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CH ENERGY GROUP INC
Form 10-Q/A
November 07, 2006

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q/A

(Mark One)

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

For the quarterly period ended.....September 30, 2006

OR

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 No

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

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer

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

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Large Accelerated Filer Accelerated Filer Non-Accelerated Filer

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

Yes No

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 No

As of the close of business on November 1, 2006, (i) CH Energy Group, Inc. had outstanding 15,762,000 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).

Explanatory Note:

This amended and restated Quarterly Report on Form 10-Q for the quarter ended September 30, 2006, is filed solely for the purpose of correcting and clarifying certain references to the amount of revenues from natural gas sales and electric delivery revenues in the nine months ended September 30, 2006, which appeared in the last paragraph under the heading "Regulated Electric and Natural Gas Businesses" in Item 2 of Part I (Management's Discussion and Analysis of Financial Condition and Results of Operations) of the Report on page 65. No change is made in the financial statements included in the Report or in any other item of the Report.

FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2006

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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. ("Energy Group") and Central Hudson Gas & Electric Corporation ("Central Hudson"), a wholly owned subsidiary of Energy Group. Except where the content clearly indicates otherwise, any reference in this report to Energy Group includes all

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subsidiaries of Energy Group, including Central Hudson. Central Hudson makes no representation as to the information contained in this report in relation to Energy Group and its subsidiaries other than Central Hudson.

PART I - FINANCIAL INFORMATION

Item I - Consolidated Financial Statements

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

	For the 3 Months 2006 ----- (Thousands)
Operating Revenues	
Electric	\$154,723
Natural gas	18,384
Competitive business subsidiaries	66,713

Total Operating Revenues	239,820

Operating Expenses	
Operation:	
Purchased electricity and fuel used in electric generation	95,665
Purchased natural gas	10,663
Purchased petroleum	52,651
Other expenses of operation - regulated activities	31,690
Other expenses of operation - competitive business subsidiaries	12,668
Depreciation and amortization	8,843
Taxes, other than income tax	8,968

Total Operating Expense.....	221,148

Operating Income	18,672

Other Income and Deductions	
Interest on regulatory assets and investment income	1,922
Other - net	279

Total Other Income	2,201

Interest Charges	
Interest on long-term debt	4,115
Interest on regulatory liabilities and other interest	1,147

Total Interest Charges	5,262

Income before income taxes, preferred dividends of subsidiary and minority interest	15,611
Income taxes	4,392

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Net Income	\$ 10,970	\$
Other Comprehensive Income:		
Net unrealized gains (losses) net of tax and net income realization:		
FAS 133 Designated Cash Flow Hedges - net of tax of \$118 and \$(80)	(177)	
Investments - net of tax of \$(139) and \$(40)	209	
	-----	-----
Other comprehensive income (loss)	32	
	-----	-----
Comprehensive Income	\$ 11,002	\$
	=====	=====

For the 9 Months Ended
2006

(Thousands of Do

Net Income	\$ 33,338	\$
Other Comprehensive Income:		
Net unrealized gains (losses) net of tax and net income realization:		
FAS 133 Designated Cash Flow Hedges - net of tax of \$107 and \$(80)	(160)	
Investments - net of tax of \$(223) and \$(207)	335	
	-----	-----
Other comprehensive income (loss)	175	
	-----	-----
Comprehensive Income	\$ 33,513	\$
	=====	=====

See Notes to Consolidated Financial Statements

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

ASSETS	September 30, 2006	December 31, 2005
	-----	-----
		(Thousands of
Utility Plant		
Electric	\$ 754,429	\$ 739,7
Natural gas	234,103	226,8
Common	112,173	107,5
	-----	-----
	1,100,705	1,074,2

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Less: Accumulated depreciation	346,395	333,1
	-----	-----
	754,310	741,0
Construction work in progress	55,952	38,4
	-----	-----
Net Utility Plant	810,262	779,5
	-----	-----
Other Property and Plant - net	33,713	23,1
	-----	-----
Current Assets		
Cash and cash equivalents	32,195	49,4
Short-term investments - available-for-sale securities	40,281	42,1
Accounts receivable -		
net of allowance for doubtful accounts of		
\$5.1 million, \$4.6 million, and \$4.6 million,		
respectively	61,814	97,4
Accrued unbilled utility revenues	7,122	9,3
Other receivables	6,017	6,3
Fuel and materials and supplies - at average cost ...	30,530	28,3
Regulatory assets	20,759	30,7
Prepaid income taxes	--	1,1
Fair value of derivative instruments	54	
Special deposits and prepayments	25,666	23,1
Accumulated deferred income tax	15,925	8,8
	-----	-----
Total Current Assets	240,363	296,9
	-----	-----
Deferred Charges and Other Assets		
Regulatory assets - pension plan	46,273	97,0
Intangible asset - pension plan	18,148	20,2
Goodwill	52,742	51,3
Other intangible assets - net	27,560	28,3
Regulatory assets	90,483	52,3
Unamortized debt expense	3,721	3,9
Investments in unconsolidated affiliates	12,354	7,3
Other	18,594	19,2
	-----	-----
Total Deferred Charges and Other Assets	269,875	279,9
	-----	-----
Total Assets	\$ 1,354,213	\$ 1,379,5
	=====	=====

See Notes to Consolidated Financial Statements

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

September 30, D

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CAPITALIZATION AND LIABILITIES

2006

(Thousa

Capitalization

Common Stock Equity:

Common stock, 30,000,000 shares authorized:

15,762,000 shares outstanding, 16,862,087 shares issued,

\$0.10 par value

\$ 1,686

Paid-in capital

351,230

Retained earnings

205,821

Treasury stock (1,100,087 shares)

(46,252)

Accumulated comprehensive income (loss)

(345)

Capital stock expense

(328)

Total Common Stock Equity

511,812

Cumulative Preferred Stock

Not subject to mandatory redemption

21,027

Long-term debt

310,888

Total Capitalization

843,727

Current Liabilities

Current maturities of long-term debt

33,000

Notes payable

30,000

Accounts payable

30,692

Accrued interest

3,162

Dividends payable

8,754

Accrued vacation and payroll

5,957

Customer deposits

7,894

Regulatory liabilities

20,037

Fair value of derivative instruments

6,717

Accrued environmental remediation costs

3,500

Accrued income taxes

759

Deferred revenues

14,791

Other

11,776

Total Current Liabilities

177,039

Deferred Credits and Other Liabilities

Regulatory liabilities

109,523

Operating reserves

5,422

Accrued environmental remediation costs

17,932

Accrued other post-employment benefit costs

29,875

Accrued pension costs

16,032

Other

12,903

Total Deferred Credits and Other Liabilities

191,687

Minority Interest

1,501

Accumulated Deferred Income Tax

140,259

Commitments and Contingencies (Note 11)

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Total Capitalization and Liabilities	\$ 1,354,213	\$
	=====	=

See Notes to Consolidated Financial Statements

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

	For th	S
	2006	-----
	(Thou)
Operating Activities:		
Net Income	\$ 33,3	
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	26,9	
Deferred income taxes - net	7,1	
Provision for uncollectibles	4,5	
Accrued/deferred pension costs	(5,1	
Minority interest	(1	
Gain on sale of property and plant	(2,9	
Changes in operating assets and liabilities - net of business acquisitions:		
Accounts receivable, unbilled revenues and other receivables	35,1	
Fuel, materials and supplies	(2,0	
Special deposits and prepayments	(5,1	
Accounts payable	(24,4	
Accrued taxes and interest	(1,2	
Accrued OPEB costs	4,9	
Regulatory Liability-Rate Moderation	(7,9	
Deferred natural gas and electric costs	16,4	
Customer benefit fund	(3,2	
Other - net	(3,4	
Net Cash Provided By Operating Activities	72,7	-----
Investing Activities:		
Purchase of short-term investments	(29,7	
Proceeds from sale of short-term investments	31,5	
Additions to utility plant and other property and plant	(50,8	
Proceeds from sale of property and plant	3,2	
Issuance of notes receivable	(2,1	
Proceeds from repayment of notes receivable	1,7	
Acquisitions made by competitive business subsidiaries	(13,9	
Other - net	(4,3	

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Net Cash Used in Investing Activities	(64,4
Financing Activities:	
Redemption of preferred stock	
Net borrowings of short-term debt.....	
Dividends paid on common stock	(25,5
Debt issuance costs	(
Net Cash (Used in) Provided by Financing Activities	(25,5
Net Change in Cash and Cash Equivalents	(17,2
Cash and Cash Equivalents - Beginning of Year	49,4
Cash and Cash Equivalents - End of Period	\$ 32,1
Supplemental Disclosure of Cash Flow Information	
Interest paid	\$ 18,3
Federal and State income tax paid	\$ 10,7

See Notes to Consolidated Financial Statements

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

	For the 3 Months Ended Sep	
	2006	20
	(Thousands of Dolla	
Operating Revenues		
Electric	\$ 154,723	\$ 15
Natural gas	18,384	1
Total Operating Revenues	173,107	17
Operating Expenses		
Operation:		
Purchased electricity and fuel used in electric generation	94,392	11
Purchased natural gas	10,663	
Other expenses of operation	31,690	2
Depreciation and amortization	7,070	
Taxes, other than income tax	8,877	

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Total Operating Expenses.....	152,692	15
Operating Income	20,415	1
Other Income and Deductions		
Interest on regulatory assets and other interest income	1,100	
Other - net	54	
Total Other Income.....	1,154	
Interest Charges		
Interest on long-term debt	4,115	
Interest on regulatory liabilities and other interest	1,147	
Total Interest Charges.....	5,262	
Income before income taxes	16,307	1
Income taxes	5,534	
Net Income	10,773	
Dividends Declared on Cumulative Preferred Stock	242	
Income Available for Common Stock	\$ 10,531	\$

See Notes to Consolidated Financial Statements

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

	For the 9 Months Ended Septe 2006	2005
	(Thousands of Dollars)	
Operating Revenues		
Electric	\$ 398,700	\$ 392,8
Natural gas	125,651	108,6
Total Operating Revenues	524,351	501,5
Operating Expenses		
Operation:		
Purchased electricity and fuel used in electric generation	243,202	254,2

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Purchased natural gas	87,718	71,2
Other expenses of operation	90,170	73,4
Depreciation and amortization	21,986	22,5
Taxes, other than income tax	24,835	25,1
	-----	-----
Total Operating Expenses.....	467,911	446,5
	-----	-----
Operating Income	56,440	54,9
	-----	-----
Other Income and Deductions		
Interest on regulatory assets and other interest income	5,149	5,2
Other - net	(279)	(9)
	-----	-----
Total Other Income.....	4,870	4,2
	-----	-----
Interest Charges		
Interest on long-term debt	12,139	10,1
Interest on regulatory liabilities and other interest	3,130	2,2
	-----	-----
Total Interest Charges.....	15,269	12,4
	-----	-----
Income Before Income Taxes	46,041	46,7
Income Taxes	18,090	18,7
	-----	-----
Net Income	27,951	27,9
Dividends Declared on Cumulative Preferred Stock	727	7
	-----	-----
Income Available for Common Stock	\$ 27,224	\$ 27,2
	=====	=====

See Notes to Consolidated Financial Statements

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

	For the 3 Months Ended September 30,	
	2006	2005
	-----	-----
	(Thousands of Dollars)	
Net Income	\$ 10,773	\$ 6,885
Other Comprehensive Income	--	--
	-----	-----
Comprehensive Income	\$ 10,773	\$ 6,885

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	=====	=====
	For the 9 Months Ended September 30,	
	2006	2005
	-----	-----
	(Thousands of Dollars)	
Net Income	\$ 27,951	\$ 27,988
Other Comprehensive Income	--	--
	-----	-----
Comprehensive Income	\$ 27,951	\$ 27,988
	=====	=====

See Notes to Consolidated Financial Statements

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

ASSETS	September 30, 2006	December 31, 2005
	-----	-----
	(Thousands of Dollars)	
Utility Plant		
Electric	\$ 754,429	\$ 754,429
Natural gas	234,103	234,103
Common	112,173	112,173
	-----	-----
	1,100,705	1,100,705
Less: Accumulated depreciation	346,395	346,395
	-----	-----
	754,310	754,310
Construction work in progress	55,952	55,952
	-----	-----
Net Utility Plant	810,262	810,262
	-----	-----
Other Property and Plant - net	496	496
	-----	-----
Current Assets		
Cash and cash equivalents	2,776	2,776
Accounts receivable -		
net of allowance for doubtful accounts of \$3.8 million,		
\$3.4 million, and \$3.6 million, respectively	37,958	37,958
Accrued unbilled utility revenues	7,122	7,122
Other receivables	2,584	2,584
Fuel and materials and supplies - at average cost	25,041	25,041

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Regulatory assets	20,759	
Fair value of derivative instruments	--	
Special deposits and prepayments	22,085	
Accumulated deferred income tax	15,165	
	-----	-----
Total Current Assets	133,490	
	-----	-----
Deferred Charges and Other Assets		
Regulatory assets - pension plan	46,273	
Intangible asset - pension plan	18,148	
Regulatory assets	90,483	
Unamortized debt expense	3,721	
Other	11,153	
	-----	-----
Total Deferred Charges and Other Assets	169,778	
	-----	-----
Total Assets	\$ 1,114,026	\$
	=====	=====

See Notes to Consolidated Financial Statements

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

	September 30, 2006	

CAPITALIZATION AND LIABILITIES		
(Thou		
Capitalization		
Common Stock Equity:		
Common stock, 30,000,000 shares authorized; 16,862,087 shares issued and outstanding (\$5 par value)	\$ 84,311	\$
Paid-in capital	174,980	
Retained earnings	62,033	
Capital stock expense	(4,961)	
	-----	-----
Total Common Stock Equity	316,363	
	-----	-----
Cumulative Preferred Stock		
Not subject to mandatory redemption	21,027	
Long-term Debt	310,888	
	-----	-----
Total Capitalization	648,278	
	-----	-----
Current Liabilities		
Current maturities of long-term debt	33,000	
Notes Payable	30,000	
Accounts payable	23,401	

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Accrued interest	3,161	
Dividends payable - preferred stock	242	
Accrued vacation and payroll	4,767	
Customer deposits	7,766	
Regulatory liabilities	20,037	
Fair value of derivative instruments	6,431	
Accrued income taxes	6,312	
Accrued environmental remediation costs	3,500	
Other	7,410	

Total Current Liabilities	146,027	

Deferred Credits and Other Liabilities		
Regulatory liabilities	109,523	
Operating reserves	4,248	
Accrued environmental remediation costs	16,000	
Accrued other post-employment benefit costs	29,875	
Accrued pension costs	16,032	
Other	12,169	

Total Deferred Credits and Other Liabilities	187,847	

Accumulated Deferred Income Tax	131,874	

Commitments and Contingencies (Note 11)		
Total Capitalization and Liabilities	\$ 1,114,026	\$
	=====	

See Notes to Consolidated Financial Statements

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

		For the 9 Mo
		Septemb
		2006

Operating Activities:		(Thousands
Net Income	\$ 27,951	
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization.....	21,986	
Deferred income taxes - net.....	5,624	
Provision for uncollectibles	3,833	
Accrued/deferred pension costs	(5,120)	
Gain on sale of property and plant	(2,215)	
Changes in operating assets and liabilities - net:		

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Accounts receivable, unbilled revenues and other receivables .	21,760
Fuel, materials and supplies	(1,630)
Special deposits and prepayments	(5,917)
Accounts payable	(17,483)
Accrued taxes and interest	3,993
Accrued OPEB costs	4,929
Regulatory Liability-Rate Moderation	(7,976)
Deferred natural gas and electric costs	16,493
Customer benefit fund	(3,205)
Other - net	(7,723)

Net Cash Provided by Operating Activities	55,300

 Investing Activities:	
Proceeds from sale of property and plant	2,440
Additions to plant	(48,395)
Other - net	(1,542)

Net Cash Used in Investing Activities.....	(47,497)

 Financing Activities:	
Redemption of preferred stock	--
Net borrowings of short-term debt	--
Dividends paid on cumulative preferred stock	(727)
Dividends paid to parent - Energy Group	(8,500)
Debt issuance costs	(32)

Net Cash (Used In) Provided by Financing Activities	(9,259)

Net Change in Cash and Cash Equivalents	(1,456)
Cash and Cash Equivalents - Beginning of Year	4,232

Cash and Cash Equivalents - End of Period	\$ 2,776
	=====
 Supplemental Disclosure of Cash Flow Information	
Interest paid	\$ 15,581
Federal and State income tax paid	\$ 6,626

See Notes to Consolidated Financial Statements

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

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NOTE 1 - GENERAL

Basis of Presentation

This Quarterly Report on Form 10-Q is a combined report of CH Energy Group, Inc. ("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 Energy Group and Central Hudson. Energy Group's Consolidated Financial Statements include the accounts of Energy Group and its wholly owned subsidiaries, which include Central Hudson and Energy Group's non-utility subsidiary, Central Hudson Enterprises Corporation ("CHEC" and, together with its subsidiaries, the "competitive business subsidiaries"). CHEC subsidiary Griffith Energy Services, Inc. ("Griffith") (and prior to its merger with Griffith as of December 31, 2005, SCASCO, Inc. ("SCASCO")) is sometimes referred to herein as the "fuel distribution business."

Unaudited Consolidated Financial Statements

The accompanying Consolidated Financial Statements of 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 Energy Group/Central Hudson Annual Report on Form 10-K for the year ended December 31, 2005 (the "Corporations' 10-K Annual Report").

On April 12, 2006, CHEC purchased a 75% interest in Lyonsdale Biomass, LLC ("Lyonsdale"). Lyonsdale owns and operates a 19-megawatt, wood-fired, biomass electric generating plant. The financial statements of Lyonsdale for the period of April 12, 2006, through September 30, 2006, have been fully consolidated into the financial statements of Energy Group. The minority interest shown on Energy Group's Consolidated Financial Statements represents the other owner's proportionate share of the income and equity of Lyonsdale.

Energy Group's and Central Hudson's balance sheets as of September 30, 2005, are not required to be included in this Quarterly Report on Form 10-Q; however, these balance sheets are included for supplemental analysis 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

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during the summer, while demand for natural gas and heating oil typically peaks during the winter.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and Cash Equivalents

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

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Revision in the Classification of Certain Securities

In connection with the preparation of the Quarterly Report on Form 10-Q for the period ended March 31, 2006, and the classification of Auction Rate Securities and Variable Rate Demand Notes, Energy Group concluded that it was appropriate to classify these securities on Energy Group's Consolidated Balance Sheet as "short-term investments - available-for-sale securities." Previously, these investments had been classified as "cash and cash equivalents." These securities are described in greater detail in Note 5 - "Short-Term Investments" of this Quarterly Report on Form 10-Q. As a result of this revision in classification, Energy Group has also made corresponding adjustments to its Consolidated Statement of Cash Flows for all periods presented to reflect the gross purchases and liquidation of these available-for-sale securities as investing activities rather than as a component of cash and cash equivalents. This revision in classification has no impact on previously reported total current assets, total assets, working capital position, results of operations, or financial covenants and does not affect previously reported cash flows from operating or financing activities. The Consolidated Financial Statements of Central Hudson were not affected by this revision in classification.

