

The Fundamental Difference

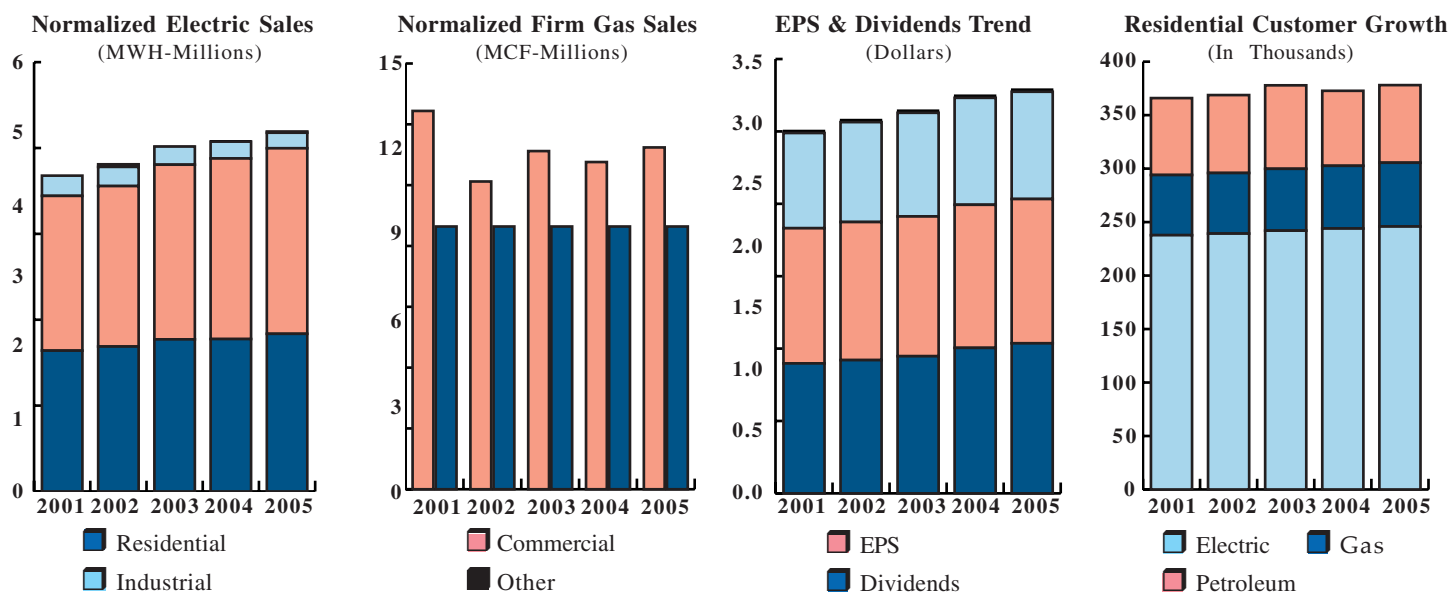
2005 Annual Report & Form 10-K



CH Energy Group, Inc.

The Fundamental Difference

Many companies in the energy industry have discovered that a back-to-basics approach has merits. But at CH Energy Group, we never lost sight of the fundamentals of good management: a commitment to those we serve and those we employ, a continuous emphasis on productivity and cost control, and prudent investment for growth. Our 2005 Annual Report illustrates that philosophy — and its potential ability to enhance your investment.



2005 Financial Highlights

Operating Revenues

Operating Expenses

Net Income

Earnings Per Share - Basic

Average Shares Outstanding

Dividends Declared Per Share

Total Assets

Electric Sales (kWh)

Natural Gas Firm Sales (000's of cubic ft.)

Electric Customers (average)

Firm Natural Gas Customers (average)

Fuel Distribution Customers (average)

Fuel Distribution Volume (gallons)

	2005	2004	% Change
Operating Revenues	\$972,506,000	\$791,512,000	22.9%
Operating Expenses	\$893,481,000	\$716,379,000	24.7%
Net Income	\$44,291,000	\$42,423,000	4.4%
Earnings Per Share - Basic	\$2.81	\$2.69	4.5%
Average Shares Outstanding	15,762,000	15,762,000	—
Dividends Declared Per Share	\$2.16	\$2.16	—
Total Assets	\$1,379,506,000	\$1,287,807,000	7.1%
Electric Sales (kWh)	5,738,892,000	5,492,153,000	4.5%
Natural Gas Firm Sales (000's of cubic ft.)	12,266,844	12,059,953	1.7%
Electric Customers (average)	292,800	289,100	1.3%
Firm Natural Gas Customers (average)	70,700	69,000	2.4%
Fuel Distribution Customers (average)	83,200	86,200	(3.5)%
Fuel Distribution Volume (gallons)	138,493,000	147,669,000	(6.2)%

Common Stock Market Price & Dividends Paid Per Share:

	2005			2004		
	High	Low	Dividend	High	Low	Dividend
1 st Quarter	\$49.20	\$43.35	\$0.54	\$49.56	\$45.13	\$0.54
2 nd Quarter	49.09	42.07	0.54	49.58	43.39	0.54
3 rd Quarter	50.23	45.21	0.54	46.75	43.14	0.54
4 th Quarter	48.70	43.03	0.54	48.66	44.15	0.54



2005

Dear Shareholder,

The year just passed was one of challenge, gratifying accomplishment and progress.

We earned \$2.81 per share, 4.5 percent above the \$2.69 per share we earned in 2004, despite the absence of 46 cents per share in regulatory amortizations that expired at the end of 2004. I am very pleased with these results and the organization's performance in 2005. I will discuss the key factors that drove our results, by business unit, below.

The theme of this year's Annual Report is, "The Fundamental Difference." This phrase has two interpretations. First, it means that consistently focusing on fundamentals makes a big difference in performance. At CH Energy Group, we believe this and try to make sure our attention and energy are devoted to the most important things—customer service, cost control and risk management. These are the drivers of success in our business—the fundamentals—and we do them well.

There is a second meaning of "the fundamental difference." It means CH Energy Group is fundamentally different. Too many management teams, in our industry and in others, have tired of concentrating on the fundamentals, have been distracted by faddish management trends or have become enamored with risky strategies to produce high levels of growth. Maintaining a focus on fundamentals takes discipline and a certain degree of humility—you can't ever believe you've mastered them. We have the discipline, and the humility, needed to stay focused on the fundamentals. We

understand our purpose is to serve our customers and investors. Our customers want superior customer service at reasonable prices. Our investors want a reasonable return on their investment without too much risk. These are simple things—like blocking and tackling in football and lay-ups and free throws in basketball—that can only be done well through steady and unwavering focus on them and continuously working toward improvement in performance, however slight. Continuous improvement, like compound interest, accumulates through time to produce the desired result. Patience and persistence are rewarded, as the following business unit results show.

Central Hudson Gas & Electric Corporation

Central Hudson had a challenging year, and in my view met its challenges. CHGE earned \$2.20 per share vs. \$2.39 in 2004. We were able to substantially offset 46 cents per share of expiring regulatory amortizations through sales growth and rate base growth and increasingly efficient operations.

Chief among the challenges Central Hudson faced was the need to prepare and file an electric and natural gas rate case. The agreement Central Hudson entered into with the New York Public Service Commission in 2001 will have run its course by June 30, 2006, and we need to put in place new rates that will cover the period that begins July 1, 2006. We have filed for a substantial increase in delivery rates—the first such increase in

The Fundamental Difference

13 years—to begin to recover costs deferred under our current agreement and to recover projected increases in our cost of service. The filing was made on July 29, 2005, and is proceeding according to the Public Service Commission’s procedural schedule. Settlement negotiations are underway and while we can’t predict the outcome, we are optimistic that a balanced settlement can be negotiated that will be fair for both customers and shareholders, as was the case with the 2001 agreement.

Another challenge has been escalating supply costs. We have seen substantial increases in the cost of purchased electricity and natural gas over the past year, increases of a magnitude not seen in a generation. Hurricanes Katrina and Rita disrupted natural gas production in the Gulf region, but we were able to offset lost capacity from that region by temporarily increasing our reliance on liquefied natural gas imports and Canadian gas. While we have managed our purchased energy portfolio well, our customers have seen substantially higher bills, both due to supply costs and increased electricity use during the hottest summer in 30 years. I’m pleased to report that despite the challenge of higher prices, we have maintained high customer satisfaction, again placing in the top quartile in the Eastern U.S. according to J.D. Power and Associates in its 2005 Electric Utility Residential Customer Satisfaction Survey. Our employees have risen to these challenges and have shown once again that they care deeply about our company and its customers.

Economic growth in our service territory continued in 2005, and our delivery system performed well under the new record electric peak demand that occurred during the long, hot summer. We have made the necessary investments in our system to stay ahead of growth in demand.

All in all, 2005 was a strong year for Central Hudson.

Fuel Delivery Business Unit

Our fuel delivery business unit contributed 23 cents per share vs. 18 cents in 2004.

The challenge of rapidly rising energy prices was even more acutely felt in our fuel oil delivery business. Our strategy, our niche, has been providing top-quality service to customers who value service, and are willing to pay a bit extra for it. In the face of the most extreme increases in wholesale prices in 25 years, more of our customers became price sensitive and became price shoppers. Before we fully appreciated the change and made necessary adjustments, we suffered some customer attrition. We learned a lesson, and our marketing efforts over the current heating season, while still emphasizing our high-quality service, are more flexible in dealing with price sensitivity. As a result we’ve reversed the trend and are once again growing our account base and market share. We also were able to acquire several small companies which we’ve already integrated into the Griffith Energy platform.

We did a good job of managing our margins and expenses, so in spite of a slight decline in accounts and delivery volume, the earnings contribution of this business unit actually increased 5 cents to 23 cents per share. In a very challenging year I view this performance as remarkably strong. Our goal is to take advantage of the challenging environment by using our competitive strengths—access to capital, cost management and customer service—to grow our market share through both smarter marketing and through acquisition of smaller companies that offer operating synergies or strategic advantages.

CH Energy Group

This business unit earned 38 cents per share this year compared to 12 cents in 2004.

The investment portfolio of CH Energy Group made a greater earnings contribution in 2005 than it did in 2004 as interest rates steadily rose

throughout the year. More important, our business development efforts are beginning to bear fruit. Our investment in the Cornhusker Energy Lexington ethanol project proved timely, as increasing ethanol prices and new renewable energy incentives in the Energy Bill signed into law in July combined to make that investment look potentially even better than anticipated. The Cornhusker plant began start-up operation in January 2006 and is expected to make a meaningful contribution to our earnings in 2006. An expansion of the project is under consideration and could make a further contribution to earnings sometime in 2007.

In August 2005, we announced that we had entered into a partnership to construct two wind turbine farms—one in Bear Creek, Pa., and the other in Atlantic City, N.J. These renewable energy facilities went into service in January 2006. Most of the output is being sold under long-term, fixed-price contracts, and the projects are expected to produce attractive returns for many years.

Obviously, there is a theme to our recent business development activities—renewable energy. With the increased focus on rising costs, supply issues and environmental concerns, renewable energy is gaining momentum. Technological progress, combined with new economic incentives, has brought ethanol, wind and biomass in particular to the forefront of our investment strategy. We plan to use the experience we've gained to expand our portfolio.

Admittedly, our risk-averse approach takes time, and we appreciate your patience as we carefully invest your money. Our intent is to deliver a total return over time that will continue to meet your expectations, without causing you to worry about our employing risky strategies to do so.

I must recognize and compliment the dedicated officers and employees with whom I work in wrestling with our challenges and setting the stage for future success. They are talented and dedicated to their responsibilities, and I am proud to work with them.



I also want to thank the members of your Board of Directors, who bring outstanding knowledge and judgment to our strategic planning and corporate governance activities, and who both challenge and mentor the management team. In particular, I must recognize the service of Heinz Fridrich, Vice Chair of the Board, and Chairman of the Governance and Nominating Committee, who retires from the Board this year after 18 years of service. Mr. Fridrich has been an exceptional board member—conscientious, demanding of excellence and providing valuable counsel.

Manuel Iraola joined the Board in February, and the Board has nominated Ernest Verebelyi to begin serving as a Director following our Annual Meeting. Both have strong business backgrounds and extensive experience as senior executives of large, publicly traded corporations. We expect both new directors to quickly become great assets to the governance and oversight of CH Energy Group.

As we enter 2006, we are optimistic about the future of our Company and our ability to deliver value to you, our shareholder.


Steven V. Lant
Chairman of the Board,
President and C.E.O.

P.S. It was an honor to ring the closing bell of the New York Stock Exchange on Nov. 18, 2005, surrounded by our Board of Directors and Senior Management Team, in celebration of the 60th anniversary of the trading of our Company's stock (above).

The Fundamental Difference



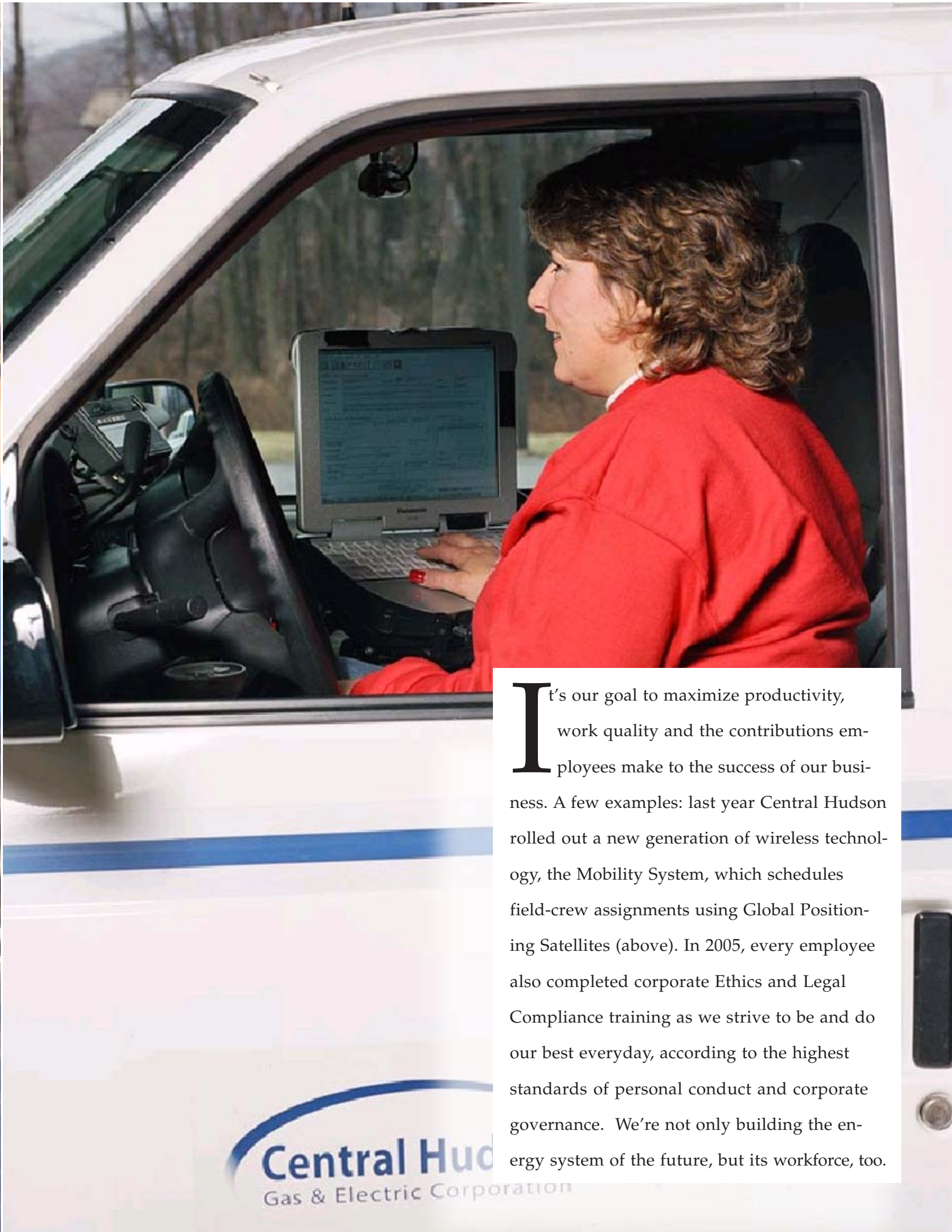
Central Hudson prudently invested approximately \$420 million in its electric infrastructure during the last decade in response to increased growth and the need to maintain a reliable system. We plan to invest approximately \$65 million more in 2006, as we fulfill our obligation to meet the escalating demands of individual customers, the construction of new housing subdivisions (in 2005 alone, there were 45 projects with nearly 1,300 residential units completed), commercial growth, and an increasing expectation for electric service of the highest quality.

A photograph showing three construction workers in safety gear (hard hats, safety vests) working on a trench. One worker is holding a large coil of yellow gas pipe, while another is kneeling and working with pipes already laid out in the trench. A third worker stands nearby. The background shows a residential construction site with wooden framing and trees.

The dozens of new residential subdivisions recently proposed for and built within the Mid-Hudson Valley have also increased demand for clean, efficient natural gas. We invested \$90 million in our natural gas infrastructure during the last 10 years to judiciously grow and maintain our system; such 2006 investments are expected to total more than \$14 million. We maintain our gas system according to rigorous safety standards and expand it when economically feasible. Strong natural gas sales are a fundamental part of our continued business success.

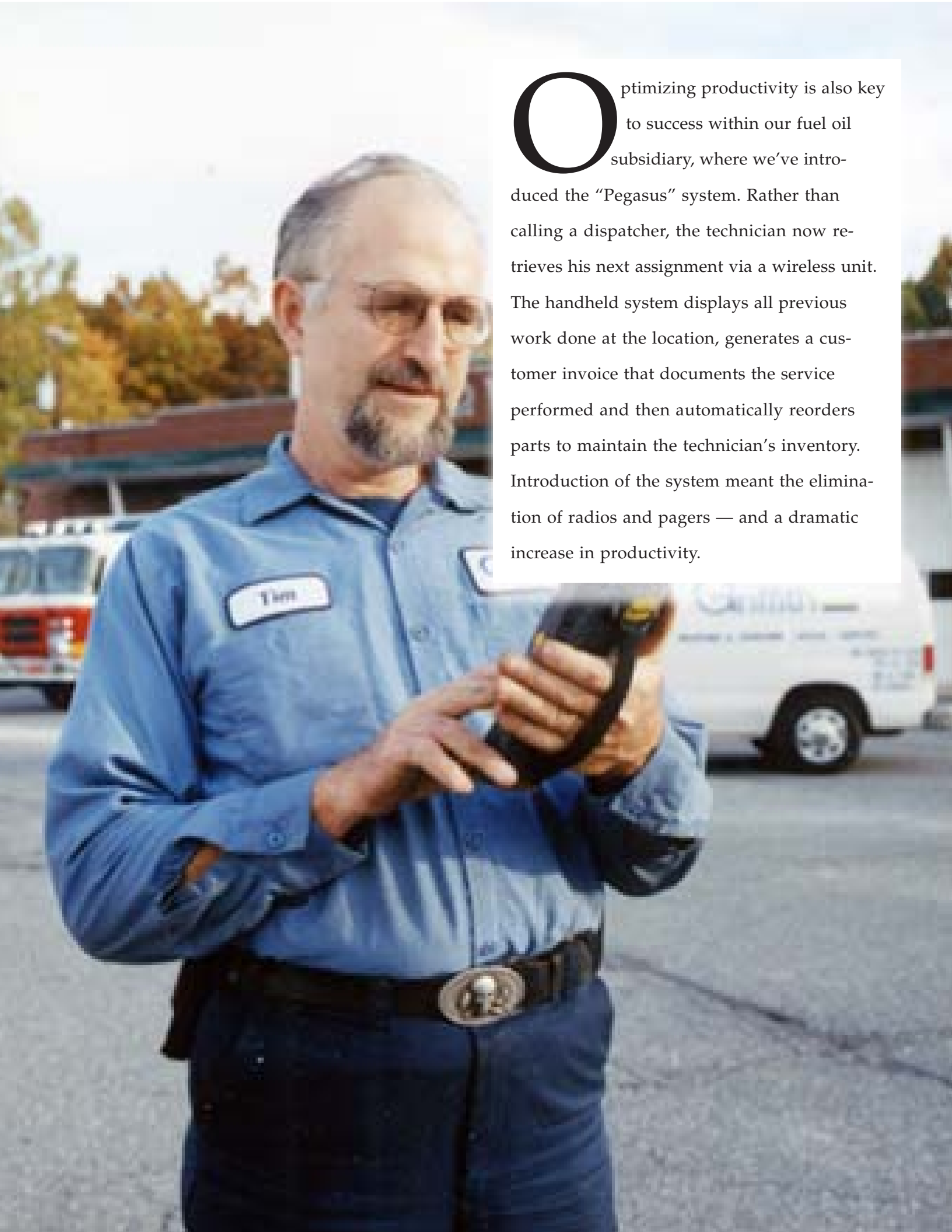


Our employees are the foundation on which we build our future, and employee development remains a core strength. While traditional programs that feature skills-based training, tuition reimbursement and developmental assignments are key components of our decades-long approach, our efforts to address the “aging out” of a significant portion of our workforce are critically important. We’re teaming seasoned employees with highly qualified new hires to ensure that our employees will continue to get the job done right — in the most effective way for the lowest cost — on behalf of customers and shareholders alike.



It's our goal to maximize productivity, work quality and the contributions employees make to the success of our business. A few examples: last year Central Hudson rolled out a new generation of wireless technology, the Mobility System, which schedules field-crew assignments using Global Positioning Satellites (above). In 2005, every employee also completed corporate Ethics and Legal Compliance training as we strive to be and do our best everyday, according to the highest standards of personal conduct and corporate governance. We're not only building the energy system of the future, but its workforce, too.


Central Hudson
Gas & Electric Corporation



Optimizing productivity is also key to success within our fuel oil subsidiary, where we've introduced the "Pegasus" system. Rather than calling a dispatcher, the technician now retrieves his next assignment via a wireless unit. The handheld system displays all previous work done at the location, generates a customer invoice that documents the service performed and then automatically reorders parts to maintain the technician's inventory. Introduction of the system meant the elimination of radios and pagers — and a dramatic increase in productivity.

Slow, steady customer growth is a fundamental part of our success within Central Hudson Enterprises Corp.'s fuel oil subsidiary. We completed seven "tuck-in" acquisitions in 2005, adding approximately 3,400 accounts and seizing opportunities for operating synergies in areas we already served. One acquisition, McCandless Fuels, with its base of customers in the Mainline area of Philadelphia, represents an expansion into an adjacent, new market. In a challenging year, we maintained our profitability by focusing on fundamentals and taking a cautious approach to growth.



A photograph of two men in an industrial setting. The man on the left is wearing a blue hard hat, safety glasses, and a blue denim jacket. The man on the right is wearing a white hard hat, safety glasses, a white long-sleeved shirt, and a dark vest. They are both looking at a clipboard held by the man on the right. The background shows large industrial towers and pipes.

Our search for promising investments in the energy industry led us to the cornfields of Nebraska, where we've committed to invest \$10.7 million in the Cornhusker Energy Lexington plant. The \$78 million facility produces 40 million gallons of fuel ethanol annually, with permits in hand for future expansion. The state-of-the-art plant — which is strategically located near reliable sources of corn and users of by-products, and along transportation links to growing markets — also benefits from significant government incentives to bolster the production of ethanol.



An interest in long-term, stable investments brought CHEC to a partnership in the nation's first coastal wind farm, located in Atlantic City, N.J., where five 380-foot turbines each generate 1.5 megawatts of electricity. CHEC has committed, through a partnership agreement, to invest up to a combined \$5.5 million in this project and a second, larger facility near Wilkes Barre, Pa. The wind farms benefit from state and federal incentives for renewable electricity production and long-term contracts for their electric output. We hope to expand further into this growing sector of the energy industry.

Corporate Information

Analysts & Institutional Investors:

Stacey A. Renner
Assistant Treasurer
Phone: (845) 486-5730
E-mail: SRenner@cenhud.com

Transfer Agent & Registrar:

Computershare Trust Company, N.A.
P.O. Box 43069
Providence, RI 02940-3010
Telephone: 1 (800) 428-9578
8:30 a.m. to 7 p.m. ET weekdays
or www.computershare.com/equiserve

Internet:

This Annual Report, our SEC filings, the Stock Purchase Plan Prospectus, and other information about our Company are all available at www.CHEnergyGroup.com

Annual Meeting:

The Annual meeting of Common Stockholders will be held on Tuesday, April 25, 2006, at 10:30 a.m. at the Corporation's General Offices, 284 South Avenue in Poughkeepsie, New York. The management welcomes the attendance of shareholders. A summary report of the meeting will be mailed to all shareholders of record at a later date.

Financial & Statistical Report:

A Five-Year Financial & Statistical supplement to the Annual Report will be available to shareholders attending the Annual Meeting. Copies may also be obtained by contacting Director of Shareholder Relations Paul J. Gajdos at (845) 486-5383 or 284 South Avenue, Poughkeepsie, NY 12601, PGajdos@cenhud.com.

Multiple Copies of this Report:

Shareholders receiving multiple copies of this report who would like to reduce that number may contact Computershare Trust Company, N.A. at 1 (800) 428-9578.

General Counsel:

Thompson Hine LLP
One Chase Manhattan Plaza
New York, NY 10005

Independent Accountants:

PricewaterhouseCoopers LLP
1177 Avenue of the Americas
New York, NY 10036

Stock Exchange Listing:

Common: New York Stock Exchange
Symbol: CHG

Common Stock Purchase Plan:

CH Energy Group, Inc. offers a Stock Purchase Plan through which all potential investors may conveniently purchase common stock and reinvest cash dividends. All brokerage and others fees are paid by the Corporation. To participate, contact Shareholder Relations at (845) 486-5204 or Computershare Trust Company, N.A. at 1 (800) 428-9578.

Affirmative Action Policy:

It is the policy of CH Energy Group, Inc. to provide equal employment opportunities for all persons. CH Energy Group, Inc. is committed to recruit, hire, train, and promote persons in all positions without regard to race, color, creed, religion, veteran status, sexual orientation, age, national origin, disability, or sex. The Corporation will ensure that promotional decisions are in accord with principles of equal opportunity by imposing only valid requirements for promotional opportunities. All personnel actions, including compensation, benefits, transfers, layoffs, return from layoff, employer-sponsored training, education, tuition assistance, and social and recreation programs will be administered without regard to race, sex, color, creed, religion, veteran status, sexual orientation, age, national origin, or disability.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2005

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

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

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

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

Title of each class
Central Hudson Gas & Electric Corporation Cumulative Preferred Stock 4 1/2% Series 4.75% Series

Indicate by check mark if CH Energy Group, Inc. ("Energy Group") is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if Central Hudson Gas & Electric Corporation ("Central Hudson") is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

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

Yes _____ No

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

Yes _____ No

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

Indicate by check mark whether Energy Group is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and larger 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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and larger 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 Energy Group is a shell company (as defined in Rule 12b-2 of the Act).

Yes _____ No

Indicate by check mark whether Central Hudson is a shell company (as defined in Rule 12b-2 of the Act).

Yes _____ No

The aggregate market value of the voting and non-voting common equity of Energy Group held by non-affiliates as of February 1, 2006, was \$733,721,000 based upon the lowest price at which Energy Group's Common Stock was traded on that date, as reported on the New York Stock Exchange listing of composite transactions.

The aggregate market value of the voting and non-voting common equity of Energy Group held by non-affiliates as of June 30, 2005, the last business day of Energy Group's most recently completed second fiscal quarter, was \$766,506,060 computed by reference to the price at which Energy Group's Common Stock was last traded on that date, as reported on the New York Stock Exchange listing of composite transactions.

The aggregate market value of the voting and non-voting common equity of Central Hudson held by non-affiliates as of June 30, 2005, was zero.

The number of shares outstanding of Energy Group's Common Stock, as of February 1, 2006, was 15,762,000.

The number of shares outstanding of Central Hudson's Common Stock, as of February 1, 2006, was 16,862,087. All such shares are owned by Energy Group.

CENTRAL HUDSON MEETS THE CONDITIONS SET FORTH IN GENERAL INSTRUCTIONS (I)(1)(a) AND (b) OF FORM 10-K AND IS THEREFORE FILING THIS FORM WITH THE REDUCED DISCLOSURE FORMAT PURSUANT TO GENERAL INSTRUCTION (I)(2).

DOCUMENTS INCORPORATED BY REFERENCE

Energy Group's definitive Proxy Statement, dated March 10, 2006, and to be used in connection with its Annual Meeting of Shareholders to be held on April 25, 2006, is incorporated by reference in Part III hereof. Information required by Part III hereof with respect to Central Hudson has been omitted pursuant to General Instruction (I)(2)(c) of Form 10-K of the Securities Exchange Act of 1934, as amended.

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PART I

Filing Format

This Annual Report on Form 10-K for the fiscal year ended December 31, 2005 ("10-K Annual Report"), is a combined report being filed by two different registrants: CH Energy Group, Inc. ("Energy Group") and Central Hudson Gas & Electric Corporation ("Central Hudson"). Except where the content clearly indicates otherwise, any references in this 10-K Annual Report to Energy Group include all subsidiaries of Energy Group, including Central Hudson. Energy Group's subsidiaries are each directly or indirectly wholly owned by Energy Group. Central Hudson makes no representation as to the information contained in this 10-K Annual Report in relation to Energy Group and its subsidiaries other than Central Hudson. When this 10-K Annual Report is incorporated by reference into any filing with the Securities and Exchange Commission ("SEC") made by Central Hudson, the portions of this 10-K Annual Report that relate to Energy Group and its subsidiaries, other than Central Hudson, are not incorporated by reference therein.

Forward-Looking Statements

Statements included in this 10-K Annual Report 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," "believes," "projects," "intends," "estimates," "expects," "plans," "assumes," "seeks," and similar expressions. Forward-looking statements including, without limitation, those relating to 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 several important factors including those identified from time to time in the forward-looking statements. Those factors include, but are not limited to: weather; energy supply and demand; fuel prices; 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 1 - BUSINESS

Corporate Structure

Energy Group is the holding company parent corporation of Central Hudson and Central Hudson Enterprises Corporation ("CHEC").

Central Hudson has one wholly owned subsidiary: Phoenix Development Company, Inc. ("Phoenix"). CHEC had two wholly owned subsidiaries during the period covered by this 10-K Annual Report: Griffith Energy Services, Inc. ("Griffith") and SCASCO, Inc. ("SCASCO"). Effective December 31, 2005, SCASCO was merged into Griffith, which remains a wholly owned subsidiary of CHEC. The merger is not expected to have any material effect on the financial condition of Energy Group. CHEC, Griffith, and SCASCO are collectively referred to herein as the "competitive business subsidiaries." Griffith and SCASCO are collectively referred to herein as the "fuel distribution businesses."

Because of its ownership of Central Hudson, Energy Group is a "public utility holding company" under the Public Utility Holding Company Act of 1935 ("PUHCA"). However, Energy Group is exempt from the provisions of PUHCA under the intrastate exemption provisions of §3(a)(1) of PUHCA except that, under §9(a)(2) of PUHCA, the approval of the SEC is required for a direct or indirect acquisition by a public utility holding company of 5% or more of the voting securities of any electric or natural gas utility company subject to PUHCA. On August 8, 2005, the Energy Policy Act of 2005 ("Energy Act") became law. The Energy Act repeals PUHCA effective February 8, 2006. The repeal of PUHCA is expected to, among other things, eliminate significant federal restrictions on the scope, structure, and ownership of companies in the electric industry. Energy Group has reviewed the components of the Energy Act to assess the impact on its businesses and to ensure compliance with all applicable provisions. For further discussion of the Energy Act, see Item 7 – "Management's Discussion and Analysis of Financial Condition and Results of Operations" of this 10-K Annual Report under the subcaption "Other Matters." At the present time, neither Energy Group nor Central Hudson can predict the effect that the Energy Act may have on its financial condition or operations.

Energy Group was incorporated in 1998 as a wholly owned subsidiary of Central Hudson. On December 15, 1999, Energy Group became the holding company parent corporation of Central Hudson and Central Hudson's then-existing subsidiaries, including CHEC and Phoenix (the "Holding Company Restructuring"). For further information regarding the Holding Company

Restructuring and the Amended and Restated Settlement Agreement dated January 2, 1998, and thereafter amended ("Settlement Agreement"), among Central Hudson, the Staff of the Public Service Commission of the State of New York ("PSC"), and certain others which, among other things, permitted the Holding Company Restructuring, see the captions "Competitive Opportunities Proceeding Settlement Agreement" and "Rate Proceedings – Electric and Natural Gas" in Note 2 – "Regulatory Matters" to the Financial Statements contained in Item 8 – "Financial Statements and Supplementary Data" of this 10-K Annual Report (each Note being hereinafter called a "Note"). Surviving provisions of the Settlement Agreement discussed in this 10-K Annual Report may affect future operations of Energy Group and its subsidiaries.

For a discussion of Energy Group's and its subsidiaries' capital structure and financing program, see Item 7 – "Management's Discussion and Analysis of Financial Condition and Results of Operations" of this 10-K Annual Report under the subcaptions "Capital Structure" and "Financing Program" under the caption "Capital Resources and Liquidity." For a discussion of short-term borrowing, capitalization, and long-term debt, see Note 6 – "Short-Term Borrowing Arrangements," Note 7 – "Capitalization – Common and Preferred Stock," and Note 8 – "Capitalization – Long-Term Debt," respectively. For information concerning revenues, certain expenses, earnings per share, and information regarding assets for Central Hudson's regulated electric and regulated natural gas segments and the fuel distribution business segment, see Note 12 – "Segments and Related Information."

Subsidiaries of Energy Group

Central Hudson

Central Hudson is a New York State natural gas and electric corporation formed on December 31, 1926, as a consolidation of several operating utilities that had been accumulated under one management during the previous 26 years. Central Hudson purchases, sells at wholesale, and distributes electricity and natural gas in portions of New York State. Central Hudson also generates a small portion of its electricity requirements. Central Hudson sold its interests in its major generating assets in 2001, pursuant to a PSC order.

Central Hudson serves a territory extending about 85 miles along the Hudson River and about 25 to 40 miles east and west of the Hudson River. The southern end of the territory is about 25 miles north of New York City, and the northern end is about 10 miles south of the city of Albany. The territory, comprising approximately 2,600 square miles, has a population estimated at 688,000. Electric service is available throughout the territory and natural gas service is provided in and about the cities of Poughkeepsie, Beacon, Newburgh, and Kingston, New York, and in certain outlying and intervening territories. The number of Central Hudson employees at December 31, 2005, was 834.

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

The competitive marketplace continues to develop for electric and natural gas utilities, and Central Hudson's electric and natural gas customers may purchase energy and related services from other providers.

Seasonality

Central Hudson's delivery revenues vary seasonally in response to weather. Sales of electricity are usually highest during the summer months, primarily due to the use of air-conditioning and other cooling equipment. Sales of natural gas are highest during the winter months, primarily due to space heating usage.

Competition

Central Hudson is a regulated utility with an exclusive right to deliver electricity and natural gas within its PSC-approved franchise territory. Central Hudson has no direct competitors in its electricity business; indirect competitors may include distributed generation systems which could bypass the electric delivery system, however Central Hudson believes such competition is not imminent. Central Hudson's natural gas business competes with other fuels, especially fuel oil and propane.

Regulation

Central Hudson is subject to regulation by the PSC regarding, among other things, services rendered (including the rates charged), major transmission facility siting, accounting procedures, and issuance of securities. For certain restrictions on Central Hudson's activities imposed by the Settlement Agreement and information on the sales of Central Hudson's interests in the Danskammer Point Steam Electric Generating Station ("Danskammer Plant"), the Roseton Electric Generating Plant ("Roseton Plant"), and Unit No. 2 of the Nine Mile Point Nuclear Generating Station ("Nine Mile 2 Plant") during 2001, see Note 2 – "Regulatory Matters" under the captions "Competitive Opportunities Proceeding Settlement Agreement," and "Sales of Major Generating Assets." The Danskammer Plant, the Roseton Plant, and the Nine Mile 2 Plant are collectively referred to herein as the "major generating assets."

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

Central Hudson is not subject to the provisions of the Natural Gas Act.

With the exception of the Groveville Hydroelectric Facility in Beacon, New York, Central Hudson's hydroelectric facilities are not required to be licensed

under the Federal Power Act. The Groverville Hydroelectric Facility has an Emergency Action Plan which has been approved by the FERC.

Rates

Generally: The electric and natural gas rates collected by Central Hudson applicable to service supplied to retail customers within New York State are regulated by the PSC. Transmission rates and rates for electricity sold for resale in interstate commerce by Central Hudson are regulated by the FERC. In Central Hudson's 2001 rate proceeding, rates for delivery and supply were unbundled to facilitate competition.

Central Hudson's present retail electricity rate structure consists of various service classifications covering delivery service and full service (which includes electricity supply) for residential, commercial, and industrial customers. During 2005, the average price of electricity for full service customers was 11.36 cents per kilowatt-hour ("kWh") as compared to an average of 8.88 cents per kWh for 2004. The average delivery price for 2005 was 2.51 cents per kWh and 2.29 cents per kWh for 2004. The majority of the increase in delivery price was due to the expiration of Customer Benefit Fund refunds.

Rate Proceedings - Electric and Natural Gas: For information regarding Central Hudson's most recent electric and natural gas rate proceeding filed with the PSC in July 2005, see Note 2 - "Regulatory Matters" under the caption "Rate Proceedings - Electric and Natural Gas."

