	5,739	6,568	7,232
Fuel and materials and supplies	21,511	33,321	21,890
Regulatory assets	41,404	35,012	34,149
Fair value of derivative instruments	1,100	1,218	—
Special deposits and prepayments	26,852	28,108	26,605
Accumulated deferred income tax	4,759	7,378	4,201
Total Current Assets	281,590	277,592	272,646
Deferred Charges and Other Assets			
Regulatory assets – pension plan	47,480	51,393	95,050
Regulatory assets – OPEB	14,294	15,967	34,386
Regulatory assets	86,548	86,821	83,236
Goodwill	67,509	63,433	57,225
Other intangible assets – net	39,035	35,720	31,850
Unamortized debt expense	4,251	4,345	3,967

Investments in unconsolidated affiliates	11,613	12,226	12,902
Other investments	8,328	8,613	7,965
Other	16,531	16,089	11,514
Total Deferred Charges and Other Assets	295,589	294,607	338,095
Total Assets	$ 1,506,219	$ 1,494,748	$ 1,482,161

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

CH ENERGY GROUP, INC.
CONSOLIDATED BALANCE SHEET (CONT'D)
(UNAUDITED)

CAPITALIZATION AND LIABILITIES	March 31, 2008	December 31, 2007	March 31, 2007
	(Thousands of Dollars)		
Capitalization			
Common stock, 30,000,000 shares authorized: $0.10 par value - 15,774,100 shares outstanding at March 31, 2008; 15,762,000 shares outstanding at December 31, and March, 31, 2007 respectively; 16,862,087 shares issued	$ 1,686	$ 1,686	$ 1,686
Paid-in capital	350,739	351,230	351,230
Retained earnings	226,422	215,639	220,242
Treasury stock (1,087,987 shares March 31, 2008; 1,100,087 shares December 31 and March 31, 2007, respectively)	(45,716)	(46,252)	(46,252)
Accumulated other comprehensive income (loss)	468	1,173	(13)
Capital stock expense	(328)	(328)	(328)
Total Common Shareholders' Equity	533,271	523,148	526,565
Cumulative Preferred Stock			
Not subject to mandatory redemption	21,027	21,027	21,027
Long-term debt	383,892	403,892	370,889
Total Capitalization	938,190	948,067	918,481
Current Liabilities			
Current maturities of long-term debt	20,000	—	—
Notes payable	53,000	42,500	43,000
Accounts payable	50,660	44,880	33,872
Accrued interest	4,312	6,127	2,512
Dividends payable	8,760	8,760	8,754
Accrued vacation and payroll	7,297	7,640	6,628
Customer advances	7,168	23,045	12,478
Customer deposits	8,249	8,126	8,009
Regulatory liabilities	7,078	9,392	18,612
Fair value of derivative instruments	—	1,235	209
Accrued environmental remediation costs	4,253	2,703	2,400
Accrued income taxes	5,678	834	7,104
Deferred revenues	6,385	7,437	4,960
Other	16,651	16,820	14,053
Total Current Liabilities	199,491	179,499	162,591

Deferred Credits and Other Liabilities			
Regulatory liabilities	114,944	111,663	106,745
Operating reserves	5,364	5,212	4,910
Accrued environmental remediation costs	14,639	15,027	17,362
Accrued OPEB costs	55,390	55,560	69,479
Accrued pension costs	12,035	11,202	48,073
Other	18,498	19,805	13,629
Total Deferred Credits and Other Liabilities	220,870	218,469	260,198
Minority interest	1,429	1,345	1,373
Accumulated Deferred Income Tax	146,239	147,368	139,518
Commitments and Contingencies (Note 12)			
Total Capitalization and Liabilities	$ 1,506,219	$ 1,494,748	$ 1,482,161

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

CH ENERGY GROUP, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
(UNAUDITED)

	For the 3 Months Ended March 31, 2008	For the 3 Months Ended March 31, 2007
	(Thousands of Dollars)	
Operating Activities:		
Net Income	$ 19,301	$ 21,698
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	9,460	9,105
Deferred income taxes – net	3,524	3,045
Provision for uncollectibles	2,637	1,296
Undistributed equity in earnings of unconsolidated affiliates	148	(886)
Pension expense	3,681	3,725
OPEB expense	2,932	2,970
Regulatory liability-rate moderation	(3,068)	(6,447)
Regulatory asset amortization	1,722	—
Minority interest	84	(93)
Gain on sale of property and plant	—	(168)
Changes in operating assets and liabilities – net of business acquisitions:		
Accounts receivable, unbilled revenues and other receivables	(17,826)	(35,554)
Fuel and materials and supplies	12,215	7,312
Special deposits and prepayments	1,256	(2,950)
Accounts payable	9,215	(4,879)
Accrued taxes and interest	3,029	15,219
Customer advances	(15,877)	(13,254)
Pension plan contribution	(131)	—
OPEB contribution	(1,509)	(747)
Regulatory asset-MGP site remediations	174	999
Deferred natural gas and electric costs	(7,598)	(4,501)
Other – net	(328)	192
Net cash provided by (used in) operating activities	23,041	(3,918)