The impact on net cash from investing activities for the nine months ended September 30, 2005, was a decrease of \$0.9 million for activity relating to these investments. The revision in classification for prior period Consolidated Balance Sheets resulted in a decrease to cash and cash equivalents and the reporting of short-term investments in the amount of \$42.1 million and \$49.6 million at December 31, 2005, and September 30, 2005, respectively.

Accounting for Derivative Instruments and Hedging Activities

Regulated Electric and Natural Gas Businesses

Reference is made to the caption "Accounting for Derivative Instruments and Hedging Activities" of Note 1 - "Summary of Significant Accounting Policies" to the Consolidated Financial Statements of the Corporations' 10-K Annual Report. At September 30, 2006, the total fair value of open Central Hudson derivatives, which hedge electric and natural gas commodity purchases, was an unrealized loss of \$6.4 million. This compares to a fair value at December 31, 2005, of (\$315,000), an unrealized loss, and a fair value of \$8.5 million at September 30, 2005, an unrealized

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gain. The significant decrease in the current fair value reflects the decrease in the wholesale costs of electricity and natural gas during the quarter ended September 30, 2006, due to changing market conditions. At September 30, 2006, Central Hudson had open derivative contracts hedging approximately 10.5% of its projected electricity requirements for the period October 2006 through December 2006 and 31.9% of its projected natural gas requirements for the period November 2006 through March 2007. Central Hudson recorded actual net losses of \$1.3 million for the quarter ended September 30, 2006, as compared to a net gain of \$5.9 million for the same period in 2005. Comparative amounts for the nine months ended September 30, 2006, and 2005, were a net loss of \$7.0 million and a net gain of \$5.7 million, respectively.

Realized gains and losses, in addition to unrealized gains and losses, serve to either decrease or increase actual energy costs and are deferred for return to or recovery from customers under Central Hudson's electric and natural gas energy cost adjustment clauses as authorized by the New York State Public Service Commission ("PSC") and in accordance with the provisions of Statement of

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Financial Accounting Standard ("SFAS") No. 71, titled Accounting for the Effects of Certain Types of Regulation ("SFAS 71"). Central Hudson also entered into weather derivative contracts to hedge the effect of weather on sales of electricity and natural gas. The periods covered were the three months of the heating seasons ended March 31, 2006, and 2005, the three months of the cooling season ended August 31, 2005, and the months of July and August 2006. Settlement payments to counter-parties during the nine-month periods ended September 30, 2006, and 2005, were \$0.5 million and \$1.8 million, respectively. These payments related to the cooling season contracts and resulted from weather that was warmer than the contractual strike points.

On April 1, 2006, Central Hudson replaced its interest rate cap agreement with a new two-year agreement through April 1, 2008, with similar terms as the expired agreement. As discussed in Note 1 - "Summary of Significant Accounting Policies" of the Corporations' 10-K Annual Report, this rate cap agreement hedges the variability in interest rates related to Central Hudson's bonds issued by the New York State Energy Research Development Authority. Central Hudson also has in place a mechanism authorized by the PSC which defers for return to or recovery from customers any differences between actual variable interest costs and the corresponding costs embedded in customer rates. The premium costs and any realized benefits from the rate cap agreement also pass through this regulatory mechanism.

Fuel Distribution Business

The fair value of Griffith's open derivative positions at September 30, 2006, was an unrealized loss of \$0.3 million as compared to an unrealized gain at September 30, 2005, of \$0.2 million. The fair value of derivative instruments at December 31, 2005, was not material. Derivatives outstanding at September 30, 2006, included call and put options designated as cash flow hedges for fuel oil purchases through June 2007 for customers with fixed price contracts. These options hedge approximately 6.7% of Griffith's total projected fuel oil requirements for September 2006 through June 2007. Actual net losses of \$0.6 million, including premium expense, were recorded during the

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quarter and year-to-date ended September 30, 2006. Actual net gains recorded in 2005 were not material.

In the first quarter of 2006, Griffith also entered into derivative contracts to hedge a portion (714,000 gallons) of its fuel oil inventory. These derivative instruments, comprised of calendar average New York Mercantile Exchange ("NYMEX") swaps, were designated as a fair value hedge of inventory. The fair value of these instruments at September 30, 2006, and the quarter and nine months to-date impact to earnings were not material. Griffith had previously entered into weather derivative contracts for the three months of the heating seasons ended March 31, 2006, and 2005. Settlement amounts for the comparative quarters were not material.

Parental Guarantees

Energy Group and certain of the competitive business subsidiaries 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. In addition, Energy Group agreed to guarantee the post-closing obligations of former subsidiary Central

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Hudson Energy Services, Inc. ("CH Services") under the agreement related to the sale of former subsidiary CH Resources, Inc. ("CH Resources"), which guarantee became applicable to CHEC. 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" and to Note 11 - "Commitments and Contingencies" of this Quarterly Report on Form 10-Q under the caption "CHEC."

The guarantees described above have been issued to counter-parties to assure the payment, when due, of certain obligations incurred by Energy Group subsidiaries in physical and financial transactions related to heating oil, propane, other petroleum products, weather and commodity hedges, and certain obligations related to the sale of CH Resources. At September 30, 2006, the aggregate amount of subsidiary obligations (excluding obligations related to CH Resources) covered by these guarantees was \$4.9 million. Where liabilities exist under the commodity-related contracts subject to these guarantees, these liabilities are included in Energy Group's Consolidated Balance Sheet. Energy Group's approximate aggregate potential liability for product warranties at September 30, 2006, had not changed from that reported at December 31, 2005, which was \$101,000. Energy Group's approximate aggregate potential liability for product warranties at September 30, 2005, which had not changed from that reported at December 31, 2004, which was \$504,000.

Goodwill and Other Intangible Assets

Reference is made to Note 5 - "Goodwill and Other Intangible Assets" to the Consolidated Financial Statements of the Corporations' 10-K Annual Report.

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Intangible assets include separate, identifiable, intangible assets such as customer lists and covenants not to compete. Intangible assets with finite lives are amortized over their useful lives. The estimated useful life for customer lists 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 \$1.4 million. 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. Goodwill balances are tested annually for impairment in the fourth quarter and are retested 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 components of amortizable intangible assets of Energy Group are summarized as follows (thousands of dollars):

	September 30, 2006		December 31, 2005		
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization	
Customer Lists	\$41,758	\$14,808	\$40,448	\$12,754	\$3

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Covenants Not to Compete	1,734	1,124	1,669	995	
Total Amortizable Intangibles	\$43,492	\$15,932	\$42,117	\$13,749	\$4

Amortization expense was \$2.2 million and \$2.0 million for each of the nine-month periods ended September 30, 2006, and 2005, respectively. The estimated annual amortization expense for each of the next five years, assuming no new acquisitions, is approximately \$2.9 million.

The carrying amount for goodwill not subject to amortization was \$52.7 million as of September 30, 2006, \$51.3 million as of December 31, 2005, and \$50.9 million as of September 30, 2005.

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.

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Financial Accounting Standards Board ("FASB") SFAS No. 143, titled Accounting for Asset Retirement Obligations ("SFAS 143"), precludes the recognition of expected future legal 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 \$44.1 million, \$92.2 million, and \$91.9 million of net cost of removal as regulatory liabilities as of September 30, 2006, December 31, 2005, and September 30, 2005, respectively. The amount of this liability as of September 30, 2006, has been reduced by the transfer of \$52.5 million of electric depreciation reserve pursuant to the Order Establishing Rate Plan ("2006 Order") issued by the PSC on July 24, 2006. The transfer represents a portion of the electric depreciation reserve that is in excess of the theoretical book reserve based on depreciation rates approved by the PSC. For additional information regarding the 2006 Order, see Note 3 - "Regulatory Matters."

FASB Interpretation No. 47, titled Accounting for Conditional Asset Retirement Obligations ("FIN 47"), clarifies the term "conditional asset retirement obligation" as used in SFAS 143 to refer to a legal obligation to perform an asset retirement activity when the timing and/or method of settlement are conditional on a future event that may or may not be in the control of the entity. In accordance with FIN 47, Energy Group recorded depreciation expense on the asset retirement obligations and accretion expense on the liabilities for the nine months ended September 30, 2006. These amounts were not material. For further information regarding FIN 47, see the caption "Depreciation and Amortization" of Note 1 - "Summary of Significant Accounting Policies" to the

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Consolidated Financial Statements of the Corporations' 10-K Annual Report.

For financial statement purposes, the fuel distribution business's depreciation provisions 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.

Accumulated depreciation for the fuel distribution business was \$16.7 million, \$14.9 million, and \$14.3 million as of September 30, 2006, December 31, 2005, and September 30, 2005, respectively.

Accumulated depreciation for Lyonsdale was \$0.4 million as of September 30, 2006.

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Amortization of intangibles (other than goodwill) is computed on the straight-line method over an asset's expected useful life. See the caption "Goodwill and Other Intangible Assets" of this Note 2 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 Energy Group's common stock ("Common Stock"), earnings for Energy Group are reduced by the preferred stock dividends of Central Hudson. The average dilutive effect of Energy Group's stock options and performance shares was 15,473 shares and 6,783 shares for the quarters ended September 30, 2006, and 2005, and 14,455 shares and 5,729 shares for the nine months ended September 30, 2006, and 2005, 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 above calculation were options for 36,900 shares for the three-month period ended September 30, 2005, and 35,700 shares and 36,900 shares for the nine-month periods ended September 30, 2006, and 2005, respectively. For additional information regarding stock options and performance shares, see Note 8 - "Equity-Based Compensation Incentive Plans."

Equity-Based Compensation

Energy Group has an equity-based employee compensation plan that is described in Note 8 - "Equity-Based Compensation Incentive Plans."

FIN 46R - Consolidation of Variable Interest Entities

Reference is made to the subcaption "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. Energy Group and its subsidiaries do not have any interests in special purpose entities and are not affiliated with any variable interest entities that currently require consolidation under the provisions of FIN 46R.

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Reclassification

Certain amounts in the 2005 Consolidated Financial Statements have been reclassified to conform to the 2006 presentation. Primarily, the Consolidated Balance Sheet for Energy Group has been reformatted to distinguish Investments in Unconsolidated Affiliates from Other Assets.

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NOTE 3 - REGULATORY MATTERS

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

In April 2006, Central Hudson, Department of Public Service Staff ("PSC Staff"), and other parties served on all parties a negotiated Joint Proposal ("2006 Joint Proposal") to be considered by the PSC in Central Hudson's then current electric and natural gas rate proceeding. Under the terms of the 2006 Joint Proposal, an increase to electric delivery revenues of \$53.7 million over the three-year term is to be phased-in with annual electric delivery rate increases of approximately \$17.9 million as of July 1, 2006, July 1, 2007, and July 1, 2008. A natural gas delivery revenue increase of \$14.1 million is to be phased-in over two years with natural gas delivery rate increases of \$8 million as of July 1, 2006, and \$6.1 million as of July 1, 2007.

On June 20, 2006, the PSC extended the normal eleven-month suspension of the case through August 29, 2006, with a make-whole provision for the loss of revenues due to the extension of the suspension period past July 1, 2006.

On July 24, 2006, the PSC issued the 2006 Order following action to approve the 2006 Joint Proposal at its July 19, 2006, session. The 2006 Order adopted all of the terms and conditions of the 2006 Joint Proposal with a modification requiring distribution right-of-way ("ROW") maintenance expenses to be subject to the same shortfall true-up mechanism that applies to transmission ROW maintenance expenses. The 2006 Order directed a compliance tariff filing to place new rates into effect as of August 1, 2006, subject to the terms and conditions of the 2006 Order; Central Hudson made this compliance filing on July 31, 2006.

The 2006 Order provides for delivery rates based on a return on equity ("ROE") of 9.6% with an earnings sharing threshold of 10.6%, above which Central Hudson is to share earnings with its customers. Rates are based on a capital structure which includes 45% common equity, but the actual proportion of common equity up to a limit of 47% may be used in determining the return on common equity for the purpose of earnings sharing. The 2006 Order also includes the continued full recovery of all purchased natural gas and electricity costs through existing monthly supply cost recovery mechanisms. In addition, three-year capital expenditure targets to fund investments in its electric, natural gas, and common plant, and increased allowances for the recovery of operating costs, including transmission and distribution ROW maintenance expenses, have been established. The capital expenditure targets are subject to true-up provisions, requiring deferral of the revenue equivalent of any shortfalls in spending over the three-year term. Transmission and distribution ROW maintenance expenses are also subject to true-up provisions over the three-year term, requiring the deferral of shortfalls in actual expenditures. The 2006 Order also provides increased rate allowances and continued deferral accounting authorization for the recovery of expenses for pensions, other post-employment benefits ("OPEB"), stray voltage testing, manufactured gas plant ("MGP") site remediation, and certain other

expense items. The 2006 Order also provides additional funding to assist low-income customers in paying their energy bills as well as continued funding of programs to encourage customers to explore new opportunities available through the competitive retail supply markets. In addition, the 2006 Order includes penalty-only performance mechanisms with established targets for specified levels of performance for a number of customer service quality, natural gas safety, and electric reliability measures.

On August 30, 2006, Central Hudson filed for rehearing on one element of the 2006 Order. The filing asserts that the PSC failed to update Central Hudson's allowed ROE using the PSC's Generic Finance Case Methodology. Central Hudson requested that a rehearing be conducted to revise its allowed ROE to 9.9%. Neither Energy Group nor Central Hudson can predict the timing or the final outcome of this petition.

A copy of the 2006 Order is available on Energy Group's website at www.CHEnergyGroup.com.

Financing Petition

On September 21, 2006, the PSC issued an Order authorizing issuance of securities, in response to a financing petition Central Hudson filed on July 3, 2006. The Order authorizes Central Hudson to issue and sell up to \$140 million of medium-term notes through December 31, 2009, and to enter into revolving credit agreements in an amount not to exceed \$125 million and for periods not to exceed five years.

Non-Utility Land Sales

Regulated Electric and Natural Gas Businesses

Commencing April 26, 2005, and updated on May 22, 2006, Central Hudson filed Notices of Intent with the PSC to sell 43 parcels of non-utility real property. On July 22, 2005, the PSC issued an Order stating that the filings shall be reviewed further under Public Service Law Section 70 ("Section 70") to determine the disposition of and the accounting for the potential gains.

On June 23, 2006, the PSC issued an Order approving the proposed transfers of ownership interests in the non-utility property and the recognition of any gains realized upon the transfers for the benefit of shareholders.

During the three months ended September 30, 2006, Central Hudson has sold several parcels of non-utility real property for \$1.8 million in excess of book value and transaction costs, which is recorded as a reduction to Other Expenses of Operation.

Other Businesses

On June 29, 2006, Energy Group (the holding company) sold real property for \$0.7 million in excess of book value and transaction cost.

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Reference is made to Note 4 - "Acquisition, Investments, and Divestitures" to the Consolidated Financial Statements of the Corporations' 10-K Annual Report.

Acquisitions

During the first quarter of 2006, Griffith acquired certain assets of one fuel distribution company for a total of \$390,000. The purchase price allocated to intangible assets (including goodwill) was \$305,000, of which \$145,000 was allocated to goodwill. The principal tangible assets acquired were vehicles.

During the second quarter of 2006, Griffith acquired certain assets of four fuel distribution companies for a total of \$1.7 million. The purchase price allocated to intangible assets (including goodwill) was \$1.4 million, of which \$654,000 was allocated to goodwill. The principal tangible assets acquired were vehicles, petroleum products, and spare parts. All four acquisitions have earn-out provisions, which may increase the purchase price if certain sales volumes are attained.

During the third quarter of 2006, Griffith acquired certain assets of two fuel distribution companies for a total of \$1.0 million. The purchase price allocated to intangible assets (including goodwill) was \$942,000, of which \$478,000 was allocated to goodwill. The principal tangible assets acquired were vehicles and spare parts.

Subsequent to September 30, 2006, Griffith acquired certain assets of a fuel distribution company for \$300,000. The entire purchase price was allocated to intangible assets. No amount of the purchase price was allocated to goodwill.

On April 12, 2006, CHEC purchased a 75% interest in Lyonsdale from Catalyst Renewables Corporation ("Catalyst") for \$10.8 million, including a working capital adjustment of \$1.0 million. CHEC allocated the total purchase price based on the fair value of assets acquired and liabilities assumed as follows: Current Assets of \$1.3 million, Other Property and Plant of \$9.6 million, and Current Liabilities of \$0.1 million. Catalyst remains the owner of a minority share of Lyonsdale and will provide asset management services to Lyonsdale under a contract expiring April 12, 2009. Lyonsdale owns and operates a 19-megawatt, wood-fired, biomass electric generating plant, which began operation in 1992. The plant is located in Lyonsdale, New York. The energy and capacity of the plant is being sold at a fixed price to an investment grade rated counter-party through a long-term contract beginning May 1, 2006, and ending December 31, 2014. The financial statements of Lyonsdale for the period of April 12, 2006, through September 30, 2006, have been fully consolidated into the financial statements of Energy Group.

Investments

Reference is made to the subcaption "Investments" of Note 4 - "Acquisitions, Investments, and Divestitures" to the Consolidated Financial Statements of the Corporations' 10-K Annual Report.

In January 2006, Cornhusker Energy Lexington Holdings, LLC ("Cornhusker Holdings") began operation of its fuel ethanol production facility, located in Lexington, Nebraska. On March 9, 2006, CHEC acquired an additional \$2.0 million of subordinated notes issued by Cornhusker Holdings, bringing the total acquired by CHEC to-date to \$5.0 million.

On March 10, 2006, CHEC invested \$4.9 million in CH-Community Wind Energy,

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LLC, a joint venture between CHEC and Community Energy, Inc. The joint venture closed on its investment in the Bear Creek and Jersey Atlantic wind farm projects, which are both commercially operational. CH-Community Wind Energy, LLC currently owns an 18% minority interest in these projects.

CHEC's investments are accounted for under the equity method.

NOTE 5 - SHORT-TERM INVESTMENTS

Energy Group's short-term investments consist of Auction Rate Securities ("ARS") and Variable Rate Demand Notes ("VRDN"), which have been classified as current available-for-sale securities pursuant to the provisions of SFAS No. 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. Energy Group's investments include tax-exempt ARS and VRDN with interest rates that are reset anywhere from 7 to 35 days. These investments are available to fund current operations or to provide funding in accordance with Energy Group's strategy to redeploy equity into its subsidiaries. Due to the nature of these securities with regard to their interest reset periods, the aggregate carrying value approximates their fair value, thereby not impacting shareholders equity with regard to unrealized gains and losses. The aggregate fair value of these short-term investments was \$40.3 million at September 30, 2006, \$42.1 million at December 31, 2005, and \$49.6 million at September 30, 2005. Cash flows from the purchases and liquidation of these investments are reported separately as investing activities in Energy Group's Consolidated Statements of Cash Flow.