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

Capital Expenditures and Financing

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

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

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

Purchased Power and Generation Costs

For the twelve-month period ended December 31, 2005, the sources and related costs of purchased electricity and electric generation for Central Hudson were as follows:

Sources of Energy	Aggregate Percentage of Energy Requirements	Costs in 2005 (\$000)
Purchased Electricity	97.8%	\$343,879
Hydroelectric and Other	2.2%	143
	<u>100.0%</u>	
Deferred Electricity Cost		(6,976)
Total		<u>\$337,046</u>

Other Central Hudson Matters

Labor Relations: Central Hudson has an agreement with Local 320 of the International Brotherhood of Electrical Workers for its 541 unionized employees, representing construction and maintenance employees, customer representatives, service workers, and clerical employees (excluding persons in managerial, professional, or supervisory positions). This agreement became effective on May 1, 2003, and remains effective through April 30, 2008. It provides for an average annual general wage increase of 3.5% and certain additional fringe benefits.

Subsidiary of Central Hudson - Phoenix Development Company, Inc.: Phoenix, a New York corporation, is a wholly owned subsidiary of Central Hudson. Phoenix was incorporated in 1950 to hold or lease real property for future use by Central Hudson and to participate in energy-related ventures. Currently, Phoenix's assets are not significant.

CHEC and its Subsidiaries

Central Hudson Enterprises Corporation: CHEC, a New York corporation, is a wholly owned subsidiary of Energy Group. CHEC has been engaged in the business of marketing natural gas, petroleum products, and related services to retail and wholesale customers and providing service and maintenance of energy conservation measures and generation systems for private businesses, institutions, and government entities. CHEC has also participated in cogeneration, wind generation, alternate fuel, and energy production projects in Connecticut, New Jersey, New Hampshire, New York, and Pennsylvania, and a fuel ethanol production plant in Nebraska. For further discussion of certain of these energy-related projects, see Note 4 - "Acquisitions, Investments, and Divestitures."

Griffith Energy Services, Inc.: Griffith, a New York corporation, is a wholly owned subsidiary of CHEC. Griffith is an energy services company engaged in fuel distribution including heating oil, gasoline, diesel fuel, kerosene, and propane, and the installation and maintenance of heating, ventilating, and air conditioning equipment in Virginia, West Virginia, Maryland, Delaware, Pennsylvania, Washington, D.C. and, following the merger of SCASCO into Griffith effective December 31, 2005, in Connecticut, Massachusetts, and New York.

Since being acquired by CHEC in November 2000, Griffith has acquired assets of 18 regional fuel oil, propane, and related services companies.

The number of Griffith employees at December 31, 2005, was 564.

On October 31, 2003, SCASCO completed the sale of certain assets and liabilities of its natural gas business unit. For further discussion of the sale, see Note 4 - "Acquisitions, Investments, and Divestitures."

During the year ended December 31, 2005, and in prior periods, SCASCO engaged in substantially the same activities as Griffith in Connecticut, Massachusetts, and New York.

Seasonality

A substantial portion of CHEC's revenues vary seasonally, as fuel deliveries are directly related to use for space heating and are highest during the winter months.

Competition

The competitive business subsidiaries participate in a competitive industry that is subject to different risks than those found in the businesses of the regulated utility, Central Hudson. As unregulated competitors in the fuel distribution business, they face competition from other fuel distribution companies and from companies supplying other forms of fuel for heating such as natural gas and propane. For a discussion of the fuel distribution businesses' operating revenues and operating income, see the caption "Results of Operations" in Item 7 - "Management's Discussion and Analysis of Financial Condition and Results of Operations" of this 10-K Annual Report.

Environmental Quality Regulation

Central Hudson and the competitive business subsidiaries are subject to regulation by federal, state and, to some extent, local authorities with respect to the environmental effects of their activities. Environmental matters may expose both Central Hudson and the competitive business subsidiaries to potential liability that, in certain instances, may be imposed without regard to fault or may be premised on historical activities that were lawful at the time they occurred. Central Hudson and the competitive business subsidiaries monitor their activities in order to determine the impact of their activities on the environment and to comply with applicable environmental laws and regulations.

The principal environmental areas to which Central Hudson and the fuel distribution businesses are subject are generally as follows:

Air Quality: Central Hudson's South Cairo and Cossackie combustion turbines are subject to the Clean Air Act Amendments of 1990 ("Clean Air Act Amendments"), which address attainment and maintenance of national air quality standards, including control of particulate emissions from fossil-fueled electric generating plants (such as South Cairo and Cossackie) and emissions that affect "acid rain" and ozone. Both South Cairo and Cossackie complied with the Clean Air Act Amendments during 2005. See Note 11 - "Commitments and Contingencies" under the caption "Environmental Matters" regarding the investigation by the United States Environmental Protection Agency ("EPA") into the compliance of Central Hudson's former major generating assets.

Water Quality: Central Hudson and the competitive business subsidiaries are required to comply with applicable federal and state laws and regulations governing the discharge of pollutants into waterways and ground water.

Central Hudson has State Pollutant Discharge Elimination System ("SPDES") permits for its Eltings Corners maintenance and warehouse facility and for its Rifton Recreation and Training Center, both in New York. See Note 11 - "Commitments and Contingencies" under the subcaption "Environmental Matters" regarding Central Hudson's application to the New York State Department of Environmental Conservation ("DEC") for a SPDES permit for its Neversink Hydroelectric Station. No other SPDES permits are required for Central Hudson's operations.

Griffith has SPDES permits for its Frederick Bulk Plant, its Westminster Bulk Plant, its S. L. Bare Bulk Plant, its R. S. Leitch Bulk Plant, and its Cheverly, Maryland office. Griffith also has storm water discharge permits for its Charlestown, West Virginia bulk storage plant and its Martinsburg, West Virginia bulk storage plant. A General Permit allowing the discharge of groundwater remediation wastewater to the sanitary sewer is also in place at the Winsted, Connecticut bulk storage facility. No other permits are required for Griffith's operations.

Toxic Substances and Hazardous Wastes: Central Hudson and the competitive business subsidiaries are subject to federal and state laws and regulations relating to the use, handling, storage, treatment, transportation, and disposal of industrial, hazardous, and toxic wastes. See Note 11 - "Commitments and Contingencies" under the caption "Environmental Matters" regarding, among other things, former manufactured gas plant facilities, the Orange County Landfill, and Newburgh Consolidated Iron Works.

Other: Central Hudson expenditures attributable, in whole or in substantial part, to environmental considerations totaled \$1.6 million in 2005, of which approximately \$1.4 million was charged to expense. It is estimated that these expenditures will total approximately \$5.0 million in 2006. The substantial increase is

attributable to remediation of the Newburgh manufactured gas plant site; the costs of this project are deferrable pursuant to Central Hudson's regulatory settlement.

Expenditures attributable, in whole or in substantial part, to environmental considerations for the fuel distribution businesses were immaterial in 2005, all of which was applied to capital projects. It is estimated that these expenditures will total approximately \$200,000 in 2006.

Regarding environmental matters, except as described in Note 11 – "Commitments and Contingencies" under the subcaption "Environmental Matters," neither Energy Group, Central Hudson, nor the fuel distribution businesses are involved as defendants in any material litigation, administrative proceeding, or investigation and, to the best of their knowledge, no such matters are threatened against any of them.

Research and Development

Central Hudson is engaged in the conduct and support of research and development ("R&D") activities, which are focused on the improvement of existing energy technologies and the development of new technologies for the delivery and customer use of energy. Central Hudson's R&D expenditures were \$3.3 million in 2005, \$3.6 million in 2004, and \$3.2 million in 2003. These expenditures were for internal research programs and for contributions to research administered by the New York State Energy Research and Development Authority, the Electric Power Research Institute, and other industry organizations. R&D expenditures are provided for in Central Hudson's rates charged to customers for electric and natural gas delivery service. In addition, the PSC has authorized that differences between R&D expense and the rate allowances covering these costs be deferred for future recovery from or return to customers.

Available Information

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

Energy Group makes available free of charge on or through its Internet website at www.CHEnergyGroup.com its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after it electronically files such material with, or furnishes it to, the SEC. Energy Group's governance guidelines, Code of Business Conduct and Ethics, and the charters of its Audit, Compensation, Governance and Nominating, and Strategy and Finance Committees are available on Energy Group's Internet website at www.CHEnergyGroup.com. The governance guidelines, the Code of Business Conduct and Ethics, and the charters may also be obtained by writing to the Corporate Secretary, CH Energy Group, Inc., 284 South Avenue, Poughkeepsie, New York 12601-4879.

Executive Officers

All executive officers of Energy Group are elected or appointed annually by its Board of Directors. There are no family relationships among any of the executive officers of Energy Group or its subsidiaries. The names of the current executive officers of Energy Group, their positions held and business experience during the past five years, and ages (at December 31, 2005) are as follows:

Executive	Age	Current and Prior Positions	Date Commenced
<i>Executive Officers of Energy Group</i>			
Steven V. Lant ⁽¹⁾	48	Director, Chairman of the Board, President, and Chief Executive Officer(b)	May 2004
		Director, Chairman of the Board, and Chief Executive Officer(a)	May 2004
		Director, Chairman of the Board, President, and Chief Executive Officer(c)	April 2004
		Director, President, and Chief Executive Officer(b)(c)	July 2003
		Director and Chief Executive Officer(a)	July 2003
		Director, Chief Operating Officer, and Chief Financial Officer(a)(b)(c)	February 2002
		Chief Financial Officer(c)	May 2001
Carl E. Meyer ⁽²⁾	58	Director(a)	December 1999
		Director, President, and Chief Operating Officer(a) Executive Vice President(c)	November 1999
Arthur R. Upright ⁽²⁾	62	Director(b)	December 1999
		Senior Vice President(c)	November 1999
		Senior Vice President – Regulatory Affairs, Financial Planning & Accounting(a)	November 1999
		Director(a)	November 1998
Joseph J. DeVirgilio, Jr. ⁽¹⁾	54	Director(a)	March 2005
		Executive Vice President – Corporate Services and Administration(a)(c)	January 2005
		Director(b)	April 2003
		Executive Vice President(b)	January 2003
		Senior Vice President(b)(c)	October 2002
		Senior Vice President – Corporate Services and Administration(a)	November 1998
Christopher M. Capone ⁽¹⁾	43	Director(a)	March 2005
		Chief Financial Officer and Treasurer(a)(b)(c)	September 2003
		Treasurer(a)(c)	April 2003
		Managing Director, Furman Selz / ING(i)	March 2002
		Treasurer(a)(b)(c)	June 2001
Assistant Treasurer – Investor Relations(a)(c)	March 2000		
Donna S. Doyle ⁽²⁾	57	Director(b)	June 2002
		Vice President – Accounting and Controller(a)(c)	November 1999
Denise D. VanBuren ⁽²⁾	44	Vice President – Corporate Communications and Community Relations(a)(c)	November 2000
Lincoln E. Blevians ⁽¹⁾	38	Secretary and Assistant Treasurer(a)(c)	January 2003
		Secretary(b)	January 2003
		Vice President – Greene Point (a former subsidiary of Energy Group)	September 2000

⁽¹⁾ Executive is an officer of Energy Group, Central Hudson, and CHEC.

⁽²⁾ Executive is an officer of Energy Group and Central Hudson.

(a) For Central Hudson (b) For CHEC (c) For Energy Group

(i) In this position, Mr. Capone managed fixed income portfolios for institutions and high net worth individuals.

ITEM 1A - RISK FACTORS

Redeployment of Capital

Energy Group is seeking to invest a significant portion of its cash reserves in energy-related assets and/or utility assets. These funds were generated from the sales of Central Hudson's interests in its major generating assets and Energy Group's sale of its former subsidiary CH Resources, Inc., and are currently held in money market instruments and short-term securities. Investments in new business ventures may provide returns that are lower than those anticipated when an investment is made, including potential losses or write offs, and may cause Energy Group's earnings to be more volatile.

Energy Group may not be successful in finding suitable new investments and, therefore, Energy Group may not achieve the earnings accretion such investments could produce.

Storms and Other Events Beyond Central Hudson's Control May Interfere with the Operation of its Transmission and Distribution Facilities in the Mid-Hudson Valley Region

Central Hudson's revenues are generated by the delivery of electricity over transmission and distribution lines and by the delivery of natural gas through pipelines. These facilities, which are owned and operated by Central Hudson or by third-party entities, are at risk of damage from storms, natural disasters, wars, terrorist acts, and other catastrophic events, occurring both within and outside Central Hudson's franchise territory, and are at risk of curtailment or cessation of operations as a result of unfavorable regulatory or judicial orders. If Central Hudson or the relevant third-party entity (as the case may be) is unable in a timely manner to repair its facilities or to obtain the recession or stay of unfavorable regulatory or judicial orders which have caused the curtailment or cessation of operation of its facilities (as the case may be), Central Hudson's customers may experience a service disruption and Central Hudson may experience lower revenues or increased expenses, or both, that Central Hudson may not be able to recover fully through rates, insurance, sales margins, or other means in a timely manner, or at all.

Storms and Other Events Beyond the Control of CHEC's Subsidiaries May Interfere with the Operation of their Fuel Distribution Businesses in the Mid-Atlantic and in the Northeast Region

CHEC's revenues from its fuel distribution businesses are generated by the delivery of various petroleum products within their areas of operation. In order to conduct these businesses, CHEC's subsidiaries need access to petroleum supplies from storage facilities in their service territories. Some of these storage facilities are owned or leased by CHEC's subsidiaries, and some are owned and operated by third-party entities. These facilities are at risk of damage from storms, natural disasters, wars, terrorist acts, and other catastrophic events, and the supply of petroleum products to these facilities could be delayed, curtailed, or lost due to developments in the world oil markets. If such damage or

disruption were to occur, and if the affected CHEC subsidiary were unable to procure petroleum from alternative sources of supply in a timely manner, the customers of such subsidiary could experience a service disruption and the subsidiary could experience lower revenues, or increased expenses, or both, that the subsidiary might not be able to recover fully through insurance, sales margins, or other means in a timely manner, or at all.

Unusual Temperatures in Central Hudson and CHEC's Subsidiaries' Service Territories Could Adversely Impact Earnings

Central Hudson's service territory is the mid-Hudson Valley region. CHEC's subsidiaries serve the mid-Atlantic region and northeast U.S. These areas typically experience seasonal fluctuations in temperature. If, however, the regions were to experience unusually mild winters and/or cooler summers, Central Hudson's and CHEC's earnings could be adversely impacted. A considerable portion of Central Hudson's total electric deliveries is directly or indirectly related to weather-sensitive end uses such as air conditioning and space heating. Much of the fuel oil and propane delivered by CHEC's subsidiaries is used for space heating, as is the majority of the natural gas delivered by Central Hudson. As a result, sales fluctuate and vary from normal expected levels based on variations in weather from normal seasonal levels. Such variations in sales volumes could affect results of operations significantly. Central Hudson and CHEC's subsidiaries have programs in place to constrain the potential variability in results of operations through the use of risk management instruments. However, no assurance can be given that suitable risk management instruments will remain available.

Central Hudson's Rate Plans Limit its Ability to Pass Through Increased Costs to its Customers; If Central Hudson's Rate Plans Are Modified by State Regulatory Authorities, Central Hudson's Revenues May Be Lower Than Expected

As a transmission and distribution company delivering electricity and natural gas within New York State, Central Hudson is regulated by the PSC, which regulates retail rates, terms and conditions of service, various business practices and transactions, financings, and transactions between Central Hudson and Energy Group or Energy Group's competitive business subsidiaries. The PSC's Order Establishing Rates in Central Hudson's rate proceeding, which was issued on October 25, 2001, and became effective November 1, 2001, and the PSC's Joint Proposal Order issued on June 14, 2004, and effective July 1, 2004, (together the "Rate Plans") cover the rates Central Hudson can charge customers and contain a number of related provisions. Rates charged to customers generally may not be changed during the respective limited terms of the Rate Plans, other than for the recovery of energy costs and limited other exceptions. As a result, the Rate Plans may not reflect all of the increased construction and other costs that may be experienced after the date the Rate Plans became effective. The approval of new rate plans or changes to existing Rate

Plans (including the modification or elimination of Central Hudson's energy cost adjustment clauses) could have a significant effect on Central Hudson's financial condition, results of operations, or cash flows. The current Rate Plans and material matters relating to potential rate changes are described in Note 2 - "Regulatory Matters." The current Rate Plans permit Central Hudson to file for changes in rates at any time, but rates are generally not changed by the PSC until eleven months after the filing of proposed rate changes. On July 29, 2005, Central Hudson filed an application for an increase in electric and natural gas delivery rates. Central Hudson cannot predict the rates that will be established by the PSC, or whether its business may be adversely affected by the rates determined, in such proceeding.

Central Hudson Is Subject to Risks Relating to Asbestos Litigation and Manufactured Gas Plant Facilities

Litigations have been commenced against Central Hudson arising from the use of asbestos at its previously owned major generating assets, and Central Hudson is involved in a number of matters arising from contamination at former manufactured gas plant sites. Reference is made to Note 11 - "Commitments and Contingencies" and in particular to the subcaptions in Note 11 regarding "Asbestos Litigation" and "Former Manufactured Gas Plant Facilities."

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

For the twelve months ended December 31, 2005, the average wholesale price of fuel oil, as measured by the closing price on the New York Mercantile Exchange, increased 46% to \$1.63 per gallon, from \$1.12 per gallon for the twelve months ended December 31, 2004. CHEC's management believes the significant rise in the wholesale price of fuel oil has adversely impacted the ability of CHEC's fuel distribution businesses to attract new full service residential customers and, to a lesser extent, retain existing full service residential customers. CHEC'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 CHEC's fuel distribution businesses - do not offer other services such

as equipment installation, repair, and maintenance. In addition, CHEC'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 high fuel prices were to continue indefinitely, or such prices were to increase significantly, CHEC's subsidiaries 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 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 CHEC's and Energy Group's balance sheets. Additionally, if customer attrition were to accelerate significantly the remaining value of the customer list could be impaired or subject to faster amortization.

ITEM 1B - UNRESOLVED STAFF COMMENTS

None.

ITEM 2 - PROPERTIES

Energy Group has no significant properties other than those of Central Hudson and the fuel distribution businesses.

Central Hudson

Electric: Central Hudson owns electric generating facilities (described in the table on page 24) and substations having an aggregate transformer capacity of 4.6 million kilovolt amps. Central Hudson's electric transmission system consists of 593 pole miles of line and the electric distribution system consists of 7,857 pole miles of overhead lines and 1,216 trench miles of underground lines.

The aggregate net capability of Central Hudson's electric generating plants as of December 31, 2005, the net output of each plant for the year ended December 31, 2005, and the year each plant was placed in service or rehabilitated are as set forth on the following page.

Electric Generating Plant	Type of Fuel	Year Placed In Service/ Rehabilitated	Megawatt ("MW")* Net Capability		2005 Unit Net Output Megawatthour ("MWh")
			(2005) Summer	(2004- 2005) Winter	
Neversink Hydro Station**	Water	1953	21.0	21.0	22,178
Sturgeon Pool Hydro Station	Water	1924	16.0	16.0	56,766
Dashville Hydro Station	Water	1920	6.0	6.0	15,619
High Falls Hydro Station	Water	1986	3.0	3.0	7,477
Groveville Hydro Station	Water	2000	0.8	0.8	415
Coxsackie Gas Turbine ("GT")	Kerosene or Natural Gas	1969	20.0	24.0	325
South Cairo GT	Kerosene	1970	19.0	22.0	150
Total			85.8	92.8	102,930

* Reflects maximum one-hour net capability of Central Hudson's electric generating plants and therefore does not include firm purchases or sales.

** Central Hudson's ownership interest in the Neversink Hydro Station ("Neversink") was governed by an agreement between Central Hudson and the City of New York 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 of New York on December 31, 2003. Central Hudson and the City of New York engaged in negotiations relating to the transfer of Central Hudson's ownership interest in Neversink. At present, the parties have entered into an agreement that postpones the date of such transfer until February 28, 2006. If by that date both parties have executed the necessary agreements and made all regulatory filings for the transfer, such agreement will remain in effect until the actual transfer of ownership or September 30, 2006, whichever is earlier. See Note 11 – "Commitments and Contingencies" under the subcaption "Neversink Hydro Station."

Load and Capacity: Central Hudson's maximum one-hour demand within its own territory for the year ended December 31, 2005, occurred on July 27, 2005, and amounted to 1,204 MW. Central Hudson's maximum one-hour demand within its own territory for that part of the 2005-2006 winter capability period through January 31, 2006, occurred on December 14, 2005, and amounted to 960 MW.

As a result of the sales of Central Hudson's interests in its major generating assets in 2001, Central Hudson owns minimal generating capacity and relies on purchased capacity and energy from third-party providers to meet the demands of its full service customers. For more information, see Note 2 – "Regulatory Matters."

Central Hudson entered into an agreement with Constellation, Inc. ("Constellation") to purchase capacity and energy from the Nine Mile 2 Plant for a ten-year period ending November 30, 2011. The agreement is "unit-contingent" in that Constellation is only required to supply electricity if the Nine Mile 2 Plant is operating. Capacity and energy are purchased at defined prices that escalate over the life of the contract.

On November 12, 2002, Central Hudson entered into agreements with Entergy Nuclear Indian Point 2 LLC and Entergy Nuclear Indian Point 3 LLC to purchase energy (but

not capacity) on a unit-contingent basis at defined prices for a period from January 1, 2005, to and including December 31, 2007.

Purchases under these contracts are supplemented by purchases from the New York Independent System Operator ("NYISO"), which oversees the bulk electricity transmission system in New York State, and other parties.

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

Natural Gas: Central Hudson's natural gas system consists of 164 miles of transmission pipelines and 1,091 miles of distribution pipelines.

For the year ended December 31, 2005, the total amount of natural gas purchased by Central Hudson from all sources was 11,332,087 thousand cubic feet ("Mcf").

Central Hudson owns two propane-air mixing facilities for emergency and peak-shaving purposes, one located in Poughkeepsie, New York, and the other in

Newburgh, New York. These facilities, in aggregate, are capable of supplying 8,000 Mcf per day with propane storage capability adequate to provide maximum facility output for up to six consecutive days.

The peak daily demand for natural gas of Central Hudson's customers for the year ended December 31, 2005, and for that part of the 2005-2006 heating season through January 31, 2006, occurred on January 27, 2005, and amounted to 125,496 Mcf. Central Hudson's firm peak day natural gas capability in the 2005-2006 heating season was 138,339 Mcf, which excludes approximately 12,000 Mcf of transport customer deliveries.

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

During the three-year period ended December 31, 2005, Central Hudson made gross property additions of \$171.8 million and property retirements and adjustments of \$31.1 million, resulting in a net increase (including Construction Work in Progress) in gross utility plant of \$140.7 million, or 14%.

CHEC

As of December 31, 2005, Griffith owned or leased several office and bulk petroleum storage facilities. These facilities are located throughout Maryland, Delaware, Virginia, West Virginia, and Pennsylvania. The bulk petroleum storage facilities have capacities from 60,000 gallons up to in excess of 1.2 million gallons. Griffith purchased its corporate headquarters in Cheverly, Maryland in 2004 for \$1.1 million. Griffith had previously leased this property.

As of December 31, 2005, SCASCO (now part of Griffith) owned or leased several office, warehouse, and bulk storage facilities located throughout Connecticut. The bulk storage facilities have capacities of between 107,000 and 400,000 gallons. For 2005 and prior periods, SCASCO owned its corporate headquarters in Winsted, Connecticut; ownership of this property transferred to Griffith upon the merger of SCASCO into Griffith effective December 31, 2005.

ITEM 3 - LEGAL PROCEEDINGS

For a discussion of certain legal proceedings and certain administrative matters involving Central Hudson and the fuel distribution businesses, see Note 11 – "Commitments and Contingencies," which discussion is incorporated herein by reference.

ITEM 4 - SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted to a vote of security holders during the fourth quarter of the fiscal year ended December 31, 2005.

PART II

ITEM 5 - MARKET FOR ENERGY GROUP'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

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

Under applicable statutes and their respective Certificates of Incorporation, Energy Group may pay dividends on shares of its common stock and Central Hudson may pay dividends on its common stock and its preferred stock, in each case only out of surplus.

ITEM 6 - SELECTED FINANCIAL DATA OF ENERGY GROUP AND ITS SUBSIDIARIES

FIVE-YEAR SUMMARY OF CONSOLIDATED OPERATIONS AND SELECTED FINANCIAL DATA* (Energy Group)

(In Thousands, except per share data)

	2005	2004	2003	2002	2001
Operating Revenues					
Electric	\$520,994	\$430,575	\$457,395	\$427,978	\$428,346
Natural gas	155,602	125,230	123,306	105,343	110,296
Fuel distribution businesses	295,910	235,707	225,983	162,520	192,061
Total	972,506	791,512	806,684	695,841	730,703
Operating Income	79,025	75,133	76,301	63,683	71,486
Cumulative preferred stock dividends of subsidiary	970	970	1,387	2,161	3,230
Income from continuing operations	44,291	42,423	43,985	36,453	50,835
Net gain on discontinued operations	—	—	—	4,828	—
Net Income	44,291	42,423	43,985	41,281	50,835
Dividends Declared on Common Stock	34,046	34,046	34,093	35,095	35,342
Balance Retained in the Business	10,245	8,377	9,892	6,186	15,493
Retained Earnings — beginning of year	187,772	179,395	169,503	163,317	147,824
Retained Earnings — end of year	\$198,017	\$187,772	\$179,395	\$169,503	\$163,317
Common Stock					
Average shares outstanding – basic	15,762	15,762	15,831	16,302	16,362
Average shares outstanding – diluted	15,767	15,771	15,835	16,316	16,370
Earnings per share on average shares outstanding – basic	\$2.81	\$2.69	\$2.78	\$2.53	\$3.11
Earnings per share on average shares outstanding – diluted	\$2.81	\$2.69	\$2.77	\$2.51	\$3.09
Dividends declared per share	\$2.16	\$2.16	\$2.16	\$2.16	\$2.16
Book value per share (at year-end)	\$31.97	\$31.31	\$30.80	\$30.31	\$30.33
Total Assets (at year-end)	\$1,379,506	\$1,287,807	\$1,310,076	\$1,282,907	\$1,257,298
Long-term Debt (at year-end)	343,886	319,883	278,880	269,877	216,124
Cumulative Preferred Stock (at year-end)	21,027	21,030	21,030	33,530	56,030
Common Stock Equity (at year-end)	503,833	493,465	485,424	486,915	496,309

* This summary should be read in conjunction with the Consolidated Financial Statements and Notes thereto included in Item 8 – “Financial Statements and Supplementary Data” of this 10-K Annual Report.

For additional information related to the impact of acquisitions and dispositions on the above, this summary should be read in conjunction with Item 7 – “Management Discussion and Analysis of Financial Condition and Results of Operations” of this 10-K Annual Report and Note 4 – “Acquisitions, Investments, and Divestitures” of Item 8 – “Financial Statements and Supplementary Data” of this 10-K Annual Report.

Certain 2001-2004 amounts have been reclassified for comparative purposes.

FIVE-YEAR SUMMARY OF CONSOLIDATED OPERATIONS AND SELECTED FINANCIAL DATA* (Central Hudson)

(In Thousands)

	2005	2004	2003	2002	2001
Operating Revenues					
Electric	\$520,994	\$430,575	\$457,395	\$427,978	\$428,346
Natural gas	155,602	125,230	123,306	105,343	110,296
Total	676,596	555,805	580,701	533,321	538,642
Operating Income	70,791	68,293	69,387	62,870	67,078
Net Income	35,635	38,648	38,875	32,524	44,178
Dividends Declared on Cumulative Preferred Stock	970	970	1,387	2,161	3,230
Income Available for Common Stock	34,665	37,678	37,488	30,363	40,948
Dividends Declared to Parent – Energy Group	17,000	25,500	34,162	30,000	145,642
Balance Retained in the Business	17,665	12,178	3,326	363	(104,694)
Retained Earnings - beginning of year	25,644	13,466	10,140	9,777	114,471
Retained Earnings - end of year	\$43,309	\$25,644	\$13,466	\$10,140	\$9,777
Total Assets (at year-end)	\$1,121,332	\$1,029,442	\$1,052,295	\$1,018,766	\$983,359
Long-term Debt (at year-end)	343,886	319,883	278,880	269,877	215,874
Cumulative Preferred Stock (at year-end)	21,027	21,030	21,030	33,530	56,030
Common Stock Equity (at year-end)	297,639	279,974	267,796	264,143	263,277

* This summary should be read in conjunction with the Consolidated Financial Statements and Notes thereto included in Item 8 – “Financial Statements and Supplementary Data” of this 10-K Annual Report. Certain 2001-2004 amounts have been reclassified for comparative purposes.

ITEM 7- MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Introduction

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

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

Executive Summary

Business Overview

Energy Group is a holding company with four business segments: (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 money market investments.

Central Hudson contributed approximately 70% of Energy Group’s revenue and 78% of its net income in 2005, the fuel distribution segment contributed approximately 30% of Energy Group’s revenue and 8% of its net income in 2005, and the investment segment contributed less than 1% of Energy Group’s revenue and 14% of its net income in 2005.

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

Central Hudson delivers electricity and natural gas to approximately 363,500 customers in a defined service territory in the mid-Hudson Valley region of New York State. Central Hudson was significantly transformed in 2001 by the PSC's electricity industry restructuring under which formerly "vertically integrated" electric utilities such as Central Hudson divested most or all of their electric generating plants to unaffiliated parties. Since then, Central Hudson's earnings have been 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's delivery customers are gradually migrating to third-party providers for their energy supplies, a process which Central Hudson is working to facilitate.

Central Hudson's delivery volumes have grown steadily in recent years due to the addition of new customers, particularly residential customers, as home construction in its service territory has been robust. This is due to continued migration to Central Hudson's service territory, primarily from the New York City metropolitan area, and is in response to expansion of the regional economy and favorable relative housing costs. In addition, 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, they could be impacted by an economic recession, dampening of the housing market by rising interest rates, and/or reduced consumption by customers in response to higher energy costs.

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

Central Hudson has achieved substantial success through its efforts, consistently ranking as the lowest cost electric utility in New York State, and ranking in the top quartile in overall customer satisfaction among utilities in the Eastern United States, as reported by J.D. Power and Associates in its *2005 Electric Utility Residential Customer Satisfaction Study*.

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

The proposed rate increase is currently pending, with a decision by the PSC anticipated in the second quarter of 2006. This decision will be a key driver of Central Hudson's earnings and cash flows once it goes into effect. Central Hudson's sales growth and its ability to continue to effectively manage its cost of operations will also play significant roles in determining Central Hudson's future earnings and cash flows.

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 earnings per share growth.

Fuel Distribution Businesses

Griffith serves more than 80,000 customers in parts of Connecticut, Delaware, the District of Columbia, Maryland, Massachusetts, New York, Pennsylvania, Virginia, and West Virginia. For the purposes of the following discussion, references to Griffith should be read as applicable to both Griffith and SCASCO for 2005 and prior periods.

Griffith's business environment has recently been challenging and remains so due to high wholesale fuel oil, propane, and motor fuel prices. These historically high wholesale prices have required significant infusions of working capital into Griffith and have resulted in increased price sensitivity and conservation by Griffith's customers. Despite these challenges, Griffith's profitability in 2005 exceeded the level achieved in 2004. Customer attrition due to price sensitivity increased in 2004 and 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. Since 2001, Griffith has acquired and integrated 18 small fuel distribution businesses, including seven in 2005. 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, both through internal marketing and selective acquisitions, in 2006.

CHEC's Investments and Other Items

From time to time, CHEC has made investments in the competitive energy markets. In 2005, CHEC made a second renewable energy investment – in a wind energy venture; this follows an investment in late 2004 in an ethanol production project that began operation as of the end of January 2006. CHEC continues to strive to find investments for Energy Group's available cash reserves and to utilize Energy Group's potential debt capacity by

finding appropriate investments in the energy markets. CHEC's approach has been cautious, both due to Energy Group's limited risk tolerance and strong competition from other investors. Passage of the Energy Act in 2005 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 goal of 5% 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 significant role in Energy Group's strategy going forward.

Energy Group's other investments consist primarily of money market investments, income from which fluctuates with market rates of interest. Over time, Energy Group intends to draw down the balance of its money market portfolio, primarily for investment in its subsidiaries.

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 identifies and manages 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.

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 definitive proxy statement. 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 enjoys a solid A bond rating, and at Griffith. In addition, committed lines of credit of \$75 million at each of Energy Group and Central Hudson have been established to provide sufficient liquidity in the currently volatile wholesale energy markets.

2005 in Review

Earnings were \$2.81 per share (basic) in 2005 versus the \$2.69 per share (basic) posted during 2004, an increase of \$0.12 per share. Increased investment earnings, higher energy delivery revenues, improved fuel distribution business profitability, and lower income taxes together were more than sufficient to offset higher interest rates, the expiration of incentives associated with the sales of Central Hudson's interests in its major generating assets, and rising operating expenses.

Regulated Electric and Natural Gas Businesses

Central Hudson's contributions to 2005 earnings per share was \$2.20, a \$0.19 per share reduction from 2004. However, a total of \$0.46 per share of regulatory incentives and revenue adjustments related to prior years were included in 2004 earnings but not in 2005 earnings due to their expiration at the end of 2004. Deliveries to electric customers increased by 4%, largely due to hotter summer weather but also due to growth in the number of customers. Deliveries to firm gas customers increased 2% due largely to an increase in the number of customers.

Fuel Distribution Businesses

The fuel distribution businesses of CHEC improved their annual earnings contribution by \$0.05 per share to \$0.23 per share for the year as compared to 2004 results. The improvement was due to an increase in margins and service profitability, as well as the addition of earnings from acquisitions made during the course of the year.

Other

Energy Group (the holding company) and CHEC's partnership and other investments contributed \$0.38 per share, an increase of \$0.26 per share from 2004 levels. Lower income taxes, increased returns on short-term investments, and improved earnings from CHEC's other holdings contributed to the strong performance.

Regulatory Matters

Rate Proceedings - Electric and Natural Gas

On July 29, 2005, Central Hudson filed an application for increased electric and natural gas rates with the PSC. Central Hudson's current electric and natural gas delivery rates have been in effect since November 1, 2001, and have not been increased since 1993 and 1991, respectively.

For further information regarding Central Hudson's current rate agreement and most recent electric and natural gas rate filings, see Note 2 – "Regulatory Matters" under the caption "Rate Proceedings – Electric and Natural Gas."

Other PSC Proceedings

Stray Voltage

On January 5, 2005, the PSC issued an Order that requires each New York State electric utility, including Central Hudson, to institute a comprehensive stray voltage testing and inspection program for all of its electric facilities, with each such facility to be tested annually and inspected at least every five years. Central Hudson's

existing inspection program is consistent with the Order's inspection requirements. For more information regarding Central Hudson's stray voltage testing, see Note 2 – "Regulatory Matters" under the caption "Other Regulatory Matters."

Non-Utility Land Sales

Commencing April 26, 2005, Central Hudson filed Notices of Intent with the PSC to sell 15 parcels of non-utility real property. On July 22, 2005, the PSC issued an Order stating that the filings would be reviewed further under Public Service Law Section 70 to determine the disposition of and the accounting for the potential gains.

On August 19, 2005, Central Hudson filed a Petition for Rehearing with the PSC, requesting that the PSC reconsider and find that Section 70 does not apply to transfers of non-utility property under the circumstances presented in the case. Neither Energy Group nor Central Hudson can predict the outcome of these filings at this time.

Electric Reliability Performance

On September 30, 2005, the PSC issued an Order establishing an assessment with respect to electric reliability performance targets that were established in a prior rate proceeding for frequency and duration of electric service outages. Central Hudson recorded amounts of \$379,000 and \$759,000 for failure to meet reliability targets for the years 2002 and 2004, respectively, and also recorded an estimate of \$759,000 for 2005.

On October 30, 2005, Central Hudson filed a petition for rehearing with the PSC that presents Central Hudson's position that the PSC made errors of fact and law in reaching its determinations in the September 30, 2005 Order. Neither Energy Group nor Central Hudson can predict the final outcome of this matter.

Energy and Capacity Markets

For information with respect to the NYISO and FERC rulings relating to electric industry restructuring, see Note 2 – "Regulatory Matters."

Results of Operations

The following discussion and analyses include explanations of significant changes in revenues and expenses between the twelve months ended December 31, 2005, and 2004, and the twelve months ended December 31, 2004, and 2003, for the regulated electric and natural gas business, the fuel distribution businesses, and the other competitive businesses.