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

CH ENERGY GROUP, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS (CONT'D)
(UNAUDITED)

	For the 3 Months Ended March 31, 2008	For the 3 Months Ended March 31, 2007
	(Thousands of Dollars)	
Investing Activities:		
Purchase of short-term investments	—	(32,748)
Proceeds from sale of short-term investments	3,545	44,810
Proceeds from sale of property and plant	—	174
Additions to utility and other property and plant	(17,673)	(21,074)
Acquisitions made by competitive business subsidiaries	(9,217)	(11,356)
Other – net	45	1,176
Net cash used in investing activities	(23,300)	(19,018)
Financing Activities:		
Redemption of long-term debt	—	(33,000)
Proceeds from issuance of long-term debt	—	33,000
Issuance of restricted shares	45	—
Borrowings of short-term debt – net	10,500	30,000
Dividends paid on common stock	(8,518)	(8,511)
Debt issuance costs	(3)	(20)
Net cash provided by financing activities	2,024	21,469
Net Change in Cash and Cash Equivalents	1,765	(1,467)
Cash and Cash Equivalents at Beginning of Year	11,313	24,121
Cash and Cash Equivalents at End of Period	$ 13,078	$ 22,654
Supplemental Disclosure of Cash Flow Information:		
Interest paid	$ 7,347	$ 9,090
Federal and state income tax paid	$ 5,008	$ 58
Additions to plant included in liabilities	$ 2,290	$ 1,205

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

CENTRAL HUDSON GAS & ELECTRIC CORPORATION
CONSOLIDATED STATEMENT OF INCOME
(UNAUDITED)

	For the 3 Months Ended March 31, 2008	For the 3 Months Ended March 31, 2007
	(Thousands of Dollars)	
Operating Revenues		
Electric	$ 143,814	$ 151,675
Natural gas	76,219	64,191
Total Operating Revenues	220,033	215,866
Operating Expenses		
Operation:		
Purchased electricity and fuel used in electric generation	82,606	93,217
Purchased natural gas	53,138	43,336
Other expenses of operation	42,913	37,657
Depreciation and amortization	7,364	7,286
Taxes, other than income tax	9,302	8,334
Total Operating Expenses	195,323	189,830
Operating Income	24,710	26,036
Other Income and Deductions		
Interest on regulatory assets and other interest income	892	1,454
Other – net	596	(250)
Total Other Income	1,488	1,204
Interest Charges		
Interest on other long-term debt	5,089	4,492
Interest on regulatory liabilities and other interest	1,100	949
Total Interest Charges	6,189	5,441
Income Before Income Taxes	20,009	21,799
Income Taxes	8,262	8,428
Net Income	11,747	13,371

Dividends Declared on Cumulative Preferred Stock	242	242
Income Available for Common Stock	$ 11,505	$ 13,129

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

CENTRAL HUDSON GAS & ELECTRIC CORPORATION
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(UNAUDITED)

	For the 3 Months Ended March 31, 2008	2007
	(Thousands of Dollars)	
Net Income	$ 11,747	$ 13,371
Other Comprehensive Income	—	—
Comprehensive Income	$ 11,747	$ 13,371

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

CENTRAL HUDSON GAS & ELECTRIC CORPORATION
CONSOLIDATED BALANCE SHEET
(UNAUDITED)

ASSETS	March 31, 2008	December 31, 2007	March 31, 2007
		(Thousands of Dollars)	
Utility Plant			
Electric	$ 824,584	$ 807,412	$ 774,857
Natural gas	255,028	248,894	240,683
Common	117,656	113,494	114,232
	1,197,268	1,169,800	1,129,772
Less: Accumulated depreciation	359,978	354,353	351,477
	837,290	815,447	778,295
Construction work in progress	60,650	75,866	59,208
Net Utility Plant	897,940	891,313	837,503
Other Property and Plant – net	414	415	427
Current Assets			
Cash and cash equivalents	3,512	3,592	4,875
Accounts receivable from customers – net of allowance for doubtful accounts of $3.1 million, $2.8 million, and $3.6 million, respectively	77,757	81,264	73,367
Accrued unbilled utility revenues	11,433	12,022	9,995
Other receivables	1,985	2,858	2,947
Fuel and materials and supplies – at average cost	14,860	24,270	15,866
Regulatory assets	41,404	35,012	34,149
Fair value of derivative instruments	591	—	—
Special deposits and prepayments	22,317	24,481	22,525
Accumulated deferred income tax	3,756	6,676	3,161
Total Current Assets	177,615	190,175	166,885
Deferred Charges and Other Assets			
Regulatory assets – pension plan	47,480	51,393	95,050
Regulatory assets – OPEB	14,294	15,967	34,386
Regulatory assets	86,548	86,821	83,236
Unamortized debt expense	4,251	4,345	3,967
Other investments	8,284	8,570	7,965