NOTE 6 - SEGMENTS AND RELATED INFORMATION

Reference is made to Note 12 - "Segments and Related Information" to the Consolidated Financial Statements of the Corporations' 10-K Annual Report.

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 CHEC. The investments and business development activities of Energy Group and the energy efficiency and investment activities of CHEC, including its ownership interests in ethanol, wind, and biomass energy projects, are reported under the heading "Unregulated - Other."

Certain additional information regarding these segments is set forth in the following tables. General corporate expenses, Central Hudson property common to both electric and natural gas segments, and the depreciation of Central Hudson's

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common property have been allocated in accordance with practices established for regulatory purposes.

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

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CH Energy Group, Inc. Segment Disclosure

(In Thousands, Except Earnings Per Share)	Quarter Ended September 30, 2006				
	Regulated		Unregulated		EL
	Electric	Natural Gas	Fuel Distribution	Other	
Revenues from external customers	\$ 154,723	\$ 18,384	\$ 64,266	\$ 2,447	\$
Intersegment revenues	3	38	--	--	
Total revenues	\$ 154,726	\$ 18,422	\$ 64,266	\$ 2,447	\$
Earnings (loss) before income taxes	\$ 17,423	\$ (1,358)	\$ (3,882)	\$ 3,179	\$
Net (loss) income	\$ 11,207	\$ (676)	\$ (2,329)	\$ 2,768	\$
Earnings (Loss) Per Share - Diluted	\$ 0.71	\$ (0.04)	\$ (0.15)	\$ 0.18 (1)	\$
Segment Assets at September 30, 2006	\$ 827,095	\$ 286,931	\$ 141,285	\$ 99,219	\$

(1) The amount of earnings per share ("EPS") attributable to CHEC's other business activities was \$0.12 per share, with the balance of \$0.06 per share resulting primarily from interest income and business development activities.

(2) Includes minority interest of \$1,501 related to Lyonsdale.

(In Thousands, Except Earnings Per Share)	Nine Months Ended September 30, 2006				
	Regulated		Unregulated		EL
	Electric	Natural Gas	Fuel Distribution	Other	
Revenues from external customers	\$ 398,700	\$ 125,651	\$ 242,325	\$ 4,267	\$
Intersegment revenues	11	277	--	--	
Total revenues	\$ 398,711	\$ 125,928	\$ 242,325	\$ 4,267	\$

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Earnings before income taxes	\$ 33,615	\$ 11,699	\$ (92)	\$ 7,366	\$
Net income	\$ 20,515	\$ 6,709	\$ (55)	\$ 6,169	\$
Earnings Per Share - Diluted	\$ 1.30	\$ 0.43	\$ (0.01)	\$ 0.39(1)	\$
Segment Assets at September 30, 2006	\$ 827,095	\$ 286,931	\$ 141,285	\$ 99,219	\$

(1) The amount of EPS attributable to CHEC's other business activities was \$0.18 per share, with the balance of \$0.21 per share resulting primarily from interest income and business development activities.

(2) Includes minority interest of \$1,501 related to Lyonsdale.

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(In Thousands, Except Earnings Per Share)	Quarter Ended September 30, 2005				Eli
	Regulated		Unregulated		
	Electric	Natural Gas	Fuel Distribution	Other	
Revenues from external customers	\$ 159,589	\$ 14,115	\$ 54,008	\$ 184	\$
Intersegment revenues	3	14	--	--	
Total revenues	\$ 159,592	\$ 14,129	\$ 54,008	\$ 184	\$
Earnings (loss) before income taxes	\$ 13,084	\$ (1,957)	\$ (3,967)	\$ 950	\$
Net (loss) income	\$ 7,750	\$ (1,107)	\$ (2,381)	\$ 1,484	\$
Earnings (Loss) Per Share - Diluted	\$ 0.49	\$ (0.07)	\$ (0.15)	\$ 0.09(1)	\$
Segment Assets at September 30, 2005	\$ 813,955	\$ 276,170	\$ 138,088	\$ 117,716	\$

(1) Reflects Energy Group earnings of \$0.09 per share attributable primarily to the recording of New York State income tax benefits of \$0.05 per share related to the completion of the Energy Group tax audit as well as investment and business development activities.

(In Thousands, Except
Earnings Per Share) ----- Nine Months Ended September 30, 2005

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	Regulated		Unregulated		Eli
	Electric	Natural Gas	Fuel Distribution	Other	
Revenues from external customers	\$ 392,866	\$ 108,687	\$ 201,362	\$ 639	\$
Intersegment revenues	9	218	--	--	
Total revenues	\$ 392,875	\$ 108,905	\$ 201,362	\$ 639	\$
Earnings before income taxes	\$ 33,782	\$ 12,230	\$ 1,317	\$ 3,278	\$
Net income	\$ 20,098	\$ 7,163	\$ 789	\$ 4,569	\$
Earnings Per Share - Diluted	\$ 1.28	\$ 0.45	\$ 0.05	\$ 0.29(1)	\$
Segment Assets at September 30, 2005	\$ 813,955	\$ 276,170	\$ 138,088	\$ 117,716	\$

(1) The amount of EPS attributable to CHEC's other business activities was \$0.02 per share; the balance of \$0.27 per share resulted primarily from the recording of New York State income tax benefits of \$0.14 per share related to the completion of the Energy Group tax audit as well as investment and business development activities.

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Central Hudson Gas & Electric Corporation Segment Disclosure

	(In Thousands)		
	Quarter Ended September 30, 2006		
	Electric	Natural Gas	Elimination
Revenues from external customers	\$ 154,723	\$ 18,384	\$ -
Intersegment revenues	5	38	(4)
Total Revenues	\$ 154,728	\$ 18,422	\$ (4)
Earnings before income taxes	\$ 17,665	\$ (1,358)	\$ -
Net Income	\$ 11,390	\$ (617)	\$ -
Income Available for Common Stock	\$ 11,207	\$ (676)	\$ -
Segment Assets at September 30, 2006	\$ 827,095	\$ 286,931	\$ -

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	(In Thousands)			Nine Months Ended September 30,		
	Electric	Natural Gas	Elimination	Electric	Natural Gas	Elimination
Revenues from external customers	\$ 398,700	\$ 125,651	\$ -	\$ 398,700	\$ 125,651	\$ -
Intersegment revenues	11	277	(28)	11	277	(28)
Total Revenues	\$ 398,711	\$ 125,928	\$ (28)	\$ 398,711	\$ 125,928	\$ (28)
Earnings before income taxes	\$ 34,160	\$ 11,881	\$ -	\$ 34,160	\$ 11,881	\$ -
Net Income	\$ 21,065	\$ 6,886	\$ -	\$ 21,065	\$ 6,886	\$ -
Income Available for Common Stock	\$ 20,515	\$ 6,709	\$ -	\$ 20,515	\$ 6,709	\$ -
Segment Assets at September 30, 2006	\$ 827,095	\$ 286,931	\$ -	\$ 827,095	\$ 286,931	\$ -

	(In Thousands)			Quarter Ended September 30, 2006		
	Electric	Natural Gas	Elimination	Electric	Natural Gas	Elimination
Revenues from external customers	\$ 159,589	\$ 14,115	\$ -	\$ 159,589	\$ 14,115	\$ -
Intersegment revenues	3	14	(1)	3	14	(1)
Total Revenues	\$ 159,592	\$ 14,129	\$ (1)	\$ 159,592	\$ 14,129	\$ (1)
Earnings before income taxes	\$ 13,266	\$ (1,897)	\$ -	\$ 13,266	\$ (1,897)	\$ -
Net Income	\$ 7,932	\$ (1,047)	\$ -	\$ 7,932	\$ (1,047)	\$ -
Income Available for Common Stock	\$ 7,750	\$ (1,107)	\$ -	\$ 7,750	\$ (1,107)	\$ -
Segment Assets at September 30, 2005	\$ 813,955	\$ 276,170	\$ -	\$ 813,955	\$ 276,170	\$ -

	(In Thousands)			Nine Months Ended September 30,		
	Electric	Natural Gas	Elimination	Electric	Natural Gas	Elimination
Revenues from external customers	\$ 392,866	\$ 108,687	\$ -	\$ 392,866	\$ 108,687	\$ -
Intersegment revenues	9	218	(22)	9	218	(22)
Total Revenues	\$ 392,875	\$ 108,905	\$ (22)	\$ 392,875	\$ 108,905	\$ (22)

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Earnings before income taxes	\$ 34,327	\$ 12,412	\$	-
Net Income	\$ 20,644	\$ 7,344	\$	-
Income Available for Common Stock	\$ 20,098	\$ 7,163	\$	-
Segment Assets at September 30, 2005	\$ 813,955	\$ 276,170	\$	-

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NOTE 7 - 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 Consolidated Financial Statements of the Corporations' 10-K Annual Report.

Classification of Options and Similar Instruments Issued as Employee Compensation that Allow for Cash Settlement Upon the Occurrence of a Contingent Event

On February 3, 2006, the FASB issued FASB Staff Position ("FSP") No. FAS 123(R)-4, titled Classification of Options and Similar Instruments Issued as Employee Compensation that Allow for Cash Settlement Upon the Occurrence of a Contingent Event ("FSP FAS 123(R)-4"). This FSP addresses the classification of options and similar instruments issued as employee compensation that allow for cash settlement upon the occurrence of a contingent event, such as a change in control or other liquidity event of the company, death or disability of the holder, or an initial public offering. FSP FAS 123(R)-4 amends FASB Statement No. 123(R), titled Share-Based Payment ("SFAS 123(R)"), to address such situations.

The guidance in this FSP is effective with the adoption of SFAS 123(R). For Energy Group, SFAS 123(R) was adopted effective January 1, 2006. The provisions of this FSP do not currently apply to Energy Group or its subsidiaries.

Accounting for Certain Hybrid Financial Instruments - an Amendment of FASB Statements Nos. 133 and 140

In March 2006, the FASB issued SFAS No. 155, titled Accounting for Certain Hybrid Financial Instruments, an Amendment of FASB Statements No. 133 and 140 ("SFAS 155"). SFAS 155 modifies requirements for financial reporting for certain hybrid financial instruments by requiring more consistent accounting which eliminates exemptions and provides a means to simplify the accounting for these instruments. SFAS 155 also resolves issues addressed in Statement 133 Implementing Issue No. D1, titled Application of Statement 133 to Beneficial Interests in Securitized Financial Assets.

SFAS 155 is effective for all financial instruments acquired or issued after the beginning of the first fiscal year that begins after September 15, 2006, with earlier application permitted. If applicable, Energy Group would expect to adopt SFAS 155 as of January 1, 2007. The provisions of SFAS 155 do not currently apply to Energy Group or its subsidiaries, as they do not have hybrid financial instruments as defined by SFAS 155.

Presentation of Governmental Taxes in the Income Statement

In June 2006, the Emerging Issues Task Force ("EITF") ratified a consensus on EITF Issue No. 06-3, titled How Taxes Collected from Customers and Remitted to Governmental Authorities Should be Presented in the Income Statement. This Issue focused on any taxes assessed by a governmental authority that are imposed concurrently on specific revenue-producing transactions between a seller and a customer and how they should be presented in the income statement. Taxes assessed on an entity's activities over a period of time, such as gross receipts taxes, are not within the scope of the Issue. The presentation of taxes on either a gross (i.e. included in revenues and costs) or net basis (i.e. excluded from revenues) is an accounting policy decision that should be disclosed pursuant to APB Opinion No. 22, titled Disclosure of Accounting Policies. Tax amounts deemed significant when reporting on a gross basis should be disclosed for interim and annual financial statements for each period for which an income statement is presented.

This Issue does not require an entity to reevaluate its existing classification policies related to taxes assessed by a governmental authority but does require the presentation of additional disclosures.

This Issue is applicable to financial reports for interim and annual reporting periods beginning after December 15, 2006, with earlier application permitted.

Energy Group does not expect this Issue to have any impact on the financial condition, results of operations, or cash flows of Energy Group or its subsidiaries.

Accounting for Uncertain Tax Positions

In July 2006, the FASB issued Interpretation No. 48, titled Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109 ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements in accordance with FASB Statement No. 109, titled Accounting for Income Taxes. FIN 48 also prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting for interim periods, and disclosure and transition issues.

The evaluation of a tax position in accordance with FIN 48 is a two-step process. The first step is a recognition process whereby the entity determines whether it is more likely than not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. In evaluating whether a tax position has met the more likely than not recognition threshold, the entity should presume that the position will be examined by the appropriate taxing authority that has full knowledge of all relevant information. The second step is a measurement process whereby a tax position that meets the more likely than not recognition threshold is calculated to determine the amount of benefit to

recognize in the financial statements. The tax position is measured as the largest amount of benefit that is greater than 50% likely of being realized upon

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ultimate settlement.

The provisions of FIN 48 are effective for fiscal years beginning after December 15, 2006, and are to be applied to all tax positions upon initial adoption of this standard. Only tax positions that meet the more likely than not recognition threshold at the effective date may be recognized or continue to be recognized upon adoption of FIN 48. The cumulative effect of applying the provisions of FIN 48 should be reported as an adjustment to the opening balance of retained earnings for that fiscal year.

The implementation of FIN 48 is not expected to have a material impact on the financial condition, results of operations, or cash flows of Energy Group or its subsidiaries.

Pension Protection Act of 2006

On August 17, 2006, President Bush signed the Pension Protection Act of 2006 ("Pension Act") into law. It introduces new funding requirements for single and multi-employer defined benefit pension plans, provides legal certainty for cash balance and other hybrid plans, and addresses contributions to defined contribution plans, deduction limits for contributions to retirement plans, and investment advice provided to plan participants. The new defined benefit funding rules are effective for plan years beginning after December 31, 2007. Certain transition rules will apply for 2008 through 2010. Energy Group is reviewing the potential impacts of the Pension Act. At the present time, neither Energy Group nor Central Hudson can predict the impact that the Pension Act may have on the financial condition, results of operations, or cash flows of Energy Group or its subsidiaries.

Fair Value Measurements

On September 6, 2006, FASB issued SFAS No. 157, titled Fair Value Measurement ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 applies under other accounting pronouncements that require or permit fair value measurements, the FASB having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, SFAS 157 does not require any new fair value measurements. However, for some entities, the application of SFAS 157 will change current practice. The changes to current practice resulting from the application of SFAS 157 relate to the definition of fair value, the methods used to measure fair value, and the expanded disclosure about fair value measurement.

SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. SFAS 157 also stipulates that, as a market-based measurement,

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fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability and establishes a fair value hierarchy that distinguishes between (a) market participant assumptions developed based on market data obtained from sources independent of the reporting entity and (b) the reporting entity's own assumptions about market participant assumptions developed based on the best information available in the circumstances.

SFAS 157 is effective for financial statements issued for fiscal years

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beginning after November 15, 2007, and interim periods within those fiscal years, with early adoption permitted. Energy Group does not expect SFAS 157 to have a significant impact on the financial condition, results of operations, or cash flows of Energy Group or its subsidiaries.

Financial Statements - Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements

On September 13, 2006, the SEC issued Staff Accounting Bulletin ("SAB") No. 108, titled Financial Statements - Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements ("SAB 108"). SAB 108 is intended to provide guidance on how prior year misstatements should be taken into consideration when quantifying misstatements in the current year financial statements for the purpose of determining whether the current year's financial statements are materially misstated. The SEC indicates that both the "iron curtain" and "rollover" approaches should be used in quantifying a current year misstatement for purposes of determining its materiality. The "iron curtain" approach focuses on how the current year's balance sheet would be affected in correcting a misstatement without considering the year(s) in which the misstatement originated. The "rollover" approach focuses on the amount of the misstatement that originated in the current year's income statement. In SAB 108, the SEC indicates that the registrant must quantify the impact of correcting all misstatements, including both the carry-over and reversing effects of prior year misstatements, on the current year financial statements.

The guidance in SAB 108 is effective the first fiscal year ending after November 15, 2006, though early application in an interim period is encouraged. Energy Group does not expect SAB 108 to have any impact on the financial condition, results of operations, or cash flows of Energy Group or its subsidiaries.

Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans

On September 29, 2006, the FASB issued Statement No. 158, titled Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an Amendment of FASB Statements No. 87, 88, 106, and 132(R) ("SFAS 158"). SFAS 158 requires an employer that sponsors a defined benefit post-retirement plan to report the current economic status (i.e. the overfunded or underfunded status) of the plan in its statement of financial position. Moreover, SFAS 158 requires an employer to measure the plan assets and plan obligations as of the date of its statement of financial position

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rather than as of a measurement date that is up to three months before the end of its fiscal year. As a result of SFAS 158, reported financial information will measure plan assets and benefit obligations on the same date as the employer's assets and liabilities and reflect all changes in a plan's overfunded or underfunded status as such changes arise. Pursuant to SFAS 87 and SFAS 106, titled Employers' Accounting for Postretirement Benefits Other Than Pensions, the resultant change in status of the liability or prepaid asset will be recognized as a component of other comprehensive income ("OCI").

Pursuant to SFAS 71 and under the policy of the PSC regarding pension and OPEB costs, Central Hudson has historically recovered its net periodic pension and OPEB costs through customer rates, with differences from rate allowances deferred for future recovery from or return to customers as a regulatory asset or regulatory liability. Consistent with this policy, changes in the funded status will be recognized as such, rather than in OCI.

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SFAS 158 is effective for fiscal years ending after December 15, 2006, which for Energy Group would be fiscal year ended December 31, 2006, with an exception for the provision to change the measurement date, which is effective for fiscal years ending after December 15, 2008.

Energy Group is currently assessing the impact that the adoption of SFAS 158 will have on the financial condition, results of operations, or cash flows of Energy Group or its subsidiaries.

Amendment of FASB Staff Position FAS 123(R)-1

On October 10, 2006, the FASB FSP No. FAS 123(R)-5, titled Amending Guidance for Accounting for Modifications of Instruments in Connection with Equity Restructuring ("FSP FAS 123(R)-5"). FSP FAS 123(R)-5 addresses whether a modification of an instrument in connection with an equity restructuring should be considered a modification for purposes of applying FSP No. FAS 123(R)-1. It stipulates that for instruments that were originally issued as employee compensation and then modified solely to reflect an equity restructuring that occurs when the holders are no longer employees, that there is no change in the recognition or measurement of those instruments if (a) there is no increase in fair value of the award and (b) all holders of the same class of instruments are treated in the same manner.