Earnings

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

	2005	2004	2003
Average shares outstanding (In Thousands):			
Basic	15,762	15,762	15,831
Diluted	15,767	15,771	15,835
Earnings per share:			
Basic	\$2.81	\$2.69	\$2.78
Diluted	\$2.81	\$2.69	\$2.77
Return earned on common equity	8.8%	8.5%	9.0%

2005 as Compared to 2004

Energy Group's consolidated earnings per share (basic) for 2005 were \$2.81 per share, an increase of \$0.12 per share (basic) from 2004 earnings of \$2.69. Details for the change in earnings are as follows:

Regulated Electric and Natural Gas Businesses

Earnings from Central Hudson's electric and natural gas operations decreased \$0.19 per share in 2005 as compared to 2004, due to the following:

- A decrease of \$0.38 per share due to the expiration in December 2004 of the amortization of Central Hudson's share of the gain from the 2001 sales of its interests in its major generating assets.
- A decrease of \$0.09 per share due to an increase in depreciation and amortization of utility plant assets as a result of an increased balance of utility plant assets.
- A decrease of \$0.02 per share from electric and natural gas regulatory mechanisms. The decrease reflects \$0.08 per share due to the absence in 2005 of the amortization of previously deferred electric delivery revenues and \$0.04 per share from the recording of PSC assessments for service interruptions consistent with a PSC Order issued on September 30, 2005. These reductions in revenues were partially offset by a reduction in shared earnings from electric and natural gas operations and payments received from the NYISO related to adjustments made to energy sales transactions that had occurred in May 2000.
- An increase of \$0.26 per share due to an increase in electric net operating revenues. Total electric deliveries increased 4% reflecting an 8% increase in deliveries to residential customers and a 4% increase in deliveries to commercial customers, both attributable to increased usage due to hotter summer weather and modest customer growth. Total weather-normalized deliveries increased 1.5%, including a 3% increase in residential deliveries and a nearly 1% increase in commercial deliveries. Weather increased earnings from electric delivery billed sales by \$0.08 per share, after accounting for the effect of weather-hedging contracts. Electric residential cooling degree-days were 55% higher than in 2004 and 58% higher than normal.
- An increase of \$0.03 per share due to an increase in natural gas net operating revenues. Deliveries to firm natural gas customers increased 2% overall as compared to an increase in weather-normalized sales of 3%. Deliveries to residential and commercial customers, largely space heating sales, increased 1% and 3%, respectively, due to customer growth. Overall, natural gas

residential heating degree-days were 1% higher than in 2004 but were 4% lower during the heating season months of January through March, and November and December. The decrease in degree-days during these months resulted in an earnings impact of weather on natural gas net revenues of (\$0.02) per share.

- An increase of \$0.01 per share due to the net effect of various other items including a reduction in regulatory carrying charges due to customers, which was partially offset by an increase in interest charges resulting from the issuance of long-term debt in November 2004 and December 2005 and an increase in the issuance of short-term debt. The reduction in carrying charges reflects the substantial use of the principal balance of the Customer Benefit Fund by December 31, 2004, for customer refunds and other authorized programs. See Note 2 – “Regulatory Matters” under the subcaption “Rate Proceedings – Electric and Natural Gas” for discussion of the Customer Benefit Fund.

Fuel Distribution Businesses

Earnings from CHEC’s fuel distribution businesses increased \$0.05 per share in 2005 as compared to 2004, due to the following:

- An increase of \$0.11 per share due to an increase in gross margins primarily due to an increase in service profitability, earnings from acquisitions made in 2005, and an increase in average gross margin per gallon in all product categories. The increase in service profitability contributed approximately \$0.05 per share, earnings from acquisitions contributed approximately \$0.04 per share, and increased average gross margins contributed an additional \$0.02 per share.
- A decrease of \$0.06 per share due to an increase in operating expenses and interest expense. The increase in operating expenses is due to an increase in general and administrative expenses and additional expenses associated with the acquisitions made in 2005. Interest expense on the intercompany debt increased by \$0.02 per share.

Other Businesses

Earnings from Energy Group (the holding company) and CHEC’s partnerships and other investment interests increased \$0.26 per share in 2005 as compared to 2004, due to the following:

- An increase of \$0.15 per share due to lower income taxes for Energy Group, including a \$0.09 per share adjustment relating to the completion of a tax audit for 2001 and adjustments of \$0.04 and \$0.02 per share, respectively, relating to 2004 and 2005 income tax provisions.
- An increase of \$0.10 per share due to an increase in interest income largely from short-term investments held by Energy Group. The increase results from higher returns due to higher interest rates.
- An increase of \$0.01 per share due to an increase in income from CHEC’s other investment interests.

2004 as Compared to 2003

Energy Group’s consolidated earnings per share (basic) for 2004 were \$2.69 per share, a decrease of \$0.09 per share (basic) from 2003 earnings of \$2.78. Details of the change in earnings are as follows:

Regulated Electric and Natural Gas Businesses

Earnings from Central Hudson’s electric and natural gas operations increased \$0.02 per share due to the following:

- An increase of \$0.12 per share due to a reduction in regulatory carrying charges due to customers resulting primarily from a declining Customer Benefit Fund balance. In addition to the continuation of customer refunds in 2004 and the funding of economic development initiatives and other programs, the Customer Benefit Fund was also used to offset deferred pension and other post-employment benefit costs, as authorized in Central Hudson’s 2004 Joint Proposal approved by the PSC effective July 1, 2004. See Note 2 – “Regulatory Matters” under the caption “Rate Proceedings – Electric and Natural Gas” for more details.
- An increase of \$0.11 per share from electric net operating revenues due to an increase in deliveries. Despite milder winter weather in 2004, electric deliveries increased 2% in 2004 due to an increase in usage by existing industrial customers and an increase in residential and commercial delivery sales from customer growth. The milder weather experienced during the first half of 2004 as compared to 2003 impacted net electric operating revenues by (\$0.01) per share, net of the effect of weather-hedging contracts.
- An increase of \$0.03 per share from natural gas net operating revenues. The increase resulted from an increase in large industrial delivery revenues, growth in firm natural gas delivery sales, and the recovery of increased working capital and bad debt costs. The milder weather experienced during the first half of 2004 as compared to 2003 decreased net revenues from natural gas deliveries by approximately \$0.03 per share, net of the effect of weather-hedging contracts.
- An increase of \$0.02 per share due to the net effect of various other items including a reduction in income taxes and the favorable impact of a lower number of shares of Energy Group common stock outstanding.
- A decrease of \$0.16 per share from electric regulatory mechanisms, including an increase in electric shared earnings and potential PSC assessments for service interruptions. The increase in shared earnings resulted from an increase in ratemaking operating income in 2004 as compared to 2003 and a change in the sharing threshold pursuant to the provisions of the 2004 Joint Proposal effective July 1, 2004.
- A decrease of \$0.07 per share due to an increase in depreciation and amortization on utility plant assets as a result of an increased balance of utility plants assets.

- A decrease of \$0.03 per share from an increase in taxes other than income taxes, largely property and payroll taxes.

Fuel Distribution Businesses

Earnings from CHEC's fuel distribution businesses were unchanged in 2004 as compared to 2003, due to the following:

- An increase of \$0.09 per share due to a reduction in operating expenses (excluding the cost of petroleum, natural gas, and related expenses) due to improved operating efficiencies and lower sales due to milder weather experienced in the first half of the year.
- A decrease of \$0.06 per share due to a decrease in gross margins. Net revenues were reduced by a reduction in gross profit from sales of petroleum products resulting from customer conservation due to the increased cost of heating oil. The reduction in net revenues was partially offset by an increase in service department gross profit. Heating degree-days were 6% lower in 2004 than 2003, affecting earnings by approximately (\$0.07) per share; however this was offset by the effect of weather-hedging contracts.

Operating Revenues

Energy Group's consolidated operating revenues increased \$181 million, or 22.9%, in 2005 as compared to 2004, and decreased \$15.2 million, or 2%, in 2004 as compared to 2003.

Details of these revenue changes are presented in the following charts and related discussions concerning the variances:

	Increase or (Decrease) from Prior Year (In Thousands) 2005				
	Regulated Electric	Natural Gas	Unregulated Fuel Distribution	Other	Total
Customer Sales	\$6,830 ^(a)	\$2,898 ^(b)	\$60,388 ^(c)	\$(185)	\$69,931
Sales to Other Utilities	1,818	5,119	—	—	6,937
Energy Cost Adjustment ^(d)	86,981	21,153	—	—	108,134
Deferred Revenues ^(e)	(2,692)	1,048	—	—	(1,644)
Miscellaneous	(2,518)	154	—	—	(2,364)
Total	\$90,419	\$30,372	\$60,388	\$(185)	\$180,994

	Increase or (Decrease) from Prior Year (In Thousands) 2004				
	Regulated Electric	Natural Gas	Unregulated Fuel Distribution	Other	Total
Customer Sales	\$2,113 ^(a)	\$(288) ^(b)	\$9,896 ^(c)	\$(172)	\$11,549
Sales to Other Utilities	(255)	544	—	—	289
Energy Cost Adjustment ^(d)	(19,240)	1,167	—	—	(18,073)
Deferred Revenues ^(e)	(10,456)	(409)	—	—	(10,865)
Miscellaneous	1,018	910	—	—	1,928
Total	\$(26,820)	\$1,924	\$9,896	\$(172)	\$(15,172)

^(a) Includes an offsetting restoration of amounts from Central Hudson's Customer Benefit Fund (described under the caption "Rate Proceedings – Electric and Natural Gas" in Note 2 – "Regulatory Matters" to the Consolidated Financial Statements of this 10-K Annual Report) for customer refunds to all customers and back-out credits for retail access customers.

^(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, the restoration of previously deferred delivery revenues, and the deferral of electric and natural gas shared earnings in accordance with the provisions of Central Hudson's current rate agreement with the PSC (described in Note 2 – "Regulatory Matters" to the Consolidated Financial Statements of this 10-K Annual Report).

- A decrease of \$0.03 per share due to income derived from SCASCO's natural gas business unit in 2003 and the gain on the disposal of the natural gas business unit in 2003.

Other Businesses

Earnings from Energy Group (the holding company) and CHEC's interests in partnerships and other investments fell by \$0.11 per share due to the following:

- A decrease of \$0.06 per share from investment income due primarily to the liquidation, by July 2003, of Energy Group's Alternate Investment Program and reinvestment of the proceeds in low risk and lower yield money market instruments.
- A decrease of \$0.04 per share due to an increase in business development costs. This increase reflects Energy Group's intensified efforts to redeploy its available capital in suitable investment opportunities.
- A decrease of \$0.01 per share due to the net effect of various other items, including an increase in other expenses and income taxes, which was partially offset by an increase in net income from CHEC's partnership and other investment interests.

Regulated Electric and Natural Gas Businesses

Utility electric and natural gas operating revenues increased \$120.8 million, or 21.7%, from \$555.8 million in 2004 to \$676.6 million in 2005 due to the higher cost of purchased electricity and increased usage due to hotter than normal weather, and higher cost of purchased natural gas. Electric revenues increased \$90.4 million, or 21.0%, and natural gas revenues increased \$30.4 million, or 24.3%, both due largely to an increase in the amounts collected through Central Hudson's energy cost adjustment mechanisms for the recovery of its cost of purchased electricity and natural gas. The revenue increase also reflects an increase in deliveries and an increase in sales for resale revenues. The increase in electric revenues was partially offset by a reduction in revenues from weather-hedging contracts, the absence in 2005 of the amortization of previously deferred electric delivery revenues, and PSC assessments related to service interruptions.

Utility electric and natural gas operating revenues decreased \$24.9 million, or 4.3%, from \$580.7 million in 2003 to \$555.8 million in 2004. Electric revenues decreased \$26.8 million, or 5.9%, and natural gas revenues increased \$1.9 million, or 1.6%. The decrease in electric revenues is due primarily to a decrease in revenues collected through Central Hudson's energy cost adjustment mechanisms to recover its cost of purchased electricity, a reduction in Customer Benefit Fund revenues offsetting electric reliability program costs which was substantially completed by the end of 2003, and an increase in shared earnings. Changes in revenues related to the recovery of purchased electricity and natural gas costs and the Customer Benefit Fund do not affect earnings since they offset related costs. The reduction in electric revenues was partially offset by an increase in revenues from the delivery of electricity, including the favorable effect of weather-hedging contracts. Natural gas revenues increased due largely to an increase in revenues collected for the recovery of natural gas supply costs, an increase in natural gas sold for resale, and an increase in revenues from sales of natural gas, net of weather-hedging contracts. An increase in shared earnings partially offset the increase in natural gas revenues.

Fuel Distribution Businesses

Revenues for CHEC's fuel distribution businesses, net of the effect of weather-hedging contracts, increased \$60.4 million, or 25.7%, from \$234.7 million in 2004 to \$295.1 million in 2005 due to the significant increase in the price of petroleum products. Revenues from petroleum products increased \$58.6 million, or 27.1%, from \$216.1 million in 2004 to \$274.7 million in 2005 due to an increase in the average selling price to cover the increased cost of petroleum products. Motor fuel revenues increased \$31.7 million, or 32%, from \$99.1 million in 2004 to \$130.8 million in 2005. Heating oil revenues also increased \$26.4 million, or 23.6%, from \$112 million in 2004 to \$138.4 million in 2005. Partially offsetting the overall increases in selling price was a reduction in sales volumes. Other revenues related to service and installations, energy

services, and propane sales increased \$2.3 million.

Revenues for CHEC's fuel distribution businesses, net of the effect of weather-hedging contracts, increased \$9.9 million, or 4.4%, from \$224.8 million in 2003 to \$234.7 million in 2004. Revenues from petroleum products increased \$24.1 million, or 12.6%, from \$192 million in 2003 to \$216.1 million in 2004 largely due to an increase in motor fuel revenues. These revenues increased \$22.7 million, or 29.7%, from \$76.4 million in 2003 to \$99.1 million in 2004 due primarily to a rise in the average selling price of motor fuels and an increase in sales volumes. Heating oil revenues also increased \$1.4 million to \$112 million largely due to the effect of weather-hedging contracts with more favorable terms for 2004 than 2003. Partially offsetting the overall increase in revenues was a reduction of \$13.7 million in natural gas revenues due to the sale of SCASCO's natural gas business unit. Other revenues related to service and installations, energy services, and propane sales decreased \$0.5 million.

Delivery Volumes

Delivery volumes for both Central Hudson and CHEC's fuel distribution businesses vary in response to weather conditions. Electric deliveries peak in the summer, and deliveries of natural gas and petroleum products consumed for heating purposes peak in the winter.

Regulated Electric and Natural Gas Businesses

Utility deliveries of electricity within Central Hudson's service territory increased 4% in 2005 as compared to 2004. Deliveries to residential and commercial customers increased 8% and 4%, respectively, resulting from increased usage due to a hotter summer and modest customer growth. Deliveries to industrial customers were flat. Cooling degree-days increased 55% over the prior year and were 58% higher than normal.

Utility deliveries of natural gas to firm Central Hudson customers increased 2% in 2005 as compared to 2004. Deliveries to residential and commercial customers increased 1% and 3%, respectively, due to customer growth. Industrial deliveries, which represent less than 5% of total firm deliveries in 2005 and 2004, decreased 6%, while deliveries to interruptible customers decreased 2%.

Utility deliveries of electricity within Central Hudson's service territory increased 2% in 2004 as compared to 2003. Deliveries to residential customers increased 1%, deliveries to commercial customers increased 2%, and deliveries to industrial customers increased 3%. Deliveries to residential and commercial customers increased due primarily to customer growth, increased usage despite milder weather in the first half of 2004, and a cooler summer, in each case as compared to 2003. Industrial deliveries increased due to additional usage by existing customers. Natural gas residential heating degree-days in 2004 were 9% lower than in 2003 and 4% lower than normal. Electric residential cooling degree-days for July through September 2004 were 5% lower than in 2003 and 2% lower than normal.

Utility deliveries of natural gas to firm Central Hudson customers decreased 3% in 2004 as compared to 2003. Residential and commercial deliveries, primarily for space heating, decreased 5% and 1%, respectively, due largely to a decrease in usage resulting from the milder weather experienced in the first half of 2004. The decrease in deliveries was partially offset by customer growth. Industrial deliveries, representing approximately 5% of total firm deliveries in 2004 and 2003, decreased 9%. Interruptible deliveries increased 3% due largely to an increase in sales to large industrial natural gas transportation customers.

Changes in deliveries by major customer classification, including interruptible natural gas deliveries, are set forth below.

	Increase (Decrease) from Prior Year			
	Electric (MWh)		Natural Gas (Mcf)	
	2005	2004	2005	2004
Residential	8%	1%	1%	(5%)
Commercial	4%	2%	3%	(1%)
Industrial	0%	3%	(6%)	(9%)
Interruptible	N/A	N/A	(2%)	3%

As a result of sharing arrangements established for interruptible natural gas deliveries and interruptible transportation of customer-owned natural gas, as described under the caption "Incentive Arrangements" below, variations in these deliveries from year to year typically have a minimal impact on earnings.

Incentive Arrangements

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

Earnings sharing formulas are currently effective for interruptible natural gas deliveries, natural gas capacity release transactions, electric service reliability, certain aspects of customer service and customer satisfaction, and certain aspects of market participant satisfaction.

The net results of these and previous earnings sharing formulas also had the effect of decreasing pre-tax earnings by \$0.6 million in 2005 and increasing pre-tax earnings by \$0.3 million and \$1 million above the applicable sharing thresholds during 2004 and 2003, respectively.

In addition to the above noted items, Central Hudson shares with customers earnings above the base return on equity ("ROE") of 10.5% on the equity portion of Central Hudson's rate base. Earnings above 10.5% ROE and up to 11.3% ROE are shared 70%/30% between Central Hudson

and ratepayers, earnings above 11.3% ROE and up to 14% are shared 65%/35% between Central Hudson and ratepayers, and earnings above 14% ROE are added to the Customer Benefit Fund. During 2003, 2004, and 2005 Central Hudson recorded \$2.4 million, \$3.5 million, and \$0.3 million as a Regulatory Liability for the customer portion of these pre-tax shared earnings.

See Note 2 – "Regulatory Matters" of this 10-K Annual Report under the caption "Rate Proceedings – Electric and Natural Gas" for a description of earnings sharing formulas approved by the PSC for Central Hudson.

Fuel Distribution Businesses

Sales of petroleum products decreased 9.2 million gallons, or 6.2%, to 138.5 million gallons in 2005 from 147.7 million gallons in 2004. This was primarily as a result of a decrease of 6.3 million gallons, or 8.6%, in sales of heating oil from 73.2 million gallons in 2004 to 66.9 million gallons in 2005. The decrease in sales was primarily due to a reduction in commercial sales resulting from higher relative prices for heating oil as compared to those for natural gas and a decrease in residential sales due to customer attrition and conservation because of the increased cost of heating oil. Motor fuel sales decreased 2.8 million gallons, or 3.9%, from 71.9 million gallons in 2004 to 69.1 million gallons in 2005 while sales of propane decreased slightly from 2.6 million gallons in 2004 to 2.5 million gallons in 2005. Motor fuel sales decreased primarily from customer attrition resulting principally from the loss of one large volume, low margin customer. The decrease in propane sales is largely attributable to customer conservation. The weather was colder in 2005 than in 2004 as evidenced by a 4% increase in heating degree-days as compared to 2004.

Sales of petroleum products decreased 6.4 million gallons, or 4%, to 147.7 million gallons in 2004 from 154.1 million gallons in 2003. This decrease was primarily due to a decrease in heating oil of 8.2 million gallons, or 10%, to 73.2 million gallons in 2004 from 81.4 million gallons in 2003. Residential sales decreased approximately 7 million gallons, primarily due to warmer weather as evidenced by a 6% average decrease in heating degree-days for 2004 as compared to 2003 and customer conservation due to the increased cost of heating oil. Additionally, the sales of propane decreased 0.3 million gallons, or 10%, from 2.9 million gallons in 2003 to 2.6 million gallons in 2004. This decrease was also primarily due to the warmer weather in 2004 in comparison to 2003. Partially offsetting these decreases, motor fuel sales increased 2.1 million gallons, or 3%, from 69.8 million gallons in 2003 to 71.9 million gallons in 2004.

Due to the sale of SCASCO's natural gas business unit on October 31, 2003, there were no sales of natural gas in 2004 as compared to sales of 1,841,000 Mcf in 2003.

Operating Expenses

Regulated Electric and Natural Gas Businesses

The most significant elements of Central Hudson's operating expenses are purchased electricity and purchased natural gas. The following reflects, as a percentage of every revenue dollar related to electric or natural gas deliveries, the amount expended for purchased electricity (including nominal amounts spent for fuel used in electric generation) and purchased natural gas for 2005, 2004, and 2003.

	2005	2004	2003
Purchased Electricity	65%	58%	59%
Purchased Natural Gas	68%	62%	62%

Central Hudson negotiated multi-year electricity purchase contracts with the new owners of the major generating assets it divested. Purchases under these contracts are supplemented by purchases from the NYISO and other parties. For information regarding these electricity purchase contracts, see Item 2 – "Properties" under the subcaption "Load and Capacity" and Note 2 – "Regulatory Matters" under the caption "Sales of Major Generating Assets."

Total utility operating expenses increased \$118.3 million, or 24.3%, from \$487.5 million in 2004 to \$605.8 million in 2005. Purchased electricity costs increased \$85.3 million due to an increase in wholesale prices for volumes purchased for full service customers, while natural gas costs increased \$28.4 million due to an increase in wholesale prices and volumes purchased. Other expenses of operation increased \$4.6 million due primarily to an increase in depreciation and amortization of utility plant assets and taxes other than income taxes. The latter reflects an increase in property taxes and regulatory adjustments related to the New York State income tax.

Total utility operating expenses decreased \$23.8 million, or 4.7%, from \$511.3 million in 2003 to \$487.5 million in 2004. Purchased electricity and fuel used in electric generation decreased \$17 million due largely to the recording of amounts related to the recovery of electric supply costs via Central Hudson's energy cost recovery mechanism and an increase in volumes supplied directly by marketers to customers opting for retail access service. Other expenses of operation decreased \$8.4 million, due primarily to a reduction in expenses for Central Hudson's Electric Reliability Program and a decrease in storm restoration costs. The Electric Reliability Program was substantially completed in 2003 and was funded by the Customer Benefit Fund. Partially offsetting the decrease in utility operating expenses was an increase of \$1.4 million in the cost of purchased natural gas. This increase was largely driven by an increase in wholesale costs partially offset by a decrease in costs relative to volume and the recording of amounts related to the full recovery of natural gas supply costs.

As discussed under the caption "Operating Revenues" for the "Regulated Electric and Natural Gas Business," changes in the cost of purchased electricity and natural gas do not affect earnings since they are offset by changes in related revenues.

Fuel Distribution Businesses

Operating expenses for the fuel distribution businesses for 2005 increased \$58.8 million, or 25.8%, from \$228.1 million in 2004 to \$286.9 million in 2005. The cost of petroleum increased \$57.3 million, or 34%, due to higher wholesale market prices. Other operating expenses increased \$1.5 million in 2005 due to an increase in general and administrative expenses.

As compared to 2003, operating expenses for 2004 increased \$10.0 million, or 4.6%, from \$218.1 million to \$228.1 million. The most significant operating expense for the fuel distribution businesses is the cost of petroleum, which increased \$24.7 million due primarily to higher wholesale market prices of petroleum. This was partially offset by a decrease of \$12.3 million in natural gas costs due to the sale of SCASCO's natural gas business unit in 2003. Other operating expenses decreased \$2.4 million largely due to improved operating efficiencies by the fuel distribution businesses and lower sales due to milder weather experienced in the first half of the year.

Other Income and Deductions

Regulated Electric and Natural Gas Businesses

Other Income and Deductions for Central Hudson decreased \$10.8 million, or 65%, in 2005 as compared to 2004, due to the completion of the amortization in December 2004 of Central Hudson's share of the gain from the 2001 sales of its interests in its major generating assets (see subcaption "Expired Amortization" below) and a reduction in carrying charges due from customers related to pension costs. In its June 2004 Rate Order adopting the terms of Central Hudson's Joint Proposal for Rate Plan Modification, the PSC authorized the use of the Customer Benefit Fund to offset pension under-collection balances, which reduced the balance upon which regulatory carrying charges for pension costs are determined. This reduction was partially offset by favorable regulatory adjustments for the change in interest rates on Central Hudson's variable rate long-term debt.

The variations related to Central Hudson's variable rate long-term debt and pension-related carrying charges are offset by changes in interest charges relating to these items.

Other Income and Deductions decreased \$1.8 million in 2004 as compared to 2003 due to lower interest income from temporary cash investments and the early settlement of a balance due to Central Hudson from the purchaser of its ownership interest in the Nine Mile 2 Plant. The reduction also reflects a reduction in regulatory carrying charges due from customers related to pension costs, as noted above in the discussion for 2005.

Expired Amortization: Under a prior PSC regulatory settlement related to the sales of Central Hudson's interests in its major generating assets, a portion of the gain recognized on those sales was recorded as Other Income over a four-year period which commenced in 2001 and ended in 2004. Amounts recorded by year, net of tax, were as follows: 2001 - \$3.2 million, 2002 - \$2.9 million, 2003 - \$5.9 million, and 2004 - \$5.9 million.

Other Businesses

Other Income and Deductions for Energy Group (the holding company) and CHEC's investments in partnerships and other investments (other than fuel distribution operations) increased \$2.3 million in 2005 as compared to 2004. The increase primarily reflects an increase in interest income from short-term investments held by Energy Group due to higher interest rates, an increase in income from CHEC's partnership and other investments, and a decrease in business development costs.

Other Income and Deductions decreased \$2.3 million in 2004 as compared to 2003 due primarily to a decrease in investment income from the liquidation of Energy Group's Alternate Investment Program and an increase in business development costs. The Alternate Investment Program was fully liquidated by July 2003 and the proceeds were reinvested in low risk and lower yield money market instruments. The increase in business development costs reflects efforts to redeploy this available capital in suitable investment opportunities.

Interest Charges

Regulated Electric and Natural Gas Businesses

Interest charges decreased \$0.8 million in 2005 as compared to 2004 due to a reduction of regulatory carrying charges due to customers resulting from the substantial use, by December 31, 2004, of the principal balance of the Customer Benefit Fund for customer refunds and other authorized programs. In accordance with the Settlement Agreement, carrying charges were accrued on the unused balance deferred for the future benefit of customers. This reduction in carrying charges was partially offset by an increase in interest charges on long and short-term debt. Interest on long-term debt increased due to the issuance of medium-term notes in November 2004 and December 2005 and higher interest rates on Central Hudson's variable rate debt. Additional short-term debt was required throughout 2005 for working capital needs due to the escalation of fuel prices.

Interest charges for Central Hudson decreased \$4.1 million in 2004 as compared to 2003. The reduction in interest charges was due largely to a decrease in regulatory carrying charges accrued on Central Hudson's declining Customer Benefit Fund balance. In addition to providing additional customer refunds in 2004 and continuing to fund economic development initiatives and other programs, the Customer Benefit Fund was also used to offset deferred pension and other post-retirement benefit costs.

The following table sets forth pertinent data on Energy Group's outstanding debt (this debt relates to Central Hudson):

	2005	2004	2003
	(In Thousands)		
Long-Term Debt:			
Debt retired	\$ —	\$15,000	\$15,000
Debt issued	\$24,000	\$41,000	\$24,000
Outstanding at year-end:			
Amount (including current portion)	\$343,886	\$319,883	\$293,880
Weighted average interest rate	4.47%	3.93%	3.91%
Short-Term Debt:			
Average daily amount outstanding	\$16,559	\$9,929	\$7,151
Weighted average interest rate	3.65%	1.73%	1.41%

See Note 6 – “Short-Term Borrowing Arrangements” and Note 8 – “Capitalization – Long-Term Debt” for additional information on short-term and long-term debt of Energy Group and/or Central Hudson.

Preferred Stock Dividends

Preferred stock dividends of Central Hudson did not change from 2004 to 2005 and decreased \$0.4 million in 2004 as compared to 2003. The reduction in preferred stock dividends in 2004 reflects the repurchase of certain issues of preferred stock in October 2003.

Income Taxes

Energy Group's consolidated federal and state income taxes for 2005 decreased \$5.4 million as compared to 2004. The overall reduction in income taxes reflects a decrease in income taxes for Central Hudson's regulated electric and natural gas operations of \$4.5 million due to a decrease in earnings and a decrease in taxes related to deductions for operating reserves, a decrease of \$1.4 million for Energy Group (the holding company) and CHEC's partnership and other investment interests due to adjustments relating to the completion of a tax audit for 2001, adjustments for the 2004 and 2005 income tax accruals which were partially offset by an increase in the taxes due to increased earnings, and an increase of \$0.5 million for CHEC's fuel distribution businesses due to an increase in taxable income.

Energy Group's consolidated federal and state income taxes for 2004 increased \$0.8 million as compared to 2003. The increase reflects an increase in income taxes of \$1.4 million for Central Hudson's electric and natural gas operations due primarily to an increase in taxable income and an increase in taxes related to deductions for operating reserves, a reduction of \$0.7 million for Energy Group and CHEC's investment interests due to a decrease in investment income and an increase in business development costs, and a nominal increase of \$0.1 million for CHEC's fuel distribution businesses.

For further information regarding income taxes, see Note 3 – "Income Tax."

Other Matters

NYISO Re-Pricing Adjustment

On July 20, 2005, Central Hudson received a payment from the NYISO for adjustments to energy sales transactions that had occurred in May 2000, when Central Hudson owned the Danskammer Plant and a share of the Roseton Plant. The adjustments resulted from a decision of the United State Court of Appeals for the District of Columbia Circuit Court and a subsequent Order of the FERC that directed the NYISO to increase the real-time pricing on those transactions. Since the payment related to unresolved billing issues existing at June 30, 2005, its impact was recorded in the financial results for that quarter. The payment resulted in an increase to net income of \$572,000, or \$0.04 per share. Additionally, as a result of PSC regulatory mechanisms in place in 2000, customers received \$2.7 million of the NYISO payments which were returned to them through Central Hudson's energy cost adjustment mechanism.

The Energy Policy Act of 2005

On August 8, 2005, the Energy Act became law. The Energy Act is designed as a comprehensive platform for the modernization, reform, and development of the electric industry; to facilitate the development of cleaner, more environmentally acceptable fuels and greater energy efficiency; and to streamline the related approval processes and consolidate the FERC's regulatory authority over the energy market. In addition, the Energy Act repeals PUHCA, effective February 8, 2006. Energy Group and Central Hudson expect that the repeal of PUHCA will eliminate significant federal restrictions on the scope, structure, and ownership of companies in the electric industry.

Energy Group and Central Hudson have reviewed the components of the Energy Act to assess the impact on its businesses and to ensure compliance with all applicable provisions. Provisions that may affect Energy Group and Central Hudson are in the areas of electricity and energy policy, tax incentives, energy efficiency, climate change, oil and natural gas, and incentives for innovative technologies. Energy Group and Central Hudson anticipate that regulations implementing the Energy Act will be forthcoming. At the present time, neither Energy Group nor Central Hudson can predict the effect that the Energy Act or these implementing regulations may have on its financial condition or operations.

Higher Energy Prices

For most of 2005, Central Hudson's regulated electric and natural gas delivery customers received higher bills than those they received during 2004, reflecting higher consumption in response to hotter summer weather and higher market prices for electricity and natural gas. While higher energy prices themselves have little or no impact on earnings due to adjustment mechanisms that recover energy costs from customers, efforts by customers to reduce energy consumption could affect earnings by reducing delivery volumes. To help manage the impact of higher energy prices on customers, Central Hudson has implemented an outreach program to assist customers with efforts to manage their energy bills. Coupled with consumer awareness that higher energy prices are expected to continue throughout the heating season, Management believes that a change in customer behavior toward increased energy efficiency could occur and could have 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 CHEC's fuel distribution businesses are also experiencing higher prices and may further alter their behavior as a result of higher prices. In the portion of the 2005-2006 heating season ended December 31, 2005, CHEC's fuel distribution businesses experienced year-

over-year volume decreases driven by price-sensitive customer attrition, conservation and energy efficiency efforts, and fuel switching. Fuel oil prices are currently projected to be higher on average in the 2005-2006 heating season than they were in the 2004-2005 heating season and continued customer attrition and energy efficiency efforts could further reduce residential fuel delivery volumes.

Both Central Hudson's electricity and natural gas businesses and CHEC's fuel distribution businesses may 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 the ethanol produced. These benefits, however, may be partially offset by higher prices for the fuel used in the ethanol production process.

In aggregate, Energy Group does not expect higher energy prices to have a material effect on its financial results in 2006, but is unable to predict with certainty the ultimate level of energy prices, potential customer response to those prices, and the corresponding financial impact on its operating companies and investments.

Natural Gas

During the third quarter of 2005, two hurricanes in the Gulf of Mexico caused significant damage to that region's energy infrastructure. While Central Hudson's facilities were not affected by the hurricanes, the resulting disruptions in the nation's energy markets may continue in the near-term and could have an indirect effect on its business.

As a result of the hurricanes, a significant amount of Gulf Coast natural gas production feeding into interstate pipelines serving the Atlantic seaboard and the northeastern United States became unavailable. During the 2005-2006 heating season, it is possible that a significant amount of this supply source could remain unavailable, causing natural gas supplies in the northeastern United States to tighten. To mitigate potential impacts, Central Hudson intends to rely on a diversity of supply sources, including connections to pipelines not affected by the hurricanes, natural gas stored north of any hurricane disruptions, and its own propane-air peaking facilities within its service territory. Central Hudson made contingency liquified natural gas and Canadian natural gas purchases to help ensure that adequate supply is available for Central Hudson's customers.

Changes in Accounting Standards

See Note 1 – "Summary of Significant Accounting Policies" under the caption "New Accounting Standards and Other FASB Projects – Standards Implemented" for discussion of other relevant Financial Accounting Standards Board proposals.

Retirement Plan

As described more fully in Note 9 – "Post-Employment Benefits," Central Hudson has a non-contributory Retirement Income Plan ("Retirement Plan") covering substantially all of its employees. The Retirement Plan is a defined benefit plan which provides pension benefits that are based on an employee's compensation and years of service.

The significant assumptions and estimates used to account for the Retirement Plan are the discount rate, the expected long-term rate of return on Retirement Plan assets, the rate of compensation increase, and the method of amortizing gains and losses.

The discount rate is determined each year as of September 30 based on the rate at which obligations could be effectively settled. The rate is based on high-quality bond yields, after allowing for call and default risk. Central Hudson considers high-quality corporate bond indices, such as Moody's Aa, when selecting the discount rate. Central Hudson selects the rate after consultation with its actuarial consultant. Central Hudson's discount rate was 5.50% as of the most recent valuation date, September 30, 2005.

In determining the expected long-term rate of return on Retirement Plan assets, Central Hudson considered the current level of expected returns on risk-free investments (primarily United States government bonds), the historical level of risk premiums associated with other asset classes, and the expectations of future returns over a 20-year time horizon on each asset class, based on the views of leading financial advisors and economists. The expected return for each asset class was then weighted based on the Retirement Plan's target asset allocation. Central Hudson also considered expectations of value-added by active management, net of investment expenses.

The rate of compensation increase was based on historical and current compensation practices of Central Hudson giving consideration to any anticipated changes in this practice.

Actuarial gains and losses, which include investment returns and demographic experience which are different than anticipated based on the actuarial assumptions, are amortized in accordance with procedures set forth by the PSC which require the full gain or loss arising each year to be amortized uniformly over ten years.

The unrecognized net losses are currently \$98 million, including losses for the years 1996 through 2005. Therefore, the future annual amortization of these losses will increase pension expense, determined under Statement of Financial Accounting Standards ("SFAS") No. 87, entitled *Employers' Accounting for Pensions*, from its

current level unless there are offsetting future gains or other offsetting components of pension expense.

Since September 30, 2005, the latest measurement date, there have been no material changes in the level of Retirement Plan assets, the discount rate used to determine the Retirement Plan liabilities, or the assumptions regarding expected returns on Retirement Plan assets.

Based on current levels of Retirement Plan assets and obligations, a change of one-quarter percent in the long-term rate of return assumption would change pension expense by approximately \$0.8 million and a change of one-quarter percent in the discount rate would change pension expense by approximately \$1.3 million.

Under the policy of the PSC regarding pension costs, Central Hudson recovers its net periodic pension costs through customer rates with differences from rate

allowances deferred for future recovery from or return to customers. As a result, Central Hudson expects to fully recover its net periodic pension costs over time. The Retirement Plan's liquidity is primarily affected by the cash contributions made by Central Hudson to the Retirement Plan. Central Hudson contributed \$10 million to the Retirement Plan in 2003. Central Hudson did not make a contribution to the Retirement Plan in 2004 or 2005. Based on current practice, Central Hudson's actuarial consultant has estimated that total contributions to the Retirement Plan for the four-year period from 2006 to 2009 could range from \$0 million to \$45 million. The actual contributions could vary significantly based upon economic growth, inflation, and interest rate assumptions.

For additional information regarding the Retirement Plan, see Note 9 – "Post-Employment Benefits."

CAPITAL RESOURCES AND LIQUIDITY

Cash Flow Summary – Energy Group

(Millions of Dollars)	Variance		
	2005	2004	2005 vs. 2004
Net cash provided by (used in):			
Operating Activities	\$ 44.9	\$ 72.5	\$ (27.6)
Investing Activities	(80.1)	(66.7)	(13.4)
Financing Activities	7.6	(12.5)	20.1
Net change for the period	(27.6)	(6.7)	(20.9)
Balance at beginning of period	119.1	125.8	(6.7)
Balance at end of period	\$ 91.5	\$ 119.1	\$ (27.6)

Net Cash Provided by Operating Activities

Energy Group's net cash flows provided by operating activities reflect the operations of its two subsidiaries, Central Hudson and CHEC, and the interest income Energy Group earns on its cash balances.