Other	4,065	3,695	5,168
Total Deferred Charges and Other Assets	164,922	170,791	229,772
Total Assets	$ 1,240,891	$ 1,252,694	$ 1,234,587

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

CENTRAL HUDSON GAS & ELECTRIC CORPORATION
CONSOLIDATED BALANCE SHEET (CONT'D)
(UNAUDITED)

CAPITALIZATION AND LIABILITIES	March 31, 2008	December 31, 2007	March 31, 2007
	(Thousands of Dollars)		
Capitalization			
Common stock, 30,000,000 shares authorized; 16,862,087 shares issued and outstanding, $5 par value	$ 84,311	$ 84,311	$ 84,311
Paid-in capital	174,980	174,980	174,980
Retained earnings	104,181	92,676	81,839
Capital stock expense	(4,961)	(4,961)	(4,961)
Total Common Shareholder's Equity	358,511	347,006	336,169
Cumulative Preferred Stock			
Not subject to mandatory redemption	21,027	21,027	21,027
Long-term debt	383,892	403,892	370,889
Total Capitalization	763,430	771,925	728,085
Current Liabilities			
Current maturities of long-term debt	20,000	—	—
Notes payable	22,000	42,500	43,000
Accounts payable	37,310	29,771	22,994
Accrued interest	4,242	6,127	2,512
Dividends payable – preferred stock	242	242	242
Accrued vacation and payroll	5,213	5,235	5,024
Customer advances	938	10,842	5,600
Customer deposits	8,114	7,990	7,863
Regulatory liabilities	7,078	9,392	18,612
Fair value of derivative instruments	—	1,235	180
Accrued income taxes	7,318	3,289	4,632
Accrued environmental remediation costs	4,005	2,450	2,400
Other	9,609	10,695	8,082
Total Current Liabilities	126,069	129,768	121,141
Deferred Credits and Other Liabilities			
Regulatory liabilities	114,944	111,663	106,745
Operating reserves	4,391	4,243	3,883
Accrued environmental remediation costs	13,312	13,679	15,514

Accrued OPEB costs	55,390	55,560	69,479
Accrued pension costs	12,035	11,202	48,073
Other	18,084	19,390	12,021
Total Deferred Credits and Other Liabilities	218,156	215,737	255,715
Accumulated Deferred Income Tax	133,236	135,264	129,646
Commitments and Contingencies (Note 12)			
Total Capitalization and Liabilities	$ 1,240,891	$ 1,252,694	$ 1,234,587

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

CENTRAL HUDSON GAS & ELECTRIC CORPORATION
CONSOLIDATED STATEMENT OF CASH FLOWS
(UNAUDITED)

	For the 3 Months Ended March 31, 2008	2007
	(Thousands of Dollars)	
Operating Activities:		
Net Income	$ 11,747	$ 13,371
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	7,364	7,286
Deferred income taxes – net	2,457	2,238
Provision for uncollectibles	1,820	1,030
Pension expense	3,681	3,725
OPEB expense	2,932	2,970
Regulatory liability - rate moderation	(3,068)	(6,447)
Regulatory asset amortization	1,722	—
Gain on sale of property and plant	—	(168)
Changes in operating assets and liabilities – net:		
Accounts receivable, unbilled revenues and other receivables	3,148	(25,922)
Fuel and materials and supplies	9,410	6,938
Special deposits and prepayments	2,164	(1,516)
Accounts payable	10,973	(6,371)
Accrued taxes and interest	2,145	11,976
Customer advances	(9,904)	(10,307)
Pension plan contribution	(131)	—
OPEB contribution	(1,509)	(747)
Regulatory asset – MGP site remediations	174	999
Deferred natural gas and electric costs	(7,598)	(4,501)
Other – net	228	(805)
Net cash provided by (used in) operating activities	37,755	(6,251)
Investing Activities:		
Proceeds from sale of property and plant	—	174
Additions to utility plant	(17,137)	(20,505)
Other – net	46	9
Net cash used in investing activities	(17,091)	(20,322)
Financing Activities:		

Redemption of long-term debt		—		(33,000)
Proceeds from issuance of long-term debt		—		33,000
Borrowings (repayments) of short-term debt – net		(20,500)		30,000
Dividends paid on cumulative preferred stock		(242)		(242)
Debt issuance costs		(2)		(20)
Net cash (used in) provided by financing activities		(20,744)		29,738
Net Change in Cash and Cash Equivalents		(80)		3,165
Cash and Cash Equivalents – Beginning of Year		3,592		1,710
Cash and Cash Equivalents – End of Period	$	3,512	$	4,875
Supplemental Disclosure of Cash Flow Information:				
Interest paid	$	7,231	$	8,107
Federal and State income tax paid	$	1,946	$	—
Additions to plant included in liabilities	$	2,290	$	1,179