The guidance in FSP FAS 123(R)-5 is effective in the first reporting period beginning after October 10, 2006. Early application is permitted in periods for which financial statements have not been issued. The provisions of FSP FAS 123(R)-5 do not currently apply to Energy Group or its subsidiaries.

Technical Corrections of FASB Statement No. 123(R)

On October 20, 2006, the FASB issued FSP No. FAS 123(R)-6, titled Technical Corrections of FASB Statement No. 123(R) ("FSP FAS 123(R)-6"). FSP FAS 123(R)-6

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was issued to make several technical corrections to SFAS 123(R), to the following Paragraphs as specified: A240(d)(1) to exempt non-public entities from disclosing the aggregate intrinsic value of outstanding fully vested share options; A102 of Illustration 4(b) to revise the computation of the minimum compensation cost that must be recognized; A170 of Illustration 13(e) to indicate that at the date the illustrative awards were no longer probable of vesting, any previously recognized compensation cost should have been reversed; E1 to change the definition of short-term inducement to exclude an offer to settle an award.

The guidance in FSP FAS 123(R)-6 is effective in the first reporting period beginning after October 20, 2006. Early application is permitted in periods for which financial statements have not yet been issued. Energy Group is currently assessing the impact, if any, that the adoption of FSP FAS 123(R)-6 will have on the financial condition, results of operations, or cash flows of Energy Group or its subsidiaries.

NOTE 8 - EQUITY-BASED COMPENSATION INCENTIVE PLANS

Reference is made to Note 10 - "Equity-Based Compensation Incentive Plans" to the Consolidated Financial Statements of the Corporations' 10-K Annual Report and to the description of Energy Group's Long-Term Performance-Based Incentive Plan (the "2000 Plan") described therein.

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Energy Group has adopted a Long-Term Equity Incentive Plan (the "2006 Plan") to replace the 2000 Plan. The 2006 Plan was approved by Energy Group's shareholders on April 25, 2006. The 2000 Plan has been terminated, with no new awards to be granted under such plan. Outstanding awards granted under the 2000 Plan will continue in accordance with their terms and the provisions of the 2000 Plan.

The 2006 Plan reserves up to a maximum of 300,000 shares of Common Stock for awards to be granted under the 2006 Plan. Awards may consist of stock option rights, stock appreciation rights, performance shares, performance units, restricted shares, restricted stock units, and other awards that Energy Group's Compensation Committee of its Board of Directors ("Compensation Committee") may authorize. The Compensation Committee may also, from time to time and upon such terms and conditions as it may determine, authorize the granting to non-employee Directors of stock option rights, stock appreciation rights, restricted shares, and restricted stock units.

In addition to the aggregate limit in the awards described above, the 2006 Plan imposes various sub-limits on the number of shares of Common Stock that may be issued or transferred under the 2006 Plan. The aggregate number of shares of Common Stock actually issued or transferred by Energy Group upon the exercise of incentive stock options shall not exceed 300,000 shares. No participant shall be granted stock option rights and stock appreciation rights, in aggregate, for more than 15,000 shares of Common Stock during any calendar year. No participant in any calendar year shall receive an award of performance shares or restricted shares that specify management objectives, in the aggregate, for more than 20,000 shares of

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Common Stock, or performance units having an aggregate maximum value as of their respective date of grant in excess of \$1 million. The number of shares of Common Stock issued as stock appreciation rights, restricted shares, and restricted stock units (after taking forfeitures into account) shall not exceed, in the aggregate, 100,000 shares of Common Stock.

Performance shares were granted, in aggregate, to executives covered under the 2000 Plan in the amount of 29,300 shares and 23,000 shares, on January 1, 2004, and January 1, 2005, respectively. Performance shares were granted, in aggregate, to executives covered under the 2006 Plan in the amount of 20,710 shares on April 25, 2006. Due to the retirement of Energy Group's former Chairman in mid-2004, pro-rated shares of the 2004 grants were awarded to him in 2004. As of September 30, 2006, the number of performance shares that remain outstanding are as follows: 19,800 from the 2004 grant, 23,000 from the 2005 grant, and 20,710 from the 2006 grant. The ultimate number of shares earned under the awards is based on metrics established by the Compensation Committee at the beginning of the award cycle. Compensation expense is recorded as performance shares are earned over the relevant three-year life of the performance share grant prior to its award. Compensation expense recorded related to performance shares for the quarters ended September 30, 2006, and 2005, was \$397,000 and \$121,000, respectively. Compensation expense related to performance shares for the nine months ended September 30, 2006, was \$816,000 and was not material for the same period in 2005.

A summary of the status of stock options awarded to executives and non-employee Directors of Energy Group and its subsidiaries under the 2000 Plan as of September 30, 2006, is as follows:

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	Stock Option Shares	Weighted Average Exercise Price	Weighted Average Remaining Life in Years
Outstanding at 12/31/05	73,300	\$ 46.18	5.99
Granted	--	--	--
Exercised	(7,800)	\$ 43.64	--
Expired/Cancelled	--	--	--
Outstanding at 9/30/06	65,500	\$ 46.49	5.34
Total Shares Outstanding	15,762,000		
Potential Dilution	0.4%		

A total of 7,800 non-qualified stock options with exercise prices of \$31.94, \$44.06, and \$48.62 were exercised during the nine months ended September 30, 2006. Total intrinsic value of options exercised was not material.

Compensation expense related to stock options recorded for the nine months ended September 30, 2006, and 2005, was not material. The balance accrued at September 30, 2006, for outstanding stock options was \$213,000. The intrinsic value of options outstanding was not material.

The following table summarizes information concerning outstanding and exercisable stock options at September 30, 2006, by exercise price:

Exercise Price	Number of Options Outstanding	Weighted Average Remaining Life in Years	Number of Options Exercisable	Number of Options Remaining to Vest
\$31.94	320	3.25	320	--
\$44.06	29,480	4.25	29,480	--
\$48.62	35,700	6.25	30,525	5,175
	65,500	5.34	60,325	5,175

The weighted average exercise price of options remaining to vest is \$48.62, with a weighted average remaining life of 6.50 years.

Energy Group adopted SFAS 123(R) effective January 1, 2006, using the modified prospective application with no significant impact on its financial condition, results of operations, or cash flows. Under this application, all new awards as of January 1, 2006, and any outstanding awards that may be modified, repurchased, or cancelled will be accounted for under SFAS 123(R).

NOTE 9 - INVENTORY

Fuel, materials, and supplies for Energy Group includes the inventory of Central Hudson, Griffith, and Lyonsdale. Inventory for Central Hudson is valued at average cost. Inventory for Griffith is valued using the "first-in, first-out" (or "FIFO") inventory

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method. Inventory for Lyonsdale is valued using the weighted average inventory method.

	Energy Group		
	September 30, 2006	December 31, 2005	September 30, 2005
(In Thousands)			
Natural Gas	\$ 17,794	\$ 16,512	\$ 19,014
Petroleum Products and Propane	4,139	4,138	4,276
Fuel Used In Electric Generation	142	--	--
Materials and Supplies	8,455	7,700	7,899
Total	\$ 30,530	\$ 28,350	\$ 31,189

	Central Hudson		
	September 30, 2006	December 31, 2005	September 30, 2005
(In Thousands)			
Natural Gas	\$ 17,794	\$ 16,512	\$ 19,014
Petroleum Products and Propane	745	758	764
Materials and Supplies	6,502	6,141	6,326
Total	\$ 25,041	\$ 23,411	\$ 26,104

NOTE 10 - POST-EMPLOYMENT BENEFITS

The following are the components of Central Hudson's net periodic benefits costs for its pension and OPEB plans for the quarters and nine months ended September 30, 2006, and 2005. The OPEB amounts for both years reflect the effect

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of the Medicare Prescription Drug, Improvement and Modernization Act of 2003 under the provisions of FSP 106-2, titled Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003.

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	Quarter Ended September 30,			
	Pension Benefits		OPEB	
	2006 (In Thousands)	2005 (In Thousands)	2006 (In Thousands)	2005 (In Thousands)
Service cost	\$ 1,985	\$ 1,837	\$ 830	\$ 667
Interest cost	5,577	5,489	2,005	1,900
Expected return on plan assets	(6,709)	(5,808)	(1,496)	(1,659)
Amortization of:				
Prior service cost	542	535	(314)	(868)
Transitional (asset) or obligation	--	--	641	641
Recognized actuarial (gain) or loss	3,240	3,331	1,077	1,775
Net periodic benefit cost	\$ 4,635	\$ 5,384	\$ 2,743	\$ 2,456

	Nine Months Ended September 30,			
	Pension Benefits		OPEB	
	2006 (In Thousands)	2005 (In Thousands)	2006 (In Thousands)	2005 (In Thousands)
Service cost	\$ 5,955	\$ 5,511	\$ 2,492	\$ 2,602
Interest cost	16,730	16,466	6,015	6,691
Expected return on plan assets	(20,127)	(17,425)	(4,489)	(4,216)
Amortization of:				
Prior service cost	1,625	1,606	(942)	(942)
Transitional (asset) or obligation	--	--	1,924	1,924
Recognized actuarial (gain) or loss	9,721	9,994	3,230	5,114
Net periodic benefit cost	\$13,904	\$16,152	\$ 8,230	\$11,173

Decisions to fund Central Hudson's pension plan (the "Retirement Plan") are based on several factors including the value of plan assets relative to plan

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liabilities, legislative requirements, and available corporate resources. The liabilities are affected by the discount rate used to determine benefit obligations. Central Hudson is currently reviewing the provisions of the Pension Act to determine funding requirements for the near-term and future periods.

Employer contributions for OPEB totaled \$3.3 million during the nine months ended September 30, 2006. The total contribution to be made in 2006 is expected to be

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less than the 2005 amount of \$6.1 million due to a reduction in expected future medical claims as a result of recent favorable claims experience.

Effective January 1, 2006, a non-qualified Supplemental Executive Retirement Plan replaced the non-qualified Supplementary Retirement Plan and the Retirement Benefit Restoration Plan.

For additional information related to pensions and OPEB, please see Note 9 - "Post-Employment Benefits" to the Consolidated Financial Statements of the Corporations' 10-K Annual Report.

NOTE 11 - COMMITMENTS AND CONTINGENCIES

Energy Group and Central Hudson face a number of contingencies which arise during the normal course of business and which have been discussed in Note 11 - "Commitments and Contingencies" to the Consolidated Financial Statements of the Corporations' 10-K Annual Report and to which reference is made.

City of Poughkeepsie

On January 1, 2001, a fire destroyed a multi-family residence on Taylor Avenue in the City of Poughkeepsie, New York resulting in several deaths and damage to nearby residences. Eight separate lawsuits arising out of this incident have been commenced in New York State Supreme Court, County of Dutchess, by approximately 24 plaintiffs against Central Hudson and other defendants, each lawsuit alleging that Central Hudson supplied the Taylor Avenue residence with natural gas service for cooking purposes at the time of the fire. The basis for the claimed liability of Central Hudson in these actions is that it was allegedly negligent in the supply of such natural gas. The suits seek an aggregate of \$528 million in compensatory damages for alleged property damage, personal injuries, wrongful death, and loss of consortium or services. Central Hudson has notified its insurance carrier, has denied liability, and is defending the lawsuits. Based on information known to Central Hudson at this time, including information from ongoing discovery proceedings in the lawsuits, Central Hudson believes that the likelihood it will have a liability in these lawsuits is remote.

Environmental Matters

Central Hudson:

Water

In February 2001, Central Hudson received a letter from the New York State Department of Environmental Conservation ("DEC") indicating that it must terminate the discharge from an internal sump at its Neversink Hydroelectric Facility ("Neversink") into a regulated stream or obtain a State Pollutant Discharge Elimination System permit for such discharge. Central Hudson filed for a draft permit in May 2001; the DEC subsequently issued a draft permit on

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January 15, 2003. Central Hudson has submitted comments on that draft permit to the DEC, and the DEC continues to review those

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comments. On October 3, 2006, Neversink was transferred to the City of New York ("the City"). Prior to this transfer and pursuant to the agreement between Central Hudson and the City for the conveyance of the Neversink, both Central Hudson and the City certified an application to the DEC for the transfer of the draft permit and its associated application to the City effective October 3, 2006. For additional details concerning this matter, see the caption "Neversink Hydro Station" of this Note 11.

Air

In October 1999, Central Hudson was informed by the New York State Attorney General ("Attorney General") that the Danskammer Point Steam Electric Generating Station ("Danskammer Plant") was included in an investigation by the Attorney General's Office into the compliance of eight older New York State coal-fired power plants with federal and state air emissions rules. Specifically, the Attorney General alleged that Central Hudson "may have constructed, and continues to operate, major modifications to the Danskammer Plant without obtaining certain requisite preconstruction permits." As part of this investigation, Central Hudson has received several requests for information from the Attorney General, the DEC, and the United States Environmental Protection Agency ("EPA") seeking information about the operation and maintenance of the Danskammer Plant during the period from 1980 to 2000, including specific information regarding approximately 45 projects conducted during that period. In March 2000, the EPA assumed responsibility for the investigation. Central Hudson has completed its production of documents in connection with the information requests, and believes any permits required for these projects were obtained in a timely manner. Notwithstanding Central Hudson's sale of the Danskammer Plant on January 30, 2001, Central Hudson could retain liability depending on the type of remedy, if any, imposed in connection with this matter.

Former Manufactured Gas Plant Facilities

In 1986, the DEC added to the New York State Registry of Inactive Hazardous Waste Disposal Sites ("Registry") six sites at which MGP owned or operated by Central Hudson or its predecessors were once located. Two additional MGP sites were identified by Central Hudson but not placed on the Registry by the DEC. Three of the eight sites identified are in Poughkeepsie, New York (at Laurel Street, North Water Street, and North Perry Street); the remaining five sites are in Newburgh, Beacon, Saugerties, Kingston, and Catskill, New York. Central Hudson studied all eight sites to determine whether or not they contain any hazardous wastes which could pose a threat to the environment or public health and, if wastes were located at the sites, to determine whether or not remedial actions should be considered. The DEC subsequently removed the six sites it had previously placed on the Registry, subject to future revisions of its testing methods. The DEC subsequently revised its testing methods. As discussed below, the Laurel Street, North Water Street, North Perry Street, Newburgh, Beacon, and Catskill sites have been the subject of further discussions and agreements with the DEC. In addition, as also discussed below, the Saugerties and Kingston sites have been the subject of discussions with the DEC and, regarding the Kingston site, with a private developer.

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Central Hudson also became aware of information contained in a DEC Internet website indicating that, in addition to the eight sites referenced above, Central Hudson was attributed with responsibility for three additional MGP sites in New York State, located on Broadway in Kingston, at Vassar College in Poughkeepsie, and on Water Street in Newburgh. In response to the website, Central Hudson has shown the DEC that no MGP ever operated at the Broadway, Kingston location. Rather, the location is likely to have been used for an office associated with the MGP site at East Strand Street, Kingston. In addition, Central Hudson has shown the DEC that it never owned or operated an MGP at Vassar College. The DEC has agreed to drop the Broadway, Kingston, and Vassar sites as attributed to Central Hudson. The site identified as the Water Street, Newburgh site is, to Central Hudson's knowledge, an MGP site that ceased operations in the 1880's. The land upon which the plant was located was sold in 1891, before the stock of the MGP site's former operator, Consumers Gas Company of Newburgh, New York was acquired in 1900-01 by Newburgh Light, Heat and Power Company, which was later consolidated with several other companies to form Central Hudson. The DEC is currently considering whether it will agree to drop this site as attributable to Central Hudson.

City of Newburgh: In October 1995, Central Hudson and the DEC entered into an Order on Consent regarding the development and implementation of an investigation and remediation program for Central Hudson's MGP site in Newburgh, New York, the City of Newburgh's adjacent and nearby property, and the adjoining areas of the Hudson River ("the site"). The City of Newburgh filed a lawsuit against Central Hudson in the United States District Court for the Southern District of New York alleging violation by Central Hudson of, among others, federal environmental laws and seeking damages of at least \$70 million.

After a 1998 jury award of \$16 million in that lawsuit, reflecting the estimated cost of environmental remediation and damages, Central Hudson and the City of Newburgh entered into a court-approved Settlement Agreement in 1999 under which, among other things, (i) Central Hudson agreed to remediate the City of Newburgh's property at Central Hudson's cost pursuant to the DEC's October 1995 Order on Consent and (ii) if the total cost of the remediation were less than \$16 million, Central Hudson would pay the City of Newburgh an additional amount up to \$500,000 depending on the extent to which the cost of remediation was less than \$16 million.

Further studies by Central Hudson of the City of Newburgh's property were provided to the DEC, which determined that the contaminants found may pose a significant threat to human health or the environment. As a result, Central Hudson developed a draft Feasibility Study Report ("Feasibility Report") which was filed with the DEC and provided to the City of Newburgh in 1999. After review of the Feasibility Report by the DEC and the New York State Department of Health ("DOH") and additional sampling by Central Hudson, Central Hudson submitted revised risk assessments in June 2001, which also encompassed additional cleanup of Hudson River sediments and property owned by the City of Newburgh.

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The DEC and the DOH approved the revised risk assessments. The Feasibility Report was revised based on the revised assessments and filed with the DEC on October 29, 2003.

On February 24, 2005, the DEC issued a Proposed Remedial Action Plan ("PRAP") for public review and comment. The PRAP proposed a \$22.9 million remediation plan which is similar in scope to one previously submitted by Central Hudson, although it also includes a contingency fund and a projected

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expense for continued maintenance and monitoring at the site. The PRAP was the subject of a public hearing in the City of Newburgh on March 17, 2005. A public comment period remained open until April 30, 2005. The DEC issued its Record of Decision ("ROD") on December 2, 2005, confirming that the cleanup identified in the PRAP will be required to be conducted by Central Hudson.

Central Hudson has entered into a contract with Blasland, Bouck and Lee ("BBL") of Syracuse, New York with a value up to \$1.6 million. Under the contract, BBL will conduct additional required pre-design studies and will assist with development of remediation contract specifications and remediation construction oversight assistance, in accordance with the ROD. In September 2006, a contract was awarded to Earthtech for the design and construction of the remedy of a portion of the site. The value of the contract is up to \$2.8 million. Earthtech's design for the remedy on a portion of the site was submitted to the DEC on October 20, 2006.

As of September 30, 2006, approximately \$12.7 million has been spent on the City of Newburgh matter, including the defense of the litigation described above. It is not possible to predict the extent of additional remediation costs that will be incurred in connection with this matter, but Central Hudson believes that such costs could be in excess of \$17 million. As of September 30, 2006, a \$17 million estimate regarding this matter has been recorded as liability, and the expenses have been deferred, subject to the provisions of a PSC Order issued on June 3, 1997, that granted permission for the deferral of these costs subject to an annual PSC review of the specific costs being deferred. Provisions of the 2006 Order confirm that Central Hudson is permitted to continue to defer these costs.