Energy Group's net cash flows provided by operating activities during 2005 were \$27.6 million lower as compared to 2004. Cash flow decreased primarily because of a substantial increase in customer accounts receivable for Central Hudson and CHEC, the absence of proceeds from Central Hudson's sale of emission allowances in 2004, and an increase in the price paid in 2005 by Central Hudson for natural gas purchased for inventory. The substantial increase in customer accounts receivable is related to the pass-through to customers of the increased costs for purchased electricity, natural gas, and petroleum products, due largely to an increase in the wholesale price of each as compared to the same period in 2004. Increased sales for Central Hudson also contributed to this increase in accounts receivable, reflecting customer growth for residential and commercial customer classes and increased usage. Cash flow from operations was also lower in 2005 due to the absence of the 2001 amended Utility Service Tax refund that Central Hudson received in 2004. Slightly offsetting these decreases in cash flow was a reduction in costs related to various programs funded by

Central Hudson's Customer Benefit Fund, including refunds to electric customers.

As authorized in the 2004 Joint Proposal approved by the PSC, deferred electric pension and OPEB costs, including carrying charges, were offset against the Customer Benefit Fund with no impact to cash flow for 2005. The total amount offset in 2005 was \$3.1 million as compared to \$89.9 million in 2004. Central Hudson will continue to use the Customer Benefit Fund to offset the cost of various programs. For further details, see Note 2 – "Regulatory Matters" under the caption "Rate Proceedings – Electric and Natural Gas."

Net Cash Used in Investing Activities

Energy Group's capital expenditures reflect the activities of its two subsidiaries, Central Hudson and CHEC.

Net cash flows used in investing activities were \$13.4 million higher during 2005 as compared to 2004. Acquisitions of seven fuel distribution companies, an investment in a joint venture that owns a minority interest in two wind farm projects, and the issuance of notes receivable by CHEC were the primary reasons expenditures increased in 2005.

For more information with respect to acquisitions and investments see Note 4 – "Acquisitions, Investments, and Divestitures."

Net Cash Provided by Financing Activities

Energy Group's financing activities reflect the dividends it pays its shareholders, the dividends paid to Energy Group by Central Hudson and CHEC, and the external borrowing activities of Central Hudson.

Net cash flows related to financing activities were \$20.1 million higher during 2005 as compared to 2004.

Cash Flow Summary – Central Hudson

(Millions of Dollars)			Variance
	2005	2004	2005 vs. 2004
Net cash provided by (used in):			
Operating Activities	\$ 34.3	\$ 59.1	\$ (24.8)
Investing Activities	(62.0)	(58.6)	(3.4)
Financing Activities	23.7	(5.0)	28.7
Net change for the period	(4.0)	(4.5)	0.5
Balance at beginning of period	8.2	12.7	(4.5)
Balance at end of period	\$ 4.2	\$ 8.2	\$ (4.0)

Net Cash Provided by Operating Activities

Central Hudson's net cash flows provided by operating activities reflect principally its energy deliveries and costs of operations. Variations in the volume of energy deliveries are primarily driven by factors external to Central Hudson, such as weather and economic conditions, including the price of energy. 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 costs of purchased electricity and purchased natural gas may affect the timing of cash flows but not overall net income, as these costs are fully recoverable through Central Hudson's electric and natural gas cost adjustment mechanisms.

Central Hudson's net cash flows provided by operating activities during 2005 were \$24.8 million lower as compared to 2004 for the reasons indicated in the discussion of Energy Group's net cash flows provided by operating activities.

Net Cash Used in Investing Activities

Central Hudson's cash flows from investing activities of \$62 million in 2005, an increase of \$3.4 million over 2004, were comprised entirely of construction and, to a lesser extent, removal expenditures. Central Hudson continues to make significant investments in its electric and natural gas transmission and distribution systems. In addition to upgrades for system reliability, those investments are driven by growth in the number of electric and natural gas customers, the volume of energy delivered to customers, and system peak demand trends. Growth-related investments are the primary driver for the year-over-year increases in net property, plant, and equipment recently experienced by Central Hudson.

Net Cash Used in Financing Activities

To finance its operations, which reflect variations related to weather and other timing issues from year to

The resulting increase in cash flows was primarily driven by higher net borrowings of short-term debt by Central Hudson related to increased energy purchases and the absence of any long-term debt retirement in 2005 as compared to 2004. Additionally, Central Hudson issued \$24 million in medium-term notes in 2005 as compared to \$41 million issued in 2004.

year, its capital expenditures, as well as manage its capital structure, Central Hudson uses a combination of short-term and long-term borrowing and retains a portion of its earnings. Generally, the growth in its net utility plant is financed by long-term debt and retained earnings, while variations related to working capital are financed using short-term borrowings.

Net cash flows related to financing activities were \$28.7 million higher during 2005 as compared to 2004. The resulting increase in cash flows was primarily driven by higher net borrowing of short-term debt, the absence of any long-term debt retirement, and lower dividends paid to Energy Group in 2005 as compared to 2004. Additionally, Central Hudson issued \$24 million in medium-term notes in 2005 as compared to \$41 million issued in 2004.

Capital Structure

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

As provided in the PSC's Order Establishing Rates (see Note 2 – "Regulatory Matters" under the caption "Rate Proceedings – Electric and Natural Gas"), Central Hudson's common equity ratio was capped for the purposes of the PSC's return on equity calculation at 47% for the twelve months ended June 30, 2002, at 46% for the twelve months ended June 30, 2003, and at 45% for subsequent twelve-month periods. Central Hudson intends to maintain a common equity ratio of approximately 45% in 2006, subject to the outcome of its rate filing currently pending with the PSC.

Central Hudson's current senior debt ratings are "A2 (stable)" by Moody's Investors Service and "A (stable)" by Standard and Poor's Corporation and by Fitch Ratings.

Year-end capital structures for Energy Group and its subsidiaries are set forth below as of December 31, 2005, 2004, and 2003:

Energy Group	Year-end Capital Structure		
	2005	2004	2003
Long-term debt	38.3%	37.8%	36.0%
Short-term debt	3.3	1.4	2.0
Preferred stock	2.3	2.5	2.6
Common equity	56.1	58.3	59.4
	100.0%	100.0%	100.0%

Central Hudson	Year-end Capital Structure		
	2005	2004	2003
Long-term debt	49.7%	50.5%	49.1%
Short-term debt	4.3	2.0	2.7
Preferred stock	3.0	3.3	3.5
Common equity	43.0	44.2	44.7
	100.0%	100.0%	100.0%

CHEC	Year-end Capital Structure*		
	2005	2004	2003
Long-term debt	46.8%	50.1%	48.3%
Short-term debt	—	—	—
Preferred stock	—	—	—
Common equity	53.2	49.9	51.7
	100.0%	100.0%	100.0%

*Based on stand-alone financial statements and includes inter-company balances which are eliminated upon consolidation.

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."

The following is a summary of the contractual obligations for Energy Group and its affiliates as of December 31, 2005:

Projected Payments Due By Period (In Thousands)

	Less than 1 year	Years Ending 2007-2009	Years Ending 2010-2011	Years Beyond 2011	Total
Long-Term Debt ⁽¹⁾	\$ —	\$53,000	\$24,000	\$266,950	\$343,950
Interest Payments – Long-Term Debt ⁽¹⁾	15,006	38,540	22,439	133,140	209,125
Operating Leases	2,990	6,991	3,042	10,808	23,831
Construction/Maintenance & Other Projects ⁽²⁾	20,196	16,197	3,337	1,409	41,139
Purchased Electric Contracts ⁽³⁾	76,376	146,659	73,888	16,314	313,237
Purchased Natural Gas Contracts ⁽³⁾	106,298	45,173	9,666	594	161,731
Purchased Fixed Liquid Petroleum Contracts	18,137	—	—	—	18,137
Purchased Variable Liquid Petroleum Contracts ⁽⁴⁾	56,888	—	—	—	56,888
Total Contractual Obligations ⁽⁵⁾	\$295,891	\$306,560	\$136,372	\$429,215	\$1,168,038

⁽¹⁾ Includes fixed rate obligations and variable interest rate bonds with estimated variable interest payments based on the actual interest paid in 2005.

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

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

⁽⁴⁾ Estimated based on pricing at January 5, 2006.

⁽⁵⁾ The estimated present value of Energy Group's total contractual obligations is \$832 million, assuming a discount rate of 6.00%.

The following is a summary of the contractual obligations for **Central Hudson** as of December 31, 2005:

Projected Payments Due By Period (In Thousands)

	Less than 1 year	Years Ending 2007-2009	Years Ending 2010-2011	Years Beyond 2011	Total
Long-Term Debt ⁽¹⁾	\$ —	\$53,000	\$24,000	\$266,950	\$343,950
Interest Payments – Long-Term Debt ⁽¹⁾	15,006	38,540	22,439	133,140	209,125
Operating Leases	2,383	6,543	2,990	10,723	22,639
Construction/Maintenance & Other Projects ⁽²⁾	20,196	16,197	3,337	1,409	41,139
Purchased Electric Contracts ⁽³⁾	76,376	146,659	73,888	16,314	313,237
Purchased Natural Gas Contracts ⁽³⁾ ...	106,298	45,173	9,666	594	161,731
Total Contractual Obligations⁽⁴⁾	\$220,259	\$306,112	\$136,320	\$429,130	\$1,091,821

⁽¹⁾ Includes fixed rate obligations and variable interest rate bonds with estimated variable interest payments based on the actual interest paid in 2005.

⁽²⁾ Including Specific, Term, and Service Contracts.

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

⁽⁴⁾ The estimated present value of Central Hudson's total contractual obligations is \$756 million, assuming a discount rate of 6.00%.

Central Hudson may also have an obligation to fund its Retirement Plan and other post-retirement benefit obligations. Decisions to fund the Retirement Plan are made annually and are primarily affected by the discount rate used to determine benefit obligations and the projection of Retirement Plan assets. Based on current practice, Central Hudson's actuarial consultant has estimated that total contributions to the Retirement Plan for the four-year period from 2006 to 2009 could range from \$0 million to \$45 million. This range depends upon economic growth, inflation, and interest rate assumptions, and actual contributions could be higher. It is anticipated that any contributions made would be sufficient to eliminate any Pension Benefit Guaranty Corporation variable rate premiums or would maintain a 90% gateway current liability funded level. The federal government is working on pension reform which could have a significant impact on future funding requirements.

Contributions to fund other post-retirement benefits ("OPEB") were \$6.1 million for 2005. Obligations for future funding depend on a number of factors, including the discount rate, expected return, and medical claims assumptions used. If these factors remain stable, annual funding for the next few years is expected to approximate the 2005 amount.

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

Anticipated Sources and Uses of Cash

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

Energy Group had \$91.5 million of cash and cash equivalents on its consolidated balance sheet on December 31, 2005, which included \$82.9 million held by Energy Group (the holding company) and designated primarily for investments and acquisitions. Of that amount, approximately \$5 million is committed to existing investments and approximately \$15 to \$20 million is expected to be invested in Central Hudson by retaining earnings within Central Hudson that would otherwise be paid as dividends to Energy Group. Energy Group continues to seek new investment and acquisition opportunities through its business development activities.

Central Hudson's planned capital expenditures for construction and removal during 2006 are expected to total approximately \$79 million. For 2007, planned capital expenditures are expected to range from \$75 million to \$80 million. Capital expenditures are expected to be funded with cash from operations and a combination of short-term and long-term borrowings. Central Hudson may alter its plan for capital expenditures as needed to mitigate the need for future borrowings or as its business needs require.

Central Hudson is expected to pay a dividend to Energy Group that will be less than its level of net income in 2006. Central Hudson is expected to retain earnings to

fund a portion of its growth in long-lived assets, while using long-term debt to fund the remainder and to manage its capital structure. Central Hudson anticipates issuing the remaining \$27 million of its Series E medium-term notes to meet its long-term debt needs in 2006. There are no scheduled maturities of long-term debt in 2006. Short-term debt is expected to be used to fund seasonal and temporary variations in working capital requirements. In a stable price environment, Central Hudson does not expect significant changes in its current level of working capital.

CHEC's capital expenditures are driven by its fuel distribution businesses and are expected to be approximately \$2 million during 2006, excluding any possible acquisitions. For 2007, capital expenditures, excluding any possible acquisitions, are expected to range from \$2.5 million to \$3 million. CHEC's fuel distribution businesses continue to explore opportunities to expand through both internal growth and acquisitions, depending on financial performance and opportunities available. CHEC may alter its plan for capital expenditures and acquisitions as its business needs require.

Assuming normal weather and a stable wholesale fuel price environment, CHEC's fuel distribution businesses are expected to generate sufficient cash flow to fund normal annual capital expenditures for facilities, equipment, and vehicles as well as partially fund acquisitions or return capital to Energy Group. In 2005, the fuel distribution businesses experienced a rising wholesale fuel price environment that caused an increase in working capital requirements. Generally, there is a lag between payments to wholesale fuel suppliers and collection of receipts from retail fuel customers. Increases in funding requirements in 2005 were financed by Energy Group through intercompany loans. It is difficult to project wholesale fuel oil prices with any certainty in 2006. If the wholesale fuel price environment were one in which prices were to remain stable at the levels experienced in the latter months of 2005, Management expects the fuel distribution businesses to generate cash flow that would be returned to Energy Group or used to fund acquisitions. If the wholesale fuel price environment were one of falling prices, Management expects an additional return of working capital to improve free cash flow. In an environment of rising prices, increased working capital requirements would reduce cash flow and, depending on the magnitude of price increases, could require additional financing from Energy Group.

Financing Program

In April 2005, Energy Group amended its \$75 million unsecured credit facility with several commercial banks, extending the term of that facility through April 2010. The credit facility, along with available cash, is currently earmarked for acquisitions and investments and is described further in Note 6 - "Short-Term Borrowing Arrangements."

As of December 31, 2005, CHEC had an unsecured line of credit totaling \$15 million.

As more fully discussed in Note 6 - "Short-Term Borrowing Arrangements," Central Hudson, pursuant to authority from the PSC, entered into a \$75 million unsecured credit agreement effective July 1, 2004, through June 30, 2009. In addition, Central Hudson maintains a committed line of credit of \$2 million and certain uncommitted lines of credit with various banks. These arrangements give Central Hudson competitive options to minimize the cost of its short-term borrowing. Authorization from the PSC limits the amount Central Hudson may have outstanding at any time under all of its short-term borrowing arrangements to \$77 million in the aggregate.

In October 2001, Central Hudson received authority from the PSC to issue up to \$100 million of unsecured medium-term notes during the three year period ended June 30, 2004. During 2002, 2003, and 2004, \$69 million, \$24 million, and \$7 million, respectively, of such notes were issued.

On March 16, 2004, the PSC approved Central Hudson's petition to enter into short-term financing arrangements and to issue and sell medium-term notes. The financing order authorized Central Hudson to issue up to \$85 million of medium-term notes during the period from April 6, 2004, to December 31, 2006. Under this program, on November 3, 2004, Central Hudson issued \$27 million of 5.05% medium-term notes due November 4, 2019. On November 5, 2004, Central Hudson issued \$7 million of 4.8% notes due November 5, 2014. On December 5, 2005, Central Hudson issued \$24 million of 5.84% medium-term notes due December 5, 2035. The proceeds from these issuances were used to reduce outstanding short-term debt and for general corporate purposes.

In 2006, Central Hudson plans to evaluate and file a new financing petition with the PSC for financing authorization to be effective on or before January 1, 2007, due to the expiration of the current agreement on December 31, 2006.

On July 2, 2004, Central Hudson redeemed at maturity \$15 million of 7.85% medium-term notes using its available cash balance and short-term borrowings.

Effective August 1, 2002, Energy Group's Board of Directors authorized a common stock repurchase program ("Repurchase Program") for the purchase of up to 25% of its then-outstanding common stock over a five-year period, and projected that 800,000 shares would be repurchased during the first twelve months of this program. Between August 2002 and December 2003, Energy Group repurchased 600,087 shares under the Repurchase Program at a cost of \$27.5 million. No shares were purchased under the Repurchase Program in 2004 or 2005. 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 energy-related investments. See Note 7 - "Capitalization - Common and Preferred Stock." Energy Group reserves the right to modify, suspend, or terminate the Repurchase Program at any time without notice.

For more information with respect to the financing program of Energy Group, see Note 7 – “Capitalization – Common and Preferred Stock” and Note 8 – “Capitalization – Long-Term Debt.”

Parental Guarantees

For information on parental guarantees issued by Energy Group and certain of the competitive business subsidiaries, see Note 1 – “Summary of Significant Accounting Policies” under the caption “Parental Guarantees.”

Product Warranties

For information on product warranties issued by certain of the fuel distribution businesses, see Note 1 – “Summary of Significant Accounting Policies” under the caption “Product Warranties.”

Environmental Matters

For information on environmental matters related to Energy Group and certain of the competitive business subsidiaries, see Note 11 – “Commitments and Contingencies” under the subcaption “Contingencies.”

COMMON STOCK DIVIDENDS AND PRICE RANGES

Energy Group and its principal predecessors (including Central Hudson) have paid dividends on their respective common stock in each year commencing in 1903, which common stock has been listed on the New York Stock Exchange since 1945. The closing price as of December 31, 2005, and 2004 was \$45.90 and \$48.05, respectively. The price ranges and the dividends paid for each quarterly period during the last two fiscal years are as follows:

	2005		
	High	Low	Dividend
1st Quarter	\$49.20	\$43.35	\$0.54
2nd Quarter	49.09	42.07	0.54
3rd Quarter	50.23	45.21	0.54
4th Quarter	48.70	43.03	0.54
	2004		
	High	Low	Dividend
1st Quarter	\$49.56	\$45.13	\$0.54
2nd Quarter	49.58	43.39	0.54
3rd Quarter	46.75	43.14	0.54
4th Quarter	48.66	44.15	0.54

In 2005, Energy Group maintained the quarterly dividend rate at \$0.54 per share. In making future dividend decisions, Energy Group will evaluate all circumstances at the time of making such decisions, including business, financial, and regulatory considerations.

The Settlement Agreement contains certain dividend payment restrictions on Central Hudson, including limitations on the amount of dividends payable if Central Hudson’s senior debt ratings are downgraded by more than one major rating agency due to performance or concerns about the financial condition of Energy Group or any Energy Group subsidiary other than Central Hudson. These limitations would result in the average annual income available for dividends on a two-year rolling average basis being reduced to: (i) 75%, if the downgrade were to a rating below “BBB+,” (ii) 50% if the senior debt were placed on “Credit Watch” (or the equivalent) because of a rating below “BBB,” or (iii) no dividends payable if the downgrade were to a rating below “BBB-.” These restrictions survived the June 30, 2001, expiration of the Settlement Agreement. Central Hudson is currently rated “A” or the equivalent and therefore the restrictions noted above do not apply.

The number of registered holders of common stock of Energy Group as of December 31, 2005, was 16,586. Of these, 14,261 were accounts in the names of individuals with total holdings of 3,434,970 shares, or an average of 241 shares per account. The 2,325 other accounts were in the names of institutional or other non-individual holders and for the most part hold shares of common stock for the benefit of individuals.

All of the outstanding common stock of Central Hudson and all of the outstanding common stock of CHEC is held by Energy Group.

CRITICAL ACCOUNTING POLICIES

The following accounting policies have been identified that could result in material changes to the financial condition or results of operations of Energy Group and its subsidiaries under different conditions or using different assumptions:

Accounting for Regulated Operations: Central Hudson follows Generally Accepted Accounting Principles, including the provisions of SFAS No. 71, entitled *Accounting for the Effects of Certain Types of Regulation* (“SFAS 71”). The application of SFAS 71 may cause the allocation of costs to accounting periods to differ from accounting methods generally applied to non-regulated companies. See Note 2 – “Regulatory Matters” under the caption “Regulatory Accounting Policies” for additional discussion.

Post-Employment Benefits: Central Hudson’s reported costs of providing non-contributory defined pension benefits as well as certain health care and life insurance benefits for retired employees are dependent upon numerous factors resulting from actual plan experience and assumptions of future plan performance. A change in assumptions regarding discount rates and expected long-term rate of return on plan assets, as well as current market conditions, could cause a significant change in the level of costs to be recorded. See Note 9 – “Post-Employment Benefits” for additional discussion.

Use of Estimates: Preparation of the Consolidated Financial Statements in accordance with Generally Accepted Accounting Principles includes the use of

estimates and assumptions by Management that affect financial results, and actual results may differ from those estimated. See Note 1 – “Summary of Significant Accounting Policies” under the caption “Use of Estimates” for additional discussion.

Accounting for Derivatives: Energy Group and its subsidiaries use derivatives to manage their commodity and financial market risks. All derivatives, other than those specifically excepted, are reported on the Consolidated Balance Sheet at fair value. For discussions relating to market risk and derivative instruments, see Item 7A – “Quantitative and Qualitative Disclosure About Market Risk” of this 10-K Annual Report and Note 1 – “Summary of Significant Accounting Policies” under the caption “Accounting for Derivative Instruments and Hedging Activities.”

Goodwill and Other Intangible Assets: As required by SFAS 142, entitled *Goodwill and Other Intangible Assets* and effective January 1, 2002, Energy Group no longer amortizes goodwill and does not amortize intangible assets with indefinite lives, known as “unamortized intangible assets.” Both goodwill and unamortized intangible assets are tested at least annually for impairment. Intangible assets with finite lives are amortized and are reviewed as required for impairment. Impairment testing compares fair value of the reporting units (Griffith and, prior to December 31, 2005, SCASCO) to the carrying amount of assets. Fair value of goodwill is estimated using a multiple of earnings measurement. For information on Energy Group’s determination of an impairment, see Note 5 – “Goodwill and Other Intangible Assets.”

Accounting for Deferred Taxes: Energy Group provides for income taxes based on the asset and liability method required by SFAS 109, entitled *Accounting for Income Taxes* (“SFAS 109”). Under SFAS 109, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, as well as net operating loss and credit carry-forwards. See Note 3 - “Income Tax” for additional discussion.

ITEM 7A - QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The primary market risks for Energy Group and its subsidiaries are commodity price risk and interest rate risk. Commodity price risk, related primarily to purchases of natural gas, electricity, and petroleum products for resale, is mitigated in several different ways. Central Hudson, under the Settlement Agreement, collects its actual purchased electricity and purchased natural gas costs through cost adjustment clauses in its rates. These adjustment clauses provide for the collection of costs, including risk management and working capital costs, from customers to reflect the actual costs incurred in obtaining supply. Risk management costs are defined by

the PSC as “costs associated with transactions that are intended to reduce price volatility or reduce overall costs to customers. These costs include transaction costs, and gains and losses associated with risk management instruments.” Griffith (and, prior to December 31, 2005, SCASCO) may increase the prices charged for the commodities it sells in response to changes in costs; however, the ability to raise prices is limited by the competitive market. Depending on market conditions, Central Hudson and Griffith enter into long-term fixed supply and long-term forward supply contracts for the purchase of these commodities. Central Hudson also uses natural gas storage facilities, which enable it to purchase and hold quantities of natural gas at pre-heating season prices for use during the heating season.

Central Hudson and the fuel distribution businesses have in place an energy risk management program to manage, through the use of defined risk management practices, various risks associated with their respective operations, namely commodity price risk and sales volatility due to weather. This risk management program permits the use of derivative financial instruments for hedging purposes and does not permit their use for trading or speculative purposes. Central Hudson and Griffith have entered into either exchange-traded futures contracts or over-the-counter (“OTC”) contracts with third-parties to hedge commodity price risk associated with the purchase of natural gas, electricity, and petroleum products and to hedge the effect on earnings due to significant variances in weather conditions from normal patterns. The types of derivative instruments used include natural gas futures and basis swaps to hedge natural gas purchases, contracts for differences to hedge electricity purchases, put and call options to hedge oil purchases, and weather derivatives. OTC derivative transactions are entered into only with counter-parties that meet certain credit criteria. The creditworthiness of these counter-parties is determined primarily by reference to published credit ratings.

At December 31, 2005, Central Hudson had open derivative contracts to hedge natural gas prices through March 2006, covering approximately 34.7% of Central Hudson’s projected total natural gas supply requirements during this period. In 2005, derivative transactions were used to hedge 17.5% of Central Hudson’s total natural gas supply requirements as compared to 19.2% in 2004. In its electric operations, Central Hudson had open derivatives at December 31, 2005, hedging approximately 4.2% of its required electricity supply through February 2006. In 2005, Central Hudson hedged approximately 5.9% of its total electricity supply requirements with OTC derivative contracts as compared to 5.1% in 2004. In addition, Central Hudson has in place agreements to purchase electricity produced by certain of its former major generating assets and other generating facilities at fixed prices. The notional amounts hedged by the derivatives and the electricity purchase agreements for 2006 and 2007 represent approximately 39.1% and 39.2%, respectively, of its total anticipated electricity supply requirements in each year.

At December 31, 2005, Griffith and SCASCO had open OTC put and call option positions covering approximately 2.7% of their combined anticipated fuel oil supply requirements for the period from January 2006 through May 2006. The percentage hedged at December 31, 2004, for the period January 2005 to June 2005 was 2.7%. In 2005, derivatives were used to hedge 2.8% of these requirements as compared to 13.5% in 2004. SCASCO's positions were transferred to Griffith upon the merger of SCASCO into Griffith, effective December 31, 2005.

Derivative contracts are discussed in more detail in Note 1 – “Summary of Significant Accounting Policies” under the subcaption “Accounting for Derivative Instruments and Hedging Activities.”

Interest rate risk affects Central Hudson but is managed through the issuance of fixed-rate debt with varying maturities and variable rate debt for which interest is reset on a periodic basis to reflect current market conditions. The difference between costs associated with actual variable interest rates related to Central Hudson's bonds issued by the New York State Energy Research Development Authority and costs embedded in customer rates is deferred for eventual refund to, or recovery from, customers. The variability in interest rates is also managed with the use of a derivative financial instrument known as an interest rate cap

agreement, for which the premium cost and any realized benefits also pass through the aforementioned regulatory recovery mechanism. The current interest rate cap agreement expires on April 1, 2006. Central Hudson will evaluate available alternatives to replace the interest rate cap in the first quarter of 2006. Central Hudson also repurchases or redeems existing debt at a lower cost when market conditions permit. Please refer to Note 8 - “Capitalization – Long-Term Debt” and Note 13 - “Financial Instruments” for additional disclosure related to long-term debt.

Interest rate risk affects CHEC through the intercompany debt provided by Energy Group, which is generally set annually at then prevailing market interest rates. A year to year increase in the interest rate for CHEC's intercompany debt may affect CHEC's earnings if it is unable to offset increased interest expense with a corresponding increase in its operating margin.

Energy Group is affected by interest rate risk through the interest income on the intercompany loan to CHEC and the interest income on cash balances and short-term investments. Upon consolidation, changes in the rate of interest on the intercompany borrowing arrangements between CHEC and Energy Group have no net earnings impact. Energy Group's interest income on cash balances and short-term investments, however, is directly affected by changes in the market rates of interest available.

ITEM 8 - FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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All other schedules are omitted because they are not applicable or the required information is shown in the Consolidated Financial Statements or the Notes thereto.

II - Supplementary Data

Supplementary data are included in “Selected Quarterly Financial Data (Unaudited)” referred to in “I” above, and reference is made thereto.

Report of Independent Registered Public Accounting Firm



To the Board of Directors and Shareholders of **CH Energy Group, Inc.**

We have completed an integrated audit of CH Energy Group, Inc.'s 2005 and 2004 consolidated financial statements and of its internal control over financial reporting as of December 31, 2005, and an audit of its December 31, 2003 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated financial statements and financial statement schedules

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of CH Energy Group, Inc. and its subsidiaries (collectively, the "Company") at December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2005 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedules listed in the accompanying index present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedules based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Internal control over financial reporting

Also, in our opinion, management's assessment, included in Energy Group Report of Management on Internal Control Over Financial Reporting appearing under Item 8, that the Company maintained effective internal control over financial reporting as of December 31, 2005 based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control – Integrated Framework* issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A handwritten signature in cursive script that reads "PricewaterhouseCoopers LLP".

Buffalo, New York
February 10, 2006

Report of Independent Registered Public Accounting Firm



To the Board of Directors and Shareholders of **Central Hudson Gas & Electric Corporation**

We have completed an integrated audit of Central Hudson Gas & Electric Corporation's 2005 and 2004 consolidated financial statements and of its internal control over financial reporting as of December 31, 2005, and an audit of its December 31, 2003 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated financial statements and financial statement schedules

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Central Hudson Gas & Electric Corporation and its subsidiary (collectively, the "Company") at December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2005 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedules listed in the accompanying index present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedules based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Internal control over financial reporting

Also, in our opinion, management's assessment, included in Central Hudson Report of Management on Internal Control Over Financial Reporting appearing under Item 8, that the Company maintained effective internal control over financial reporting as of December 31, 2005 based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control – Integrated Framework* issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.


Buffalo, New York
February 10, 2006

ENERGY GROUP

Report of Management on Internal Control Over Financial Reporting

The management of CH Energy Group, Inc. ("Management") is responsible for establishing and maintaining adequate internal control over financial reporting for CH Energy Group, Inc. (the "Corporation") as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. Internal control over financial reporting includes those policies and procedures that:

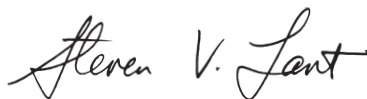
- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Corporation;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America and that receipts and expenditures of the Corporation are being made only in accordance with authorization of management and directors of the Corporation; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of assets that could have a material effect on the consolidated financial statements.

Internal control over financial reporting includes the controls themselves, monitoring (including internal auditing practices) and actions taken to correct deficiencies as identified.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Corporation's internal control over financial reporting as of December 31, 2005. Management based this assessment on criteria for effective internal control over financial reporting described in "*Internal Control – Integrated Framework*" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management determined that, as of December 31, 2005, the Corporation maintained effective internal control over financial reporting.

Our Management's assessment of the effectiveness of the Corporation's internal control over financial reporting as of December 31, 2005, has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears herein.



STEVEN V. LANT
Chairman of the Board
President, and
Chief Executive Officer



DONNA S. DOYLE
Vice President –
Accounting and Controller

February 10, 2006

CENTRAL HUDSON

Report of Management on Internal Control Over Financial Reporting

The management of Central Hudson Gas & Electric Corporation (“Management”) is responsible for establishing and maintaining adequate internal control over financial reporting for Central Hudson Gas & Electric Corporation (the “Corporation”) as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. Internal control over financial reporting includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Corporation;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America and that receipts and expenditures of the Corporation are being made only in accordance with authorization of management and directors of the Corporation; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of assets that could have a material effect on the consolidated financial statements.

Internal control over financial reporting includes the controls themselves, monitoring (including internal auditing practices) and actions taken to correct deficiencies as identified.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Corporation’s internal control over financial reporting as of December 31, 2005. Management based this assessment on criteria for effective internal control over financial reporting described in “*Internal Control – Integrated Framework*” issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management determined that, as of December 31, 2005, the Corporation maintained effective internal control over financial reporting.

Our Management’s assessment of the effectiveness of the Corporation’s internal control over financial reporting as of December 31, 2005, has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears herein.



STEVEN V. LANT
Chairman of the Board
and Chief Executive Officer



DONNA S. DOYLE
Vice President – Accounting
and Controller

February 10, 2006

Energy Group Consolidated Statement of Income

(In Thousands, except per share amounts)

	Year ended December 31,		
	2005	2004	2003
Operating Revenues			
Electric	\$520,994	\$430,575	\$457,395
Natural gas	155,602	125,230	123,306
Fuel distribution businesses	295,910	235,707	225,983
Total Operating Revenues	972,506	791,512	806,684
Operating Expenses			
Operation:			
Purchased electricity and fuel used in electric generation	337,046	251,741	268,757
Purchased natural gas	106,285	77,847	88,767
Purchased petroleum	226,004	168,699	143,992
Other expenses of operation - regulated activities	99,439	98,748	107,105
Other expenses of operation - fuel distribution businesses	55,003	53,666	56,195
Depreciation and amortization	36,219	34,640	33,611
Taxes, other than income tax	33,485	31,038	31,956
Total Operating Expenses	893,481	716,379	730,383
Operating Income	79,025	75,133	76,301
Other Income and Deductions			
Interest on regulatory assets and investment income	10,054	9,824	12,225
Other - net	(954)	7,542	9,246
Total Other Income	9,100	17,366	21,471
Interest Charges			
Interest on mortgage bonds	—	—	\$570
Interest on other long-term debt	13,826	11,488	10,699
Interest on regulatory liabilities and other interest	3,219	6,362	10,696
Total Interest Charges	17,045	17,850	21,965
Income before income taxes and preferred dividends of subsidiary	71,080	74,649	75,807
Income taxes (Note 3)	25,819	31,256	30,435
Income before preferred dividends of subsidiary	45,261	43,393	45,372
Cumulative preferred stock dividends of subsidiary	970	970	1,387
Net Income	44,291	42,423	43,985
Dividends Declared on Common Stock	34,046	34,046	34,093
Balance Retained in the Business	\$10,245	\$8,377	\$9,892
Common Stock:			
Average shares outstanding			
Basic	15,762	15,762	15,831
Diluted	15,767	15,771	15,835
Earnings per share:			
Basic	\$2.81	\$2.69	\$2.78
Diluted	\$2.81	\$2.69	\$2.77
Dividends Declared Per Share	\$2.16	\$2.16	\$2.16

Energy Group Consolidated Statement of Comprehensive Income

(In Thousands)

	Year ended December 31,		
	2005	2004	2003
Net Income	\$44,291	\$42,423	\$43,985
Fair value of cash flow hedges - FAS 133:			
Unrealized gain, net of tax of (\$55), \$0, and (\$59)	83	1	88
Reclassification for gains realized in net income, net of tax of \$64, \$58 and \$13	(96)	(87)	(19)
Investment Securities:			
Change in fair value, net of tax of \$0, \$0 and (\$880)	—	—	1,320
Reclassification adjustment for losses included in net income, net of tax of \$0, \$0, and (\$49)	—	—	74
Net unrealized gains (losses) on investments held by equity method investees, net of tax of (\$90), \$165, and \$26	136	(250)	(38)
Other comprehensive income (loss)	123	(336)	1,425
Comprehensive Income	\$44,414	\$42,087	\$45,410

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

Energy Group Consolidated Statement of Cash Flows

(In Thousands, except per share amounts)

	Year ended December 31,		
	2005	2004	2003
Operating Activities:			
Net Income	\$44,291	\$42,423	\$43,985
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	36,219	34,640	33,611
Deferred income taxes - net	14,637	26,458	34,424
Provision for uncollectibles	4,375	5,835	5,862
Accrued/deferred pension costs	(13,980)	(13,468)	(13,410)
Amortization of fossil plant incentive	—	(9,887)	(9,887)
Changes in operating assets and liabilities - net:			
Accounts receivable, unbilled revenues and other receivables	(38,560)	(2,892)	(16,049)
Fuel, materials and supplies	(6,763)	(1,612)	(3,814)
Special deposits and prepayments	666	2,548	21,426
Contribution - prefunded pension costs	—	—	(10,000)
Accounts payable	11,508	2,816	(5,007)
Deferred natural gas and electric costs	(14,513)	(10,783)	10,927
Customer benefit fund	(4,146)	(13,845)	(46,983)
Proceeds from sales of emission allowances	—	13,576	—
Other - net	11,119	(3,328)	10,378
Net cash provided by operating activities	44,853	72,481	55,463
Investing Activities:			
Proceeds from sale of subsidiary	—	—	567
Purchase of temporary investments	—	—	(22,221)
Proceeds from sale of temporary investments	—	—	111,539
Note receivable - sale of Nine Mile 2 Plant	—	—	1,289
Additions to utility and other property and plant	(63,879)	(62,735)	(59,681)
Issuance of notes receivable	(4,595)	—	—
Acquisitions made by competitive business subsidiaries	(8,499)	(2,703)	(7,624)
Other - net	(3,139)	(1,215)	(2,070)
Net cash (used in) provided by investing activities	(80,112)	(66,653)	21,799
Financing Activities:			
Proceeds from issuance of long-term debt	24,000	41,000	24,000
Redemption of preferred stock	(3)	—	(12,500)
Borrowings (repayments) of short-term debt - net	18,000	(4,000)	16,000
Retirement of long-term debt	—	(15,000)	(15,000)
Dividends paid on common stock	(34,046)	(34,046)	(34,080)
Repurchase of common stock	—	—	(13,135)
Issuance and redemption costs	(299)	(499)	(236)
Net cash provided by (used in) financing activities	7,652	(12,545)	(34,951)
Net Change in Cash and Cash Equivalents	(27,607)	(6,717)	42,311
Cash and Cash Equivalents at Beginning of Year	119,117	125,834	83,523
Cash and Cash Equivalents at End of year	\$91,510	\$119,117	\$125,834
Supplemental Disclosure of Cash Flow Information:			
Interest paid	\$16,797	\$13,604	\$14,229
Federal and State income tax paid	13,028	11,320	1,532

As authorized in the 2004 Joint Proposal, dated June 14, 2004, \$3.1 million and \$89.9 million of deferred electric pension and OPEB costs, including carrying charges, were offset against the Customer Benefit Fund with no impact to cash flow for 2005 and 2004, respectively.