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

CH ENERGY GROUP, INC.
CENTRAL HUDSON GAS & ELECTRIC CORPORATION
Notes to Consolidated Financial Statements (Unaudited)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

This Quarterly Report on Form 10-Q is a combined report of CH Energy Group, Inc. ("CH Energy Group") and its regulated electric and natural gas subsidiary, Central Hudson Gas & Electric Corporation ("Central Hudson"). The Notes to the Consolidated Financial Statements apply to both CH Energy Group and Central Hudson. CH Energy Group's Consolidated Financial Statements include the accounts of CH Energy Group and its wholly owned subsidiaries, which include Central Hudson and CH Energy Group's non-utility subsidiary, Central Hudson Enterprises Corporation ("CHEC"). Operating results of CHEC's wholly owned subsidiary Griffith Energy Services, Inc. ("Griffith") and CHEC's Lyonsdale Biomass, LLC ("Lyonsdale") subsidiary are consolidated in the financial statements of CH Energy Group. The minority interest shown on CH Energy Group's Consolidated Financial Statements represents the minority owner's proportionate share of the income and equity of Lyonsdale. Intercompany balances and transactions have been eliminated in consolidation.

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

Unaudited Consolidated Financial Statements

The accompanying Consolidated Financial Statements of CH Energy Group and Central Hudson are unaudited but, in the opinion of Management, reflect adjustments (which include normal recurring adjustments) necessary for a fair statement of the results for the interim periods presented. These condensed, unaudited, quarterly Consolidated Financial Statements do not contain the detail or footnote disclosures concerning accounting policies and other matters which would be included in annual Consolidated Financial Statements and, accordingly, should be read in conjunction with the audited Consolidated Financial Statements (including the Notes thereto) included in the combined CH Energy Group/Central Hudson Annual Report on Form 10-K for the year ended December 31, 2007 (the "Corporations' 10-K Annual Report").

CH Energy Group's and Central Hudson's balance sheets as of March 31, 2007, are not required to be included in this Quarterly Report on Form 10-Q; however, these balance sheets are included for supplemental analysis purposes.

Cash and Cash Equivalents

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

Parental Guarantees

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

The guarantees described above have been issued to counter-parties to assure the payment, when due, of certain obligations incurred by CH Energy Group subsidiaries in physical and financial transactions related to heating oil, propane, other petroleum products, and weather and commodity hedges. At March 31, 2008, the aggregate amount of subsidiary obligations covered by these guarantees was $33.4 million. Where liabilities exist under the commodity-related contracts subject to these guarantees, these liabilities are included in CH Energy Group's Consolidated Balance Sheet.

Other Guarantees

Central Hudson has a reimbursement obligation with respect to a $6.8 million standby letter of credit issued by a financial institution to support a real estate transaction that is expected to close in mid-2009. No premium has been received or is receivable by Central Hudson in connection with this letter of credit. This uncollateralized letter of credit was issued February 29, 2008 and expires September 30, 2009. The maximum potential amount of future payments Central Hudson could be required to make under this guarantee is $6.8 million. As of March 31, 2008, no events or circumstances arose that would require Central Hudson to perform under this guarantee, and the carrying amount of the liability was zero.

Revenue Recognition

Reference is made to Note 1 – "Summary of Significant Accounting Policies" to the Consolidated Financial Statements of the Corporations' 10-K Annual Report under the caption "Revenue Recognition." CH Energy Group's deferred revenue balances as of March 31, 2008, December 31, 2007 and March 31, 2007 were $6.4 million, $7.4 million, and $5.0 million, respectively. The deferred revenue balance will be recognized in competitive business subsidiaries operating revenues over the 12 month term of the respective customer contract.

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

Depreciation and Amortization

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

SFAS No. 143, titled *Accounting for Asset Retirement Obligations* ("SFAS 143"), precludes the recognition of expected future retirement obligations as a component of depreciation expense or accumulated depreciation. Central Hudson, however, is required to use depreciation methods and rates approved by the PSC under regulatory accounting. In accordance with SFAS 71, Central Hudson continues to accrue for the future cost of removal for its rate-regulated natural gas and electric utility assets. In accordance with SFAS 143, Central Hudson has classified $48.7 million, $47.8 million, and $45.3 million of net cost of removal as regulatory liabilities as of March 31, 2008, December 31, 2007, and March 31, 2007, respectively. For further information, see Note 1 – "Summary of Significant Accounting Policies" under the caption "Depreciation and Amortization" to the Consolidated Financial Statements of the Corporations' 10-K Annual Report.

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

CH Energy Group's depreciation expense, which includes Central Hudson, Griffith, and Lyonsdale, was $8.3 million and $8.2 million for the three months ended March 31, 2008, and March 31, 2007, respectively.