Neither Energy Group nor Central Hudson can make any prediction as to the full financial effect of this matter on either Energy Group or Central Hudson, including the extent, if any, of insurance reimbursement and including implementation of environmental cleanup under the Order on Consent. However, Central Hudson has put its insurers on notice of this matter and intends to seek reimbursement from its insurers for the cost of any liability. Certain of the insurers have denied coverage.

Other MGP Sites: Central Hudson conducted site assessments of the Poughkeepsie Laurel Street, North Water Street, and Beacon sites under Voluntary Cleanup Agreements negotiated in 2000 with the DEC to determine if there are any significant quantities of residues from the MGP operations on the sites and whether any such residues would require remediation. In March 2002, the DEC informed Central Hudson that both it and the DOH had approved Central Hudson's Supplemental

Preliminary Site Assessment for the North Water Street site, which had concluded that the contamination at the site "does not appear to pose a significant threat to public health and the environment." At that time, the DEC and Central Hudson agreed that further investigation at the site would be given lower priority than work at the other Central Hudson MGP sites. In August 2002, however, an oily sheen on the Hudson River adjacent to this site was reported to the DEC. As a result, the DEC revised its priority determination with respect to the North Water Street site and has now given it a high priority for action. In 2004, Central Hudson received approval from the DEC for and conducted additional investigation work at the North Water Street site, which included field work on the site and in the adjacent Hudson River. A report detailing the work and data gathered was filed with the DEC early in 2005. Subsequently, in 2005, Central Hudson provided the DEC with an additional report of an investigation of subsurface conditions near the Hudson River. In June 2006, Central Hudson filed

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an additional report with the DEC that provided additional Hudson River field data requested by the DEC, all past data collected to-date, and proposed that Central Hudson next analyze possible remedial alternatives. Central Hudson has not yet received a response from the DEC to this report. Neither Energy Group nor Central Hudson can predict the extent or cost of any possible remediation at this time.

In March 2004, Central Hudson requested that the Voluntary Cleanup Agreement covering the North Water Street site be converted into a Brownfield Cleanup Agreement under New York State's new Brownfield Cleanup Program. The Brownfield Cleanup Agreement with the DEC was signed and effective May 12, 2005. Central Hudson believes the Brownfield Cleanup Agreement is unlikely to significantly change the amount or cost of any potential remediation of the North Water Street site, but may permit the recovery by Central Hudson of some of the remediation costs through tax credits.

By 2003, Central Hudson had performed a full site investigation and proposed a remediation of the Laurel Street site. The DEC subsequently requested that additional investigation be performed. Central Hudson has performed a limited additional investigation and filed the results with the DEC on September 8, 2006.

In October 2000, Central Hudson was notified by the DEC that it had determined that the Poughkeepsie North Perry Street site posed little or no significant threat to the public and that no additional investigation or action was necessary at the present time. In the last year, the DEC has requested that Central Hudson perform very limited and focused additional investigation at the North Perry Street site. Central Hudson has recently completed such additional investigation, which did not indicate the presence of any significant MGP-related material, and has provided the report to the DEC.

During the fourth quarter of 2001, Central Hudson was advised that the DEC and the DOH found that no further remedial action was necessary at the Beacon site. In January 2006, Central Hudson was advised that property adjacent to the site of the former Beacon site appeared to have soil present that may be contaminated with MGP-related byproducts. In response to this information, Central Hudson has met with the DEC and is providing the additional information it has received characterizing the nature

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and extent of the contamination. Central Hudson has also received the results of additional studies of the adjacent property indicating that MGP-related by-products may be located on a portion of the property. Central Hudson has determined that contaminated soil must be removed from the adjacent property and has filed a plan with the DEC for doing so. No estimate of the cost for removing the contaminated soil at Beacon is available pending DEC approval of the cleanup plan and obtaining bids from qualified vendors for performing the cleanup.

The DEC has also requested that Central Hudson enter into a Brownfield Cleanup Agreement covering the Kingston, Saugerties, and Catskill sites. Regarding the Kingston site, Central Hudson is considering an offer from a third party to purchase the site. In July 2006, Central Hudson and the third party entered into an agreement allowing the third party to conduct an investigation at the site and approach the DEC with a proposal to remediate the site, if the investigation indicates that remediation is necessary. Central Hudson cannot predict whether this sale, which is subject to Section 70 approval by the PSC, will take place. Regarding the Catskill site, Central Hudson has recently executed a Brownfield Cleanup Agreement to investigate and, if necessary, remediate the site. The application has been deemed complete by the DEC and has

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undergone a public review and comment period required by the Brownfield Cleanup Program law. The Brownfield Cleanup Agreement has been executed by the DEC. As required under the Agreement, Central Hudson has filed a draft Preliminary Site Assessment ("PSA") plan with the DEC for its review and approval. Subject to such approval, Central Hudson anticipates performing the PSA for the Catskill site in 2007. Regarding the Saugerties site, Central Hudson has submitted to the DEC an analysis indicating that Central Hudson has no legal responsibility for contamination, if any, at the Saugerties site. The DEC has not yet responded to the submitted analysis.

A recent policy announced by the DEC could require the reopening of one or more of Central Hudson's closed sites should the DEC determine that testing of indoor air quality within structures located near or on the site(s) is warranted. At this time, the DEC has not indicated that it intends to reopen any Central Hudson site.

Central Hudson has developed estimates of the potential costs it could incur in connection with the remediation of four of the MGP sites, namely the City of Newburgh site, the Laurel Street site, the North Water Street site, and the Kingston site. The cost estimates for the Newburgh and Laurel Street sites are based on completed feasibility studies (or their equivalents). The cost estimates for the North Water Street and Kingston sites, however, are considered conceptual and preliminary. Each of the cost estimates involves assumptions relating to investigation expenses, remediation costs, potential future liabilities, and post-remedial monitoring costs, and is based on a variety of factors including projections regarding the amount and extent of contamination, the location, size and use of the sites, proximity to sensitive resources, status of regulatory investigations, and information regarding remediation activities at other MGP sites in New York State. The cost estimates also assume that the proposed remediation techniques are technically feasible and that the remediation plans receive regulatory approval. The cost estimates, when considered in the aggregate, indicate that the total costs in connection with remediation of the four sites could exceed \$125 million over the

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next 30-year period, including the annual cost of operations and maintenance and an annual inflation factor of 2.5%. Central Hudson has already recorded an aggregate of \$19.5 million as liabilities, comprised of \$3.5 million in current liabilities and \$13.5 million in long-term liabilities with respect to the City of Newburgh and \$2.5 million in long-term liabilities with respect to the Laurel Street site. Liabilities for MGP site remediation are generally recorded after entering into an Order on Consent and a ROD with the DEC which specifies the nature and estimated cost at such time the liability becomes probable and estimatable.

For the Laurel Street site remediation, the \$2.5 million estimate was recorded as a liability in June 2002, and the expense was deferred, subject to the provisions of a PSC Order issued on October 25, 2002, that granted permission for the deferral of these and other costs relating to the MGP sites.

During the nine months ended September 30, 2006, Central Hudson spent approximately \$0.3 million related to investigations of these other MGP sites. Future remediation activities and costs may vary significantly from the assumptions used in Central Hudson's current cost estimates. The remediation actions ultimately required at any of the Central Hudson MGP sites could cause a material adverse effect (the extent of which cannot be reasonably estimated) on the financial condition of Energy Group and Central Hudson if Central Hudson were unable to recover all or a substantial portion of these costs through rates and/or insurance. Central Hudson has put its insurers on notice regarding these

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matters and intends to seek reimbursement from its insurers for amounts, if any, for which it may become liable.

Under the provisions of the 2006 Order, described in Note 3 - "Regulatory Matters" of this Quarterly Report on Form 10-Q, Central Hudson will be permitted to defer for future recovery the differences between actual costs for MGP site investigation and remediation and the rate allowances, with carrying charges to be accrued on the deferred balances at the authorized rate of return.

Little Britain Road

In December 1977, Central Hudson purchased property at 410 Little Britain Road, New Windsor, New York. In June 1992, the DEC informed Central Hudson that the DEC was preparing to conduct a PSA of the site. In February 1995, the DEC issued an Order on Consent in which Central Hudson agreed to conduct the PSA. In November 2000, following completion of the PSA, Central Hudson and the DEC entered into a Voluntary Cleanup Agreement that called for remediation of soil contamination. Subsequently, Central Hudson removed approximately 3,100 tons of soil and conducted groundwater sampling. Groundwater sampling results from shallow wells showed presence of certain contaminants at levels exceeding DEC criteria. In late 2005, Central Hudson installed a deep groundwater well and it sampled the well in early 2006. Levels of contaminants exceeding DEC criteria were reported. In July and August 2006, Central Hudson, with DEC approval, installed three additional deep groundwater wells. The wells were sampled in September 2006 and showed that DEC criteria are still being exceeded in several wells. A report on the results of the September sampling

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event has been submitted to the DEC. The wells will be sampled again in December 2006. Central Hudson has put its insurers on notice regarding this matter and intends to seek reimbursement from its insurers for amounts, if any, for which it may become liable. Neither Energy Group nor Central Hudson can predict the outcome of this matter.

Orange County Landfill

Reference is made to the discussion under the subcaption "Orange County Landfill" in Note 11 - "Commitments and Contingencies" to the Consolidated Financial Statements of the Corporations' 10-K Annual Report. The Tolling Agreement dated September 7, 2001, whereby Central Hudson agreed to toll the applicable statute of limitations by certain state agencies against Central Hudson for certain alleged causes of action, has through a series of sequential agreements been extended to November 30, 2006. Settlement discussions are ongoing. Neither Energy Group nor Central Hudson can predict the outcome of this matter.

Newburgh Consolidated Iron Works

By letter from the EPA dated November 28, 2001, Central Hudson, among others, was served with a Request For Information pursuant to the Comprehensive Environmental Response, Compensation and Liability Act regarding any shipments of scrap or waste materials that Central Hudson may have made to Consolidated Iron and Metal Co., Inc. ("Consolidated Iron"), a Superfund site located in Newburgh, New York. Sampling by the EPA indicated that lead and polychlorinated biphenyls (or "PCBs") are present at the site, and the EPA subsequently commenced a remedial investigation and feasibility study at the site. Central Hudson responded to the EPA's information request on January 30, 2002. In its response, Central Hudson stated that it had entered into a contract with Consolidated Iron under which Central Hudson sold scrap metal to Consolidated

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Iron. The term of the contract was from 1988 to 1989. Records of eight and a possible ninth shipment of scrap metal to Consolidated Iron have been identified. No records were found which indicate that the material sold to Consolidated Iron contained or was a hazardous substance. Central Hudson has put its insurers on notice regarding this matter and intends to seek reimbursement from its insurers for amounts, if any, for which it may become liable. Neither Energy Group nor Central Hudson can predict the outcome of this investigation at the present time.

Asbestos Litigation

As of September 30, 2006, of the 3,285 cases brought against Central Hudson, 1,161 remain pending. Of the cases no longer pending against Central Hudson, 1,974 have been dismissed or discontinued without payment by Central Hudson, and Central Hudson has settled 150 cases. Central Hudson is presently unable to assess the validity of the remaining asbestos lawsuits; accordingly, it cannot determine the ultimate liability relating to these cases. Based on information known to Central Hudson at this time, including Central Hudson's experience in settling asbestos cases and in obtaining dismissals of asbestos cases, Central Hudson believes that the costs which may be

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incurred in connection with the remaining lawsuits will not have a material adverse effect on either of Energy Group's or Central Hudson's financial position, results of operations, or cash flows.

CHEC:

Griffith has received a demand addressed to Griffith Consumers Division ("Consumers"), the entity from which Griffith had purchased certain assets of its business, from the CITGO Petroleum Corporation ("CITGO") for defense and indemnification of CITGO in lawsuit commenced on or about March 13, 2001, by James and Casey Threatte against CITGO and Gordon E. Wenner in the Circuit Court for Loudon County, Virginia. The lawsuit seeks compensatory damages of \$1.4 million plus attorney's fees, jointly and severally from CITGO and defendant Wenner, for the alleged contamination of a plaintiff's property in Lovettsville, Virginia, by gasoline containing methyl tertiary butyl ether (or "MTBE") emanating from the neighboring Lovettsville Garage. CITGO maintains that Consumers owes it a defense and indemnification pursuant to a February 1, 1999, Distribution Franchise Agreement pursuant to which CITGO sold gasoline to Consumers, which then resold the gasoline to the Lovettsville Garage. Griffith does not believe it or Consumers is responsible to CITGO in this matter, in part because the supply agreement with the Lovettsville Garage was transferred to another distributor on August 1, 2001, and the transferee agreed to assume any liabilities existing as of that date. Moreover, even if Griffith were determined to be responsible to CITGO, Energy Group believes that CITGO itself is not a proper party to the lawsuit and, therefore, Griffith would be liable only for the reimbursement of defense costs.

Griffith has a voluntary environmental program in connection with the West Virginia Division of Environmental Protection regarding Griffith's Kable Oil Bulk Plant, located in West Virginia. During 2006, \$31,000 was spent on site remediation efforts. The State of West Virginia has indicated that some additional remediation will be required and Griffith has received an estimate of \$300,000 for the environmental remediation. In addition, Griffith spent \$305,000 on remediation efforts in Maryland, Virginia, and Connecticut in 2006. Griffith is to be reimbursed \$422,000 from the State of Connecticut under an environmental agreement and has recorded this amount as a receivable.

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Griffith updated the remediation assessments for its environmental sites. Based upon the results of these assessments, Griffith reduced its environmental reserve by \$865,000 in September 2006. The reserve is \$1.9 million as of September 30, 2006.

On May 31, 2002, CH Services sold all of its stock ownership interest in CH Resources to WPS Power Development, Inc. In connection with the sale, CH Services agreed for four years following the date of this sale to retain up to \$4 million of potential, on-site environmental liabilities which may have been incurred by CH Resources prior to the closing. No such material liabilities have been identified and this indemnification expired in accordance with its terms on May 31, 2006.

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Other Matters

Central Hudson:

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

Neversink Hydro Station

Central Hudson's ownership interest in Neversink was governed by an agreement between Central Hudson and the City, acting through the Board of Water Supply, dated April 21, 1948. That agreement provided for the transfer of Central Hudson's ownership interest in Neversink, which has a book value of zero, to the City on December 31, 2003. Central Hudson and the City engaged in negotiations relating to the transfer of Central Hudson's ownership interest in Neversink and extended the time for the transfer through a series of interim agreements. On February 28, 2006, the parties entered into an "Agreement as to Conveyance of the Neversink Hydroelectric Generating Plant." This agreement specified the terms and conditions related to the transfer including the continued interconnection of the plant to the electric transmission grid and Central Hudson's post-transfer property access rights with respect to certain components of its transmission and distribution equipment. Requisite authorizations for the transfer were issued by the Federal Energy Regulatory Commission and the PSC, and the plant was conveyed to the City on October 3, 2006. Central Hudson retained responsibility for environmental liabilities related to conditions existing as of the time of transfer except to the extent any such liabilities relate to conditions resulting from acts of the City. Central Hudson is not presently aware of any material pre-transfer environmental liabilities with respect to Neversink.

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ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

EXECUTIVE SUMMARY

Business Overview

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Energy Group is a holding company with the following components: (1) Central Hudson's regulated electric utility business, (2) Central Hudson's regulated natural gas utility business, (3) Griffith's (and, prior to its merger with Griffith as of December 31, 2005, SCASCO's) fuel oil, propane, and motor fuels distribution business, and (4) CHEC's investments in renewable energy supply, energy efficiency, an energy venture capital fund, and other investments of Energy Group, consisting primarily of short-term investments.

Central Hudson contributed approximately 68% of Energy Group's revenue and 82% of its net income for the first nine months of 2006, the fuel distribution segment contributed approximately 31% of Energy Group's revenue and 0% of its net income for the first nine months of 2006, and the investment segment contributed less than 1% of Energy Group's revenue and 18% of its net income for the first nine months of 2006.

Energy Group intends to deliver shareholder value through a consistent dividend (currently \$2.16 per share annually) and growth in earnings per share. Energy Group is targeting 5% annual growth in earnings per share, on average, over the next several years.

Central Hudson

Since the 2001 New York State electricity restructuring Central Hudson has delivered electricity and natural gas to approximately 367,000 customers in a defined service territory in the mid-Hudson Valley region of New York State. Central Hudson's earnings are derived primarily from delivery charges levied upon end-users of its electricity and natural gas transmission and distribution systems in its service territory. Central Hudson continues to procure supplies of electricity and natural gas for a majority of its customers. In doing so, Central Hudson recovers its actual costs through cost adjustment clauses and without deriving profits from these activities. Central Hudson is facilitating migration of its delivery customers to third-party providers for their energy supplies.

Central Hudson's customer accounts have grown steadily in recent years due to home construction and in-migration of residential customers to Central Hudson's service territory, principally from higher cost areas in the New York City metropolitan area. Employment growth and commercial account growth has also been steady. Over time, per customer consumption of electricity and natural gas has gradually increased due to the construction of larger homes and the proliferation of end-uses for electricity, such as computers and other electronic equipment.

While these favorable trends are expected to continue in the long run, customer consumption patterns since mid-2005 have been affected by significantly higher prices for electricity and natural gas. This impact has been difficult to quantify precisely due to large variations from normal weather patterns over the same time period. It is also too soon to tell whether any customer conservation in response to higher prices is temporary or permanent, and this will likely be affected by the future trend in energy prices. Consumption patterns could also be affected by an economic recession, dampening of the housing market by rising interest rates, or other economic conditions.

Central Hudson's rates are regulated by the PSC, which is responsible for setting rates at a level that will recover the cost of providing safe and reliable service while providing a fair and reasonable return on invested capital. Central Hudson has focused its management attention for many years on managing its costs and maintaining high customer satisfaction so that its costs

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can be fully recovered and a reasonable rate of return can be earned under applicable regulatory agreements.

Central Hudson consistently ranks among the lowest cost electric utilities in New York State, and ranking in the top half in overall customer satisfaction among utilities in the Eastern United States, as reported by J.D. Power and Associates in its 2006 Electric Utility Residential Customer Satisfaction Study.

In July 2005, Central Hudson filed for a proposed increase in its electricity and natural gas delivery rates. This proposed increase was requested to cover cumulative inflation, the cost of capital on an increasing investment base, the costs of providing employee benefits (including costs deferred under the then applicable regulatory agreement), environmental and safety compliance costs, and certain other costs.

In April 2006, Central Hudson, PSC Staff, and other parties served on all parties the 2006 Joint Proposal to be considered by the PSC in Central Hudson's then current electric and natural gas rate proceeding. Under the terms of the 2006 Joint Proposal, an increase to electric delivery revenues of \$53.7 million over the three-year term is to be phased-in with annual electric delivery rate increases of approximately \$17.9 million as of July 1, 2006, July 1, 2007, and July 1, 2008. A natural gas delivery revenue increase of \$14.1 million is to be phased-in over two years with natural gas delivery rate increases of \$8 million as of July 1, 2006, and \$6.1 million as of July 1, 2007.