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

Energy Group Consolidated Balance Sheet

(In Thousands)

ASSETS	December 31,	
	2005	2004
Utility Plant		
Electric	\$739,775	\$702,206
Natural gas	226,859	214,866
Common	107,581	104,840
	<hr/>	<hr/>
	1,074,215	1,021,912
Less: Accumulated depreciation	333,164	315,691
	<hr/>	<hr/>
	741,051	706,221
Construction work in progress	38,460	38,846
Net Utility Plant	779,511	745,067
	<hr/>	<hr/>
Other Property and Plant - net	23,138	23,139
	<hr/>	<hr/>
Current Assets		
Cash and cash equivalents	91,510	119,117
Accounts receivable from customers - net of allowance for doubtful accounts; \$4.6 million in 2005 and \$4.8 million in 2004	97,462	65,239
Accrued unbilled utility revenues	9,334	9,130
Other receivables	6,326	4,548
Fuel and materials and supplies - at average cost	28,350	21,459
Regulatory assets (Note 2)	30,764	17,454
Prepaid income taxes	1,166	3,235
Special deposits and prepayments	23,184	17,532
Accumulated deferred income tax (Note 3)	8,836	9,454
Total Current Assets	<hr/>	<hr/>
	296,932	267,168
Deferred Charges and Other Assets		
Regulatory assets - pension plan (Notes 2 and 9)	97,073	88,633
Intangible asset - pension plan (Note 9)	20,217	22,291
Goodwill	51,333	50,462
Other intangible assets - net	28,368	28,780
Regulatory assets (Note 2)	52,353	37,231
Unamortized debt expense	3,973	4,041
Other	26,608	20,995
Total Deferred Charges and Other Assets	<hr/>	<hr/>
	279,925	252,433
	<hr/>	<hr/>
Total Assets	<hr/>	<hr/>
	\$1,379,506	\$1,287,807

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

CAPITALIZATION AND LIABILITIES

December 31,
2005 2004

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	\$1,686
Paid-in capital	351,230	351,230
Retained earnings	198,017	187,772
Treasury stock (1,100,087 shares)	(46,252)	(46,252)
Accumulated other comprehensive loss	(520)	(643)
Capital stock expense	(328)	(328)
Total Common Stock Equity	503,833	493,465
Cumulative Preferred Stock		
Not subject to mandatory redemption (Note 7)	21,027	21,030
Long-term debt (Note 8)	343,886	319,883
Total Capitalization	868,746	834,378
Current Liabilities		
Notes payable	30,000	12,000
Accounts payable	54,926	43,418
Accrued interest	5,156	4,629
Dividends payable	8,754	8,754
Accrued vacation and payroll	5,845	5,833
Customer deposits	7,101	6,496
Regulatory liabilities (Note 2)	373	—
Fair value of derivative instruments	335	906
Deferred revenues	9,717	8,931
Other	11,964	10,535
Total Current Liabilities	134,171	101,502
Deferred Credits and Other Liabilities		
Regulatory liabilities (Note 2)	156,808	156,339
Operating reserves	6,216	6,515
Accrued environmental remediation costs	22,772	22,635
Accrued OPEB costs	24,945	16,030
Accrued pension costs	18,806	18,470
Other	13,258	11,163
Total Deferred Credits and Other Liabilities	242,805	231,152
Accumulated Deferred Income Tax (Note 3)	133,784	120,775
Commitments and Contingencies (Note 11)		
Total Capitalization and Liabilities	\$1,379,506	\$1,287,807

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

Energy Group Consolidated Statement of Shareholder Equity

	Common Stock, \$0.10 par value; Common Stock		30,000,000 shares authorized Treasury Stock	
	Shares Issued	Amount (\$000)	Shares Repurchased	Amount (\$000)
Balance at January 1, 2003	16,862,087	\$1,686	(797,487)	(\$33,117)
Net income				
Dividends declared (\$2.16 per share)				
Repurchase program			(302,600)	(13,135)
Amortization				
Transfer to regulatory asset				
Change in fair value:				
Derivative instruments				
Investments				
Reclassification adjustments for gains recognized in net income				
Balance at December 31, 2003	16,862,087	\$1,686	(1,100,087)	(\$46,252)
Net income				
Dividends declared (\$2.16 per share)				
Change in fair value:				
Derivative instruments				
Investments				
Reclassification adjustments for losses recognized in net income				
Balance at December 31, 2004	16,862,087	\$1,686	(1,100,087)	(\$46,252)
Net income				
Dividends declared (\$2.16 per share)				
Change in fair value:				
Derivative instruments				
Investments				
Reclassification adjustments for losses recognized in net income				
Balance at December 31, 2005	16,862,087	\$1,686	(1,100,087)	(\$46,252)

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

Paid InCapital (\$000)	Capital Stock Expense	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total Common Stock Equity
\$351,230	(\$655)	\$169,503 43,985 (34,093)	(\$1,732)	\$486,915 43,985 (34,093) (13,135)
	15 312			15 312
			88 1,282	88 1,282
			55	55
\$351,230	(\$328)	\$179,395 42,423 (34,046)	(\$307)	\$485,424 42,423 (34,046)
			1 (250)	1 (250)
			(87)	(87)
\$351,230	(\$328)	\$187,772 44,291 (34,046)	(\$643)	\$493,465 44,291 (34,046)
			83 136	83 136
			(96)	(96)
\$351,230	(\$328)	\$198,017	(\$520)	\$503,833

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

Central Hudson Consolidated Statement of Income

(In Thousands)

	Year ended December 31,		
	2005	2004	2003
Operating Revenues			
Electric	\$520,994	\$430,575	\$457,395
Natural gas	155,602	125,230	123,306
Total Operating Revenues	676,596	555,805	580,701
Operating Expenses			
Operation:			
Purchased electricity and fuel used in electric generation	337,046	251,741	268,757
Purchased natural gas	106,285	77,847	76,452
Other expenses of operation	99,439	98,748	107,105
Depreciation and amortization	29,874	28,408	27,275
Taxes, other than income tax	33,161	30,768	31,725
Total Operating Expenses	605,805	487,512	511,314
Operating Income	70,791	68,293	69,387
Other Income and Deductions			
Interest on regulatory assets and other interest income	7,316	8,678	9,974
Other – net	(1,491)	7,953	8,460
Total Other Income	5,825	16,631	18,434
Interest Charges			
Interest on mortgage bonds	—	—	570
Interest on other long-term debt	13,826	11,488	10,699
Interest on regulatory liabilities and other interest	3,219	6,362	10,696
Total Interest Charges	17,045	17,850	21,965
Income before income taxes	59,571	67,074	65,856
Income taxes (Note 3)	23,936	28,426	26,981
Net Income	\$35,635	\$38,648	\$38,875
Dividends Declared on Cumulative Preferred Stock	970	970	1,387
Income Available for Common Stock	\$34,665	\$37,678	\$37,488

Central Hudson Consolidated Statement of Comprehensive Income

(In Thousands)

	Year ended December 31,		
	2005	2004	2003
Net Income	\$35,635	\$38,648	\$38,875
Other Comprehensive Income	—	—	—
Comprehensive Income	\$35,635	\$38,648	\$38,875

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

Central Hudson Consolidated Statement of Cash Flows

(In Thousands)

	Year ended December 31,		
	2005	2004	2003
Operating Activities:			
Net Income	\$35,635	\$38,648	\$38,875
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	29,874	28,408	27,275
Deferred income taxes – net	12,811	24,069	34,169
Provision for uncollectibles	3,592	5,071	4,741
Accrued/deferred pension costs	(13,980)	(13,468)	(13,410)
Amortization of fossil plant incentive	—	(9,887)	(9,887)
Changes in operating assets and liabilities – net:			
Accounts receivable, unbilled revenues and other receivables	(27,967)	1,520	(13,895)
Fuel, materials and supplies	(6,204)	(1,049)	(3,699)
Special deposits and prepayments	4,186	2,149	11,428
Contribution - prefunded pension costs	—	—	(10,000)
Accounts payable	7,933	(133)	(3,982)
Deferred natural gas and electric costs	(14,513)	(10,783)	10,927
Customer benefit fund	(4,146)	(13,845)	(46,983)
Proceeds from sales of emission allowances	—	13,576	—
Other – net	7,044	(5,198)	9,787
Net cash provided by operating activities	34,265	59,078	35,346
Investing Activities:			
Note receivable - sale of Nine Mile 2 Plant	—	—	1,289
Additions to utility plant	(60,142)	(57,522)	(53,361)
Other – net	(1,846)	(1,080)	(2,050)
Net cash used in investing activities	(61,988)	(58,602)	(54,122)
Financing Activities:			
Proceeds from issuance of long-term debt	24,000	41,000	24,000
Redemption of preferred stock	(3)	-	(12,500)
Borrowings (repayments) of short-term debt – net	18,000	(4,000)	16,000
Retirement of long-term debt	-	(15,000)	(15,000)
Dividends paid to parent - Energy Group	(17,000)	(25,500)	(34,162)
Dividends paid on cumulative preferred stock	(970)	(970)	(1,596)
Issuance and redemption costs	(299)	(499)	(235)
Net cash provided by (used in) financing activities	23,728	(4,969)	(23,493)
Net Change in Cash and Cash Equivalents	(3,995)	(4,493)	(42,269)
Cash and Cash Equivalents at Beginning of Year	8,227	12,720	54,989
Cash and Cash Equivalents at End of Year	\$4,232	\$8,227	\$12,720
Supplemental Disclosure of Cash Flow Information:			
Interest paid	\$13,814	\$11,314	\$11,867
Federal and State income tax paid	11,875	10,733	2,917

As authorized in the 2004 Joint Proposal, dated June 14, 2004, \$3.1 million and \$89.9 million of deferred electric pension and OPEB costs, including carrying charges, were offset against the Customer Benefit Fund with no impact to cash flow for 2005 and 2004, respectively.

Central Hudson Consolidated Statement of Shareholder Equity

	Common Stock, \$0.10 par value; Common Stock		30,000,000 shares authorized Treasury Stock	
	Shares Issued	Amount (\$000)	Shares Repurchased	Amount (\$000)
Balance at January 1, 2003	16,862,087	\$84,311	—	\$ —
Net income				
Dividends declared				
On cumulative preferred stock				
On common stock to parent – Energy Group ..				
Amortization				
Transfer to regulatory asset				
Balance at December 31, 2003	16,862,087	\$84,311	—	\$ —
Net income				
Dividends declared				
On cumulative preferred stock				
On common stock to parent – Energy Group ..				
Balance at December 31, 2004	16,862,087	\$84,311	—	\$ —
Net income				
Dividends declared				
On cumulative preferred stock				
On common stock to parent – Energy Group ..				
Balance at December 31, 2005	16,862,087	\$84,311	—	\$ —

Paid InCapital (\$000)	Capital Stock Expense	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total Common Stock Equity
\$174,980	(\$5,288)	\$10,140	\$ —	\$264,143
		38,875		38,875
		(1,387)		(1,387)
		(34,162)		(34,162)
	15			15
	312			312
\$174,980	(\$4,961)	\$13,466	\$ —	\$267,796
		38,648		38,648
		(970)		(970)
		(25,500)		(25,500)
\$174,980	(\$4,961)	\$25,644	\$ —	\$279,974
		35,635		35,635
		(970)		(970)
		(17,000)		(17,000)
\$174,980	(\$4,961)	\$43,309	\$ —	\$297,639

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

Central Hudson Consolidated Balance Sheet

(In Thousands)

	December 31,	
	2005	2004
ASSETS		
Utility Plant		
Electric	\$739,775	\$702,206
Natural Gas	226,859	214,866
Common	107,581	104,840
	1,074,215	1,021,912
Less: Accumulated depreciation	333,164	315,691
	741,051	706,221
Construction work in progress	38,460	38,846
Net Utility Plant	779,511	745,067
Other Property and Plant – net	723	962
Current Assets		
Cash and cash equivalents	4,232	8,227
Accounts receivable from customers - net of allowance for doubtful accounts; \$3.4 million in 2005 and \$3.8 million in 2004	61,055	37,704
Accrued unbilled utility revenues	9,334	9,130
Other receivables	2,868	2,048
Fuel and materials and supplies - at average cost	23,411	17,207
Regulatory assets (Note 2)	30,764	17,454
Prepaid income taxes	—	4,374
Special deposits and prepayments	16,168	15,980
Accumulated deferred income tax	7,997	8,696
Total Current Assets	155,829	120,820
Deferred Charges and Other Assets		
Regulatory assets - pension plan (Notes 2 and 9)	97,073	88,633
Intangible asset - pension plan (Note 9)	20,217	22,291
Regulatory assets (Note 2)	52,353	37,231
Unamortized debt expense	3,973	4,041
Other	11,653	10,397
Total Deferred Charges and Other Assets	185,269	162,593
Total Assets	\$1,121,332	\$1,029,442

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

	December 31,	
	2005	2004
CAPITALIZATION AND LIABILITIES		
Capitalization		
Common Stock Equity:		
Common Stock, 30,000,000 shares authorized; 16,862,087 shares issued, \$5 par value	\$84,311	\$84,311
Paid-in capital	174,980	174,980
Retained earnings	43,309	25,644
Capital stock expense	(4,961)	(4,961)
Total Common Stock Equity	<u>297,639</u>	<u>279,974</u>
Cumulative Preferred Stock		
Not subject to mandatory redemption (Note 7)	<u>21,027</u>	<u>21,030</u>
Long-term debt (Note 8)	<u>343,886</u>	<u>319,883</u>
Total Capitalization	<u>662,552</u>	<u>620,887</u>
Current Liabilities		
Notes payable	30,000	12,000
Accounts payable	40,884	32,951
Accrued interest	5,156	4,629
Dividends payable - preferred stock	242	242
Accrued vacation and payroll	4,566	4,619
Customer deposits	6,932	6,359
Regulatory liabilities (Note 2)	373	—
Fair value of derivative instruments	315	907
Accrued income taxes	324	—
Other	6,895	5,869
Total Current Liabilities	<u>95,687</u>	<u>67,576</u>
Deferred Credits and Other Liabilities		
Regulatory liabilities (Note 2)	156,808	156,339
Operating reserves	5,137	5,969
Accrued environmental remediation costs	19,500	19,500
Accrued OPEB costs	24,945	16,030
Accrued pension costs	18,806	18,470
Other	11,094	8,971
Total Deferred Credits and Other Liabilities	<u>236,290</u>	<u>225,279</u>
Accumulated Deferred Income Tax (Note 3)	<u>126,803</u>	<u>115,700</u>
Commitments and Contingencies (Note 11)		
Total Capitalization and Liabilities	<u>\$1,121,332</u>	<u>\$1,029,442</u>

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - Summary of Significant Accounting Policies

Basis of Presentation

This is a combined report of CH Energy Group, Inc. ("Energy Group") and Central Hudson Gas & Electric Corporation ("Central Hudson"), a wholly owned subsidiary of Energy Group. The Notes to the Consolidated Financial Statements apply to the Consolidated Financial Statements of both Energy Group and Central Hudson. Energy Group's Consolidated Financial Statements include the accounts of Energy Group and its wholly owned subsidiaries, including Central Hudson.

Central Hudson and the competitive business subsidiaries (as hereinafter defined) are each wholly owned, directly or indirectly, by Energy Group. Their businesses are comprised of a regulated electric utility and regulated natural gas utility, fuel distribution, cogeneration, energy management, and investments in energy-related assets.

Reclassification

Certain amounts in the 2003 and 2004 Consolidated Financial Statements have been reclassified to conform to the 2005 presentation. In addition, the consolidated statements of income for Energy Group have been reformatted to remove the line items related to Allowance for the Funds Used During Construction ("AFUDC"). Presentation changes were also made to Central Hudson's statements of consolidated income related to AFUDC line items.

Principles of Consolidation

Energy Group is the holding company parent corporation of Central Hudson and Central Hudson Enterprises Corporation ("CHEC").

Central Hudson has one wholly owned subsidiary: Phoenix Development Company, Inc. ("Phoenix"). CHEC had two wholly owned subsidiaries during the period covered by this 10-K Annual Report: Griffith Energy Services, Inc. ("Griffith") and SCASCO, Inc. ("SCASCO"). Effective December 31, 2005, SCASCO was merged into Griffith, which remains a wholly owned subsidiary of CHEC. CHEC, Griffith, and SCASCO are collectively referred to herein as the "competitive business subsidiaries." Griffith and SCASCO are collectively referred to herein as the "fuel distribution businesses."

Energy Group was incorporated in 1998 as a wholly owned subsidiary of Central Hudson. On December 15, 1999, Energy Group became the holding company parent corporation of Central Hudson and Central Hudson's then-existing subsidiaries, including CHEC and Phoenix (the "Holding Company Restructuring"). For further information regarding the Holding Company

Restructuring and the Amended and Restated Settlement Agreement dated January 2, 1998, and thereafter amended ("Settlement Agreement"), among Central Hudson, the Staff of the Public Service Commission of the State of New York ("PSC"), and certain others which, among other things, permitted the Holding Company Restructuring, see the captions "Competitive Opportunities Proceeding Settlement Agreement" and "Rate Proceedings – Electric and Natural Gas" in Note 2 – "Regulatory Matters." Surviving provisions of the Settlement Agreement discussed herein may affect future operations of Energy Group and its subsidiaries.

Energy Group's Consolidated Financial Statements include the accounts of Energy Group, Central Hudson, and the competitive business subsidiaries. Intercompany balances and transactions have been eliminated.

Rates, Revenues and Cost Adjustment Clauses

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

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

Revenue Recognition

Central Hudson records revenue on the basis of meters read. In addition, Central Hudson records an estimate of unbilled revenue for service rendered to bimonthly customers whose meters are read in the prior month. The estimate covers 30 days subsequent to the meter-read date.

Revenues are recognized by the fuel distribution businesses when products are delivered to customers or services have been rendered. Deferred revenues include unamortized payments from fuel oil burner maintenance contracts. These contracts require a one-time payment from the customer at inception of the contract. Also included in deferred revenues are payments received from customers who participate in budget billing whose balance represents the amount paid in excess of fuel deliveries received at December 31. At the conclusion of the heating season, each such customer's budget billings are reconciled with their actual purchases and the accounts are settled.

Utility Plant – Central Hudson

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

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

The following summarizes the type and amount of assets included in the Electric, Natural Gas, and Common categories of Central Hudson's utility plant balances at December 31, 2005, and 2004.

	Estimated Depreciable Life in Years	Utility Plant (In Thousands)	
		2005	2004
Electric			
Production	27-75	\$27,568	\$27,506
Transmission	25-85	172,815	163,328
Distribution	7-80	538,550	510,480
Other	50	842	892
Total		<u>\$739,775</u>	<u>\$702,206</u>
Natural Gas			
Production	25-40	\$5,036	\$5,010
Transmission	17-70	41,628	41,267
Distribution	20-85	179,702	168,147
Other	N/A	493	442
Total		<u>\$226,859</u>	<u>\$214,866</u>
Common			
Land and Structures	50	\$35,043	\$34,567
Office & Other Equipment, Radios, and Tools	8-35	36,574	36,326
Transportation Equipment	8-12	35,857	33,840
Other	N/A	107	107
Total		<u>\$107,581</u>	<u>\$104,840</u>

Allowance For Funds Used During Construction

Central Hudson's regulated utility plant includes AFUDC, which is defined as the net cost of borrowed funds used for construction purposes and a reasonable rate on other funds when so used. The concurrent credit for the amount so capitalized is reported in the Consolidated Statement of Income as follows: the portion applicable to borrowed funds is reported as a reduction of interest charges while the portion applicable to other funds (the equity component, a noncash item) is reported as other income. The AFUDC rate was 3.75% in 2005, 3.00% in 2004, and 4.50% in 2003.

Depreciation and Amortization

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

The property and plant assets of the fuel distribution businesses are reported net of accumulated depreciation on Energy Group's Consolidated Balance Sheet as Other Property and Plant - net. Accumulated depreciation for the fuel distribution businesses was \$14.9 million and \$11.7 million at December 31, 2005, and 2004, respectively.

For financial statement purposes, Central Hudson's depreciation provisions are computed on the straight-line method using rates based on studies of the estimated useful lives and estimated net salvage values of properties. The anticipated costs of removing assets upon retirement are 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.

Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards ("SFAS") No. 143, entitled *Accounting for Asset Retirement Obligations* ("SFAS 143"), precludes the recognition of expected future retirement obligations as a component of depreciation expense or accumulated depreciation; however, Central Hudson is required to use depreciation methods and rates that the PSC has approved under regulatory accounting. In accordance with FASB Statement No. 71, entitled *Accounting for the Effects of Certain Types of Regulation* ("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 \$92.2 million and \$88.2 million of net cost of removal as a regulatory liability as of December 31, 2005, and 2004, respectively.

In March 2005, the FASB issued Interpretation No. 47, entitled *Accounting for Conditional Asset Retirement Obligations* ("FIN 47"), which clarifies that the term "conditional asset retirement obligation" as used in SFAS 143 refers 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. This legal obligation is absolute, despite the uncertainty regarding the timing and/or method of settlement. In addition, the fair value of a liability for the conditional asset retirement obligation should be recognized when incurred: generally upon acquisition, construction, or development and/or through normal operation of the asset. FIN 47 also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation.

Energy Group adopted FIN 47 effective December 31, 2005. Upon adoption, Energy Group recorded asset retirement obligations of \$550,000 and an equal amount of long-lived assets at December 31, 2005. Of this amount, approximately \$500,000 was recorded by Central Hudson and the remainder was recorded by CHEC. Had Energy Group opted to apply the provisions of FIN 47 retrospectively, the prior period effect on the financial condition, results of operations, or cash flows of Energy Group or its subsidiaries would have been immaterial.

Central Hudson performs depreciation studies on a continuing basis and, upon approval by the PSC, periodically adjusts the depreciation rates of its various classes of depreciable property. Central Hudson's composite rates for depreciation were 3.15% in 2005, 3.17% in 2004, and 3.25% in 2003, of the original average cost of depreciable property. The ratio of the amount of accumulated depreciation to the original cost of depreciable property at December 31 was 31.1% in 2005, 31.0% in 2004, and 32.9% in 2003.

For financial statement purposes, the fuel distribution businesses' depreciation provisions are computed on the straight-line method using depreciation rates based on the estimated useful lives of the depreciable property and equipment. Expenditures for major renewals and betterments, which extend the useful lives of property and equipment, are capitalized. Expenditures for 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.

Amortization of intangibles (other than goodwill) is computed on the straight-line method over the assets' expected useful lives. See Note 5 – "Goodwill and Other Intangible Assets" for further discussion.

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.

Inventory

Inventory for Central Hudson is valued at average cost. Inventory for CHEC is valued using the "first-in, first-out" (or "FIFO") inventory method.

Energy Group

	December 31,	
	2005	2004
	(In Thousands)	
Natural Gas	\$16,512	\$10,856
Petroleum Products and Propane	4,138	3,389
Materials and Supplies	7,700	7,214
Total	\$28,350	\$21,459

Central Hudson

	December 31,	
	2005	2004
	(In Thousands)	
Natural Gas	\$16,512	\$10,856
Petroleum Products and Propane	758	613
Materials and Supplies	6,141	5,738
Total	\$23,411	\$17,207

The significant increase in the value of the natural gas, petroleum products, and propane inventory at December 31, 2005, is due largely to an increase in wholesale prices.

Investments in Marketable Securities

Any marketable securities held by Energy Group in 2005 and 2004 were considered cash equivalents. All other marketable securities in the Alternate Investment Program, including debt and equity instruments, were liquidated in 2003 and the proceeds invested in money market instruments and short-term securities with lower principal risk. Energy Group realized a net loss of \$123,000 in 2003 from the sale of these investments. Proceeds from sales of available-for-sale securities during the year ended December 31, 2003, were \$111.5 million. Realized gains associated with sales of available-for-sale securities were \$2.9 million and realized losses were \$3 million. The cost of these securities was determined on a specific identification basis.

Investments in Limited Partnerships and Limited Liability Companies

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

Comprehensive Income. For more information, see Note 4 – "Acquisitions, Investments, and Divestitures."

Earnings Per Share

The following table presents Energy Group's basic and diluted earnings per share included on the Consolidated Statement of Income:

	Year ended December 31,								
	2005			2004			2003		
	Avg. Shares	Net Income	\$/Share	Avg. Shares	Net Income	\$/Share	Avg. Shares	Net Income	\$/Share
(In Thousands, except for Earnings Per Share)									
Earnings applicable to Common Stock – Continuing Operations		\$44,291			\$42,423			\$43,985	
Average number of common shares outstanding – basic	15,762	—	\$2.81	15,762	—	\$2.69	15,831	—	\$2.78
Average dilutive effect of: Stock Options ^{(1) (2)}	2	(43)	—	4	(53)	—	3	(41)	(0.01)
Performance Shares ⁽²⁾	3	—	—	5	—	—	1	—	—
Average number of common shares outstanding – diluted	15,767	\$44,248	\$2.81	15,771	\$42,370	\$2.69	15,835	\$43,944	\$2.77

(1) For 2005, 2004, and 2003, there are stock options excluded from the computation of diluted earnings per share because the exercise prices were greater than the average market price of the common stock shares for each of the years presented. The number of common stock shares represented by the options excluded from the above calculation were 36,900 shares for 2005 and 2004, and 94,400 shares for 2003.

(2) See Note 10 – "Equity-Based Compensation Incentive Plans" for additional information regarding stock options and performance shares.

Equity-Based Compensation

Energy Group has an equity-based employee compensation plan that is described more fully in Note 10 – "Equity-Based Compensation Incentive Plans."

Income Tax

Energy Group and its subsidiaries file consolidated federal and New York State income tax returns. Income taxes are deferred under the asset and liability method in accordance with FASB Statement No. 109, entitled *Accounting for Income Taxes* ("SFAS 109"). Under the asset and liability method, deferred income taxes are provided for all differences between the financial statement and the tax basis of assets and liabilities. Additional deferred income taxes and offsetting regulatory assets or liabilities are recorded by Central Hudson to recognize that income taxes will be recovered or refunded through future revenues. For federal and state income tax purposes, Energy Group and its subsidiaries use an accelerated method of depreciation and generally use the shortest life

permitted for each class of assets. Deferred investment tax credits are amortized over the estimated life of the properties giving rise to the credits. For state income tax purposes, Central Hudson uses book depreciation for property placed in service in 1999 or earlier in accordance with transition property rules under Article 9-A of the New York State Tax Law. The fuel distribution businesses also file state income tax returns in those states in which they conduct business. For more information, see Note 3 – "Income Tax."

FIN 46 – Consolidation of Variable Interest Entities

In December 2003, the FASB issued a revised Interpretation No. 46, entitled *Consolidation of Variable Interest Entities* ("FIN 46R"), which clarified the application of Accounting Research Bulletin No. 51, entitled *Consolidated Financial Statements*, as it relates to the consolidation of a variable interest entity ("VIE"). FIN 46R provides guidance on the identification of a variable interest and a VIE to determine when the assets, liabilities,

and results of operations should be consolidated in a company's financial statements. The original interpretation was issued in January 2003 and its application was required for periods ending after December 15, 2003, for companies that had interests in special-purpose entities. The application of FIN 46R for all other types of VIEs was required for periods ending after March 15, 2004. FIN 46R was adopted by Energy Group effective with the quarter ended March 31, 2004.

A VIE is an entity that is not controllable through voting interests where the equity investment at risk is not sufficient to permit the VIE to finance its activities without additional subordinated financial support provided by any party, including the equity holders. Variable interests are the investments or other interests that will absorb portions of a VIE's expected losses or receive portions of a VIE's expected residual returns. A company that holds a variable interest in an entity is required to consolidate the entity if the company's interest in the VIE is such that the company will absorb a majority of the VIE's expected losses and/or receive a majority of the VIE's expected residual returns.

Energy Group and its subsidiaries do not have any interests in special purpose entities and are not affiliated with any VIEs that require consolidation under the provisions of FIN 46R. In arriving at this determination, long-term power purchase contracts currently in effect for Central Hudson were reviewed, including contracts with a number of independent power producers ("IPPs"). Central Hudson does not have a controlling financial interest in or operational control of these IPPs. Under federal and New York State laws and regulations, Central Hudson is required to purchase the electrical output of IPPs which meet certain criteria for Qualifying Facilities as such term is defined in the applicable legislation. Payments are made under these contracts at rates often higher than those prevailing in the wholesale market; however, these costs are fully recoverable through Central Hudson's electric energy adjustment mechanism, which provides for the recovery of purchased electricity costs. In 2005, Central Hudson had contracts with IPPs which represented approximately 2% of Central Hudson's electricity purchases.

CHEC has a number of partnership interests that are presently accounted for under the equity method. These interests were reviewed relative to FIN 46R and it was determined that consolidation is not required. CHEC has limited partnership interests in two cogeneration facilities; a preferred unit investment in and a subordinated debt obligation to a limited liability company that is building and will operate a fuel ethanol production facility; a limited partnership interest in two wind farm projects; and a limited partnership interest in a venture capital fund. Energy Group does not hold a primary beneficial interest with respect to any of these interests that would require consolidation under the provisions of FIN 46R. CHEC's total equity investment in these limited partnerships is not material, comprising less than 2% of Energy Group's total equity.

Use of Estimates

Preparation of the financial statements in accordance with Generally Accepted Accounting Principles ("GAAP") includes the use of estimates and assumptions by Management that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and reported amount of revenues and expenses during the reporting period. Actual results may differ from those estimated. Expense items most affected by the use of estimates are depreciation and amortization (including amortization of intangible assets), the reserve for uncollectible accounts, other operating reserves, unbilled revenues, and pension and other post-retirement benefits. Depreciation and amortization is based on estimates of the useful lives and estimated net salvage value of properties (as described in this Note under the caption "Depreciation and Amortization"). Amortizable intangible assets include the amortization of customer lists related to the fuel distribution businesses, which is based on an assessment of customer turnover as described in Note 5 - "Goodwill and Other Intangible Assets." Depreciation and amortization amounts included in Energy Group's income for years 2005, 2004, and 2003 are \$36.2 million, \$34.6 million, and \$33.6 million, respectively.

Estimates for uncollectible accounts are based on customer accounts receivable aging data as well as consideration of special collection issues. The estimates for other operating reserves are based on assessments of future obligations related to injuries and damages and workers compensation claims. Unbilled revenues are determined based on the estimated sales for bi-monthly accounts that have not been billed by Central Hudson in the current month. The estimation methods used in determining these sales are the same methods used for billing customers when actual meter readings cannot be obtained. Revenues for 2005 include an estimate of \$6.3 million for unbilled revenues, revenues for 2004 include an estimate of \$5.8 million, and revenues for 2003 include an estimate of \$5.2 million.

The significant assumptions and estimates used to account for the pension plan and other post-retirement benefit expense and liability are the discount rate, the expected long-term rate of return on the retirement plan and post-retirement plan assets, the rate of compensation increase, and the method of amortizing gains and losses.

Estimates are also reflected for certain commitments and contingencies where there is sufficient basis to project a future obligation. Disclosures related to these certain commitments and contingencies can be found in Note 11 - "Commitments and Contingencies."

Related Party Transactions

Thompson Hine LLP serves as general counsel to Energy Group and Central Hudson. A partner in that firm serves as Assistant Secretary of each corporation. This Assistant Secretary appointment serves to assist in closure of specified transactions in the ordinary course of business. While this partner receives no additional compensation for his role as Assistant Secretary, time

spent performing the duties of Assistant Secretary is charged to Energy Group and Central Hudson on an hourly basis. The combined fees paid by Energy Group and Central Hudson to Thompson Hine LLP were \$2.9 million in 2005, \$3.2 million in 2004, and \$3.4 million in 2003.

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 Hudson Energy Services, Inc. under the agreement related to the sale of former subsidiary CH Resources, Inc. ("CH Resources"), which guarantee now applies to CHEC. See Note 11 – "Commitments and Contingencies" under the caption "CHEC."

The guarantees described have been issued to counterparties to assure the payment, when due, of certain obligations incurred by the 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 December 31, 2005, the aggregate amount of subsidiary obligations (excluding obligations related to CH Resources) covered by these guarantees was \$10.6 million. Where liabilities exist under the commodity-related contracts subject to these guarantees, these liabilities are included in Energy Group's Consolidated Balance Sheet.

Product Warranties

Griffith (and, prior to December 31, 2005, SCASCO) offers a multi-year warranty on heating system installations and has offered multi-year service contracts as an incentive to new heating oil delivery customers, and has recorded liabilities for the estimated costs of fulfilling its obligations under these warranty and service contracts. The aggregate amounts of these liabilities were approximately \$101,000 and \$504,000 at December 31, 2005, and 2004, respectively. The accounting policy and methodology used to determine liability for these product warranties is to accrue the present value of future warranty expense based on the number and type of contracts outstanding and historical costs for these contracts.

Accounting for Derivative Instruments and Hedging Activities

FASB Statement No. 133, entitled *Accounting for Derivative Instruments and Hedging Activities* ("SFAS 133"), which was amended in June 2000 and in April 2003,

established accounting and reporting requirements for derivative instruments and hedging activities. SFAS 133 requires that an entity recognize the fair value of all derivative instruments as either assets or liabilities on the balance sheet with the corresponding unrealized gains or losses recognized in earnings. SFAS 133 permits the deferral of unrealized hedge gains and losses, under stringent hedge accounting provisions, until the hedged transaction is realized. SFAS 133 also provides an exception for certain derivative transactions that qualify as "normal purchases and normal sales." These are transactions that are exempt from SFAS 133 if they provide for the purchase or sale of something other than a financial or derivative instrument to be delivered in quantities for probable use or sale by the reporting entity in the normal course of business within a reasonable period of time.

Energy Group and its subsidiaries do not enter into derivative instruments for speculative purposes.

Central Hudson uses derivative instruments to hedge exposure to variability in the prices of natural gas and electricity and to hedge exposure to variability in interest rates for its variable rate long-term debt. The types of derivative instruments used by Central Hudson are natural gas futures and basis swaps to hedge natural gas purchases, contracts for differences to hedge electricity purchases, and interest rate caps to hedge interest payments on variable rate debt. These derivatives are not designated as hedges under the provisions of SFAS 133, and the related gains and losses are included as part of Central Hudson's commodity cost and/or price-reconciled in its natural gas and electricity cost adjustment charge clauses. The premium related to interest rate hedges, as well as any related actual gains, is also subject to a true-up mechanism authorized by the PSC for Central Hudson's variable rate long-term debt. The earnings impacts from these derivatives are, therefore, deferred for refund to or recovery from customers under their respective regulatory adjustment mechanisms.

At December 31, 2005, Central Hudson had open derivative contracts to hedge natural gas prices through March 2006, covering approximately 34.7% of Central Hudson's projected total natural gas supply requirements during this period. In 2005, derivative transactions were used to hedge 17.5% of Central Hudson's total natural gas supply requirements as compared to 19.2% in 2004. In its electric operations, Central Hudson had open derivatives at December 31, 2005, hedging approximately 4.2% of its required electricity supply through February 2006. In 2005, Central Hudson hedged approximately 5.9% of its total electricity supply requirements with over-the-counter ("OTC") derivative contracts as compared to 5.1% in 2004. In addition, Central Hudson has in place a number of agreements of varying terms to purchase electricity produced by certain of its former major generating assets and other generating facilities at fixed prices. The notional amounts hedged by the derivatives and the electricity purchase agreements for 2006 and 2007 represent approximately 39.1% and 39.2%, respectively, of its total

anticipated electricity supply requirements in each year.

The total fair value (net unrealized loss) of Central Hudson's derivatives at December 31, 2005, was (\$315,000) as compared to a fair value (net unrealized loss) of (\$907,000) at December 31, 2004. Fair value is determined based on market quotes for exchange traded derivatives and broker quotes for OTC derivatives. Actual net gains of \$7.6 million were recorded in 2005, which reduced amounts recovered through Central Hudson's electric and natural gas cost adjustment clauses for the overall cost of electricity and natural gas. This compares to a total net loss of \$1.5 million recorded in 2004, which served to increase energy costs.

The fuel distribution businesses use derivative instruments to hedge variability in the price of heating oil purchased for delivery to their customers. In 2005, Griffith and SCASCO sold put option contracts and purchased call option contracts to establish floor and ceiling prices to hedge forecast heating oil supply requirements for fixed price programs not hedged by firm purchase commitments. The options hedge commodity price changes and/or supply fluctuations resulting from significant variances from normal weather. These derivatives are designated as cash flow hedges under the provisions of SFAS 133 and are accounted for under the deferral method with actual gains and losses from the hedging activity included in the cost of sales as the hedged transaction occurs. The put and call options entered into have been effective with no gains or losses from ineffectiveness recorded in 2005 or 2004. The assessment of hedge effectiveness for these hedges excludes the change in the fair value of the premium paid or received for these derivative instruments. These net premiums, which are not material, are expensed based on the change in their respective fair value. The fair values of open derivative instruments at December 31, 2005, and at December 31, 2004, were not material. Including premium costs, a net gain was recorded in 2005 and a net gain was recorded in 2004 as part of the cost or price of the related commodity transactions. The amounts recorded were not material, representing less than 1% of total petroleum costs for each of these years. The fair values of put and call options are determined based on the market value of the underlying commodity.

At December 31, 2005, Griffith and SCASCO had open OTC put and call option positions covering approximately 2.7% of their combined anticipated fuel oil supply requirements for the period January 2006 through May 2006. The percentage hedged at December 31, 2004, for the period January 2005 to June 2005 was 2.7%. In 2005, derivative instruments were used to hedge 2.8% of total fuel oil requirements as compared to 13.5% in 2004. The contracts entered into by SCASCO for 2006 were assigned to Griffith as of December 31, 2005.

In addition to the above, Central Hudson and Griffith (and, prior to December 31, 2005, SCASCO) use weather derivative contracts to hedge the effect on earnings of significant variances in weather conditions from normal patterns if such contracts can be obtained on reasonable terms. Weather derivative contracts are generally entered

into for the periods November through December and January through March, which covers the heating season. In addition, Central Hudson has entered into similar contracts for the cooling season, which runs from June through August. Weather derivative contracts are not subject to the provisions of SFAS 133 and are accounted for in accordance with Emerging Issues Task Force Statement 99-2, entitled *Accounting for Weather Derivatives*. In 2005, Central Hudson made a total payment to counterparties of \$2 million due largely to a hotter summer and in 2004 a total net payment of \$146,000 was made to Central Hudson due to a cooler summer. In each case these amounts partially offset variations in revenues experienced due to the actual weather patterns that occurred in each period. Central Hudson, Griffith, and SCASCO have entered into weather derivative contracts for January, February, and March 2006. The contracts entered into by SCASCO for 2006 were assigned to Griffith as of December 31, 2005.