Accumulated depreciation for Griffith was $21.4 million, $20.5 million, and $18 million as of March 31, 2008, December 31, 2007, and March 31, 2007, respectively.

Accumulated depreciation for Lyonsdale was $1.5 million, $1.3 million and $0.8 million as of March 31, 2008, December 31, 2007, and March 31, 2007, respectively.

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

Earnings Per Share

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

In the calculation of earnings per share (basic and diluted) of CH Energy Group's common stock ("Common Stock"), earnings for CH Energy Group are reduced by the preferred stock dividends of Central Hudson. The average dilutive effect of CH Energy Group's stock options, performance shares and restricted shares was 56,278 shares and 28,092 shares for the quarters ended March 31, 2008 and 2007, respectively. Certain stock options are excluded from the calculation of diluted earnings per share because the exercise prices of those options were greater than the average market price per share of Common Stock for some of the periods presented. Excluded from the calculation were options for 39,980 shares for the three-month period ended March 31, 2008, and no shares for the three-month period ended March 31, 2007. For additional information regarding stock options and performance shares, see Note 11 – "Equity-Based Compensation."

Equity-Based Compensation

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

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

Reference is made to the caption "FIN 46 – Consolidation of Variable Interest Entities" of Note 1 – "Summary of Significant Accounting Policies" to the Consolidated Financial Statements of the Corporations' 10-K Annual Report. CH Energy Group and its subsidiaries do not have any interests in special purpose entities and do not have material affiliations with any variable interest entities that require consolidation under the provisions of FIN 46R.

Fair Value Measurements

CH Energy Group adopted Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ("SFAS 157") on January 1, 2008. The guidance in SFAS 157 establishes a framework for measuring fair value in Generally Accepted

Accounting Principles ("GAAP"), improves consistency and comparability in reporting fair value, and expands disclosures regarding fair value measurements.

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

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

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

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

On March 31, 2008, CH Energy Group reported one major category of assets and liabilities at fair value: derivative contracts. Derivative contracts are measured on a recurring basis. The fair value of CH Energy Group's reportable assets and liabilities at March 31, 2008 by category and hierarchy level follows.

Fair Value Measure at 3/31/08 Using

Asset or Liability Category	Fair Value 3/31/08	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Unrealized Gains (Losses)	Total Realized Gains (Losses)
	(in Thousands)					
Assets						
Derivative Contracts						
Central Hudson – Electric	$ 612	$ 612			N/A	N/A
Griffith – Heating Oil	509	509			N/A	N/A
TOTAL ASSETS	**$ 1,121**	**$ 1,121**	**$ —**			
Liabilities						
Derivative Contracts						
Central Hudson – Electric*	$ (21)			$ (21)	$ (21)**	
TOTAL LIABILITIES	**$ (21)**			**$ (21)**	**$ (21)**	

* Not material enough to warrant the additional Level 3 disclosures required by SFAS 157. See derivative contract narrative following table.

** Unrealized gains and losses on Central Hudson's derivatives are reported in the balance sheet, not the income statement.

<u>Derivative Contracts</u> - 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 March 31, 2008, Central Hudson's derivative contracts were comprised entirely of wholesale electric contracts for differences (swaps). Swap contracts are valued using the New York Independent System Operator ("NYISO") Swap Futures Closing Price and have been classified as Level 1 assets in the fair value hierarchy. Certain contracts trade in less active markets with limited pricing information and/or a limited number of market participants. Because these contracts are valued using indicative broker quotes only, these contracts have been classified within Level 3 of the fair value hierarchy. Since the unrealized loss of $21,000 associated with the single contract classified within Level 3 of the hierarchy on March 31, 2008 is not material, the additional disclosures required by SFAS 157 for Level 3 inputs have not been provided. Unrealized gains and losses on Central Hudson's derivative contracts have no impact on earnings. Realized gains and losses on Central Hudson's derivative instruments are recovered from customers through PSC-authorized deferral accounting mechanisms, with no impact on cash flows, results of operations, or liquidity.

Griffith's open derivative positions on March 31, 2008 were comprised entirely of contracts for heating oil call options. For these options, the underlying is valued using listed market prices (the NYMEX Heating Oil Futures Closing Price). The option premium is valued using counterparty quotes. These options can be either Level 1 or Level 2, depending on whether the option is in the money or out of the money. For the three months ended March 31, 2008, the contracts for these options have been classified within Level 1 of the fair value hierarchy since they are in the money, and the input to valuing the underlying is the most significant to the overall valuation. In accordance with the hedge accounting provisions of SFAS 133, *Accounting for Derivatives*, unrealized gains and losses on Griffith's derivative contracts are deferred through Other Comprehensive Income. Realized gains and losses on Griffith's derivative contracts did not have a material impact on cash flows, results of operations, or liquidity in the three months ended March 31, 2008.