On June 20, 2006, the PSC extended the normal eleven-month suspension of the case through August 29, 2006, with a make-whole provision for the loss of revenues due to the extension of the suspension period past July 1, 2006.

On July 24, 2006 the PSC issued the 2006 Order following action to approve the 2006 Joint Proposal at its July 19, 2006, session. The 2006 Order adopted all of the terms and conditions of the 2006 Joint Proposal with a modification requiring distribution ROW maintenance expenses to be subject to the same shortfall true-up mechanism that applies to transmission ROW maintenance. The 2006 Order directed a compliance tariff filing to place new rates into effect as of August 1, 2006, subject to the terms and conditions of the 2006 Order; Central Hudson made this compliance filing on

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July 31, 2006. A copy of the 2006 Order is available on Energy Group's website at www.CHEnergyGroup.com.

The 2006 Order provides Central Hudson with improved cash flow and the opportunity to fund significant investments in its electric and natural gas system. If Central Hudson does not expend the funds provided for capital investment, the revenue equivalent of the shortfall must be deferred for the benefit of customers. The 2006 Order also provides for continued recovery of all purchased natural gas and electric supply costs through existing monthly adjustment mechanisms. Central Hudson was provided with increased rate allowances for pension and OPEB expenses, transmission and distribution ROW maintenance expenses, and stray voltage testing expenses. In addition, Central Hudson is allowed to recover the expenses associated with the remediation of its MGP sites. Central Hudson's actual sales growth and its ability to effectively manage its costs of operation will also play significant roles in determining Central Hudson's future earnings and cash flows.

On August 30, 2006, Central Hudson filed for rehearing on one element of the 2006 Order. The filing asserts that the PSC failed to update Central Hudson's allowed ROE using the Generic Finance Case Methodology. Central Hudson

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requested that a rehearing be conducted to revise its allowed ROE from 9.6% to 9.9%. Neither Energy Group nor Central Hudson can predict the final outcome of this petition.

Central Hudson's investments in plant and equipment to safely and reliably serve the growing demand for energy in its service territory are expected to provide an opportunity for increased earnings over time and are expected to provide a significant portion of Energy Group's anticipated future earnings per share growth.

Fuel Distribution Business

Griffith serves more than 85,000 customers in parts of Connecticut, Delaware, the District of Columbia, Maryland, Massachusetts, New York, Pennsylvania, Virginia, and West Virginia. For the purposes of this discussion, references to Griffith should be read as applicable to both Griffith and SCASCO for 2005 and prior periods. Griffith and SCASCO were merged as of December 31, 2005.

Griffith's business environment has recently been challenging and remains so due to high wholesale fuel oil, propane, and motor fuel prices. These high wholesale prices have required infusions of working capital into Griffith and have resulted in increased price sensitivity and conservation by Griffith's customers. Customer attrition due to price sensitivity increased through early 2005, but has since been curtailed and modest account growth has resumed. Growth through acquisition of smaller companies, within or adjacent to Griffith's existing delivery areas, resumed in 2005. Griffith's earnings for the first nine months of 2006 were down \$0.05 per share, as compared to the same period in 2005. This was due to warmer weather in 2006 and greater operating expenses primarily related to new acquisitions, partially offset by favorable adjustments to environmental reserves and increased service contract revenue. Since 2001, Griffith has acquired and integrated 26 small fuel distribution

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businesses, including eight from January through October 2006 for an aggregate purchase price of \$3.4 million. Energy Group views Griffith's cost management, strong customer service capabilities, and access to capital as competitive advantages that Griffith will endeavor to translate into increased market share and earnings, both through internal marketing and selective acquisitions.

CHEC's Investments and Other Items

From time to time, CHEC has made investments in the competitive energy markets. In 2006, CHEC made a third renewable energy investment - in a biomass electric generating plant - following investments in 2004 and 2005 in an ethanol production facility and a wind energy venture, respectively. CHEC continues to seek to invest Energy Group's available cash reserves and to utilize Energy Group's potential debt capacity through appropriate investments in the energy markets. CHEC's approach has been cautious, due both to Energy Group's limited risk tolerance and to strong competition from other investors. Passage of the 2005 Energy Policy Act has increased incentives to invest in certain portions of the energy markets, and certain state and federal legislative actions have increased demand for renewable energy. CHEC is evaluating these opportunities but remains cautious about undue reliance on government incentives. CHEC's ability to find investments that provide attractive returns with acceptable risks will be a key factor in determining whether Energy Group is able to achieve its target of 5% average annual growth in earnings per share over the next several years. CHEC's other investments - in energy efficiency projects, a venture capital fund, and other small partnerships - are not expected to play a

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significant role in Energy Group's strategy going forward.

Energy Group's other investments consist primarily of money market and liquid short-term investments, income from which fluctuates with market rates of interest. Over time, Energy Group intends to draw down the balance of its short-term investment portfolio, primarily for investment in its subsidiaries, including investments in the competitive energy markets.

Risk Management

Energy Group's Common Stock has historically exhibited relatively low volatility, and Energy Group recognizes its shareholder base as having a relatively low risk tolerance. In view of this, Energy Group has an enterprise-wide risk management process in place, which seeks to identify and manage the risks inherent in Energy Group's businesses in a cost-effective manner. In addition to a comprehensive insurance program, Energy Group employs various strategies to moderate volatility in energy prices and interest rates and to reduce potential earnings volatility resulting from the effects of weather on sales volumes.

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Corporate Governance

Energy Group has embraced the corporate governance changes that have been implemented through the Sarbanes-Oxley Act of 2002 and related rulemakings by the SEC and the listing requirements of the New York Stock Exchange. A detailed discussion of Energy Group's corporate governance processes can be found in Energy Group's 2006 proxy statement, available on Energy Group's website, www.CHEnergyGroup.com. Energy Group believes that its current corporate governance processes effectively serve the interests of its shareholders.

Credit Quality

Energy Group believes that creditworthiness and liquidity are important factors for its long-term success. In light of this, Energy Group has maintained conservative financial policies at its primary subsidiary, Central Hudson, which presently enjoys an A bond rating. In addition, committed lines of credit of \$75 million at Energy Group and \$77 million at Central Hudson have been established to provide sufficient liquidity in the currently volatile wholesale energy markets.

Overview of Third Quarter Results

Changes in regulatory provisions under Central Hudson's new rate agreement (i.e. the 2006 Order) and a number of significant one-time and unusual favorable items caused Energy Group's earnings to increase to \$0.70 per share in the third quarter of 2006 as compared to \$0.36 per share during the same quarter of 2005.

The implementation of a rate increase this quarter allows Central Hudson to better cover its expenses. This quarter also benefited by a total of \$0.28 per share from a number of significant one-time and unusual favorable items recognized in the third quarter, including tax adjustments, modifications to reserves, and the sale of property - while last year's third quarter earnings were depressed by earnings deferrals under Central Hudson's prior rate agreement. This further amplified the year-to-year change.

Year-to-date earnings stand at \$2.12 per share as compared to \$2.07 per share for the nine months ended September 30, 2005.

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Regulated Electric and Natural Gas Businesses

Central Hudson earned \$0.67 per share in the third quarter of 2006 as compared to \$0.42 per share during the same period of 2005, an increase of \$0.25 per share quarter-over-quarter. Certain items totaling \$0.20 per share favorably influenced the results, including adjustments to regulatory mechanisms resulting from the 2006 Order and the sale of real property. Comparatively cooler summer weather decreased earnings by approximately \$0.08 per share during the quarter.

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Fuel Distribution Business

Results within the fuel distribution business were stable, at a loss of \$0.15 per share during the quarter, which was the same amount posted during the third quarter of 2005 and which is typical during the non-heating season. Gross profit on petroleum products was level as compared to the same quarter of 2005. Increased service profitability and a reduction of environmental reserves offset increased operating expenses that resulted largely from acquisitions, which are expected to increase revenues during the upcoming heating season. The reduction of environmental reserves was due to improvements in environmental clean-up technology and updated estimates of remediation costs.

Other Businesses

CHEC's investment in Lyonsdale on April 12, 2006, had a net positive impact of \$0.02 per share in the third quarter. In total, Other Income for Energy Group (the holding company) and interests held by CHEC increased by nearly \$0.07 per share as compared to the third quarter of 2005. The reversal of a reserve for certain operating and income tax contingent liabilities increased income from investments in Cornhusker Holdings, and a reduction in business development expenses contributed to that increase, though results were partially dampened by the recording of unfavorable income tax adjustments by Energy Group (the holding company).

REGULATORY MATTERS

For further information regarding the 2006 Order, see Note 3 - "Regulatory Matters."

NON-UTILITY LAND SALES

For further information regarding non-utility land sales, see Note 3 - "Regulatory Matters."

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CAPITAL RESOURCES AND LIQUIDITY

The growth of Energy Group's retained earnings in the nine months ended September 30, 2006, contributed to the increase in the book value per share of its Common Stock from \$31.97 at December 31, 2005, to \$32.47 at September 30, 2006; the common equity ratio increased from 56.0% at December 31, 2005, to 56.4% at September 30, 2006. Book value per share at September 30, 2005, was \$31.78 and the common equity ratio was 56.6%.

Both Energy Group's and Central Hudson's liquidity reflect cash flows from operating, investing, and financing activities, as shown on their respective

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Consolidated Statements of Cash Flows and as discussed below.

The principal factors affecting Energy Group's liquidity are the net cash flows generated from the operations of its subsidiaries, subsidiary capital expenditures and investments, the external financing of its subsidiaries, and the dividends Energy Group pays to its shareholders.

Central Hudson's cash flows from operating activities reflect principally its energy deliveries and costs of operations. The volume of energy deliveries is dependent primarily on factors external to Central Hudson, such as weather and economic conditions. Prices at which Central Hudson delivers energy to its customers are determined in accordance with rate plans approved by the PSC. In general, changes in the cost of purchased electricity, fuel, and natural gas may affect the timing of cash flows but not net income because these costs are fully recovered through its electric and natural gas cost adjustment mechanisms.

Central Hudson's cash flows are also affected by capital expenditures, permanent financing for its growing asset base, fluctuations in working capital caused by weather and energy prices, and other regulatory deferral mechanisms whereby cash may be expended in one period and recovery of the cash from customers may not occur until a subsequent period(s).

Energy Group - Cash Flow Summary

Changes in Energy Group's cash and cash equivalents resulting from operating, investing, and financing activities for the nine months ended September 30, 2006, and 2005, are summarized in the following chart:

Energy Group	Nine Months Ended 2006	Nine Months Ended 2005	Variance 2006 vs. 2005
(Millions of Dollars)			
Net Cash Provided By (Used In):			
Operating Activities	\$ 72.8	\$ 34.7	\$ 38.1
Investing Activities	(64.4)	(60.5)	(3.9)
Financing Activities	(25.6)	6.4	(32.0)
Net change for the period	(17.2)	(19.4)	2.2
Balance at beginning of period	49.4	70.4	(21.0)
Balance at end of period	\$ 32.2	\$ 51.0	\$ (18.8)

Energy Group's net cash flows provided by operating activities of \$72.8 million during the nine months ended September 30, 2006, were \$38.1 million higher as compared to the nine months ended September 30, 2005. Increased cash flows reflect the collection of cash and a decrease in accounts receivable primarily due to reduced billings to Central Hudson customers as a result of lower wholesale costs for purchased electricity, cooler summer weather as compared to last year, and seasonally lower billings to Griffith customers. The

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increase in cash flows was slightly offset by decreases in accounts payable primarily as a result of lower wholesale costs for purchased electricity for Central Hudson and lower volumes of petroleum products purchased by Griffith.

Net cash flows used in investing activities were \$3.9 million higher during the nine months ended September 30, 2006, as compared to the same period in 2005. The purchase of a majority interest in Lyonsdale and minor acquisitions by Griffith increased expenditures in 2006. Partially offsetting the higher expenditures were repayments made to CHEC for notes outstanding, proceeds from sales of real property, and net funds received from the purchase and sale of Energy Group's short-term investments. As discussed in Note 2 - "Summary of Significant Accounting Policies" under caption "Revision in the Classification of Certain Securities," these investments were previously classified as cash and cash equivalents. As a result of this revision in classification, Energy Group concluded that it is appropriate to classify these securities on the Consolidated Balance Sheet for Energy Group as short-term investments - available-for-sale securities. As a result of this revision in classification, Energy Group has also made corresponding adjustments to its Consolidated Statement of Cash Flows for all periods presented to reflect the gross purchases and liquidation of these available-for-sale securities as investing activities rather than as a component of cash and cash equivalents. This revision in classification has no impact on previously reported total current assets, total assets, working capital position, results of operations, or financial covenants and does not affect previously reported cash flows from operating or financing activities. The Consolidated Financial Statements of Central Hudson were not affected by this revision in classification. For more information relating to Energy Group's short-term investments, see Note 5 - "Short-Term Investments."

Net cash flows from financing activities were \$32.0 million lower for the nine months ended September 30, 2006, as compared to the same period in 2005. The resulting decrease in cash flows used was primarily driven by proceeds of net borrowings of short-term debt by Central Hudson during the first nine months of 2005 as compared to the same period in 2006.

Central Hudson - Cash Flow Summary

Changes in Central Hudson's cash and cash equivalents resulting from operating, investing, and financing activities for the nine months ended September 30, 2006, and 2005, are summarized in the following chart:

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Central Hudson	Nine Months Ended 2006	Nine Months Ended 2005	Variance 2006 vs.
(Millions of Dollars)			
Net Cash Provided By (Used In):			
Operating Activities	\$ 55.3	\$ 23.5	\$
Investing Activities	(47.5)	(43.7)	
Financing Activities	(9.2)	14.3	
Net change for the period	(1.4)	(5.9)	
Balance at beginning of period	4.2	8.2	

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Balance at end of period	\$	2.8	\$	2.3	\$
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Central Hudson's net cash flows provided by operating activities in the nine months ended September 30, 2006, were \$31.8 million higher as compared to the nine months ended September 30, 2005. The increase in operating cash flows reflects a decrease in accounts receivable primarily due to a decrease in wholesale costs for purchased electricity and lower electricity purchases as a result of cooler summer weather as compared to last year. The increase in cash flows was slightly offset by the use of cash related to a new requirement to make prepayments for electricity supply to the New York Independent System Operator ("NYISO").

Central Hudson's net cash flows related to investing activities of \$47.5 million in the nine months ended September 30, 2006, reflect a decrease of \$3.8 million as compared to the nine months ended September 30, 2005. The net decrease was comprised primarily of increased construction and removal expenditures, offset slightly by proceeds from non-utility real property sales.

Net cash flows used for financing activities were \$23.5 million higher for the nine months ended September 30, 2006, as compared to the same period in 2005. The net increase in cash used was primarily driven by the lower amount of net borrowings of short-term debt as compared to the same period in 2005, offset slightly by lower dividends paid to Energy Group in 2006.

Contractual Obligations

A review of capital resources and liquidity should also consider other contractual obligations and commitments, which are further disclosed in Note 11 - "Commitments and Contingencies" to the Consolidated Financial Statements of the Corporations' 10-K Annual Report.

Central Hudson's actuarial consultant is currently reviewing the Pension Act to project the funding requirements for the Retirement Plan. These projections are expected to be available by year-end 2006.

Employer contributions for OPEB totaled \$3.3 million during the nine months ended September 30, 2006. The total contribution to be made in 2006 is expected to be less than the 2005 amount of \$6.1 million due to a reduction in expected future medical claims as a result of recent favorable claims experience.

Financing Program

At September 30, 2006, Energy Group, on a consolidated basis, had current maturities of \$33 million of long-term debt, \$30 million of short-term debt outstanding, cash and cash equivalents of \$32.2 million, and short-term investments of \$40.3 million.

Energy Group, the holding company, has a \$75 million revolving credit agreement with several commercial banks which, as of September 30, 2006, had no outstanding balance.

As of September 30, 2006, Central Hudson had current maturities of \$33 million of long-term debt, short-term debt outstanding of \$30 million, and cash and cash equivalents of \$2.8 million. The short-term debt outstanding is from

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the use of uncommitted credit lines. Central Hudson has a \$75 million revolving credit agreement with a group of commercial banks which, as of September 30, 2006, had no outstanding balance. Central Hudson also has a committed short-term credit agreement for \$2.0 million and certain uncommitted lines of credit with various banks. These agreements give Central Hudson competitive options to minimize the cost of its short-term borrowing.

In March 2004, the PSC approved Central Hudson's petition to enter into committed multi-year short-term financing agreements up to \$77 million and to issue and sell up to \$85 million of medium-term notes during the period January 1, 2004, to December 31, 2006. Central Hudson has issued \$58 million of medium-term notes under the corresponding registration statements and expects to issue the remaining \$27 million before December 31, 2006.

On July 3, 2006, Central Hudson filed a new financing petition with the PSC seeking authorization for its expected financing needs for the period January 1, 2007, through December 31, 2009. This petition requested authorization to increase committed multi-year short-term borrowing capacity to \$125 million from the current authorization for \$75 million. Additionally, this petition requested authorization for the issuance of up to \$140 million of medium-term notes over the three-year period to meet its projected cash requirements and finance the redemption of maturing notes. On September 21, 2006, the PSC issued an Order approving Central Hudson's financing petition. Central Hudson is evaluating its options for establishing a financing program under the terms of the Order.

Central Hudson's current senior unsecured debt ratings/outlook is A2/stable by Moody's Investors Service and A/stable by both Standard and Poor's Corporation and Fitch Ratings.

Energy Group and Central Hudson each believes that it will be able to meet its reasonably likely short-term and long-term cash requirements, assuming that Central Hudson's current and future rate plans reflect the costs of service, including a reasonable return on invested capital.

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CHEC has a \$15.0 million line of credit with a commercial bank which, as of September 30, 2006, had no outstanding balance.

On July 25, 2002, the Board of Directors of Energy Group authorized a Common Stock Repurchase Program ("Repurchase Program") to repurchase up to 4.0 million shares, or approximately 25%, of outstanding Common Stock over the five years beginning August 1, 2002. Between August 1, 2002, and December 31, 2003, the number of shares repurchased under the Repurchase Program was 600,087 at a cost of \$27.5 million. No shares were repurchased during the nine months ended September 30, 2006, or during the twelve months ended December 31, 2005, and 2004. Energy Group intends to set repurchase targets, if any, each year based on circumstances then prevailing. Repurchases have been suspended while Energy Group assesses opportunities to redeploy its cash reserves in regulated and competitive energy-related businesses. Energy Group reserves the right to modify, suspend, or terminate the Repurchase Program at any time without notice.