Research and Development

Central Hudson is engaged in the conduct and support of research and development ("R&D") activities, which are focused on the improvement of existing energy technologies and the development of new technologies for the delivery and customer use of energy. Central Hudson's R&D expenditures were \$3.3 million in 2005, \$3.6 million in 2004, and \$3.2 million in 2003. These expenditures were for internal research programs and for contributions to research administered by the New York State Energy Research and Development Authority, the Electric Power Research Institute, and other industry organizations. R&D expenditures are provided for in Central Hudson's rates charged to customers for electric and natural gas delivery service. In addition, the PSC has authorized that differences between R&D expense and the rate allowances covering these costs be deferred for future recovery from or return to customers.

New Accounting Standards and Other FASB Projects – Standards Implemented

Equity-Based Compensation

On December 16, 2004, the FASB issued a revised version of FASB Statement No. 123, entitled *Accounting for Stock-Based Compensation* ("SFAS 123"); this revision is entitled *Share-Based Payment* ("SFAS 123(R)"). SFAS 123 establishes standards for share-based payment transactions in which an entity receives an employee's services in exchange for (a) equity instruments of the entity or (b) liabilities that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of such equity instruments. SFAS 123(R) eliminates the option of accounting for share-based compensation transactions using Accounting Principles Board ("APB") Opinion No. 25, entitled *Accounting for Stock Issued to Employees*, and requires that all such compensation be recorded using a fair value based method.

In March 2005, the Securities and Exchange Commission (“SEC”) approved a new rule that amended the compliance dates for public companies implementing FASB 123(R). For public companies, the new ruling makes the effective date beginning the first annual, rather than interim, period beginning after June 15, 2005, giving most companies (including Energy Group) an additional six months to develop an implementation plan. In addition, the delayed effective date alleviated the potential problem of comparability between quarterly reports that might have arisen. Until the time of the new effective date for SFAS 123(R), the provisions of SFAS 123 remained in effect. For Energy Group, the new accounting and disclosure requirements of SFAS 123(R) were effective as of January 1, 2006.

The SEC also released Staff Accounting Bulletin No. 107, which provides guidance related to several share-based payment issues including transactions with non-employees, the transition from non-public to public entity status, valuation methods, the accounting for certain redeemable financial instruments issued under share-based payment arrangements, the classification of compensation expense, non-GAAP financial measures, first-time adoption of SFAS 123(R) in an interim period, capitalization of compensation cost related to share-based payment arrangements, the accounting for income tax effects of share-based payment arrangements upon adoption of SFAS 123(R), and disclosures in Management’s Discussion and Analysis of Financial Condition and Results of Operations subsequent to adoption of SFAS 123(R).

The adoption of SFAS 123(R) will not significantly impact the financial condition, results of operations, or cash flows of Energy Group or its subsidiaries.

FIN 47 – Accounting for Conditional Asset Retirement Obligations

In March 2005, the FASB issued FIN 47, which clarifies that the term “conditional asset retirement obligation” as used in SFAS 143 refers 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. This legal obligation is absolute, despite the uncertainty regarding the timing and/or method of settlement. In addition, the fair value of a liability for the conditional asset retirement obligation should be recognized when incurred: generally upon acquisition, construction, or development and/or through normal operation of the asset. FIN 47 also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation.

Energy Group adopted FIN 47 effective December 31, 2005. Upon adoption, Energy Group recorded asset retirement obligations of \$550,000 and an equal amount of long-lived assets at December 31, 2005. Of this amount, approximately \$500,000 was recorded by Central Hudson and the remainder was recorded by CHEC. Had Energy Group opted to apply the provisions of FIN 47 retrospectively, the prior period effect on the financial condition, results of operations, or cash flows of Energy

Group or its subsidiaries would have been immaterial.

New Accounting Standards and Other FASB Projects – Standards to be Implemented

Accounting Changes and Error Corrections

On June 1, 2005, the FASB issued Statement No. 154, entitled *Accounting Changes and Error Corrections* (“SFAS 154”), replacing both APB Opinion No. 20, entitled *Accounting Changes*, and FASB Statement No. 3, entitled *Reporting Accounting Changes in Interim Financial Statements*. SFAS 154 applies to all voluntary changes in accounting principles and changes the requirements when accounting for and reporting a change in an accounting principle. SFAS 154 also applies to changes required by an accounting pronouncement in the unusual circumstance when the pronouncement does not include specific transition provisions.

SFAS 154 requires retrospective application, limited to the direct effects of the voluntary change in accounting principle, to prior periods’ financial statements unless it is impracticable. SFAS 154 also requires that a change in depreciation, amortization, or depletion method for long-lived non-financial assets should be accounted for as a change in accounting estimate effected by a change in an accounting principle.

SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. It is not anticipated that the adoption of SFAS 154 will significantly impact the financial condition, results of operations, or cash flows of Energy Group or its subsidiaries.

Earnings Per Share, an Amendment of FASB Statement No. 128

On December 15, 2003, the FASB issued an Exposure Draft entitled *Earnings Per Share, an Amendment of FASB Statement No. 128*. The FASB issued a revised version of this Exposure Draft on September 30, 2005. The draft was proposed to improve and converge United States GAAP with the existing International Accounting Standards Board standards. The Exposure Draft reflects three specific changes to the calculation of earnings per share as follows:

- 1) When applying the treasury stock method for year-to-date diluted earnings per share, the number of incremental shares included would be computed using the average market price of common shares for the year-to-date period, instead of the weighted average.
- 2) Contracts with the option of settling in either cash or stock will be presumed to settle in stock.
- 3) A requirement that shares to be issued upon conversion of a mandatorily convertible security be included in the computation of basic earnings per share from the date that conversion becomes mandatory.

The FASB has continued to discuss issues related to this Exposure Draft and expects to issue a final Statement in the first quarter of 2006. The proposed final Statement would be effective for interim and annual periods ending after December 15, 2006, although the FASB has indicated that it may delay such effective date depending on the timing of the issuance of the final Statement. The implementation of this Statement is not expected to have a material impact on the financial condition, results of operations, or cash flows of Energy Group or its subsidiaries.

Accounting for Uncertain Tax Positions

In July 2005, the FASB issued an Exposure Draft, entitled *Accounting for Uncertain Tax Positions - an Interpretation of FASB Statement No. 109* (the "Interpretation"), which clarifies the accounting for uncertain tax positions. Under this Interpretation, an enterprise would be required to recognize in its financial statements the best estimate of the impact of a tax position. This tax position must be likely to occur in the future (i.e., "be probable") and capable of being sustained on audit based solely on the technical merits of the position. In evaluating whether the probable recognition has been met, this proposed Interpretation would require the presumption that the tax position will be evaluated during an audit by the taxing authority.

This proposed Interpretation would be effective as of the beginning of the first annual period beginning after December 15, 2006, with earlier application encouraged provided the entity has not publicly released financial statements for the period of initial application. The FASB expects to issue a final Interpretation, including amendments to SFAS 109, in the first quarter of 2006. The implementation of this Interpretation is not expected to have a material impact on the financial condition, results of operations, or cash flows of Energy Group or its subsidiaries.

Fair Value Measurements

In October 2005, the FASB issued a working draft of a statement entitled *Fair Value Measurements*. This project was developed to define fair value, establish a framework for measuring fair value in GAAP, improve the consistency and comparability in estimates of fair value, and enhance disclosures about fair value measurements. This project would apply broadly under other accounting pronouncements that require fair value measurements in which fair value is a relevant measurement attribute and should be applied prospectively.

The Fair Value Measurements statement would be effective for interim periods and fiscal years beginning after November 15, 2006, with the disclosure requirements effective for the first interim period in which the statement is initially applied. The implementation of this statement is not expected to have a material impact on the financial condition, results of operations, or cash flows of Energy Group or its subsidiaries.

NOTE 2 - Regulatory Matters

Competitive Opportunities Proceeding Settlement Agreement

In response to the May 1996 Order of the PSC issued in its generic Competitive Opportunities Proceeding, Central Hudson, the PSC Staff, and certain other parties entered into an Amended and Restated Settlement Agreement dated January 2, 1998. The PSC approved the Settlement Agreement by its final Order issued and effective June 30, 1998, for which a final amendment was issued and approved as of March 7, 2000.

The Settlement Agreement, which expired on June 30, 2001, included the following major provisions which survive its expiration date: (i) certain limitations on ownership of electric generation facilities by Central Hudson and its affiliates in Central Hudson's franchise territory; (ii) standards of conduct in transactions between Central Hudson, Energy Group, and the competitive business subsidiaries; (iii) prohibitions against Central Hudson making loans to Energy Group or any other subsidiary of Energy Group and against Central Hudson guaranteeing debt of Energy Group or any other subsidiary of Energy Group; (iv) limitations on the transfer of Central Hudson employees to Energy Group or other Energy Group subsidiaries, and the use of Central Hudson officers in common with other Energy Group subsidiaries; (v) certain dividend payment restrictions on Central Hudson, and (vi) treatment of savings up to the amount of an acquisition's or merger's premium or costs flowing from a merger with another utility company.

Regulatory Accounting Policies

Central Hudson follows GAAP which, for regulated public utilities, includes SFAS 71. Under SFAS 71, regulated companies apply AFUDC to the cost of construction projects and defer costs and credits on the balance sheet as regulatory assets and liabilities (see the caption "Summary of Regulatory Assets and Liabilities" of this Note) when it is probable that those costs and credits will be recoverable through the rate-making process in a period different from when they otherwise would have been reflected in income. These deferred regulatory assets and liabilities and the related deferred taxes are then either eliminated by offset as directed by the PSC or reflected in the income statement in the period in which the same amounts are reflected in rates. In addition, current accounting practices reflect the regulatory accounting authorized in the most recent Settlement Agreement or Rate Order, as the case may be.

Sales of Major Generating Assets

Pursuant to the Settlement Agreement, on January 30, 2001, Central Hudson, after a competitive bidding process, sold its Danskammer Point Steam Electric Generating Station ("Danskammer Plant") and its interest in the Roseton Electric Generating Station ("Roseton Plant") to affiliates of Dynegy Power Corp. (collectively, "Dynergy"). By Order issued and effective October 26, 2001, the PSC authorized the sale of Central Hudson's interest in the

Nine Mile 2 Nuclear Generating Plant (“Nine Mile 2 Plant”). On November 7, 2001, Central Hudson sold its interest in the Nine Mile 2 Plant to an affiliate of Constellation Nuclear LLC (“Constellation”). The Danskammer Plant, the Roseton Plant, and the Nine Mile 2 Plant are referred to collectively herein as the “major generating assets.” Central Hudson’s proceeds, after-tax, from these sales were used to recover the book value and the net regulatory assets related to Central Hudson’s interests in its major generating assets.

Central Hudson remains obligated to supply electricity to its retail electric customers. Under the Settlement Agreement, Central Hudson’s retail customers may elect to procure electricity from third-party suppliers or may continue to rely on Central Hudson. As part of its efforts to supply customers who continue to rely on Central Hudson for their energy supply, Central Hudson entered into an agreement with Constellation to purchase capacity and energy, comprising approximately 8% of the output of the Nine Mile 2 Plant, at negotiated prices from the Nine Mile 2 Plant during the ten-year period

beginning on the sale of Central Hudson’s interest in the Nine Mile 2 Plant on November 7, 2001, and ending November 30, 2011. The agreement is “unit-contingent” in that Constellation is only required to supply electricity if the Nine Mile 2 Plant is operating. Following the expiration of this purchase agreement, a Revenue Sharing Agreement with Constellation will begin, which will provide Central Hudson with a hedge against electricity price increases and could provide additional future revenue for Central Hudson through 2021. In the Constellation agreements, electricity is purchased at defined prices that escalate over the life of the contract. The capacity and energy supplied under the agreement with Constellation in 2005 was sufficient to supply approximately 18% of Central Hudson’s retail customer requirements. On November 12, 2002, Central Hudson entered into an agreement with Entergy Nuclear Indian Point 2 LLC and Entergy Nuclear Indian Point 3 LLC to purchase electricity (but not capacity) on a unit-contingent basis at defined prices from January 1, 2005, to and including December 31, 2007.

Summary of Regulatory Assets and Liabilities

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

At December 31,	2005	2004
Regulatory Assets (Debits):	(In Thousands)	
Current:		
Deferred purchased electric and natural gas costs (Note 1)	\$ 29,728	\$ 15,215
FAS 133 – deferred unrealized losses (Note 1)	688	907
Deferred New York State taxes	348	1,332
	<hr/>	<hr/>
	30,764	17,454
Long-term:		
Deferred pension costs undercollection	\$ 97,073	\$ 88,633
Carrying charges – pension reserve	10,364	4,096
Deferred manufactured gas sites (Note 11)	14,792	14,565
Deferred OPEB ⁽¹⁾ costs undercollection (Note 9)	10,735	2,985
Deferred debt expense on reacquired debt (Note 8)	7,226	7,898
Other	9,236	7,687
	<hr/>	<hr/>
	149,426	125,864
Total Regulatory Assets	<hr/> \$180,190	<hr/> \$143,318
Regulatory Liabilities (Credits):		
Current:		
FAS 133 – Deferred unrealized gains (Note 1)	\$ 373	—
Long-term:		
Customer benefit fund	\$ 23,995	\$ 31,265
Deferred cost of removal (Note 1)	92,187	88,200
Deferred proceeds from sale of emission allowances	13,576	13,576
Deferred interest overcollection – variable rate bonds (Note 8)	5,064	4,763
Deferred Nine Mile 2 Plant costs overcollection	2,359	2,107
Income taxes refundable through future rates	8,843	7,834
Other	10,784	8,594
	<hr/>	<hr/>
	156,808	156,339
Total Regulatory Liabilities	<hr/> \$ 157,181	<hr/> \$ 156,339
Net Regulatory Assets (Liabilities)	<hr/> \$ 23,009	<hr/> \$ (13,021)

⁽¹⁾ “OPEB” means Other Post-Employment Benefit.

The significant regulatory assets and liabilities include:

Deferred Pension Costs Undercollection: As discussed further in Note 9 – “Post-Employment Benefits,” the amount of deferred pension cost undercollected as of December 31, 2005, includes \$58.9 million related to the accounting required under SFAS 87, entitled *Employer’s Accounting for Pensions* (“SFAS 87”), for recording a minimum pension liability. The remaining \$38.2 million is the cumulative undercollected pension costs to be recovered from Central Hudson customers. As of December 31, 2004, the balances were \$77.5 million and \$11.1 million, respectively.

Carrying Charges – Pension Reserve: Under the policy of the PSC regarding pension costs, carrying charges are accrued on cash differences between rate allowances and cash contributions to the Retirement Plan. For further discussion regarding the Retirement Plan, see Note 9 – “Post-Employment Benefits.”

Customer Benefit Fund: See discussion in this Note under the caption “Rate Proceedings – Electric and Natural Gas.”

Deferred Cost of Removal: The adoption of SFAS 143 in 2003 resulted in classifying unexpended funds collected from customers for the cost of removal, net of salvage, as a regulatory liability. The deferred cost of removal amounts represent the future cost of removing assets upon retirement.

Sale of Emission Allowances: After the sale of the Roseton Plant and Danskammer Plant in 2001, Central Hudson retained a number of sulphur dioxide (or “SO₂”) emission allowances. The emission allowances were sold in 2004 in response to favorable market conditions and the proceeds deferred for the benefit of customers in accordance with a PSC mandate issued in 1997.

Deferred Nine Mile 2 Plant Costs: A PSC Order provided for the deferral of the difference between actual and authorized operating and maintenance expenses for the Nine Mile 2 Plant (the “Nine Mile 2 Order”). Central Hudson’s interest in the Nine Mile 2 Plant was sold in November 2001. The regulatory liability recorded represents the residual overcollection balance and related carrying charges due to customers.

Income Taxes Refundable: Central Hudson adopted SFAS 109 in 1993, with the effect of increasing Central Hudson’s net deferred taxes. As it is probable that the related balances will be refundable to customers, Central Hudson established a net regulatory liability for balances refundable to customers.

Rate Proceedings – Electric and Natural Gas

On August 1, 2000, Central Hudson filed an electric and natural gas case with the PSC. On August 21, 2001, after full evidentiary hearings, several public hearings, and numerous negotiation sessions, a joint proposal (“Joint Proposal”) was filed by Central Hudson, the Staff of the PSC, and other parties to the case.

On October 25, 2001, the PSC issued its Order Establishing Rates (“Rate Order”) in the proceeding incorporating the provisions of the Joint Proposal. New rates became effective November 1, 2001. All accounting

related to the rate proceeding and any offsetting balances, which would have resulted as if the new rates had been in effect on July 1, 2001, were reconciled.

Significant terms and conditions of the Joint Proposal and the Rate Order are: (i) a three-year term, beginning July 1, 2001, with a Central Hudson option to extend the Rate Order; (ii) a 1.2% reduction in electric delivery rates, which were then frozen at rates in effect on June 30, 2001, for the remainder of the term of the Rate Order and frozen natural gas delivery rates for the term of the Rate Order; (iii) continued purchase of electricity and natural gas by Central Hudson for its full service customers and recovery of these costs from customers through energy adjustment mechanisms; (iv) increases in customer charges and reductions in volumetric delivery charges; (v) reformatting of customer bills to show the market price of electricity in order to encourage competition and enhance customer migration to third-party energy suppliers; (vi) refunds to electric customers of \$25 million in aggregate for each of the first three years; (vii) a base return on equity (“ROE”) of 10.3% on the equity portion of Central Hudson’s rate base; (viii) a common equity ratio cap, for purposes of the PSC’s ROE calculation, at 47% in the first year of the Rate Order, declining 1% per year in each of the following two years; (ix) retention by Central Hudson of earnings above the 10.3% base ROE up to 11.3%, with an equal sharing of earnings between customers and Central Hudson, between 11.3% and 14%, and crediting of earnings above 14% to a fund to benefit customers (“Customer Benefit Fund”); (x) establishment of customer service standards with associated penalties if standards are not met and enhanced low income and customer education programs; and (xi) making available excess proceeds from the sales of Central Hudson’s interests in its major generating assets and net deferred regulatory accounts approximating \$169 million (net of tax) for the Customer Benefit Fund and the use of a portion of such Fund as follows:

- 1) Customer refunds: \$45 million (net of tax)
- 2) Rate base reduction: \$42.5 million (net of tax)
- 3) Enhanced electric reliability program: \$13 million (net of tax)
- 4) Offset of manufactured gas plant site remediation costs: \$12.6 million (net of tax)

Also included in the Rate Order and the Nine Mile 2 Order were approval for Central Hudson to recognize \$19.8 million of tax benefits related to the sales of its interests in its major generating assets, offset by \$11.4 million of after-tax contributions by Central Hudson to the Customer Benefit Fund, or a net benefit to shareholders of \$8.4 million, which amount was recorded in the fourth quarter of 2001. Central Hudson has additionally recognized net income for shareholders under a prior PSC regulatory settlement as follows: \$3.2 million in 2001, \$2.9 million in 2002, \$5.9 million in 2003, and \$5.9 million in 2004. These tax benefits and prior settlement-related amounts are excluded from the earnings that are subject to the ROE-sharing formula described above.

On October 3, 2002, the PSC issued two additional Orders in the electric rate proceeding. The first such Order authorized and directed Central Hudson to refund to its electric customers an additional \$10 million in aggregate from the Customer Benefit Fund over the period from November 1, 2002, through June 30, 2004. The second such Order authorized the implementation of an \$11 million economic development program to be funded from the Customer Benefit Fund over a period of five years.

On June 14, 2004, the PSC issued an Order adopting the terms of the 2004 Joint Proposal submitted March 29, 2004, by Central Hudson, the Staff of the PSC, and certain energy service companies. The 2004 Joint Proposal was developed in response to PSC Orders concerning future uses of the Customer Benefit Fund, public policy programs, and other matters relating to the encouragement and expansion of retail access and customer choice programs. The significant terms of the 2004 Joint Proposal, which became effective July 1, 2004, include: (i) continuation of the rate levels, rate designs, and related accounting provisions (including deferrals) previously established by the PSC in July 2001; (ii) an additional \$5 million refund from the Customer Benefit Fund for certain classes of electric customers; (iii) continued funding from the Customer Benefit Fund for other purposes such as economic development and retail access rate credits previously approved by the PSC; (iv) enhanced programs to promote retail competition and service quality; (v) recovery, subject to specified limitations, of deferred pension and other post-employment benefit costs from the Customer Benefit Fund; (vi) a lowering of the threshold for sharing of earnings with customers (from an 11.3% to a 10.5% ROE); and (vii) modified earnings sharing so that earnings above 10.5% ROE and up to 11.3% will be shared 70%/30% between Central Hudson and ratepayers, earnings above 11.3% ROE and up to 14% will be shared 65%/35% between Central Hudson and ratepayers, and earnings above 14% ROE will be added to the Customer Benefit Fund.

On July 29, 2005, Central Hudson filed an electric and natural gas case with the PSC. Central Hudson is seeking to increase electric and natural gas delivery rates which have been in effect since November 1, 2001, and have not been increased since 1993 and 1991, respectively.

Central Hudson has proposed a one-year increase of \$52.8 million and \$18.1 million of electric and natural gas delivery rates, respectively. Central Hudson also filed data showing a need for smaller rate increases in rate years two and three. The filing is being made in order to increase electric and natural gas delivery rates to cover current expenses, including employee benefits, resulting from inflationary pressures, regulatory mandates, and electric and natural gas system infrastructure improvements. In addition, Central Hudson is seeking to recover the built-up regulatory assets, consisting primarily of deferred pension and OPEB undercollections, which can no longer be completely offset by the regulatory liability, the Customer Benefit Fund. The

filing includes suggested uses for the remaining balance of the Customer Benefit Fund and proposes a number of ratemaking treatments for the rate base credit established in prior PSC Orders, as well as anticipated manufactured gas plant ("MGP") site remediation expenditures. The filing also seeks to recover current expenditures associated with stray voltage testing of Central Hudson owned and municipally owned electric facilities, as well as electric distribution line tree trimming and enhanced electric transmission right-of-way management practices.

Central Hudson has requested a common equity ratio of 47% and a base ROE of 10.75%. The current common equity ratio cap for Central Hudson is 45%.

The PSC has suspended the proposed rates and initiated a proceeding to review the filing. Central Hudson has issued a Notice of Settlement with the PSC and parties in the proceeding and entered into confidential settlement negotiations. A PSC Order establishing rates is not expected until the second quarter of 2006. Neither Energy Group nor Central Hudson can predict the final outcome of the rate proceeding at this time.

Energy and Capacity Markets

In its Order No. 888, the Federal Energy Regulatory Commission ("FERC") directed transmission owners to restructure their operations to promote open transmission access. As approved by the FERC, on December 1, 1999, the New York State Independent System Operator ("NYISO") was created and given responsibility for the operation of the New York State transmission system. In addition, the NYISO operates bid-based energy and capacity markets from which Central Hudson acquires a portion of its energy and capacity needs.

On August 20, 2004, the NYISO filed with the FERC proposed amendments to its Open Access Transmission Tariff to establish a comprehensive planning process for the reliability needs of New York State. After the FERC completed its review, the NYISO made a compliance filing on February 25, 2005, to implement the requirements contained in the FERC Order issued December 18, 2004. As part of the comprehensive planning process and as approved by the FERC, the New York State Transmission Owners (including Central Hudson) have agreed to construct "backstop" projects for reliability needs if requested by the NYISO. Cost recovery for such projects, if any, would take place under the NYISO Open Access Transmission Tariff. As provided for in the comprehensive planning process on December 12, 2005, the NYISO released its initial Reliability Needs Assessment ("RNA"). The RNA identified a reliability deficiency beginning in 2008 and directed that proposed market-based and utility backstop solutions be submitted to the NYISO by February 15, 2006. The NYISO anticipates approving a Comprehensive Reliability Plan by July 2006. Neither Energy Group nor Central Hudson can predict the outcome of this process.

On March 29, 2005, the NYISO filed with the FERC a supplement to the planning process to additionally address economic needs. In this filing the NYISO indicated that there is no pressing justification for the NYISO to mandate solutions to economic needs. Instead, to address any potential economic needs, the NYISO will pursue market enhancements and an expanded provision of information relating to congestion. Several entities, including Central Hudson, protested this filing, arguing that the NYISO approach is not adequate to address economic needs. Neither Energy Group nor Central Hudson can predict the outcome of this process.

Other Regulatory Matters

Stray Voltage

On January 5, 2005, the PSC issued an Order that requires each New York State electric utility, including Central Hudson, to institute a comprehensive stray voltage testing and inspection program for all of its electric facilities, with each such facility to be tested annually and inspected at least every five years. Central Hudson's existing inspection program is consistent with the Order's inspection requirements.

Central Hudson completed the prescribed 2005 testing program, with no reportable indications found on its electric facilities. Also, as directed by the modified Order, Central Hudson completed testing of metal streetlight and traffic signal poles owned and maintained by others. Several reportable indications were found on these facilities and the facilities were subsequently repaired by their respective owners.

Central Hudson has incurred, and will continue to incur, incremental costs to comply with the Order and implement the new stray voltage testing program. Until new rates are established in the current rate proceeding, Central Hudson will defer the incremental stray voltage testing costs and associated carrying charges for the later recovery from customers based on the deferral authority in the current rate agreement with the PSC. As of the twelve months ended December 31, 2005, Central Hudson had deferred \$1 million of stray voltage testing costs.

Non-Utility Land Sales

Commencing April 26, 2005, Central Hudson filed Notices of Intent with the PSC to sell 15 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 August 19, 2005, Central Hudson filed a Petition for Rehearing with the PSC, requesting that the PSC reconsider and find that Section 70 does not apply to transfers of non-utility property under the circumstances presented in the case. Neither Energy Group nor Central Hudson can predict the outcome of the filing at this time.

Electric Reliability Performance

On September 30, 2005, the PSC issued an Order establishing an assessment with respect to electric reliability performance targets that were established in a prior rate proceeding for frequency and duration of electric service outages. Central Hudson recorded \$379,000 and \$759,000 for failure to meet reliability targets for the years 2002 and 2004, respectively, and also recorded an estimate of \$759,000 for 2005.

On October 30, 2005, Central Hudson filed a petition for rehearing with the PSC that presents Central Hudson's position that the PSC made errors of fact and law in reaching its determinations in the September 30, 2005 Order. Neither Energy Group nor Central Hudson can predict the final outcome of this matter.

Expired Amortization

Under a prior PSC regulatory settlement related to the sales of Central Hudson's interests in its major generating assets, a portion of the gain recognized on those sales was recorded as other income over a four-year period which commenced in 2001 and ended in 2004. Amounts recorded by year, net of tax, were as follows: 2001 - \$3.2 million, 2002 - \$2.9 million, 2003 - \$5.9 million, and 2004 - \$5.9 million.

NOTE 3 - Income Tax

Energy Group and its subsidiaries file a consolidated federal and New York State income tax return. The fuel distribution businesses also file state income tax returns in those states in which they conduct business.

In 2000, New York State law was changed such that Central Hudson and other New York State utilities became subject to state income tax. The tax law repealed the three-quarter percent, or 0.75%, tax on gross earnings and the excess dividends tax under Section 186 of the New York State Tax Law and replaced them with an income-based tax under Article 9-A of the New York State Tax Law. Therefore, Energy Group filed a combined Article 9-A tax return which included all of its subsidiaries. The completion of the audit, concluded in the second quarter of 2005, of the 2000 and 2001 combined filings of the Article 9-A tax resulted in a favorable adjustment of \$2.3 million of New York State income tax, including the Metropolitan Transit Authority tax. Management does not expect adjustments relating to similar audits of subsequent years to be of this magnitude.

The Article 9-A state income tax obligation is recovered from Central Hudson customers as a revenue tax, and this treatment will continue until such time that the PSC includes this obligation in the base rates of Central Hudson in the same manner as Central Hudson's federal income tax obligation is already included.

See Note 2 - "Regulatory Matters" under the caption "Summary of Regulatory Assets and Liabilities" for additional information regarding Energy Group's and its subsidiaries' income taxes.

Components of Income Tax

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

	2005	2004	2003
	(In Thousands)		
Federal income tax	\$ 12,021	\$ 1,788	\$ (3,533)
State income tax	(757)	3,010	(129)
Deferred federal income tax	12,245	24,228	30,628
Deferred state income tax	2,310	2,230	3,469
Total income tax	\$ 25,819	\$ 31,256	\$ 30,435

Reconciliation: The following is a reconciliation between the amount of federal income tax computed on income before taxes at the statutory rate and the amount reported in the **Energy Group** Consolidated Statement of Income:

	2005	2004	2003
	(In Thousands)		
Net income	\$ 44,291	\$ 42,423	\$ 43,985
Federal income tax	12,021	1,788	(3,533)
State income tax	(757)	3,010	(129)
Deferred federal income tax	12,245	24,228	30,628
Deferred state income tax	2,310	2,230	3,469
Income before taxes	\$ 70,110	\$ 73,679	\$ 74,420
Computed federal tax @ 35% statutory rate	\$ 24,539	\$ 25,788	\$ 26,047
State income tax net of federal tax benefit	1,009	3,405	2,171
Depreciation flow-through	3,660	3,173	3,736
Other	(3,389)	(1,110)	(1,519)
Total income tax	\$ 25,819	\$ 31,256	\$ 30,435
Effective tax rate – federal	34.6%	35.3%	36.4%
Effective tax rate – state	2.2%	7.1%	4.5%
Effective tax rate – combined	36.8%	42.4%	40.9%

The following is a summary of the components of deferred taxes at December 31, 2005, and December 31, 2004, as reported in **Energy Group's** Consolidated Balance Sheet:

	2005	2004
	(In Thousands)	
Current Accumulated Deferred Income Tax Asset	\$ 8,836	\$ 9,454
Noncurrent Accumulated Deferred Income Tax		
Liabilities:		
Depreciation	\$ 105,918	\$ 102,385
Pension expense	24,229	32,432
Pension undercollection	15,206	4,422
Unbilled revenues	(16,014)	(11,981)
OPEB expense	(11,876)	(7,137)
Carrying charge – customer benefit fund	(8,317)	(12,303)
Proceeds from sales of emission allowances	(5,413)	(5,413)
New York State tax law change	(4,105)	(3,118)
Contributions in aid of construction	(3,765)	(3,787)
Other	37,921	25,275
Total Noncurrent Accumulated Deferred Income Tax Liabilities	\$ 133,784	\$ 120,775

The following is a summary of the components of state and federal income taxes for **Central Hudson** as reported in its Consolidated Statement of Income:

	2005	2004	2003
	(In Thousands)		
Federal income tax	\$9,675	\$1,855	\$(6,538)
State income tax	1,450	2,502	(650)
Deferred federal income tax	10,852	22,179	30,700
Deferred state income tax	1,959	1,890	3,469
Total income tax	<u>\$23,936</u>	<u>\$28,426</u>	<u>\$26,981</u>

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

	2005	2004	2003
	(In Thousands)		
Net income	\$35,635	\$38,648	\$38,875
Federal income tax	9,675	1,855	(6,538)
State income tax	1,450	2,502	(650)
Deferred federal income tax	10,852	22,179	30,700
Deferred state income tax	1,959	1,890	3,469
Income before taxes	<u>\$59,571</u>	<u>\$67,074</u>	<u>\$65,856</u>
Computed federal tax @ 35% statutory rate	\$20,850	\$23,476	\$23,050
State income tax net of federal tax benefit	2,216	2,855	1,832
Depreciation flow-through	3,660	3,173	3,736
Other	(2,790)	(1,078)	(1,637)
Total income tax	<u>\$23,936</u>	<u>\$28,426</u>	<u>\$26,981</u>
Effective tax rate – federal	34.5%	35.8%	36.7%
Effective tax rate – state	5.7%	6.6%	4.3%
Effective tax rate – combined	<u>40.2%</u>	<u>42.4%</u>	<u>41.0%</u>

The following is a summary of the components of deferred taxes at December 31, 2005, and December 31, 2004, as reported in **Central Hudson's** Consolidated Balance Sheet:

	2005	2004
	(In Thousands)	
Current Accumulated Deferred Income Tax Asset	<u>\$7,997</u>	<u>\$8,696</u>
Noncurrent Accumulated Deferred Income Tax Liabilities:		
Depreciation	\$102,724	\$99,479
Pension expense	24,229	32,432
Pension undercollection	15,206	4,422
Unbilled revenues	(16,014)	(11,981)
OPEB expense	(11,876)	(7,137)
Carrying charge – customer benefit fund	(8,317)	(12,303)
Proceeds from sales of emission allowances	(5,413)	(5,413)
New York State tax law change	(4,105)	(3,118)
Contributions in aid of construction	(3,765)	(3,787)
Other	34,134	23,106
Total Noncurrent Accumulated Deferred Income Tax Liabilities	<u>\$126,803</u>	<u>\$115,700</u>

NOTE 4 - Acquisitions, Investments, and Divestitures

Energy Group is seeking to use its cash reserves and debt capacity to make investments with a view to produce new earnings intended to replace, in whole or in part, the income previously provided by Central Hudson's ownership of its former major generating assets. In this connection, Energy Group is actively seeking new energy-related investments that provide diversification and offer attractive returns with acceptable risks.

Acquisitions/Divestitures

In the first quarter of 2003, Griffith acquired certain assets of two companies for \$7.5 million. The amount charged to intangible assets (including goodwill) was \$6.9 million, of which \$3.7 million was allocated to goodwill.

In the fourth quarter of 2003, SCASCO completed the sale of certain assets and liabilities related to its natural gas business unit. Energy Group recognized an after-tax gain on the sale of approximately \$181,000. This disposition did not materially impact the financial condition, results of operations, or cash flows of Energy Group or its subsidiaries.

In the second quarter of 2005, Griffith made minor acquisitions of certain assets of three companies for a total of \$1.1 million. The amount charged to intangible assets (including goodwill) was \$1.0 million, of which \$0.4 million was charged to goodwill. The principal tangible assets acquired were vehicles, petroleum products, and spare parts.

In the third quarter of 2005, Griffith acquired certain assets of one company for a total of \$1.4 million. The amount charged to intangible assets (including goodwill) was \$1.05 million, of which \$7,000 was charged to goodwill. The principal tangible assets acquired were vehicles, petroleum products, and spare parts. A contingency exists whereby the purchase price could be increased by \$150,000 if, within one year from the acquisition, Griffith completes an acquisition of assets of another oil company located within a 30-mile radius of this acquisition and having heating oil sales volumes of at least two million gallons per year. The entire purchase price increase would be added to goodwill.

In the fourth quarter of 2005, Griffith and SCASCO acquired certain assets of three companies for a total of \$1.1 million. The amount charged to intangible assets (including goodwill) was \$915,000, of which \$411,000 was charged to goodwill. The principal tangible assets acquired were vehicles, petroleum products, and spare parts. Two of the acquisition agreements contain clauses for a possible additional payment provided certain sale thresholds are exceeded at the one-year anniversary of the date of closing. Management believes this additional payment would be less than \$50,000.

Investments

In the fourth quarter of 2004, CHEC acquired a 12% interest in preferred units issued by Cornhusker Energy Lexington Holdings, LLC ("Cornhusker Holdings") for \$2.7 million and also agreed to acquire \$8 million of subordinated notes issued by Cornhusker Holdings. As of December 31, 2005, \$3 million of subordinated notes were acquired and the remaining \$5 million will be acquired at project completion. Cornhusker Holdings is the owner of Cornhusker Energy Lexington, LLC, a fuel ethanol production facility located in Nebraska that began operation as of the end of January 2006. This investment is accounted for under the equity method.

In the third quarter of 2005, CHEC committed to invest up to \$5.5 million in a joint venture with Community Energy, Inc. that owns a 10% interest in two wind farm projects in the Mid-Atlantic region with other investors. Under construction and located near Wilkes-Barre, Pennsylvania, the 24 MW Bear Creek wind project is expected to be generating electricity by February 2006. The 7.5 MW Jersey Atlantic project is being built at a wastewater treatment plant in Atlantic City, New Jersey, and is expected to be in operation by February 2006 as well. CHEC's ownership represents a minority interest in each project. This investment is accounted for under the equity method.

NOTE 5 - Goodwill and Other Intangible Assets

Goodwill, customer lists, and covenants not to compete associated with acquisitions are included in intangible assets. Goodwill represents the excess of cost over the fair value of the net tangible and identifiable intangible assets of businesses acquired as of the date of acquisition. The balances reflected on Energy Group's Consolidated Balance Sheet at December 31, 2005, and 2004, for "Goodwill" and "Other intangible assets - net" relate to the fuel distribution businesses. In July 2001, the FASB issued Statement No. 142, entitled *Goodwill and Other Intangible Assets* ("SFAS 142"). SFAS 142 requires that goodwill and other intangible assets that have indefinite useful lives no longer be amortized to expense, but instead be periodically reviewed for impairment. Upon implementation of SFAS 142, and at least annually thereafter, the fuel distribution businesses tested the intangible assets remaining on the balance sheet for impairment and confirmed that no impairment existed. Impairment testing compares fair value of the reporting units (Griffith and, prior to December 31, 2005, SCASCO) to the carrying amount. Fair value for goodwill is estimated using a multiple of earnings measurement. The carrying amount for goodwill was \$51.3 million as of December 31, 2005, and \$50.5 million as of December 31, 2004.