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

Income Tax

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

Reclassification

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

Common Stock Dividends

CH Energy Group's ability to pay dividends may be affected by the ability of its subsidiaries to pay dividends. The Federal Power Act limits the payment of dividends by Central Hudson to its retained earnings. More restrictive is the PSC's limit on the dividends Central Hudson may pay to CH Energy Group which is 100% of the average annual income available for common, calculated on a two-year rolling average basis. Central Hudson's dividend would be reduced below 100% of its annual average income in the event of a downgrade of its senior debt rating below "BBB+" by more than one rating agency. Central Hudson is currently rated "A" or the equivalent. As of March 31, 2008, the amount of Central Hudson's retained earnings that were free of restrictions was $32.5 million. CH Energy Group's other subsidiaries do not have restrictions on their ability to pay dividends.

On March 28, 2008, the Board of Directors of CH Energy Group declared a quarterly dividend of $0.54 per share, payable May 1, 2008, to shareholders of record as of April 10, 2008.

NOTE 2 – REGULATORY MATTERS

Reference is made to Note 2 – "Regulatory Matters" under captions "Expiring Rate Proceedings – Electric and Natural Gas" and "New Rate Proceedings – Electric and Natural Gas" to the Consolidated Financial Statements of the Corporations' 10-K Annual Report.

NOTE 3 – NEW ACCOUNTING STANDARDS AND OTHER FASB PROJECTS

Reference is made to the captions "New Accounting Standards and Other FASB Projects – Standards Implemented" and "New Accounting Standards and Other FASB Projects – Standards to be Implemented" of Note 1 – "Summary of Significant Accounting Policies" to the Financial Statements of the Corporations' 10-K Annual Report.

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

Impact*	**Status**	**Category**	**Reference**	**Title**	**Issued Date**	**Effective Date**
1	Under Assessment	Business Combinations	SFAS 141R	Business Combinations - Revised	Dec-07	Jan-09
1	Under Assessment	Noncontrolling Interests	SFAS 160	Noncontrolling Interest in Consolidated Financial Statements	Dec-07	Jan-09
1	Under Assessment	Derivative Instruments	SFAS 161	Disclosures About Derivative Instruments and Hedging Activities	Mar-08	Jan-09
2	Implemented	Pension, Postretirement	SFAS 158	Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans -Measurement Date Change	Sep-06	Jan-08
2	Implemented	Fair Value	SFAS 159	Establishing the Fair Value Option for Financial Assets and Liabilities	Feb-07	Jan-08
2	Implemented	Fair Value	SFAS 157	Fair Value Measurement	Sep-06	Jan-08
2	Implemented	Fair Value	FAS 157-1	Application of FASB Statement No. 13 and Other Accounting Pronouncements that Address Fair Value Measurements for Purposes of Lease Classification or Measurement Under Statement No. 13	Feb-08	Jan-08
2	Implemented	Fair Value	FAS 157-2	Effective Date of FASB Statement No. 157	Feb-08	Jan-08
2	Implemented	Derivative Instruments	FIN 39-1	Amendment of FASB Interpretation No. 39, Offsetting of Amounts Related to Certain	Apr-07	Jan-08

			Contracts		
3	Not Currently Applicable	FAS 140-3	Accounting for Transfers of Financial Assets and Repurchase Financing Transactions	Feb-08	Jan-09

*Impact Key:

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

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

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

Standards Under Assessment

The objective of SFAS 141R is to improve the relevance, representational faithfulness, and comparability of the information that an entity provides in its financial reports about a business combination and its effects. This standard applies to all transactions or events in which an entity obtains control of one or more businesses, and to combinations achieved without the transfer of consideration.

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

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

Standards Implemented

CH Energy Group adopted SFAS 157, *Fair Value Measurements*, on January 1, 2008. SFAS 157 changes the definition of fair value, establishes a framework for measuring it in accordance with GAAP, and expands disclosures about fair value measurements. CH Energy Group did not record a transitional adjustment upon adoption of SFAS 157. CH Energy Group also adopted FASB Staff Position ("FSP") FAS 157-1, and FSP FAS 157-2 on January 1, 2008.

FSP FAS 157-1 amends SFAS 157 to exclude SFAS 13, *Accounting for Leases*, and other accounting pronouncements that address fair value measurements for purposes of lease classification or measurement under SFAS 13. However, the scope exception does not apply to assets acquired and liabilities assumed in a business combination that are required to be measured at fair value under SFAS 141 or 141R regardless of whether those assets and liabilities are related to leases. FSP FAS 157-2 delays the effective date of SFAS 157 for non-financial assets and non-financial liabilities to fiscal years beginning after November 15, 2008. Non-financial assets or liabilities that are recognized or disclosed at fair value at least once a year are excluded from this deferral. As a result of this partial deferral, CH Energy Group has not applied the provisions of SFAS 157 to its asset retirement obligation, goodwill, and other non-financial assets and liabilities acquired in its business combinations. For additional information on fair value measurements, see Note 1 – "Summary of Significant Accounting Policies."