EARNINGS PER SHARE

Energy Group's consolidated earnings per share (basic) for the third quarter of 2006 were \$0.70 per share as compared to \$0.36 per share for the third quarter of 2005, an increase of \$0.34 per share. Details of the change in earnings are as follows:

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Three Months Ended September 30, 2006

Regulated Electric and Natural Gas Businesses

Earnings for Central Hudson's electric and natural gas operations increased \$0.25 per share due to the following:

- o An increase of \$0.12 per share from electric and natural gas regulatory mechanisms due to 1) an increase of \$0.07 per share related to reduced amounts recorded for PSC assessments for service interruptions and 2) \$0.06 per share resulting from a reduction in shared earnings from electric operations - i.e., no shared earnings were recorded in the third quarter this year as compared to \$0.06 per share last year. The increase in earnings was partially offset by a \$0.01 per share reduction related to annual reconciling adjustments for Central Hudson's natural gas supply charge.
- o An increase of \$0.07 per share from gains realized on the sale of real property.
- o An increase of \$0.06 per share from an increase in electric net operating revenues resulting primarily from the implementation of the 2006 Order for electric rates. This increase was the net result of \$0.11 per share from the rate increase and a reduction of \$0.05 per share from lower electric deliveries. The reduction in deliveries was due to 23% fewer cooling o

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degree days compared to the third quarter of 2005, which negatively impacted earnings by \$0.08 per share.

- o An increase of \$0.04 per share due to an increase in natural gas net operating revenues resulting primarily from the implementation of the 2006 Order for natural gas rates. Despite modest customer growth, billed deliveries to firm natural gas customers decreased 3%, which had a negligible impact on earnings.
- o A decrease of \$0.03 per share due to an increase in interest charges on long and short-term debt. Interest costs on long-term debt increased due to the issuance of medium-term notes in December 2005 and increased interest costs on variable rate debt, which was partially offset by favorable regulatory adjustments for the change in interest costs on these variable rate obligations. Additional short-term debt was required during the early portion of the third quarter of 2006 for working capital needs.
- o A decrease of \$0.01 per share due to the net effect of various other items including an increase in use taxes and a reduction in regulatory carrying charges due from customers related to pension costs, which were partially offset by a decrease in depreciation and amortization on utility plant assets.
- o Operating expenses were flat. Earnings increased \$0.08 per share resulting from the reduction of reserves for injuries and damages and environmental obligations for MGP sites. Expenses related to MGP sites will be recovered pursuant to the provisions of the 2006 Order for electric and natural gas rates. The increase in earnings was offset by increases in tree trimming expenses, storm expenses, and other operation and maintenance expenses.

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Fuel Distribution Business

Earnings from the fuel distribution business remained unchanged reflecting the following:

- o An increase of \$0.03 per share due to an adjustment of environmental reserves resulting from improved remediation technology.
- o An increase of \$0.02 per share due to an increase in service profitability resulting primarily from an increase in service contract revenue.
- o Gross margin from the sale of petroleum products was flat. Increases in margins per gallon in most product categories and higher volumes were offset by recorded losses on options used for hedging purposes.

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- o A decrease of \$0.05 per share due to an increase in operating expenses. The increase in operating expenses is due to an increase in expenses associated with acquisitions made in the fourth quarter of 2005 and in the first nine months of 2006, which negatively impacted earnings by \$0.03 per share, and an increase in general and administrative expenses.

Other Businesses

Earnings for Energy Group, the holding company, and CHEC's interests in partnerships and other investments increased \$0.09 per share due to the following:

- o An increase of \$0.07 per share due to the reversal of reserves for certain operating and income tax contingent liabilities related to CH Resources.
- o An increase of \$0.03 per share due to an increase in income from CHEC's investment interest in Cornhusker Holdings. This plant was under construction during the third quarter of 2005.
- o An increase of \$0.02 per share due to income from CHEC's 75% interest in the Lyonsdale plant. The Lyonsdale ownership stake was acquired in April 2006.
- o A decrease of \$0.03 per share due to the net effect of various other items including unfavorable New York State income tax adjustments related primarily to the 2005 tax year and audited tax years 2002 through 2004, partially offset by a reduction in business development costs.

Nine Months Ended September 30, 2006

Energy Group's consolidated earnings per share (basic) for the nine months ended September 30, 2006, and 2005, reflect earnings per share (basic) of \$2.12 and \$2.07, respectively, an increase in earnings of \$0.05 per share. Details of the nine-month changes in earnings are as follows:

Regulated Electric and Natural Gas Businesses

Earnings per share for Central Hudson's electric and natural gas

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operations remained unchanged due to the following:

- o An increase of \$0.21 per share from electric and natural gas regulatory mechanisms including \$0.15 per share from a decrease in electric shared earnings resulting from lower operating income for the rate year ended June 30, 2006, \$0.07 per share related to reduced amounts recorded for PSC assessments for service interruptions, and a favorable reconciling adjustment of \$0.03 per share related to Central Hudson's natural gas supply charge. These increases were partially offset by the absence in the

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current period of \$0.04 per share related to a billing issue resolved by the NYISO in June 2005.

- o An increase of \$0.07 per share resulting from gains on the sale of real property in the third quarter of 2006.
- o An increase of \$0.02 per share from electric net operating revenues. This increase is the net result of \$0.12 per share from the rate increase and a reduction of \$0.10 per share from lower electric deliveries due to weather, net of the effect of weather-hedging contracts. The reduction in deliveries was due to 22% fewer cooling degree-days compared to the nine months ended September 30, 2005, which negatively impacted earnings by \$0.11 per share, net of the effect of weather-hedging contracts.
- o A decrease of \$0.19 per share due to an increase in various operating expenses. This figure is net of \$0.12 per share from the recording of electric revenues to restore earnings to the allowed rate of return in accordance with the provisions of the previous rate agreement. Expenses that increased included line clearance work (\$0.09 per share), storm restoration efforts (\$0.08 per share), other electric transmission and distribution maintenance expenses (\$0.03 per share), electric transmission line inspection (\$0.03 per share), uncollectible accounts (\$0.02 per share), and other expenses (totaling \$0.06 per share).
- o A decrease of \$0.07 per share due to an increase in interest charges on long and short-term debt. Interest costs on long-term debt increased due primarily to the issuance of medium-term notes in December 2005. Additional short-term debt, on average, was required for working capital needs.
- o A decrease of \$0.05 per share from natural gas net operating revenues. Natural gas deliveries lowered earnings by approximately \$0.11 per share of which \$0.09 per share was due to weather. The reduction in deliveries reflects an 8% decrease in heating degree-days. This decrease was partially offset by a \$0.06 per share increase in earnings largely related to the implementation of the 2006 Order for natural gas rates.
- o An increase of \$0.01 per share due to the net effect of various other items including a decrease in depreciation and amortization of utility plant assets, a decrease in income taxes, an increase in payroll and use taxes, and an increase in regulatory carrying charges due to customers.

Fuel Distribution Business

Earnings from the fuel distribution business decreased \$0.05 per share due to the following:

- o A decrease of \$0.10 per share due to greater operating expenses including \$0.10 per share related to acquisitions made in the fourth quarter of 2005 and the first nine months of 2006, as well as increases in marketing and other general and administrative expenses. The increase in operating expenses was partially offset by adjustments to environmental reserves, which favorably impacted earnings by \$0.04 per share.
- o An increase of \$0.05 per share due to an increase in service contract revenue of \$0.07 per share. This was partially offset by a decrease in gross margins from the sale of petroleum products of \$0.02 per share resulting from a decrease in volumes sold due to warmer weather. Heating degree days, as adjusted for billing lags, were 15% lower than last year.

Other Businesses

Earnings for Energy Group (the holding company) and CHEC's interests in partnerships and other investments increased \$0.10 per share due to the following:

- o An increase of \$0.07 per share due to the reversal of reserves for certain operating and income tax contingent liabilities related to CH Resources.
- o An increase of \$0.07 per share due to an increase in income from CHEC's investment interest in Cornhusker Holdings.
- o An increase of \$0.02 per share due to income from CHEC's 75% interest in the Lyonsdale plant. The Lyonsdale ownership stake was acquired in April 2006.
- o A net decrease of \$0.06 per share related to Energy Group (the holding company) due primarily to the absence of favorable income tax adjustments recorded in the second quarter of 2005 related to the completion of a tax audit for 2001. This decrease was partially offset by a gain realized from the sale of real property held by Energy Group and a reduction in business development costs and injuries and damages expense.

RESULTS OF OPERATIONS

The following discussion and analyses include explanations of significant changes in revenues and expenses between the three and nine months ended

September 30, 2006, and the three and nine months ended September 30, 2005, for the regulated electric and natural gas businesses, the fuel distribution business, and the other businesses.

OPERATING REVENUES

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Energy Group's consolidated operating revenues increased \$11.9 million, or 5.2%, for the three months ended September 30, 2006, as compared to the same period in 2005. Revenues increased \$67.4 million, or 9.6%, for the comparative nine-month periods. Details of these revenue changes are presented in the following charts and related discussions concerning the variances.

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(Thousands of Dollars)	2006/2005 INCREASE (DECREASE) THREE MONTHS ENDED SEPTEMBER 30, 2006			
	Electric	Natural Gas	Fuel Distribution	Other
Customer Deliveries	\$ 8,827 (a)	\$1,183 (b)	\$10,258 (c)	\$ (76)
Sales to Other Utilities	(218)	4,056	--	--
Energy Cost Adjustment (d)	(16,742)	(654)	--	--
Deferred Revenues (e)	3,242	(299)	--	--
Lyonsdale Sales	--	--	--	2,339
Miscellaneous	25	(17)	--	--
Total	\$ (4,866)	\$4,269	\$10,258	\$2,263

(Thousands of Dollars)	2006/2005 INCREASE (DECREASE) NINE MONTHS ENDED SEPTEMBER 30, 2006			
	Electric	Natural Gas	Fuel Distribution	Other
Customer Deliveries	\$ 6,009 (a)	\$(1,855) (b)	\$40,963 (c)	\$ 136
Sales to Other Utilities	(589)	13,059	--	--
Energy Cost Adjustment (d)	(10,180)	5,538	--	--
Deferred Revenues (e)	8,821	158	--	--
Lyonsdale Sales	--	--	--	3,492
Miscellaneous	1,773	64	--	--
Total	\$ 5,834	\$16,964	\$40,963	\$3,628

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- (a) Includes an offsetting restoration of amounts from Central Hudson's Customer Benefit Fund (described under the captions "Rate Proceedings - Electric and Natural Gas" in Note 2 - "Regulatory Matters" to the Consolidated Financial Statements of the Corporations' 10-K Annual Report) for customer refunds and back-out credits for retail access customers. Customer refunds ceased in October 2005.
- (b) Includes both firm and interruptible revenues.
- (c) Due to increase in average selling price of all petroleum products due to higher wholesale purchase prices.
- (d) Changes in energy cost adjustment revenues do not affect earnings since they offset related costs.
- (e) Includes the restoration of other revenues from Central Hudson's Customer Benefit Fund for other authorized programs and the deferral of electric shared earnings in accordance with the provisions of Central Hudson's rate agreements with the PSC (described in Note 2 - "Regulatory Matters" to the Consolidated Financial Statements of the Corporations' 10-K Annual Report).

Regulated Electric and Natural Gas Businesses

For the three months ended September 30, 2006, utility electric and natural gas operating revenues decreased slightly from \$173.7 million in 2005 to \$173.1 million in 2006. Electric revenues decreased \$4.9 million, or 3.0%, and natural gas revenues increased \$4.3 million or 30.2%. The \$16.7 million decrease in electric energy cost adjustment revenues is due to cooler weather and a decrease in wholesale costs. This decrease was largely offset by an increase of \$8.8 million in revenues largely resulting from the implementation of the 2006 Order for electric rates effective July 1, 2006, and an increase of \$3.4 million in revenues related to the resetting of regulatory mechanisms for service interruptions and shared earnings. No shared earnings were recorded in the third quarter of 2006. Natural gas revenues reflect an increase of \$4.1

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million in revenues from sales of natural gas to retail marketers and for electric generation. These sales for resale revenues do not impact earnings since any related profits or losses are returned or charged, respectively, to customers. The balance of the increase is due to an increase in delivery revenues resulting from the implementation of the 2006 Order, partially offset by a decrease in revenues related to the recovery of natural gas supply costs.

For the nine months ended September 30, 2006, utility electric and natural gas operating revenues increased \$22.8 million, or 4.5%, from \$501.6 million in 2005 to \$524.4 million in 2006. Electric revenues increased \$5.8 million, or 1.5%, from \$392.9 million in 2005 to \$398.7 million in 2006 and natural gas operating revenues increased \$17.0 million, or 15.6%, from \$108.7 million in 2005 to \$125.7 million in 2006. The change in revenues includes an increase in revenues from natural gas sales for resale of \$13.1 million due to an increase in the wholesale cost of natural gas and an increase in sales for electric generation and to retail marketers. In addition, electricity delivery revenues increased \$6.0 million, largely due to the 2006 Order for electric rates, and electric deferred revenues increased \$8.8 million primarily due to the resetting of regulatory mechanisms for service interruptions and shared earnings.

Fuel Distribution Business

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For the three months ended September 30, 2006, fuel oil distribution revenues increased \$10.3 million, or 19.1%, from \$54.0 million in 2005 to \$64.3 million in 2006 due to a significant increase in the price of petroleum products. Revenues from petroleum products increased \$9.3 million, or 19.0%, from \$49.0 million in 2005 to \$58.3 million in 2006. Motor fuel revenues increased \$5.8 million, or 14.9%, from \$39.0 million in 2005 to \$44.8 million in 2006. Heating oil revenues also increased \$3.5 million, or 38.5%, from \$9.1 million in 2005 to \$12.6 million in 2006. Other revenues related to service and installations and energy services increased \$1.0 million.

For the nine months ended September 30, 2006, fuel oil distribution revenues increased \$40.9 million, or 20.3%, from \$201.4 million in 2005 to \$242.3 million in 2006. Revenues from petroleum products increased \$38.0 million, or 20.3%, from \$187.3 million in 2005 to \$225.3 million in 2006, due primarily to a significant increase in the wholesale price of petroleum products, which was partially offset by a reduction in volumes. Motor fuel revenues increased \$28.3 million, or 29%, while heating oil revenues increased \$9.0 million, or 10.4%. Other revenues related to the sale of petroleum products increased \$0.7 million, while other revenues related to energy service and service and installations increased \$2.9 million.

SALES VOLUMES

Sales volumes for both Central Hudson and the fuel distribution business vary in response to weather conditions. Electric deliveries peak in the summer and deliveries of natural gas and petroleum products used for heating purposes peak in the winter. Sales also vary in response to the price of the particular energy product and with the economy.

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Regulated Electric and Natural Gas Businesses

The following chart reflects the change in the level of electric and natural gas deliveries (sales) for the quarter and nine months ended September 30, 2006, as compared to the same period for 2005. Deliveries of electricity and natural gas to residential and commercial customers contribute the most to Central Hudson's earnings. Industrial sales and interruptible sales have a negligible impact on earnings.

	INCREASE (DECREASE) FROM 2005		INCREASE (DECREASE) FROM	
	3 MONTHS ENDED		9 MONTHS ENDED	
	SEPTEMBER 30, 2006		SEPTEMBER 30, 2006	
	Electric	Natural Gas	Electric	Nat
Residential.....	(4)%	(11)%	(5)%	
Commercial.....	(2)%	4%	(3)%	
Industrial.....	(3)%	(17)%	(2)%	
Other (a).....	1%	(78)%	1%	
	--	-----	--	
Total	(3)%	(3)%	(4)%	

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(a) Includes interruptible natural gas deliveries.

Third quarter 2006 electric deliveries to residential and commercial customers decreased due mostly to weather, which was partially offset by modest customer growth. Residential cooling degree-days decreased 23% over the prior year but were 19% higher than normal.

Natural gas deliveries to residential customers decreased due to lower usage, which was partially offset by modest customer growth. Commercial deliveries increased due to both customer growth and increased usage. Natural gas sales in the third quarter, which is a non-heating season, represent only 8% of annual natural gas sales.

For the nine months ended September 30, 2006, deliveries of electricity to residential and commercial customers decreased as a result of less usage due to cooler weather and some conservation in the first five months of the year and cooler weather in June, August, and September. The decrease in deliveries was partially offset by some customer growth. As compared to the same period in 2005, residential heating degree-days decreased 7% and cooling degree-days decreased 22%.

Deliveries of natural gas to firm Central Hudson customers for the nine months ended September 30, 2006, decreased due to warm weather and conservation in the first five months of the year, as evidenced by an 8% decrease in residential heating degree-days for this period. Industrial deliveries decreased due to the loss of several customers.

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Fuel Distribution Business

For the three months ended September 30, 2006, sales of petroleum products for the fuel distribution business increased 2.0 million gallons, or 8.5%, to 24.9 million gallons in the third quarter of 2006 from 22.9 million gallons in the third quarter of 2005. Sales of heating oil to residential customers increased 1.2 million gallons, or 29.4%, from 4.2 million gallons in 2005 to 5.4 million in 2006. The increase resulted from a 20% increase in sales from acquisitions made in the fourth quarter of 2005 and the second and third quarters of 2006. Motor fuel sales increased 0.7 million gallons, or 3.9%, from 18.4 million gallons in 2005 to 19.1 million gallons in 2006 while sales of propane remained relatively flat at 0.3 million gallons in 2005 and 2006. Motor fuel sales increased primarily from the gain of one large volume customer and acquisitions in 2005 and in the second quarter of 2006.

For the nine months ended September 30, 2006, sales of petroleum products decreased 1.1 million gallons, or 1.0%, from 99.1 million gallons in 2005 to 98 million gallons in 2006. This was due to a decrease of 3.7 million gallons, or 8.2%, in sales of heating oil from 44.7 million gallons in 2005 to 41 million gallons in 2006. The decrease in sales of heating oil reflects a reduction in residential sales due to warmer weather in 2006 than 2005, as evidenced by a 15% decrease in heating degree-days, adjusted for billing lags. Nearly one-half of the decrease in volume was offset by an increase in sales from acquisitions made in the fourth quarter of 2005 and in 2006. Motor fuel sales increased 2.9 million gallons, or 5.5%, from 52.6 million gallons in 2005 to 55.5 million gallons in 2006, 80% of the increase was due to acquisitions made in 2005 and 2006, while sales of propane decreased slightly from 1.8 million gallons in 2005 to 1.5 million gallons in 2006 due to warmer weather in 2006.

OPERATING EXPENSES

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Regulated Electric and Natural Gas Businesses

For the three months ended September 30, 2006, total utility operating expenses decreased \$6.7 million, or 4.2%, from \$159.4 million in 2005 to \$152.7 million in 2006. The reduction results from a \$17.1 million decrease in purchased electricity expense due to decreases in wholesale costs and volumes purchased, the latter due primarily to cooler weather in 2006. This decrease was partially offset by an increase in purchased natural gas expense of \$3.4 million and an increase of \$7.1 million in other expenses of operation. Natural gas expense increased due to an increase in volumes purchased, most of which was sold for electric generation. The increase in other operating expenses is largely due to an increase in the level of pension and OPEB costs recorded in accordance with the implementation of the 2006 Order for electric and natural gas rates. The overall increase in other operating expenses is also partially offset by \$1.8 million in gains realized on the sale of real property in the third quarter of 2006.