In accordance with SFAS 142, intangible assets that have finite useful lives continue to be 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 initially used, annual

amortization expense would increase by approximately \$1.3 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.

The components of amortizable intangible assets of Energy Group are summarized as follows (thousands of dollars):

	December 31, 2005		December 31, 2004	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Customer Lists	\$40,448	\$12,754	\$38,371	\$10,170
Covenants Not To Compete	1,669	995	1,439	860
Total Amortizable Intangibles	\$42,117	\$13,749	\$39,810	\$11,030

Amortization expense was \$2.7 million for the years ended December 31, 2005, and 2004, and \$2.9 million for the year ended December 31, 2003. The estimated amortization expense for each of the next five years, assuming no new acquisitions, will be approximately \$2.8 million.

NOTE 6 - Short-Term Borrowing Arrangements

In June 2004, pursuant to PSC authorization, Central Hudson entered into a five-year, \$75 million unsecured credit agreement with several commercial banks through June 30, 2009 ("Borrowing Agreement"). In April 2005, Energy Group amended the Borrowing Agreement to extend its term through April 2010. The credit represented by the Borrowing Agreement and Energy Group's available cash reserves are currently earmarked for acquisition financing. Compensating balances are not required under the Borrowing Agreement. In addition, Central Hudson maintains a committed line of credit of \$2 million. There were no outstanding loans under the Borrowing Agreement or the line of credit at December 31, 2005, or 2004. In order to diversify its sources and minimize its costs of short-term borrowing, Central Hudson has arranged uncommitted lines of credit with several commercial banks. At December 31, 2005, Central Hudson had \$30 million in short-term debt outstanding and had cash and cash equivalents, including investments in short-term securities, of \$4.2 million. The PSC limits the amount Central Hudson may have outstanding, at any time, under all of its short-term borrowing arrangements to \$77 million in the aggregate.

For the years ended December 31, 2005, and 2004, Central Hudson had an average daily amount of short-term debt outstanding of \$16.6 million and \$9.9 million,

respectively. The weighted-average interest rate for short-term borrowing was 3.65% for 2005 and 1.73% for 2004.

The competitive business subsidiaries have an uncommitted line of credit totaling \$15 million. There were no borrowings against this line of credit as of December 31, 2005.

At December 31, 2005, Energy Group had no short-term debt outstanding other than the above-referenced \$30 million in short-term debt of Central Hudson. Cash and cash equivalents for Energy Group, including investments in short-term securities, were \$91.5 million as of December 31, 2005.

Debt Covenants

Energy Group's \$75 million credit facility requires that Energy Group maintains certain financial ratios and contains other restrictive covenants. Currently, Energy Group is in compliance with all of its debt covenants.

Central Hudson's \$75 million credit facility requires that Central Hudson maintains certain financial ratios and contains other restrictive covenants. Currently, Central Hudson is in compliance with all of its debt covenants.

The only debt outstanding at CHEC is amounts borrowed from Energy Group. As of December 31, 2005, there were no amounts outstanding on CHEC's line of credit with its commercial bank and it is in compliance with all of its debt covenants.

NOTE 7 - Capitalization - Common and Preferred Stock

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

Cumulative Preferred Stock: Central Hudson, \$100 par value; 1,200,000 shares authorized, not subject to mandatory redemption:

Series	Redemption Price 12/31/05	Shares Outstanding December 31,	
		2005	2004
4.50%	\$107.00	70,285	70,300
4.75%	106.75	19,980	20,000
4.35%	102.00	60,000	60,000
4.96%	101.00	60,000	60,000
		<u>210,265</u>	<u>210,300</u>

Nominal shares were repurchased during the twelve months ended December 31, 2005.

Capital Stock Expense: Expenses incurred on issuance of capital stock are accumulated and reported as a

reduction in common stock equity. These expenses are generally not amortized; however, as directed by the PSC, certain issuance and redemption costs and unamortized expenses associated with certain issues of preferred stock that were redeemed have been deferred and are being amortized over the remaining lives of the issues.

Repurchase Program: On July 25, 2002, the Board of Directors of Energy Group authorized a Common Stock Repurchase Program ("Repurchase Program") to repurchase up to 4 million shares, or approximately 25% of its outstanding common stock, over the five years beginning August 1, 2002. The Board of Directors had targeted 800,000 shares for repurchase in the first year of the Repurchase Program, but had authorized the repurchase of up to 1.2 million shares during that first year. 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 twelve months ended December 31, 2005, or 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.

NOTE 8 - Capitalization - Long-Term Debt

Details of Central Hudson's long-term debt are as follows:

Series	Maturity Date	December 31,	
		2005	2004
(In Thousands)			
Promissory Notes:			
2002 Series D (5.87%) (b)	Mar. 28, 2007	\$ 33,000	\$ 33,000
1999 Series C (6.00%) (b)	Jan. 15, 2009	20,000	20,000
2003 Series D (4.33%) (b)	Sep. 23, 2010	24,000	24,000
2002 Series D (6.64%) (b)	Mar. 28, 2012	36,000	36,000
2004 Series D (4.73%) (b)	Feb. 27, 2014	7,000	7,000
2004 Series E (4.80%) (b)	Nov. 05, 2014	7,000	7,000
2004 Series E (5.05%) (b)	Nov. 04, 2019	27,000	27,000
1999 Series A (5.45%) (a)	Aug. 01, 2027	33,400	33,400
1999 Series C (Var. rate) (a)	Aug. 01, 2028	41,150	41,150
1999 Series D (Var. rate) (a)	Aug. 01, 2028	41,000	41,000
1998 Series A (3.00%) (a)	Dec. 01, 2028	16,700	16,700
1999 Series B (Var. rate) (a)	July 01, 2034	33,700	33,700
2005 Series E (5.84%) (b)	Dec. 05, 2035	24,000	—
		<u>343,950</u>	<u>319,950</u>
Unamortized Discount on Debt		(64)	(67)
	Total	<u>\$343,886</u>	<u>\$319,883</u>

- (a) Promissory Notes issued in connection with the sale by the New York State Energy Research and Development Authority ("NYSERDA") of tax-exempt pollution control revenue bonds.
(b) Issued under Central Hudson's medium-term note program, described below.

In October 2001, the PSC approved the issuance by Central Hudson prior to June 30, 2004, of up to \$100 million of unsecured medium-term notes. In March 2002, \$33 million of five-year, Series D Notes were issued at 5.87% and \$36 million of ten-year, Series D Notes were issued at 6.64%. In September 2003, \$24 million of Series D Notes were issued at 4.33% under this program, resulting in a total amount issued through that date of \$93 million. In February 2004, \$7 million of ten-year, Series D Notes were issued at 4.73%, completing the \$100 million total authorized by the PSC.

In April 2004, the PSC approved the issuance by Central Hudson of up to \$85 million of unsecured debt securities prior to December 31, 2006. In November 2004, \$27 million of 15-year, Series E Notes were issued at 5.05% and \$7 million of ten-year, Series E Notes were issued at 4.80%. In December 2005, Central Hudson issued \$24 million of 30-year, Series E Notes at 5.84%. As a result, the amount remaining under the current PSC authorization is \$27 million.

The fuel distribution businesses had no third-party long-term debt outstanding as of December 31, 2005, or 2004. The only debt outstanding at CHEC is amounts borrowed from Energy Group.

Long-Term Debt Maturities

All of Energy Group's outstanding long-term debt has been issued by Central Hudson. There are no scheduled maturities in 2006. See Note 13 - "Financial Instruments" for a schedule of long-term debt maturing or to be redeemed during the next five years and thereafter.

NYSERDA

On December 1, 2003, Central Hudson completed the reoffering of its \$16.7 million promissory notes issued in conjunction with the sale of tax-exempt pollution control revenue bonds by NYSEDA. The interest rate applicable to these new bonds, which are intended to be in place for five years, is 3%, down from the previous rate of 4.2%.

Central Hudson's 1999 NYSEDA Bonds Series B, C, and D are unsecured, variable rate bonds and are insured as to payment of principal and interest as they become due by a municipal bond insurance policy issued by AMBAC Assurance Corporation. In its rate orders, the PSC has authorized deferred accounting for the interest costs of these bonds. This authorization provides for full recovery of the actual interest costs supporting utility operations, which represent approximately 94% of the total costs. The deferred balances under this accounting were \$5.1 million and \$4.8 million at December 31, 2005, and 2004, respectively, and are included in Regulatory Liabilities in Energy Group's and Central Hudson's Consolidated Balance Sheets. The deferred balances at June 30, 2001, were eliminated in accordance with a Rate Order from the PSC. The ongoing deferred balances are to be addressed in future rate cases. To further mitigate the risk of rising interest rates, Central Hudson purchased derivative instruments known as interest rate caps to limit its exposure to a defined 4.5% interest rate ceiling for the period from April 1, 2004, to March 31, 2006. In the first

quarter of 2006, Central Hudson will evaluate alternatives for replacing the expiring interest rate cap.

Debt Expense

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

NOTE 9 - Post-Employment Benefits

Pension Benefits

Central Hudson has a non-contributory Retirement Income Plan ("Retirement Plan") covering substantially all of its employees. The Retirement Plan is a defined benefit plan which provides pension benefits that are based on an employee's compensation and years of service. It has been Central Hudson's practice to provide periodic updates to the benefit formula stated in the Retirement Plan.

Central Hudson contributed \$10 million in 2003 to the Trust Fund for the Retirement Plan ("Trust Fund") to reduce the difference between the Accumulated Benefit Obligation ("ABO") for the Retirement Plan and the market value of related pension assets. No contributions were made in 2004 or 2005. Based on current practice, Central Hudson's actuarial consultant has estimated that total contributions to the Trust Fund for the four-year period from 2006 to 2009 could range from \$0 to \$45 million. The total contributions could vary significantly based on economic growth, inflation, and interest rate assumptions.

In accordance with SFAS 87, Central Hudson was required to show minimum pension liability balances at December 31, 2005, and 2004, of \$18.8 million and \$18.5 million, respectively, for the difference between the ABO and the market value of the pension assets. These balances include consideration for non-qualified executive plans. The following reflects the impact of the recording of SFAS 87 adjustments on the December 31, 2005, and 2004, balance sheets of Energy Group and Central Hudson.

	December 31,	
	2005	2004
	(In Thousands)	
Prefunded (accrued) pension costs		
prior to SFAS 87 adjustment	\$ 60,350	\$ 81,362
Additional liability required	(79,156)	(99,832)
Accrued pension liability per		
SFAS 87	\$(18,806)	\$(18,470)
Regulatory assets – pension plan ...	\$ 58,939	\$ 77,541
Intangible asset – pension plan	20,217	22,291
Total SFAS 87 offset to		
additional liability	\$ 79,156	\$ 99,832

The intangible asset recorded represents unrecognized prior service costs and the recording of the regulatory asset is consistent with the PSC's 1993 Statement of Policy regarding pensions and other post-retirement benefits. Under this policy, differences between pension expense and rate allowances covering these costs are deferred for future recovery or return to customers with carrying charges accrued on cash differences. Central Hudson's \$10 million contribution to the Retirement Plan in 2003 is subject to such carrying charges.

It should be noted that the valuation of the ABO was determined as of the measurement date of September 30, 2005, using a 5.5% discount rate (as determined with reference to interest rates then applicable to domestic long-term corporate bonds rated "Aa" by Moody's Investors Service, Inc.) and that a 0.25% change in the discount rate would affect the projection of ABO by approximately \$11 million. The discount rate on the prior measurement date of September 30, 2004, was 5.75%.

Declines in the market value of the Trust Fund's investment portfolio and a reduction in the discount rate used to determine the ABO have resulted in a significant increase in annual pension expense as compared to the level upon which current electric and natural gas delivery rates were set. This difference is deferred under the PSC's policy for recovery of pension expense and other post-retirement benefits. In its 2004 Joint Proposal with the PSC, effective July 1, 2004, Central Hudson was authorized to offset deferred balances for pension expense and other post-retirement benefits expense for the electric department only with the Customer Benefit Fund (see Note 2 – "Regulatory Matters" under the caption "Rate Proceedings – Electric and Natural Gas"). However, this deferral, which Central Hudson anticipates will continue in the future, could result in the accumulation of a significant regulatory asset which Central Hudson will seek to recover from customers pursuant to the PSC's policy. This balance was \$38.2 million and \$11.1 million at December 31, 2005, and 2004, respectively, and is included in "Regulatory Assets – Pension Plan" on the Consolidated Balance Sheets of Energy Group and Central Hudson.

Central Hudson accounts for pension activity in accordance with PSC-prescribed provisions which, among other things, require ten-year amortization of actuarial gains and losses.

In addition to the Retirement Plan, Central Hudson's and Energy Group's executives are covered under a non-qualified Directors and Executives Deferred Compensation Plan and a non-qualified Supplementary Retirement Plan. Central Hudson also sponsors a non-qualified Retirement Benefit Restoration Plan. Effective January 1, 2006, a non-qualified Supplemental Executive Retirement Plan replaced the non-qualified Supplementary Retirement Plan and the Retirement Benefit Restoration Plan.

Estimates of Long-Run Rates of Return

In determining the expected long-term rate of return on plan assets, Central Hudson considered the current level

of expected returns on risk-free investments (primarily United States government bonds), the historical level of risk premiums associated with other asset classes, and the expectations of future returns over a 20-year time horizon on each asset class, based on the views of leading financial advisors and economists. The expected return for each asset class was then weighted based on the Retirement Plan's target asset allocation. Central Hudson also considered expectations of value-added by active management, net of investment expenses.

Retirement Plan Policy and Strategy

The Retirement Plan seeks to match the long-term nature of its funding obligations with investment objectives for long-term growth and income. Retirement Plan assets are invested in accordance with sound investment practices that emphasize long-term investment fundamentals. The Retirement Plan recognizes that assets are exposed to risk and the market value of assets may vary from year to year. Potential short-term volatility, mitigated through a well-diversified portfolio structure, is acceptable in accordance with the objective of capital appreciation over the long-term.

The asset allocation strategy employed in the Retirement Plan reflects Central Hudson's return objectives and risk tolerance. Asset allocation targets, expressed as a percentage of the market value of the Retirement Plan, are summarized in the table below:

Asset Class	Target		
	Min.	Avg.	Max.
Domestic Large/Medium Capitalization Stocks	28%	33%	38%
Domestic Small/Medium Capitalization Stocks	9%	12%	15%
International Equity	10%	15%	20%
Alternate Investment	0%	5%	7%
Fixed Income	30%	35%	40%
Cash and Cash Equivalents	0%	0%	10%

Due to the dynamic nature of market value fluctuations, Retirement Plan assets will require rebalancing from time to time to maintain the target asset allocation. The Retirement Plan recognizes the importance of maintaining a long-term strategic allocation and does not intend any tactical asset allocation or market timing asset allocation shifts.

The Retirement Plan seeks to earn a return commensurate with the risk of its underlying assets. The benchmark index is currently comprised of 33% Russell 1000 Stock Index; 12% Russell 2500 Stock Index; 15% Morgan Stanley Capital International Europe, Australasia, and Far East International Stock Index; 5% NCREIF Real Estate Composite Index; and 35% Lehman Brothers

Aggregate Bond Index. The Retirement Plan seeks to exceed the average annual return of this benchmark on a risk-adjusted basis over a three-to-five-year rolling time period and a full market cycle. It is understood that there can be no guarantees about the attainment of the Retirement Plan's return objectives.

The Retirement Plan utilizes multiple asset managers.

Other Post-Retirement Benefits

Central Hudson provides certain health care and life insurance benefits for retired employees through its post-retirement benefit plans. Substantially all of Central Hudson's employees may become eligible for these benefits if they reach retirement age while employed by Central Hudson. These and similar benefits for active employees are provided through insurance companies whose premiums are based on the benefits paid during the year. In order to reduce the total costs of these benefits, Central Hudson requires employees who retired on or after October 1, 1994, to contribute toward the cost of these benefits.

The significant assumptions used to account for these benefits are the discount rate and the expected long-term rate of return on plan assets. Central Hudson selects the discount rate after consultation with its actuarial consultant as determined with reference to interest rates applicable to domestic long-term corporate bonds rate "Aa" by Moody's Investors Service, Inc. The estimates of long-term rates of return and the investment policy and strategy for these plan assets are the same as used for pension benefits previously discussed in this Note.

Central Hudson fully recovers its net periodic post-retirement benefit costs in accordance with PSC guidelines. Under these guidelines, the difference between the amounts of post-retirement benefits recoverable in

rates and the amounts of post-retirement benefits determined by an actuarial consultant under SFAS 106, entitled *Employers Accounting for Post-retirement Benefits Other Than Pensions*, is deferred as either a regulatory asset or a regulatory liability, as appropriate.

The effect of the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "Medicare Act") was reflected in 2005 and 2004 assuming Central Hudson will continue to provide a prescription drug benefit to retirees that is at least actuarially equivalent to Medicare Part D and that Central Hudson will receive the federal subsidy.

The accumulated benefit obligation as of December 31, 2005, decreased by \$19.2 million due to the effect of the Medicare Act. The net periodic benefit cost for 2005 decreased by \$3.0 million.

Central Hudson and Griffith (and, prior to December 31, 2005, SCASCO) each participate in a 401(k) retirement plan for their employees. Griffith provides a discretionary profit-sharing benefit for their employees. The 401(k) plans provide for employee tax-deferred salary deductions for participating employees and their respective employer matches contributions made by participating employees. The matching benefit varies by employer and employee group. For Central Hudson, the cost of its matching contributions was \$1.4 million for 2005, \$1.4 million for 2004, and \$1.2 million for 2003. For Griffith and SCASCO, the cost of their combined matching contributions was \$557,000 in 2005, \$643,000 in 2004, and \$670,000 in 2003. Profit sharing contributions made by Griffith were \$452,000, \$490,000, and \$499,000, for 2005, 2004, and 2003, respectively.

The only post-retirement benefit plans provided to employees of any of the fuel distribution businesses were provided under the 401(k) retirement plan.

Reconciliations of Central Hudson's pension and other post-retirement plans' benefit obligations, plan assets, and funded status, as well as the components of net periodic pension cost and the weighted average assumptions (excluding fuel distribution business employees not covered by these plans) are as follows:

	Pension Benefits		Other Benefits	
	2005	2004	2005	2004
	(In Thousands)			
Change in Projected Benefit Obligation:				
Projected benefit obligation at beginning of year	\$386,853	\$362,443	\$168,919	\$155,938
Service cost	7,348	6,957	3,469	3,314
Interest cost	21,954	21,511	8,921	9,009
Participant contributions	—	—	343	333
Plan amendments	232	—	(12,473)	(1,515)
Benefits paid	(21,551)	(20,940)	(5,926)	(6,276)
Actuarial loss	15,071	16,882	5,637	8,116
Projected Benefit Obligation at End of Year	\$409,907	\$386,853	\$168,890	\$168,919
Change in Plan Assets:				
Fair Value of plan assets at beginning of year	\$330,051	\$316,717	\$ 76,700	\$ 70,323
Actual return on plan assets	42,959	36,132	3,662	5,680
Employer contributions	524	471	6,070	6,989
Participant contributions	—	—	343	333
Benefits paid	(21,552)	(20,940)	(5,926)	(6,276)
Administrative expenses	(2,169)	(2,329)	(217)	(349)
Fair Value of Plan Assets at End of Year	\$349,813	\$330,051	\$ 80,632	\$ 76,700

(In Thousands)	Pension Benefits		Other Benefits	
	2005	2004	2005	2004
Reconciliation of Funded Status:				
Funded Status	\$(60,094)	\$(56,803)	\$(88,260)	\$(92,219)
Unrecognized actuarial loss	100,227	116,039	58,017	57,108
Unrecognized transition obligation	—	—	17,947	20,513
Unamortized prior service cost	20,217	22,126	(12,650)	(1,433)
Accrued Benefit Cost	\$ 60,350	\$ 81,362	\$(24,946)	\$(16,031)
Amounts Recognized on Consolidated Balance Sheet:				
Prepaid benefit cost	\$ —	\$ —	\$ —	\$3,112
Accrued benefit liability	(18,806)	(18,470)	(24,946)	(19,143)
Intangible asset	20,217	22,291	—	—
Regulatory asset	58,939	77,541	—	—
Net Amount Recognized at End of Year	\$ 60,350	\$ 81,362	\$(24,946)	\$(16,031)
Change in Regulatory Assets attributable to changes in additional minimum liability recognition	(18,602)	(6,094)	—	—
Components of Net Periodic Benefit Cost:				
Service cost	\$ 7,348	\$ 6,957	\$3,469	\$3,314
Interest cost	21,954	21,511	8,921	9,009
Expected return on plan assets	(23,233)	(22,041)	(5,621)	(5,183)
Amortization of prior service cost	2,141	2,153	(1,255)	(147)
Amortization of transitional obligation.....	—	—	2,566	2,566
Recognized actuarial loss	13,325	8,836	6,819	2,934
Net Periodic Benefit Cost	\$ 21,535	\$ 17,416	\$ 14,899	\$ 12,493
Weighted-average assumptions used to determine benefit obligations at September 30 for Pension Benefits and December 31 for Other Benefits:				
Discount rate	5.50%	5.75%	5.50%	5.75%
Rate of compensation increase	4.50%	4.50%	4.50%	4.50%
Weighted-average assumptions used to determine net periodic benefit cost for years ended December 31:				
Discount rate	5.75%	6.00%	5.75%	6.00%
Expected long-term rate of return on plan assets	8.00%	8.00%	7.70%	7.80%
Rate of compensation increase	4.50%	4.50%	4.50%	4.50%
Assumed health care cost trend rates at December 31:				
Health care cost trend rate assumed for next year	—	—	10.00%	11.00%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	—	—	5.00%	5.00%
Year that the rate reaches the ultimate trend rate	—	—	2013	2013
Pension plans with accumulated benefit obligations in excess of plan assets:				
Projected benefit obligation	\$409,907	\$386,853	\$ —	\$ —
Accumulated benefit obligation	368,618	348,521	—	—
Fair Value of plan assets	349,813	330,051	—	—

The accumulated benefit obligation for defined benefit pension plans was \$368.6 million and \$348.5 million at December 31, 2005, and 2004, respectively.

Central Hudson's pension and other post-retirement plans' weighted average asset allocations at December 31, 2005, and 2004, by asset category are as follows:

	Pension Benefits		Other Benefits	
	2005	2004	2005	2004
Equity Securities	58.9%	62.7%	62.6%	62.6%
Debt Securities	34.9%	30.8%	32.9%	34.8%
Alternate Investment	6.2%	5.0%	—	—
Other	—	1.5%	4.5%	2.6%
Total:	100%	100%	100%	100%

For the pension plan and other benefit plans (other than the 401(k) retirement plans), equity securities include no Energy Group common stock at December 31, 2005, and 2004, respectively. Effective January 20, 2004, an Energy Group common stock investment fund was added as an investment option under the 401(k) retirement plans. This investment option was discontinued effective December 31, 2005.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plan. A 1% change in assumed health care cost trend rates would have the following effects:

	One Percentage Point Increase	One Percentage Point Decrease
Effect on total of service and interest cost components for 2005	\$ 2,160,706	\$ (1,703,760)
Effect on year-end 2005 post-retirement benefit obligation	\$24,713,876	\$(19,944,383)

Contributions to fund other post-retirement benefits were \$6.1 million for 2005. Obligations for future funding depend on a number of factors, including the discount rate, expected return, and medical claims assumptions used. If these factors remain stable, annual funding for the next few years is expected to approximate the 2005 amount.

Estimated Future Benefit Payments: The following benefit payments, which reflect expected future service as appropriate, are expected to be paid:

Year	Pension Benefits - Gross	Other Benefits - Gross	Other Benefits - Net ⁽¹⁾
(In Thousands)			
2006	\$ 22,375	\$ 6,738	\$ 6,203
2007	22,498	7,448	6,861
2008	23,290	8,071	7,420
2009	24,248	8,748	8,044
2010	25,402	9,386	8,627
2011 - 2015	140,360	56,364	51,770

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

NOTE 10 - Equity-Based Compensation Incentive Plans

Energy Group's Long-Term Performance-Based Incentive Plan ("Incentive Plan"), adopted in 2000 and amended in 2001 and 2003, reserves 500,000 shares of Energy Group's common stock for awards to be granted under the Incentive Plan. The Incentive Plan provides for the granting of stock options, stock appreciation rights, restricted stock awards, performance shares, and performance units. No participant may be granted total awards in excess of 150,000 shares over the life of the Incentive Plan. Stock options granted to officers of Energy Group and its subsidiaries are exercisable over a period of ten years, with 40% of the options vesting after two years and 20% of the options vesting each year thereafter for the following three years; however, stock options granted to executives retiring prior to June 30, 2006, are immediately exercisable upon retirement. Additionally, stock options granted to non-employee Directors are immediately exercisable.

The Incentive Plan was amended in the third quarter of 2003. The amendment allows executives to defer receipt of performance shares and performance units in accordance with the terms of Energy Group's Directors and Executives Deferred Compensation Plan. Also, an amendment to the Stock Plan for Outside Directors provides for shares of stock previously accrued for retired Directors to be paid in the form of cash and provides that active Directors could elect to transfer previously accrued

shares payable to them to Energy Group's Directors and Executives Deferred Compensation Plan. In addition, the amendment freezes future participation and future accruals under the Plan.

Effective January 1, 2000, stock options covering 30,300 shares were granted with an exercise price per share of \$31.94. Further, effective January 1, 2001, stock options covering 59,900 shares were granted with an exercise price per share of \$44.06. There were no options granted in 2002. Effective January 1, 2003, stock options covering a total of 36,900 shares were granted with an exercise price per share of \$48.62. There were no stock options granted in 2004 or 2005.

The fair market values per option of Energy Group stock options granted in 2003, 2001, and 2000 are \$6.51, \$4.41, and \$4.46, respectively. These fair market values were estimated as of the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	2003	2001	2000
Risk-free interest rate	4.40%	4.78%	6.36%
Expected life – in years	10	5	5
Expected stock volatility	17.50%	20.06%	15.59%
Dividend yield	4.4%	5.4%	5.4%

A summary of the status of stock options awarded to executives and non-employee Directors of Energy Group under the Incentive Plan as of December 31, 2005, and changes are as follows:

	Stock Options	Weighted Average Exercise Price	Weighted Average Remaining Life in Years
Outstanding at 12/31/02	85,000	\$ 40.25	7.70 years
Granted 1/1/03	36,900	\$ 48.62	8 years
Exercised	(13,740)	\$ 31.94	
Forfeited	(800)	\$ 44.06	
Outstanding at 12/31/03	107,360	\$ 44.16	7.57 years
Granted 1/1/04	—	—	—
Exercised	(15,960)	\$ 38.50	
Forfeited	—	—	
Outstanding at 12/31/04	91,400	\$ 45.15	6.75 years
Granted 1/1/05	—	—	—
Exercised	(18,100)	\$ 40.98	
Forfeited	—	—	
Total Outstanding at 12/31/05	73,300	\$ 46.18	5.99 years
Total Common Stock Shares Outstanding	15,762,000		
Potential Dilution	0.5 %		

The following table summarizes information concerning outstanding and exercisable stock options at December 31, 2005, by exercise price:

Exercise Price	Number of Options Outstanding	Weighted Average Remaining Life in Years	Number of Options Exercisable
\$ 31.94	1,040	4.00	1,040
\$ 44.06	35,360	5.00	35,360
\$ 48.62	36,900	7.00	28,620
Total	73,300	5.99	65,020

A total of 18,100 non-qualified stock options with exercise prices of \$31.94 and \$44.06 were exercised during the year ended December 31, 2005.

Compensation expense recorded for the years ended December 31, 2005, 2004, and 2003, for stock options was not material. The balance accrued at December 31, 2005, for outstanding stock options was \$217,000.

It should be noted that SFAS 123(R) (see Note 1 – “Summary of Significant Accounting Policies” under the caption “Equity-Based Compensation”) will be effective for Energy Group for the first annual reporting period that begins after June 15, 2005. It is not expected that the adoption of SFAS 123(R) will significantly impact the financial condition, results of operations, or cash flow of Energy Group or its subsidiaries.

Performance shares were granted, in aggregate, to executives covered under the Incentive Plan in the amount of 14,800 shares, 29,300 shares, and 23,000 shares on January 1, 2003, January 1, 2004, and January 1, 2005, respectively. Due to the retirement of Energy Group’s former Chairman in mid-2004, pro-rated shares of the 2003 and 2004 grants were awarded to him in 2004. As of December 31, 2005, the number of these performance shares that remain outstanding are as follows: 19,800 from the January 1, 2004, grant and 23,000 from the January 1, 2005, grant. The ultimate number of shares awarded is based on metrics established by Energy Group’s Board of Directors at the beginning of the award cycle.

Compensation expense is recorded as performance shares are earned over the three-year life of the relevant performance share grant prior to this award.

Compensation expense recorded in 2005 related to performance shares was not material. Compensation expense recorded related to performance shares was \$250,000 and \$332,000 for 2004 and 2003, respectively. Energy Group anticipates less use of stock options and more use of performance shares in connection with future executive compensation.

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

NOTE 11 - Commitments and Contingencies

Electricity Purchase Commitments

Central Hudson has entered into an agreement with Constellation to purchase capacity and energy, comprising approximately 8% of the output of the Nine Mile 2 Plant, at negotiated defined prices during the ten-year period beginning on the sale of Central Hudson’s interest in the Nine Mile 2 Plant on November 7, 2001, and ending November 30, 2011. The agreement is “unit-contingent” in that Constellation is only required to supply electricity if the Nine Mile 2 Plant is operating. On November 12, 2002, Central Hudson entered into an agreement with Entergy Nuclear Indian Point 2 LLC and Entergy Nuclear Indian Point 3 LLC to purchase electricity (but not capacity) on a unit-contingent basis at defined prices from January 1, 2005, to and including December 31, 2007.

Operating Leases

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

Operating lease rental payment amounts charged to expense by Energy Group and its subsidiaries were \$3.1 million in 2005, \$2.8 million in 2004, and \$2.9 million in 2003. Included in these amounts are payments for contingent rentals, which amounted to \$575,000 in 2005, \$556,000 in 2004, and \$538,000 in 2003. Contingent rentals are those operating lease agreements that contain provisions for a change in lease payments subsequent to the inception of the lease.

Future minimum lease payments excluding executory costs, such as property taxes and insurance, are included in the following table of Other Commitments. All leases are non-cancelable, recognizing payments on a straight-line basis over the minimum lease term. Contingent rental payments are adjusted incrementally based on the Consumer Price Index, as specified in the terms of each lease agreement and are considered when calculating the future minimum payments.

Other Commitments

The following is a summary of commitments for **Energy Group** and its affiliates as of December 31, 2005:

	Projected Payments Due By Period (In Thousands)					Total
	Less than 1 Year	Year Ending 2007	Year Ending 2008	Year Ending 2009	Year Ending 2010	
Operating Leases	\$ 2,990	\$ 2,572	\$ 2,321	\$ 2,098	\$ 1,525	\$ 11,506
Construction/Maintenance & Other Projects ⁽¹⁾	20,196	8,422	5,077	2,698	1,940	38,333
Purchased Electric Contracts ⁽²⁾	76,376	71,850	37,490	37,319	37,958	260,993
Purchased Natural Gas Contracts ⁽²⁾	106,298	26,672	9,503	8,998	5,463	156,934
Purchased Fixed Liquid Petroleum Contracts	18,137	—	—	—	—	18,137
Purchased Variable Liquid Petroleum Contracts ⁽³⁾	56,888	—	—	—	—	56,888
Total	\$280,885	\$109,516	\$54,391	\$51,113	\$46,886	\$542,791

⁽¹⁾ Including Specific, Term, and Service Contracts, briefly defined as follows: "Specific Contracts" consist of work orders for construction; "Term Contracts" consist of maintenance contracts; and "Service Contracts" include consulting, educational, and professional service contracts.

⁽²⁾ Purchased electric and purchased natural gas costs for Central Hudson are fully recovered via their respective regulatory cost adjustment mechanisms.

⁽³⁾ Estimated based on pricing at January 5, 2006.

The following is a summary of commitments for **Central Hudson** as of December 31, 2005:

	Projected Payments Due By Period (In Thousands)					Total
	Less than 1 Year	Year Ending 2007	Year Ending 2008	Year Ending 2009	Year Ending 2010	
Operating Leases	\$ 2,383	\$ 2,332	\$ 2,152	\$ 2,059	\$ 1,495	\$ 10,421
Construction/Maintenance & Other Projects ⁽¹⁾	20,196	8,422	5,077	2,698	1,940	38,333
Purchased Electric Contracts ⁽²⁾	76,376	71,850	37,490	37,319	37,958	260,993
Purchased Natural Gas Contracts ⁽²⁾	106,298	26,672	9,503	8,998	5,463	156,934
Total	\$205,253	\$109,276	\$54,222	\$51,074	\$46,856	\$466,681

⁽¹⁾ Including Specific, Term, and Service Contracts.

⁽²⁾ Purchased electric and purchased natural gas costs for Central Hudson are fully recovered via their respective regulatory cost adjustment mechanisms.

Contingencies

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 Central Hudson's alleged liability in these actions is that it was 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. Central Hudson presently has insufficient information with which to predict the outcome of these lawsuits.

Environmental Matters

Central Hudson and the competitive business subsidiaries are subject to regulation by federal, state and, to some extent, local authorities with respect to the environmental effects of their operations, including regulations relating to air and water quality, levels of noise, hazardous wastes, toxic substances, protection of vegetation and wildlife, and limitations on land use. Environmental matters may expose both Central Hudson and certain of the competitive business subsidiaries to potential liability, which in certain instances may be imposed without regard to fault or may be premised on historical activities that were lawful at the time they occurred. Both Central Hudson and these competitive business subsidiaries monitor their activities in order to determine the impact of their activities on the environment and to comply with applicable environmental laws and regulations.

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

Air

In October 1999, Central Hudson was informed by the New York State Attorney General ("Attorney General")

that the 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 former 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. As discussed below, the Laurel Street, North Water Street, Newburgh, and Beacon sites have been the subject of further agreements with the DEC.

Central Hudson has also become aware of information contained in a DEC Internet website indicating that, in addition to the eight sites referenced above, Central Hudson is attributed with responsibility for three additional MGP sites in New York State. The Internet website states that the additional sites are located on Broadway in Kingston, at Vassar College in Poughkeepsie, and on Water Street in Newburgh. No former MGP is believed to have been present 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. Central Hudson does not believe that it ever owned or operated the site at Vassar College. 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. 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.

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 former MGP site in Newburgh, New York, the City of Newburgh's adjacent and nearby property, and the adjoining areas of the Hudson River. The City of Newburgh subsequently 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 December 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.

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 proposes 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 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.

A contract has been entered into with Blasland, Bouck and Lee ("BBL") of Syracuse, New York with a value up to \$1.6 million. Under the contract, BBL, which has conducted all studies to-date at the site, will conduct additional predesign studies required and will assist with development of remediation contract specifications and remediation construction oversight assistance, in accordance with the ROD. Discussions with the DEC are underway to develop a schedule for the remediation.

As of December 31, 2005, approximately \$12.4 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 December 31, 2005, a \$17 million estimate regarding this matter has been recorded as a 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. The authority from the PSC to defer these costs does not assure future rate recovery.

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: In February 1999, the DEC informed Central Hudson of its intention to perform site assessments at three of the other previously identified MGP sites: namely, the Poughkeepsie Laurel Street and North Water Street sites and the Beacon site. Central Hudson conducted these site assessments 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 October 2000, Central Hudson was notified by the DEC that it had determined that the Poughkeepsie North Perry Street site and the Catskill site posed little or no significant threat to the public and that no additional investigation or action was necessary at the present time. During the fourth quarter of 2001, Central Hudson was advised that the DEC and the DOH found that no further remedial action is presently necessary at the Beacon site. In 2005, the DEC indicated that it will require collection of additional samples at the North Perry Street site. Central Hudson intends to collect such samples in 2006. In addition, in January 2006, Central Hudson was advised that property adjacent to the site of the former Beacon MGP site appears to have soil present that may be contaminated with MGP-related byproducts. Further investigations may be required to verify this allegation.

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 a 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 has reversed 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 and is presently analyzing the results of additional investigations that were requested by the DEC. Neither Energy Group nor Central Hudson can predict the outcome of the investigative work 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'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.

The DEC has requested additional investigation activities at the Laurel Street site, which has delayed approval of Central Hudson's proposed remediation plan. Central Hudson is currently discussing this request with the DEC and does not expect DEC approval of a remediation plan earlier than 2007. Additional work at the Kingston, Saugerties, and Catskill sites has been deferred pending completion of work at the other sites.

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 are 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 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 \$17 million with respect to the City of Newburgh and \$2.5 million with respect to the Laurel Street sites.

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. Recovery of the deferred costs, net of any insurance recoveries, could be subject to the following three conditions at the time the expenditures are made on an annual basis: 1) the expenditures are incremental to current rates, 2) the expenditures are material, and 3) Central Hudson is not earning above its allowed ROE. Central Hudson cannot predict whether it will meet these three conditions.

Central Hudson has performed limited site investigations with respect to the Saugerties, Catskill, and North Perry Street sites. Consequently, Central Hudson cannot reasonably estimate the remediation costs that it may eventually incur with respect to those three sites.