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

SFAS 159 permits entities to choose to elect, at specified election dates, to measure eligible financial instruments at fair value. CH Energy Group adopted SFAS 159 on January 1, 2008, but did not make any fair value elections for eligible instruments eligible under this standard upon adoption, or in the three months ended March 31, 2008.

CH Energy Group adopted FSP No. FIN 39-1 ("FIN 39-1") on January 1, 2008. FIN 39-1 permits a reporting entity to offset fair value amounts recognized for the rights to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) against fair value amounts recognized for derivative agreements if the receivable or payable arises from the same master netting arrangement as the derivative instrument. This FSP also replaces the terms "conditional contracts" and "exchange contracts" with the term "derivative contracts" (as defined by Statement 133). In accordance with FIN 39-1, CH Energy Group has elected net presentation for its derivative contracts under master netting agreements. At March 31, 2008, Central Hudson Gas & Electric Corporation was the only subsidiary with master netting agreements in place for its derivatives, and had no collateral posted against the fair value amount of derivatives under any of these agreements. If collateral were posted, CH Energy Group's policy is to also report the collateral positions on a net basis. For more information regarding CH Energy Group's derivative contracts, see Note 14 – "Accounting for Derivative Instruments and Hedging Activities."

NOTE 4 – INCOME TAX

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

FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements in accordance with SFAS 109, *Accounting for Income Taxes*. Due to no uncertain tax positions, no interest or penalties have been recorded in the financial statements. If CH Energy Group and its subsidiaries incur any interest or penalties on underpayment of income taxes, the amounts would be included on the line "Other liabilities" on the Consolidated Balance Sheet and on the line "Other – net" on the Consolidated Statement of Income. CH Energy Group and its subsidiaries file a consolidated Federal and New York State income tax return, which represents the major tax jurisdictions of CH Energy Group. The statute of limitations for federal tax years 2004 through 2006 are still open for audit. The New York State income tax return is currently open for audit for tax years 2002 through 2006, and tax years 2002 through 2004 are currently under audit.

NOTE 5 – ACQUISITIONS AND INVESTMENTS

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

Acquisitions

During the three months ended March 31, 2008, Griffith acquired fuel distribution companies as follows (in Millions):

3 Month Period Ended	# of Acquired Companies	Purchase Price	Total Intangible Assets(1)	Goodwill(3)	Total Tangible Assets(2)
March 31, 2008	3	$9.2	$8.4	$4.1	$ 0.8

(1) Including goodwill.

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

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

NOTE 6 – GOODWILL AND OTHER INTANGIBLE ASSETS

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

Intangible assets include separate, identifiable, intangible assets such as customer relationships, trademarks, and covenants not to compete. Intangible assets with finite lives are amortized over their useful lives. The estimated useful life for customer relationships is 15 years, which is believed to be appropriate in view of average historical customer turnover. However, if customer turnover were to substantially increase, a shorter amortization period would be used, resulting in an increase in amortization expense. For example, if a ten-year amortization period were used, annual amortization expense would increase by approximately $1.8 million. The estimated useful lives of trademarks range from five to fifteen years and are based upon management's assessment of several variables such as brand recognition, management's plan for the use of the trademark, and other factors that will affect the duration of the trademark's life. The useful life of a covenant not to compete is based on the expiration date of the covenant, generally between two and ten years. Intangible assets with indefinite useful lives and goodwill are no longer amortized, but instead are periodically reviewed for impairment. Griffith tests the goodwill and intangible assets remaining on the balance sheet for impairment annually in the fourth quarter, and retests between annual tests if an event should occur or circumstances arise that would more likely than not reduce the fair value below its carrying amount.

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

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

	March 31, 2008		December 31, 2007		March 31, 2007	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Customer Relationships	$ 55,067	$ 19,490	$ 51,451	$ 18,593	$ 47,515	$ 16,259
Trademarks	2,956	157	2,490	101	—	—
Covenants Not to Compete	1,660	1,001	1,420	947	1,410	816
Total Amortizable Intangibles	$ 59,683	$ 20,648	$ 55,361	$ 19,641	$ 48,925	$ 17,075

Amortization expense was $1.0 million and $0.8 million for each of the three-month periods ended March 31, 2008, and 2007, respectively. The estimated annual amortization expense for each of the next five years, assuming no new acquisitions, is approximately $4.0 million. The carrying amount for goodwill was $67.5 million as of March 31, 2008, $63.4 million as of December 31, 2007, and $57.2 million as of March 31, 2007.