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For the nine months ended September 30, 2006, operating expenses increased by \$21.3 million, or 4.8%, from \$446.6 million in 2005 to \$467.9 million in 2006. Purchased electricity costs decreased \$11 million, or 4.3%, due primarily to decreases in volumes purchased and wholesale costs. Purchased natural gas costs increased \$16.4 million, or 23%, primarily due to an increase in wholesale costs, an increase in volumes purchased, mostly sold for electric generation, and a change in amounts recorded related to the recovery of these costs via Central Hudson's energy cost adjustment mechanisms, which were partially offset by a decrease in natural gas delivery volumes. Other operating expenses increased \$15.9 million, or 13.1%, from \$121.1 million in 2005 to \$137.0 million in 2006 due to an increase in storm restoration costs mostly from severe wind storms in January and February 2006 and an increase in the level of pension and OPEB costs, recorded in accordance with the 2006 Order. This increase was partially offset by \$1.8 million in gains realized on the sale of real property in the third quarter of 2006.

Fuel Distribution Business

For the three months ended September 30, 2006, operating expenses for CHEC's fuel distribution business increased \$10.2 million, or 18.1%, from \$56.5 million in 2005 to \$66.7 million in 2006. The cost of petroleum increased \$9.4 million, or 21.8%, due to higher wholesale market prices and increased volumes. Other operating expenses increased \$0.8 million, or 6.1%, in 2006 largely due to acquisitions made in the fourth quarter of 2005 and in 2006. Partially offsetting the increase in other operating expenses was a favorable adjustment to environmental reserves.

For the nine months ended September 30, 2006, operating expenses increased \$41.9 million, or 21%, from \$200.9 million in 2005 to \$242.8 million in 2006. The cost of petroleum products increased \$38.5 million, or 25%, due to higher wholesale market prices. Other operating expenses increased \$3.4 million in 2006 primarily due to a \$2.6 million increase resulting from expenses associated with the acquisitions made in the fourth quarter of 2005 and in 2006. The balance of \$0.8 million reflects increases in marketing and other general and administrative expenses.

Other Businesses

Revenues and Operating Expenses

On April 12, 2006, CHEC purchased a 75% majority interest in Lyonsdale

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from Catalyst Renewables Corporation. Lyonsdale owns and operates a 19-megawatt, wood-fired electric generating plant. The financial statements of Lyonsdale have been fully consolidated into the financial statements of Energy Group since the date of purchase.

The third quarter results for Lyonsdale resulted in a net income of \$0.3 million which includes operating revenues of \$2.3 million, operating expenses of \$2.4 million, an income tax credit of \$0.4 million, and a minority interest amount of (\$7,000).

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The consolidation of 100% of the revenue and expenses of Lyonsdale resulted in year-to-date net income of \$0.2 million. Operating revenues were \$3.5 million and operating expenses were \$4.1 million. The expenses are comprised of \$1.9 million of fuel used in electric generation, \$0.7 million in labor expenses, \$1.0 million of other expenses of operation, \$0.4 million of depreciation expense, and \$0.1 million of interest expense. In addition, there was an income tax credit of \$0.7 million, mostly due to production tax credits, and a minority interest of \$0.1 million.

OTHER INCOME

Regulated Electric and Natural Gas Businesses

Other income for Central Hudson decreased \$0.3 million for the quarter ended September 30, 2006, reflecting a decrease in regulatory carrying charges due from customers related to pension costs partially offset by the recording of favorable regulatory adjustments for the change in interest costs on Central Hudson's variable rate long-term debt. The latter adjustment partially offsets the increase in interest costs on the variable rate debt, as discussed under the caption "Interest Charges." The decrease in regulatory carrying charges results from the reduction of interest-bearing pension related balances in accordance with the 2006 Order for electric and natural gas rates.

For the nine months ended September 30, 2006, as compared to the nine months ended September 30, 2005, other income increased \$0.6 million due to the recording of favorable regulatory adjustments for the change in interest costs on the variable rate long-term debt. This increase was partially offset by a decrease in regulatory carrying charges due from customers related to pension costs.

Other Businesses

Other income relating primarily to Energy Group (the holding company) and CHEC's investments in partnerships and interests other than fuel distribution operations increased \$0.6 million for the quarter ended September 30, 2006. This was due to an increase in income from CHEC's interest in Cornhusker Holdings and a reduction in Energy Group expenses, primarily business development costs.

For the nine months ended September 30, 2006, other income increased \$2.4 million largely due to a \$1.7 million increase in income from Cornhusker Holdings, a \$0.7 million pre-tax gain on the sale of real property held by Energy Group, and reductions in Energy Group expenses related to business development and injuries and damages expense. These increases were partially offset by an increase in other taxes for Energy Group and losses on other investments held by CHEC.

INTEREST CHARGES

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Interest charges (which are solely related to Central Hudson) increased \$0.9 million and \$2.8 million for the quarter and nine months ended September 30, 2006,

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respectively. The increase is due to the issuance of medium-term notes in December 2005 and increased interest charges on Central Hudson's variable rate debt. Additional short-term debt was required for working capital needs due to higher fuel prices.

INCOME TAXES

Income taxes for Energy Group increased \$2.0 million, or 85.8%, from \$2.4 million in the third quarter of 2005 to \$4.4 million in the third quarter of 2006. This increase was primarily due to income before income taxes increasing \$7.3 million, or 86.9%.

For the nine months ended September 30, 2006, income taxes for Energy Group increased \$1.3 million, or 7.0%, from \$18.0 million in 2005 to \$19.3 million in 2006. This increase was primarily due to income before income taxes increasing \$1.9 million, or 3.7%, in 2006 and an increase in the effective tax rate in 2006 to 36.2% from 35.0% in 2005. The increase in the effective tax rate was primarily due to the absence of favorable income tax adjustments recorded in 2005, related to the completion of income tax audits, which were partially offset by production tax credits recognized in 2006.

Income taxes for Central Hudson increased \$1.1 million, or 23.4%, from \$4.5 million in the third quarter of 2005 to \$5.5 million in the third quarter of 2006. This increase was primarily due to income before income taxes increasing \$4.9 million, or 43.4%, which was partially offset by a reduction to income tax expense in the third quarter of 2006 related to the closeout of Internal Revenue Service ("IRS") income tax audits for multiple years.

For the nine months ended September 30, 2006, income taxes for Central Hudson decreased \$0.7 million, or 3.5%, from \$18.8 million in 2005 to \$18.1 million in 2006. This decrease was primarily due to income before income taxes decreasing \$0.7 million, or 1.5%, in 2006 and a reduction to income tax expense in the third quarter of 2006 related to the closeout of IRS income tax audits for multiple years.

COMMON STOCK DIVIDENDS

Reference is made to the caption "Common Stock Dividends and Price Ranges" of Part II, Item 7 of the Corporations' 10-K Annual Report for a discussion of Energy Group's dividend payments. On March 24, 2006, the Board of Directors of Energy Group declared a quarterly dividend of \$0.54 per share, payable May 1, 2006, to shareholders of record as of April 10, 2006. On May 25, 2006, the Board of Directors of Energy Group declared a quarterly dividend of \$0.54 per share, payable August 1, 2006, to shareholders of record as of July 10, 2006. On September 28, 2006, the Board of Directors of Energy Group declared a quarterly dividend of \$0.54 per share, payable November 1, 2006, to shareholders of record as of October 10, 2006.

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OTHER MATTERS

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Changes in Accounting Standards: See Note 2 - "Summary of Significant Accounting Policies" and Note 7 - "New Accounting Standards and Other FASB Projects" for discussion of relevant changes, which discussion is incorporated by reference herein.

Higher Energy Prices: In the first nine months of 2006, Central Hudson's regulated electric and natural gas delivery customers received bills reflecting higher per unit energy prices than those received in the first nine months of 2005. For heating customers, total bill impacts were partially mitigated by a reduction in average usage in response to warmer winter weather. While higher energy prices themselves have little or no impact on Central Hudson's earnings due to adjustment mechanisms that recover energy costs from customers, management believes that continued high energy prices could cause a change in customer behavior toward increased conservation and energy efficiency, resulting in a decrease in delivery volumes and a negative impact on earnings. Additionally, persistently higher prices or further price increases could lead to an economic slowdown and dampen economic growth in Central Hudson's service territory. Slower growth could adversely affect the overall volume of electricity and natural gas deliveries, reducing earnings from utility operations.

Customers of the fuel distribution business are also experiencing higher per unit prices. In the first nine months of 2006, Griffith experienced year-over-year volume decreases that were partially driven by price-sensitive conservation, energy efficiency efforts, and fuel switching. If fuel oil prices remain high during the upcoming heating season, energy efficiency efforts and continued conservation could further reduce residential fuel delivery volumes.

Both Central Hudson's electricity and natural gas businesses and Griffith's fuel distribution business also face several other challenges that could result from continued higher prices: higher working capital needs driven by lags between disbursements to energy suppliers and receipts from customers, higher bad debt expenses resulting from customers who are unable to pay higher energy bills, and political and regulatory responses to higher energy prices. Management believes that Energy Group has adequate liquidity to meet the working capital demands of the current and near-term energy price environment and is actively monitoring bad debt expense and the political/regulatory environment.

CHEC's investment in ethanol production may realize benefits from higher energy prices in the future through higher prices for ethanol produced, but in the short-term benefits would be limited by the extent volumes have been sold at fixed prices. These benefits, however, may be partially offset by higher prices for the fuel used in the ethanol production process.

FORWARD-LOOKING STATEMENTS

Statements included in this Quarterly Report on Form 10-Q and the documents incorporated by reference which are not historical in nature, are intended to be, and are hereby identified as, "forward-looking statements" for purposes of the safe harbor provided by Section 21E of the Securities Exchange Act of 1934, as amended ("Exchange Act"). Forward-looking statements may be identified by words including "anticipates," "intends," "estimates," "believes," "projects," "expects," "plans," "assumes," "seeks," and similar expressions. Forward-looking statements including, without limitation, those relating to Energy Group's and Central Hudson's ("Registrants") future business prospects, revenues, proceeds, working capital, liquidity, income and margins, are subject to certain risks and uncertainties that could cause actual results to differ materially from those indicated in the forward-looking statements, due to

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several important factors, including those identified from time to time in the forward-looking statements. Those factors include, but are not limited to: weather; fuel prices; corn and ethanol prices; energy supply and demand; interest rates; potential future acquisitions; developments in the legislative, regulatory, and competitive environment; market risks; electric and natural gas industry restructuring and cost recovery; the ability to obtain adequate and timely rate relief; changes in fuel supply or costs including future market prices for energy, capacity, and ancillary services; the success of strategies to satisfy electricity, natural gas, fuel oil, and propane requirements; the outcome of pending litigation and certain environmental matters, particularly the status of inactive hazardous waste disposal sites and waste site remediation requirements; and certain presently unknown or unforeseen factors, including, but not limited to, acts of terrorism. Registrants undertake no obligation to update publicly any forward-looking statements, whether as a result of new information, future events, or otherwise.

Given these uncertainties, undue reliance should not be placed on the forward-looking statements.

ITEM 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Reference is made to Part II, Item 7A of the Corporations' 10-K Annual Report for a discussion of market risk. There has been no material change in either the market risks or the practices employed by Energy Group and Central Hudson to mitigate these risks discussed in the Corporations' 10-K Annual Report. For related discussion on this activity, see, in the Consolidated Financial Statements of the Corporations' 10-K Annual Report, Note 1 - "Summary of Significant Accounting Policies" under the caption "Accounting for Derivative Instruments and Hedging Activities" and Item 7 - "Management's Discussion and Analysis of Financial Condition and Results of Operations" under subcaption "Capital Resources and Liquidity."

ITEM 4 - CONTROLS AND PROCEDURES

The Chief Executive Officer and Chief Financial Officer of Energy Group and Central Hudson evaluated the effectiveness of the disclosure controls and procedures

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(as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this Quarterly Report on Form 10-Q and based on that evaluation, concluded that, as of the end of the period covered by this Quarterly Report on Form 10-Q, the Registrants' controls and procedures are effective for recording, processing, summarizing, and reporting information required to be disclosed in their reports under the Securities Exchange Act of 1934, as amended, within the time periods specified in the SEC's rules and forms.

There was only one change to the Registrants' internal control over financial reporting that occurred during the Registrants' last fiscal quarter. In July 2006, Central Hudson completed the implementation of a new fixed asset software application. The general computer controls and business controls related to this new application are in the process of being tested for design and operational effectiveness. It is not expected that this change has materially affected, or is likely to materially affect, the Registrants' internal control over financial reporting.

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PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Central Hudson:

Former Manufactured Gas Plant Facilities

For information about investigations and remediation efforts involving MGP facilities owned or operated by Central Hudson or its predecessors, see Item 3 of the Corporations' 10-K Annual Report and Note 11 - "Commitments and Contingencies" to the financial statements included in that report and Note 11 - "Commitments and Contingencies" to the financial statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q under the subcaption "Former Manufactured Gas Plant Facilities," which is incorporated herein by reference.

Little Britain Road

For information about the Little Britain Road site, see Note 11 - "Commitments and Contingencies" to the financial statements under the subcaption "Little Britain Road" included in Part I, Item 1 of this Quarterly Report on Form 10-Q, which is incorporated herein by reference.

Orange County Landfill

For information about the Orange County Landfill matter, see Item 3 of the Corporations' 10-K Annual Report and Note 11 - "Commitments and Contingencies" to the financial statements included in that report and Note 11 - "Commitments and Contingencies" to the financial statements under the subcaption "Orange County Landfill" included in Part I, Item 1 of this Quarterly Report on Form 10-Q, which is incorporated herein by reference.

Asbestos Litigation

For information about asbestos lawsuits to which Central Hudson is a party, see Item 3 of the Corporations' 10-K Annual Report and Note 11 - "Commitments and Contingencies" to the financial statement included in that report and Note 11 - "Commitments and Contingencies" to the financial statements under the subcaption "Asbestos Litigation" included in Part I, Item 1 of this Quarterly Report on Form 10-Q, which is incorporated herein by reference.

Neversink

For information concerning the transfer of Neversink to the City, see Item 3 of the Corporations' 10-K Annual Report and Note 11 - "Commitments and Contingencies" to the financial statements included in that report and Note 11 - "Commitments and Contingencies" to the financial statements included in Part I, Item 1 of this Quarterly

Report on Form 10-Q under the subcaption "Neversink Hydro Station," which is incorporated herein by reference.

CHEC:

For information concerning Griffith's remediation efforts at the Kable Oil bulk plant in West Virginia, see Item 3 of the Corporations' 10-K Annual Report

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and Note 11 - "Commitments and Contingencies" to the financial statements included in that report and Note 11 - "Commitments and Contingencies" to the financial statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q under the caption "CHEC," which is incorporated herein by reference.

For information concerning Griffith's (formerly SCASCO's) remediation efforts in Connecticut, see Item 3 the Corporations' 10-K Annual Report and Note 11 - "Commitments and Contingencies" to the financial statements included in that report and Note 11 - "Commitments and Contingencies" to the financial statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q under the caption "CHEC," which is incorporated herein by reference.

ITEM 1A. RISK FACTORS

For discussion identifying additional risk factors that could cause actual results to differ materially from those anticipated, see the discussion under Item 1A - Risk Factors of the Corporations' 10-K Annual Report and Item 1A - Risk Factors of the combined Energy Group/Central Hudson Quarterly Report on Form 10-Q for the quarter ended June 30, 2006.

High Wholesale Fuel Oil Prices May Adversely Affect the Ability of Griffith to Attract New Customers, Retain Existing Customers, and Maintain Sales Volumes

On September 30, 2006, the average wholesale price of fuel oil, as measured by the closing price on the NYMEX, was \$1.88 per gallon. This is a 15.1% increase over the \$1.64 per gallon price on September 30, 2005, and a 67.8% increase over the \$1.12 per gallon price on September 30, 2004. Griffith's management believes the significant rise in the wholesale price of fuel oil has adversely impacted the ability of Griffith to attract new full service residential customers and, to a lesser extent, retain existing full service residential customers. Griffith's management believes some customer attrition is due to former and prospective full service customers deciding, because of high fuel oil prices, to purchase fuel from discount distributors, which - unlike Griffith - do not offer other services such as equipment installation, repair, and maintenance. In addition, Griffith's management believes that some customers are conserving their use of fuel oil by accepting lower temperatures in their homes and by implementing home improvements (e.g., more insulation, better windows). If higher fuel prices were to continue indefinitely, or such prices were to increase significantly, Griffith could experience further customer attrition and further reductions in sales volume due to customer conservation. If one or both of these were to occur and be material, the

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consequence could be a material reduction in profitability that could, in turn, lead to an impairment of the goodwill included in the intangible assets on Griffith's and Energy Group's balance sheet. Additionally, if customer attrition were to accelerate significantly the remaining value of the customer list could be impaired or subject to accelerated amortization.

ITEM 6. EXHIBITS

(a) The following exhibits are furnished in accordance with the provisions of Item 601 of Regulation S-K.

Exhibit No.	Exhibit Description
Regulation S-K	
Item 601	
Designation	

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- 12 Statements Showing Computation of the Ratio of Earnings to Fixed Charges and the Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends.
- 31.1 Rule 13a-14(a)/15d-14(a) Certification by Mr. Lant.
- 31.2 Rule 13a-14(a)/15d-14(a) Certification by Mr. Capone.
- 32.1 Section 1350 Certification by Mr. Lant.
- 32.2 Section 1350 Certification by Mr. Capone.
- 99 New York State Public Service Commission Order Establishing Rate Plan dated July 24, 2006.*

* Incorporated herein by reference to the combined Energy Group/Central Hudson Quarterly Report on Form 10-Q for the quarter ended September 30, 2006.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrants have duly caused this report to be signed on their behalf by the undersigned thereunto duly authorized.

CH ENERGY GROUP, INC.
(Registrant)

By: /s/ Donna S. Doyle

Donna S. Doyle
Vice President - Accounting and Controller

CENTRAL HUDSON GAS & ELECTRIC CORPORATION
(Co-Registrant)

By: /s/ Donna S. Doyle

Donna S. Doyle
Vice President - Accounting and Controller

Dated: November 7, 2006

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EXHIBIT INDEX

Following is the list of Exhibits, as required by Item 601 of Regulation S-K, filed as part of this Quarterly Report on Form 10-Q:

Exhibit No.
Regulation S-K
Item 601

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Designation	Exhibit Description
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