NOTE 7 – SHORT-TERM INVESTMENTS

CH Energy Group’s short-term investments consisted of Auction Rate Securities (“ARS”) and Variable Rate Demand Notes (“VRDN”), which were classified as current available-for-sale securities pursuant to the provisions of SFAS 115, titled *Accounting for Certain Investments in Debt and Equity Securities*. ARS and VRDN are debt instruments with a long-term nominal maturity and a mechanism that resets the interest rate at regular intervals. CH Energy Group’s investments included tax-exempt ARS and VRDN with interest rates reset anywhere from 7 to 35 days. Due to the nature of these securities with regard to their interest rate reset periods, the aggregate carrying value approximates their fair value; as such, it did not impact shareholders’ equity with regard to unrealized gains and losses. The aggregate fair value of these short-term investments was zero at March 31, 2008, $3.5 million at December 31, 2007, and $30.5 million at March 31, 2007. These investments were used to fund operations and to provide funding in accordance with CH Energy Group’s strategy to redeploy equity into its subsidiaries. Cash flows from the purchases and liquidation of these investments are reported separately as investing activities in CH Energy Group’s Consolidated Statement of Cash Flows.

NOTE 8 – FUEL AND MATERIALS AND SUPPLIES

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

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

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

	CH Energy Group (In Thousands)		
	March 31, 2008	December 31, 2007	March 31, 2007
Natural gas	$ 6,304	$ 16,250	$ 8,528
Petroleum products and propane	4,036	6,794	3,672
Fuel used in electric generation	516	696	617
Materials and supplies	10,655	9,581	9,073
Total	$ 21,511	$ 33,321	$21,890

	Central Hudson (In Thousands)		
	March 31, 2008	December 31, 2007	March 31, 2007
Natural gas	$ 6,304	$ 16,250	$ 8,528
Petroleum products and propane	539	554	385
Fuel used in electric generation	367	371	229
Materials and supplies	7,650	7,095	6,724
Total	$ 14,860	$ 24,270	$15,866

NOTE 9 – LONG-TERM DEBT

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

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

Central Hudson's 1998 Series A Promissory Notes were issued in conjunction with the sale of tax-exempt pollution control revenue bonds by NYSERDA. The current applicable interest rate of 3.0% is scheduled to end on December 1, 2008, at which time the notes are expected to be re-marketed at then-current rates under the terms of the applicable indenture.

Central Hudson's 1999 New York State Energy and Research Development Authority ("NYSERDA") Bonds, Series B, C, and D, totaling $115.85 million, are long-term, unsecured, tax-exempt, multi-modal bonds insured by AMBAC Assurance Corporation ("AMBAC"). Since they were issued in 1999, the bonds' interest rate mode has been auction rate, where the interest rates are reset every 35 days in a dutch auction. Over the last several months, it has been widely reported in the financial media that auctions in the market for municipal auction rate securities have experienced widespread failures. Generally, an auction failure results when there are not enough bidders for a series of bonds and the bondholders who wanted to sell must hold the bonds for the next interest rate period. Since February 2008, the auctions for Central Hudson's three series of auction rate bonds have failed. As a consequence, the interest rate paid to the bondholders has been set to the then prevailing maximum rate defined in the trust indenture. Central Hudson's maximum rate results in interest rates that are generally higher than expected results from the auction process. For the foreseeable future, Central Hudson expects the maximum rate, determined on the date of each auction, to be 175% of the yield on an index of tax-exempt short-term debt, or its approximate equivalent. Since the first auction failure in February, the applicable maximum rate for Central Hudson's bonds has ranged from 3.4% to 4.8%. In its Orders, the PSC has authorized deferred accounting treatment for the interest costs from Central Hudson's three series of 1999 NYSERDA Bonds. As a result, Central Hudson does not expect the auction failures to have a material impact on earnings. To mitigate the potential impact of unexpected increases in short-term interest rates, Central Hudson purchases interest rate caps based on an index for short-term tax-exempt debt. A two-year, 4.5% cap on $115.85 million of debt expired March 31, 2008. Central Hudson replaced the expiring cap, effective April 1, 2008, with a similar, one-year cap set at 3.0%. Under most market conditions, Central Hudson expects that cap to effectively limit the realized rate for its auction rate bonds to approximately 5.25%.

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

NOTE 10 – POST-EMPLOYMENT BENEFITS

The following are the components of Central Hudson's net periodic benefit costs for its pension and other postretirement benefits ("OPEB") plans for the quarter ended March 31, 2008. The OPEB amounts for both years reflect the effect of the Medicare Prescription Drug, Improvement and Modernization Act of 2003 under the provisions of Financial Staff Position ("FSP") 106-2, titled *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003*.

	Quarter Ended March 31,			
	Pension Benefits		OPEB	
	2008	2007	2008	2007
	(In Thousands)		(In Thousands)	
Service cost	$ 1,942	$ 1,977	$ 796	$ 914
Interest cost	6,239	5,928	2,262	2,078
Expected return on plan assets	(7,578)	(6,999)	(1,721)	(1,584)
Amortization of:				
Prior service cost	517	494	1,463	(314)
Transitional obligation (asset)	—	—		