The DEC has also requested that Central Hudson enter into a Brownfield Cleanup Agreement covering the Kingston, Saugerties, and Catskill sites. In addition, 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.

During 2005 Central Hudson spent approximately \$0.5 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 this matter and intends to seek reimbursement from its insurers for amounts, if any, for which it may become liable.

Orange County Landfill

In June 2000, the DEC sent a letter to Central Hudson requesting that it provide information about disposal of

wastes at the Orange County Landfill ("Orange County Site") located in the Township of Goshen, New York.

The DEC stated that its records indicate that Central Hudson, or a predecessor entity, disposed or may have disposed of wastes at the Orange County Site or that Central Hudson transported wastes to the Orange County Site for disposal. Central Hudson has put its insurers on notice regarding this matter and intends to seek reimbursement from its insurers for amounts for which it may become liable.

Documents submitted by Central Hudson in response to the DEC's request indicate that at least three shipments of wastes may have been disposed of by Central Hudson at the Orange County Site: one of construction waste, one of office and commercial waste, and one of asbestos waste. Central Hudson entered into a Tolling Agreement (i.e., an agreement extending the applicable statute of limitations) dated September 7, 2001, with the DEC and other state agencies whereby Central Hudson agreed to toll the applicable statute of limitations by the state agencies against Central Hudson for certain alleged causes of action until February 28, 2002. The tolling agreement has been renewed through March 31, 2006.

Neither Energy Group nor Central Hudson can predict the outcome of this investigation at this time.

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 has indicated that lead and polychlorinated biphenyls (or "PCBs") are present at the site, and the EPA expects to commence a remedial investigation and feasibility study at the site in the future. 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 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

Since 1987, Central Hudson, along with many other parties, has been joined as a defendant or third-party defendant in 3,256 asbestos lawsuits commenced in New

York State and federal courts. The plaintiffs in these lawsuits have each sought millions of dollars in compensatory and punitive damages from all defendants. The cases were brought by or on behalf of individuals who have allegedly suffered injury from exposure to asbestos, including exposure which allegedly occurred at the Roseton Plant and the Danskammer Plant.

As of January 16, 2006, of the 3,256 cases brought against Central Hudson, 1,171 remain pending. Of the 2,085 cases no longer pending against Central Hudson, 1,937 have been dismissed or discontinued without payment by Central Hudson, and Central Hudson has settled 148 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 costs which may be 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 positions or results of operations.

CHEC:

Griffith has received a demand addressed to Griffith Consumers Division ("Consumers"), the entity from which Griffith had purchased the assets of its business, from the CITGO Petroleum Corporation ("CITGO") for defense and indemnification of CITGO in a 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 attorneys' fees, jointly and severally from CITGO and defendant Wenner, for the alleged contamination of the plaintiffs' 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.

On May 31, 2002, former Energy Group subsidiary Central Hudson Energy Services, Inc., ("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 environmental liabilities which may have been incurred by CH Resources

prior to the closing, although no such material liabilities have been identified. Energy Group has agreed to guarantee the post-closing obligations of CH Services under the sale agreement, which guarantee now applies to CHEC.

Griffith has a voluntary environmental program in connection with the West Virginia Division of Environmental Protection regarding Griffith's Kable Oil Bulk Plant, located in West Virginia. During 2005, \$7,000 was spent on site remediation efforts. The State of West Virginia has indicated that some additional remediation of the site will be required and it is anticipated that approximately \$50,000 to \$100,000 more will be spent. In addition, Griffith spent \$36,000 on remediation efforts in Maryland and Virginia.

Griffith is currently updating the remediation assessments for all of its environmental sites and expects to complete this work in the first half of 2006. Griffith cannot predict whether the outcome of the current studies will require adjustment to the environmental reserve which is currently \$3.3 million.

During 2005, SCASCO spent approximately \$20,000 on site remediation efforts in Connecticut in addition to \$186,000 in 2004. SCASCO (now Griffith) is to be reimbursed \$288,000 from the State of Connecticut under an environmental agreement and has recorded this anticipated reimbursement as a receivable.

Other Central Hudson Matters

Central Hudson is involved in various other legal and administrative proceedings incidental to its business which are in various stages. While these matters collectively 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 or results of operations.

Neversink Hydro Station

Central Hudson's ownership interest in the Neversink Hydro Station ("Neversink") was governed by an agreement between Central Hudson and the City of New York 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 of New York on December 31, 2003. Central Hudson and the City of New York engaged in negotiations relating to the transfer of Central Hudson's ownership interest in Neversink. At present, the parties have entered into an agreement that postpones the date of such transfer until February 28, 2006. If by that date both parties have executed the necessary agreements and made all regulatory filings for the transfer, such agreement will remain in effect until the actual transfer of ownership or September 30, 2006, whichever is earlier. As of the date of this 10-K Annual Report, Central Hudson and the City of New York are continuing their negotiations as to the transfer of Central Hudson's ownership interest in the Neversink plant to the

City of New York. There can be no assurance that an agreement on such transfer will be reached.

Other CHEC Matter

The State of Maryland issued a Notice of Assessment for Motor Fuel Tax on September 28, 2004, to Griffith. The assessment was for \$2.5 million for the period from 2001 to 2003. Griffith reserved \$500,000 for this assessment as of December 31, 2004, and has since paid \$528,000 to the State of Maryland and settled the claim in full.

NOTE 12 - Segments and Related Information

Energy Group's reportable operating segments are the regulated electric utility business and regulated natural gas utility business of Central Hudson, the unregulated fuel distribution businesses of CHEC, and under the heading "Unregulated - Other," the investment and business development activities of Energy Group and the energy efficiency and investment activities of CHEC. The fuel distribution segment currently operates in the Northeast and Mid-Atlantic regions of the United States.

Management regularly reviews the operating results of the fuel distribution businesses as a standalone component of the competitive business subsidiaries and assesses their performance as a basis for allocating resources.

Certain additional information regarding these segments is set forth in the following tables. General corporate expenses, property common to both electric and natural gas segments, and the depreciation of the common property have been allocated to those segments in accordance with practice established for regulatory purposes.

CH Energy Group, Inc.
Segment Disclosure
Year Ended December 31, 2005

(In Thousands, except Earnings per Share)	Regulated		Unregulated		Eliminations	Total
	Electric	Natural Gas	Fuel Distribution	Other		
Revenues from external customers	\$520,994	\$155,602	\$295,092	\$818	\$ —	\$972,506
Intersegment revenues	13	355	—	—	(368)	—
Total revenues	521,007	155,957	295,092	818	(368)	972,506
Depreciation and amortization	23,209	6,665	6,345	—	—	36,219
Interest expense	12,938	4,107	2,623	240	(2,863)	17,045
Interest and investment income	5,471	1,845	49	5,552	(2,863)	10,054
Income tax expense	17,688	6,248	2,406	(523)	—	25,819
Earnings per share-diluted	1.63	0.57	0.23	0.38 ⁽¹⁾	—	2.81
Segment assets	832,506	288,826	152,485	105,689	—	1,379,506
Goodwill	—	—	51,333	—	—	51,333
Capital expenditures	46,371	13,771	3,737	—	—	63,879

⁽¹⁾ The amount of Unregulated EPS attributable to CHEC's other business units was \$0.06 per share, with the balance of \$0.32 per share resulting primarily from investment activity.

CH Energy Group, Inc.
Segment Disclosure
Year Ended December 31, 2004

(In Thousands, except Earnings per Share)	Regulated		Unregulated		Eliminations	Total
	Electric	Natural Gas	Fuel Distribution	Other		
Revenues from external customers	\$430,575	\$125,230	\$234,704	\$ 1,003	\$ —	\$791,512
Intersegment revenues	11	259	—	—	(270)	—
Total revenues	430,586	125,489	234,704	1,003	(270)	791,512
Depreciation and amortization	22,083	6,325	6,232	—	—	34,640
Interest expense	14,462	3,388	2,181	217	(2,398)	17,850
Interest and investment income	7,100	1,578	19	3,525	(2,398)	9,824
Income tax expense	21,389	7,037	1,952	878	—	31,256
Earnings per share - diluted	1.85	0.54	0.18	0.12 ⁽¹⁾	—	2.69
Segment assets	768,645	260,797	140,912	117,453	—	1,287,807
Goodwill	—	—	50,462	—	—	50,462
Capital expenditures	44,280	13,242	5,213	—	—	62,735

⁽¹⁾ The amount of Unregulated EPS attributable to CHEC's other business units was \$0.04 per share, with the balance of \$0.08 per share resulting primarily from investment activity.

CH Energy Group, Inc.
Segment Disclosure
Year Ended December 31, 2003

(In Thousands, except Earnings per Share)	Regulated		Unregulated			Total
	Electric	Natural Gas	Fuel Distribution	Other	Eliminations	
Revenues from external customers	\$457,395	\$123,306	\$224,808	\$ 1,175	\$ —	\$ 806,684
Intersegment revenues	9	346	—	—	(355)	—
Total revenues	457,404	123,652	224,808	1,175	(355)	806,684
Depreciation and amortization	21,280	5,995	6,297	39	—	33,611
Interest expense	18,701	3,264	2,202	260	(2,462)	21,965
Interest and investment income	8,547	1,427	16	4,697	(2,462)	12,225
Income tax expense	19,418	7,563	1,887	1,567	—	30,435
Earnings per share - diluted	1.76	0.60	0.19	0.22 ⁽¹⁾	—	2.77
Segment assets	811,950	240,345	139,925	117,856	—	1,310,076
Goodwill	—	—	50,462	—	—	50,462
Capital expenditures	42,954	10,407	6,320	—	—	59,681

⁽¹⁾ The amount of Unregulated EPS attributable to CHEC's other business units was \$0.01 per share, with the balance of \$0.21 per share resulting primarily from investment activity.

Central Hudson Gas & Electric Corporation
Segment Disclosure
Year Ended December 31, 2005

(In Thousands)	Electric	Natural Gas	Eliminations	Total
Revenues from external customers	\$520,994	\$155,602	\$ —	\$676,596
Intersegment revenues	13	355	(368)	—
Total revenues	521,007	155,957	(368)	676,596
Depreciation and amortization	23,209	6,665	—	29,874
Interest expense	12,938	4,107	—	17,045
Interest income	5,471	1,845	—	7,316
Income tax expense	17,688	6,248	—	23,936
Income available for common stock	25,751	8,914	—	34,665
Segment assets	832,506	288,826	—	1,121,332
Capital expenditures	46,371	13,771	—	60,142

Central Hudson Gas & Electric Corporation
Segment Disclosure
Year Ended December 31, 2004

(In Thousands)	Electric	Natural Gas	Eliminations	Total
Revenues from external customers	\$430,575	\$125,230	\$ —	\$555,805
Intersegment revenues	11	259	(270)	—
Total revenues	430,586	125,489	(270)	555,805
Depreciation and amortization	22,083	6,325	—	28,408
Interest expense	14,462	3,388	—	17,850
Interest income	7,100	1,578	—	8,678
Income tax expense	21,389	7,037	—	28,426
Income available for common stock	29,158	8,520	—	37,678
Segment assets	768,645	260,797	—	1,029,442
Capital expenditures	44,280	13,242	—	57,522

Central Hudson Gas & Electric Corporation
Segment Disclosure
Year Ended December 31, 2003

(In Thousands)	Electric	Natural Gas	Eliminations	Total
Revenues from external customers	\$457,395	\$123,306	\$ —	\$580,701
Intersegment revenues	9	346	(355)	—
Total revenues	457,404	123,652	(355)	580,701
Depreciation and amortization	21,280	5,995	—	27,275
Interest expense	18,701	3,264	—	21,965
Interest income	8,547	1,427	—	9,974
Income tax expense	19,418	7,563	—	26,981
Income available for common stock	28,034	9,454	—	37,488
Segment assets	811,950	240,345	—	1,052,295
Capital expenditures	42,954	10,407	—	53,361

NOTE 13 -Financial Instruments

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

Cash and Temporary Cash Investments: The carrying amount approximates fair value because of the short maturity of those instruments.

Long-term Debt: The fair value is estimated based on the quoted market prices for the same or similar issues or to current rates offered to Central Hudson for debt of the same remaining maturities and credit quality.

Notes Payable: The carrying amount approximates fair value because of the short maturity of those instruments.

ENERGY GROUP / CENTRAL HUDSON
Long-term Debt Maturities and Fair Value

December 31, 2005

	Expected Maturity Date (In Thousands)						Total	Fair Value
	2006	2007	2008	2009	2010	Thereafter		
Fixed Rate:	—	\$33,000	—	\$20,000	\$24,000	\$151,036	\$228,036	\$ 231,731
Estimated Effective Interest Rate	—	5.920%	—	6.070%	4.380%	5.491%	5.487%	
Variable Rate:	—	—	—	—	—	\$115,850	\$115,850	\$ 115,850
Estimated Effective Interest Rate						2.460%	2.460%	
Total Debt Outstanding							\$343,886	\$ 347,581
Estimated Effective Interest Rate							4.470%	

December 31, 2004

	Expected Maturity Date (In Thousands)						Total	Fair Value
	2005	2006	2007	2008	2009	Thereafter		
Fixed Rate:	—	—	\$ 33,000	—	\$ 20,000	\$ 151,033	\$ 204,033	\$ 213,727
Estimated Effective Interest Rate	—	—	5.920%	—	6.070%	5.240%	5.430%	
Variable Rate:	—	—	—	—	—	\$ 115,850	\$ 115,850	\$ 115,850
Estimated Effective Interest Rate						1.290%	1.290%	
Total Debt Outstanding							\$ 319,883	\$ 329,577
Estimated Effective Interest Rate							3.930%	

Selected Quarterly Financial Data (Unaudited) – Energy Group

Selected financial data for each quarterly period within 2005 and 2004 are presented below:

Quarter Ended:	Operating Revenues	Operating Income	Net income	Earnings Per
				Average Share of Common Stock (Diluted) Outstanding
	(In Thousands)			(Dollars)
2005				
March 31	\$286,089	\$36,813	\$20,339	\$1.28
June 30	189,570	10,380	6,533	.41
September 30	227,896	10,853	5,746	.36
December 31	268,951	20,979	11,673	.74
2004				
March 31	\$262,993	\$39,465	\$22,989	\$1.46
June 30	165,354	10,740	5,496	.35
September 30	161,872	9,342	4,451	.28
December 31	201,293	15,586	9,487	.60

SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED) – CENTRAL HUDSON

Selected financial data for each quarterly period within 2005 and 2004 are presented below:

Quarter Ended:	Operating Revenues	Operating Income	Income Available for
	(In Thousands)		
2005			Common Stock
March 31	\$190,088	\$28,401	\$14,748
June 30	137,762	12,307	5,870
September 30	173,704	14,277	6,643
December 31	175,042	15,806	7,404
2004			
March 31	\$177,973	\$28,889	\$16,246
June 30	123,532	12,927	6,720
September 30	124,548	13,741	7,325
December 31	129,752	12,736	7,387

SCHEDULE II - Reserves – Energy Group

	Balance at Beginning of Period	Charged to Cost and Expenses	Charged to Other Accounts	Payments Credits to or Deducted from Reserves	Balance at End of Period
YEAR ENDED DECEMBER 31, 2005					
Operating Reserves	\$6,515,000	\$1,415,000	\$ 40,000	\$ 1,754,000	\$6,216,000
Reserve for Uncollectible Accounts	\$4,830,000	\$4,375,000	\$ —	\$ 4,617,000	\$4,588,000
YEAR ENDED DECEMBER 31, 2004					
Operating Reserves	\$5,084,000	\$2,050,000	\$191,000	\$ 810,000	\$6,515,000
Reserve for Uncollectible Accounts	\$4,562,000	\$5,835,000	\$ —	\$ 5,567,000	\$4,830,000
YEAR ENDED DECEMBER 31, 2003					
Operating Reserves	\$4,912,000	\$1,073,000	\$142,000	\$ 1,043,000	\$5,084,000
Reserve for Uncollectible Accounts	\$4,172,000	\$5,865,000	\$ —	\$ 5,475,000	\$4,562,000

SCHEDULE II - Reserves – Central Hudson

	Balance at Beginning of Period	Charged to Cost and Expenses	Charged to Other Accounts	Payments Credits to or Deducted from Reserves	Balance at End of Period
YEAR ENDED DECEMBER 31, 2005					
Operating Reserves	\$5,969,000	\$ 370,000	\$ 40,000	\$ 1,242,000	\$ 5,137,000
Reserve for Uncollectible Accounts	\$3,800,000	\$3,592,000	\$ —	\$ 3,992,000	\$ 3,400,000
YEAR ENDED DECEMBER 31, 2004					
Operating Reserves	\$5,043,000	\$1,303,000	\$191,000	\$ 568,000	\$ 5,969,000
Reserve for Uncollectible Accounts	\$3,000,000	\$5,071,000	\$ —	\$ 4,271,000	\$ 3,800,000
YEAR ENDED DECEMBER 31, 2003					
Operating Reserves	\$4,912,000	\$ 969,000	\$142,000	\$ 980,000	\$ 5,043,000
Reserve for Uncollectible Accounts	\$2,700,000	\$4,741,000	\$ —	\$ 4,441,000	\$ 3,000,000

ITEM 9 - Changes in and Disagreement with Accountants on Accounting and Financial Disclosure

None.

ITEM 9A - Controls and Procedures

As of the end of the period covered by this 10-K Annual Report, Energy Group and Central Hudson each carried out an evaluation, under the supervision and with the participation of the Chief Executive Officer and the Chief Financial Officer of Energy Group and of Central Hudson, to evaluate the effectiveness of the disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended ("Exchange Act")). Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that each of Energy Group's and Central Hudson's disclosure controls and procedures as of December 31, 2005, are effective for recording, processing, summarizing, and reporting information that is required to be disclosed in their reports under the Exchange Act, within the time periods specified in the relevant SEC rules and forms.

During Energy Group's internal control evaluation in 2004, a significant deficiency was identified in general computer controls at the fuel distribution businesses. The deficiency related to access afforded to the vendor of the software and employees who had access to software beyond the requirements of their jobs. Compensating controls were identified and tested in various business cycles. Remediation of this deficiency has been completed. Access to programs and data by the software vendor is now restricted and controlled by the subsidiary. Employee access to programs and data has been limited to meet the needs of job classifications. Internal testing of the remediation confirms that it is operating as intended.

There were no changes in Energy Group's or Central Hudson's internal controls over financial reporting during the fourth quarter of 2005 that have materially affected, or are reasonably likely to materially affect, Energy Group's or Central Hudson's internal control over financial reporting.

For additional discussion, see the Report of Independent Registered Public Accounting Firm and the Report of Management on Internal Control Over Financial Reporting included in this 10-K Annual Report.

ITEM 9B - Other Information

None.

PART III

ITEM 10 - Directors and Executive Officers of Energy Group

The directors of Energy Group are as follows:

Name	Age as of 12/31/05	Year Joined the Board	Term of Office
Heinz K. Fridrich ^{(1),(4),(5)}	72	1988	Class III Director ⁽⁹⁾
Edward F. X. Gallagher ^{(1),(3),(5)}	72	1984	Class I Director ⁽⁶⁾
Stanley J. Grubel ^{(2),(3)}	63	1999	Class II Director ⁽⁷⁾
E. Michel Kruse ^{(3),(4)}	61	2002	Class III Director ⁽⁸⁾
Steven M. Fetter ^{(1),(4)}	53	2002	Class II Director ⁽⁷⁾
Steven V. Lant ⁽³⁾	48	2002	Class I Director ⁽⁶⁾
Jeffrey D. Tranen ^{(2),(3)}	59	2004	Class I Director ⁽⁶⁾
Margarita K. Dilley ^{(1),(2)}	48	2004	Class II Director ⁽⁷⁾
Manuel J. Iraola	57	2006	Unclassified ⁽⁸⁾

(1) Member, Audit Committee of the Board of Directors.

(2) Member, Compensation Committee of the Board of Directors.

(3) Member, Strategy and Finance Committee of the Board of Directors.

(4) Member, Governance and Nominating Committee of the Board of Directors.

(5) Years prior to 1999 reflect Directorships of Central Hudson.

(6) Term expires at Annual Meeting of Shareholders in 2007.

(7) Term expires at Annual Meeting of Shareholders in 2008.

(8) Mr. Kruse and Mr. Iraola are standing for election at the Annual Meeting of Shareholders as Class III Directors.

(9) Mr. Fridrich has reached the mandatory retirement age stipulated in Energy Group's By-Laws and therefore will not stand for re-election when his present term expires at Energy Group's 2006 Annual Meeting of Shareholders.

Officers of the Board:

Steven V. Lant
Chairman of the Board

Heinz K. Fridrich
Vice Chairman of the Board and Chairman of the
Governance and Nominating Committee

Stanley J. Grubel
Chairman of the Compensation Committee

Steven M. Fetter
Chairman of the Audit Committee

E. Michel Kruse
Chairman of the Strategy and Finance Committee

The information on those directors of Energy Group standing for election by shareholders at the Annual Meeting of Shareholders to be held on April 25, 2006, is incorporated by reference to the caption "Proposal 1 - Election of Directors" in Energy Group's definitive proxy statement dated March 10, 2006 ("Proxy Statement"), to be used in connection with its Annual Meeting of Shareholders to be held on April 25, 2006, which Proxy Statement will be filed with the SEC.

The information on the executive officers of Energy Group required hereunder is incorporated by reference to Item 1 - "Business" of this 10-K Annual Report under the caption "Executive Officers."

Other information required hereunder for directors and officers of Energy Group is incorporated by reference to the Proxy Statement.

Energy Group submitted a CEO Certification to the New York Stock Exchange in 2005. Energy Group and Central Hudson each filed with the SEC, as an exhibit to its most recently filed Form 10-K, the Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley Act") Section 302 certification regarding the quality of the company's public disclosure.

Energy Group has adopted a Code of Business Conduct

and Ethics ("Code"). Section II of the Code, in accordance with Section 406 of the Sarbanes-Oxley Act and Item 406 of Regulation S-K, constitutes Energy Group's Code of Ethics for Senior Financial Officers. This section, in conjunction with the remainder of the Code, is intended to promote honest and ethical conduct, full and accurate reporting, and compliance with laws as well as other matters. A copy of the Code is available on Energy Group's Internet website at www.CHEnergyGroup.com.

If Energy Group's Board of Directors materially amends or grants any waivers to Section II of the Code relating to issues concerning the need to resolve ethically any actual or apparent conflicts of interest, and to comply with all generally accepted accounting principles, laws and regulations designed to produce full, fair, accurate, timely, and understandable disclosure in Energy Group's periodic reports filed with the SEC, Energy Group will post such information on its Internet website at www.CHEnergyGroup.com.

Energy Group's governance guidelines, Code, and the charters of its Audit, Compensation, Governance and Nominating, and Strategy and Finance Committees are available on Energy Group's Internet website at www.CHEnergyGroup.com.

The governance guidelines, the Code, and the charters may also be obtained by writing to the Corporate Secretary, CH Energy Group, Inc., 284 South Avenue, Poughkeepsie, New York 12601-4879.

ITEM 11 - Executive Compensation

The information required hereunder for Directors and executives of Energy Group is incorporated by reference to the Proxy Statement.

ITEM 12 - Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Equity-Based Compensation Plan Information

The following table sets forth information concerning Energy Group's compensation plans (including individual compensation arrangements) under which equity securities of Energy Group are authorized for issuance:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity-based compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders	73,300 ⁽¹⁾	\$ 46.18	286,968 ⁽²⁾
Equity compensation plans not approved by security holders	— ⁽³⁾	—	—
Total	73,300	\$ 46.18	286,968

⁽¹⁾ This includes only stock options granted under the Long-Term Performance-Based Incentive Plan.

⁽²⁾ This excludes 67,100 performance shares granted, 18,832 performance shares awarded, 2,400 performance shares forfeited, and 51,400 stock options exercised through 2005 under the Long-Term Performance-Based Incentive Plan.

⁽³⁾ Energy Group also has an equity compensation plan described under the caption "Stock Plan for Outside Directors" in the Proxy Statement. No options, warrants, or rights are granted under this plan.

The information required hereunder regarding equity ownership in Energy Group by its Directors and executive officers is incorporated by reference to the caption "Security Ownership of Directors and Officers" in the Proxy Statement.

ITEM 13 - Certain Relationships and Related Transactions

See Note 1 - "Summary of Significant Accounting Policies" under the caption "Related Party Transactions."

ITEM 14 - Principal Accounting Fees and Services

The information required by this Item regarding Energy Group's Audit Committee's policies and procedures and annual fees rendered to Energy Group's principal accountants is incorporated by reference to the Report of the Audit Committee and to the caption "Principal Accounting Fees and Services," both of which are included in the Proxy Statement.

The following information is provided for Central Hudson:

Principal Accounting Fees and Services

PricewaterhouseCoopers LLP	2005	2004
Audit Fees	\$ 512,000	\$ 392,100
Audit-Related Fees		
Includes SEC Comment Letter review (2004) and Accounting Research	19,700	15,200
Tax Fees		
Includes review of Federal and State Income Tax Returns and Tax Research	21,000	16,755
All Other Fees		
Includes software licensing fee for accounting research tool	1,500	1,400
TOTAL	\$ 554,200	\$ 425,455

PART IV

ITEM 15 - Exhibits and Financial Statement Schedules

(a) Documents filed as part of this 10-K Annual Report

1. and 2. All Financial Statements and Financial Statement Schedules filed as part of this 10-K Annual Report are included in Item 8 - "Financial Statements and Supplementary Data" of this 10-K Annual Report and reference is made thereto.

3. Exhibits

Incorporated herein by reference to the Exhibit Index for this 10-K Annual Report. Such Exhibits include the following management contracts or compensatory plans or arrangements required to be filed as an Exhibit pursuant to Item 15(c) hereof:

Description in the Exhibit List and Exhibit Nos. for this 10-K Annual Report

Energy Group's Stock Plan for Outside Directors. (Exhibits (10) (iii) 7 and 30)

Energy Group's Supplementary Retirement Plan. (Exhibits (10) (iii) 11, 23 and 40)

Central Hudson's Retirement Benefit Restoration Plan. (Exhibits (10) (iii) 12, 24, 41 and 42)

Form of Employment Agreement for all officers of Energy Group and its subsidiary companies. (Exhibit (10) (iii) 13)

Employment Agreements between Energy Group and Chief Executive Officer, three most senior executives after CEO, and other executives. (Exhibits (10)(iii) 35, 36 and 37)

Energy Group's Change of Control Severance Policy. (Exhibits (10) (iii) 6, 15, 38 and 39)

Central Hudson's Savings Incentive Plan. (Exhibits (10) (iii) 1, 2, 3, 14, 18, 19, 21, 27, and 31)

Energy Group's Long-Term Performance-Based Incentive Plan and Form of Performance Share Agreement. (Exhibits (10) (iii) 10, 17, 20, 28 and 34)

Energy Group's Directors and Executives Deferred Compensation Plan. (Exhibits (10) (iii) 8, 9, 22, 26, and 29)

Agreement between Energy Group and Allan R. Page. (Exhibit (10) (iii) 25)

Energy Group's Executive Annual Incentive Plan. (Exhibits (10) (iii) 32 and 33)

(b) *Exhibits Required by Item 601 of Regulation S-K*

Incorporated herein by reference to subpart (a)-3 of Item 15, above.

(c) *Financial Statement Schedule required by Regulation S-X which is excluded from Energy Group's Annual Report to Shareholders for the fiscal year ended December 31, 2005*

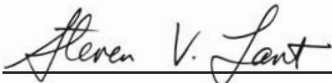
Not applicable, see Item 8 – "Financial Statements and Supplementary Data" hereof.

Note to Shareholders: The copy of this Annual Report to the SEC, on form 10-K for the fiscal year ended December 31, 2005, does not contain the list of exhibits contained in the copy of the Report as filed with the SEC. Shareholders who wish to obtain a copy of the list of exhibits may obtain it without charge by contacting: Lincoln E. Bleveans, Secretary & Assistant Treasurer, CH Energy Group, Inc., 284 South Avenue, Poughkeepsie, NY 12601-4879, telephone 845-486-5292; email: lbleveans@cenhud.com. Copies of the exhibits can be purchased from Energy Group for a specified fee.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, CH Energy Group, Inc. and Central Hudson Gas & Electric Corporation have duly caused this 10-K Annual Report to be signed on its behalf by the undersigned, thereunto duly authorized.

CH ENERGY GROUP, INC.

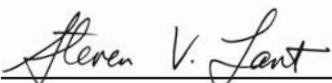
By 

Steven V. Lant

Chairman of the Board, President and Chief Executive Officer

Dated: February 17, 2006

CENTRAL HUDSON GAS & ELECTRIC CORPORATION

By 

Steven V. Lant

Chairman of the Board and Chief Executive Officer

Dated: February 17, 2006

Pursuant to the requirements of the Securities Exchange Act of 1934, this 10-K Annual Report has been signed below by the following persons on behalf of CH Energy Group, Inc. and Central Hudson Gas & Electric Corporation and in the capacities and on the date indicated:

Signature	Title	Date
(a) Principal Executive Officer or Officers:		
 _____	Chairman of the Board, President and Chief Executive Officer of CH Energy Group, Inc. and Chairman of the Board and Chief Executive Officer of Central Hudson Gas & Electric Corporation	February 17, 2006
(b) Principal Accounting Officer:		
 (Donna S. Doyle)	Vice President –Accounting and Controller of CH Energy Group, Inc. and Central Hudson Gas & Electric Corporation	February 17, 2006
(c) Chief Financial Officer:		
 (Christopher M. Capone)	Chief Financial Officer and Treasurer of CH Energy Group, Inc. and Central Hudson Gas & Electric Corporation	February 17, 2006
(d) A majority of Directors of CH Energy Group, Inc.:		
Steven V. Lant*, Heinz K. Fridrich*, Margarita K. Dilley*, Manuel J. Iraola*, Edward F.X. Gallagher*, Stanley J. Grubel*, Steven M. Fetter*, Jeffrey D. Tranen*, and E. Michel Kruse*, Directors		
By  _____		February 17, 2006
(Steven V. Lant)		
(e) A majority of Directors of Central Hudson Gas & Electric Corporation:		
Steven V. Lant*, Christopher M. Capone*, Carl E. Meyer*, Jack Effron*, Joseph J. DeVirgilio, Jr.*, and Arthur R. Upright*, Directors		
By  _____		February 17, 2006
(Steven V. Lant)		

*Steven V. Lant, by signing his name hereto, does thereby sign this document for himself and on behalf of the persons named above after whose printed name an asterisk appears, pursuant to powers of attorney duly executed by such persons and filed with the United States Securities and Exchange Commission as Exhibit 24 hereof.

CERTIFICATIONS

Exhibit 31.1

I, Steven V. Lant, certify that:

I have reviewed this annual report on Form 10-K of CH Energy Group, Inc. and Central Hudson Gas & Electric Corporation (collectively the "Registrants");

Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrants as of, and for, the periods presented in this report;

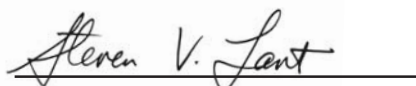
The Registrants' other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrants and have:

- a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrants, including their consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
- b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
- c) Evaluated the effectiveness of the Registrants' disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
- d) Disclosed in this report any change in the Registrants' internal control over financial reporting that occurred during the Registrants' most recent fiscal quarter (the Registrants' fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrants' internal control over financial reporting; and

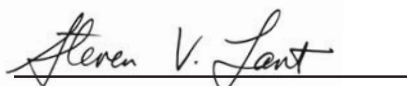
The Registrants' other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrants' auditors and the audit committee of the Registrants' boards of directors (or persons performing the equivalent functions):

- a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrants' ability to record, process, summarize and report financial information; and
- b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrants' internal control over financial reporting.

Date: February 17, 2006



Steven V. Lant
Chairman of the Board, President and
Chief Executive Officer of CH Energy Group, Inc.



Steven V. Lant
Chairman of the Board and Chief Executive Officer
of Central Hudson Gas & Electric Corporation

Exhibit 31.2

I, Christopher M. Capone, certify that:

I have reviewed this annual report on Form 10-K of CH Energy Group, Inc. and Central Hudson Gas & Electric Corporation (collectively the "Registrants");

Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrants as of, and for, the periods presented in this report;

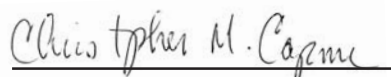
The Registrants' other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrants and have:

- a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrants, including their consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
- b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
- c) Evaluated the effectiveness of the Registrants' disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
- d) Disclosed in this report any change in the Registrants' internal control over financial reporting that occurred during the Registrants' most recent fiscal quarter (the Registrants' fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrants' internal control over financial reporting; and

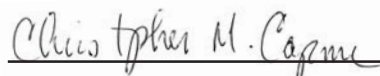
The Registrants' other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrants' auditors and the audit committee of the Registrants' boards of directors (or persons performing the equivalent functions):

- a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrants' ability to record, process, summarize and report financial information; and
- b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrants' internal control over financial reporting.

Date: February 17, 2006



Christopher M. Capone
Chief Financial Officer and Treasurer
of CH Energy Group, Inc.



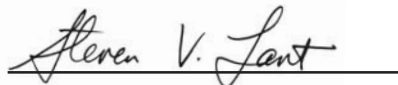
Christopher M. Capone
Chief Financial Officer and Treasurer
of Central Hudson Gas & Electric Corporation

Exhibit 32.1

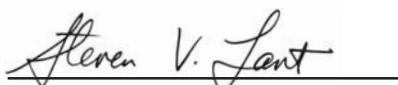
I, Steven V. Lant, do hereby certify in accordance with 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Annual Report on Form 10-K of CH Energy Group, Inc. and Central Hudson Gas & Electric Corporation (the "Companies") for the period ended December 31, 2005 (the "Annual Report") fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
2. The information contained in the Annual Report fairly presents, in all material respects, the financial condition and results of operations of the Companies.

Date: February 17, 2006



Steven V. Lant
Chairman of the Board, President and
Chief Executive Officer of CH Energy Group, Inc.



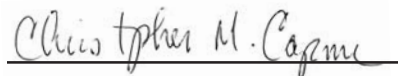
Steven V. Lant
Chairman of the Board and Chief Executive Officer
of Central Hudson Gas & Electric Corporation

Exhibit 32.2

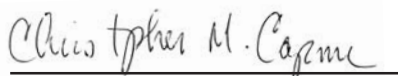
I, Christopher M. Capone, do hereby certify in accordance with 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Annual Report on Form 10-K of CH Energy Group, Inc. and Central Hudson Gas & Electric Corporation (the "Companies") for the period ended December 31, 2005 (the "Annual Report") fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
2. The information contained in the Annual Report fairly presents, in all material respects, the financial condition and results of operations of the Companies.

Date: February 17, 2006



Christopher M. Capone
Chief Financial Officer and Treasurer
of CH Energy Group, Inc.



Christopher M. Capone
Chief Financial Officer and Treasurer of
Central Hudson Gas & Electric Corporation

Officers of the Corporation

Steven V. Lant

Chairman of the Board, President
& Chief Executive Officer, Director

Carl E. Meyer

Executive Vice President

Joseph J. DeVirgilio, Jr.

Executive Vice President
Corporate Services & Administration

Arthur R. Upright

Senior Vice President

Christopher M. Capone

Chief Financial Officer & Treasurer

Donna S. Doyle

Vice President - Accounting & Controller

Denise Doring VanBuren

Vice President - Corporate Communications
& Community Relations

Stacey A. Renner

Assistant Treasurer - Investor Relations

Lincoln E. Bleveans

Secretary & Assistant Treasurer

John E. Gould

Assistant Secretary

Corporate Officers and Directors of the Subsidiaries of CH Energy Group

Central Hudson Gas & Electric Corporation

Steven V. Lant

Chairman of the Board & Chief Executive Officer, Director

Jack Effron

Director

Carl E. Meyer

President & Chief Operating Officer, Director

Christopher M. Capone

Chief Financial Officer & Treasurer, Director

Arthur R. Upright

Senior Vice President - Regulatory Affairs, Director

Joseph J. DeVirgilio, Jr.

Executive Vice President - Corporate Services
& Administration, Director

Donna S. Doyle

Vice President - Accounting & Controller

Charles A. Freni

Senior Vice President - Customer Services

James P. Lovette III

Vice President - Engineering & Environmental Affairs

Denise Doring VanBuren

Vice President - Corporate Communications
& Community Relations

Michael L. Mosher

Assistant Vice President - Regulatory Affairs

Lincoln E. Bleveans

Secretary & Assistant Treasurer

John E. Gould

Assistant Secretary

Thomas C. Brocks

Assistant Vice President - Human Resources

Central Hudson Enterprises Corporation

Steven V. Lant

Chairman of the Board, President &
Chief Executive Officer, Director

Christopher M. Capone

Chief Financial Officer & Treasurer

Donna S. Doyle

Director

Joseph J. DeVirgilio, Jr.

Executive Vice President, Director

W. Randolph Groft

Executive Vice President, Director

Arthur R. Upright

Director

Lincoln E. Bleveans

Secretary

Board of Directors

Steven V. Lant

Poughkeepsie, NY
Chairman of the Board, President and C.E.O.;
Member of the Strategy & Finance Committee;
Joined Board in 2002.

Margarita K. Dilley

Washington, DC
Former Vice President & C.F.O., Astrolink
International, LLC; Member of the Audit
and Compensation committees;
Joined Board in 2004.

Steven M. Fetter

Hendersen, NV
President, Regulation UnFettered;
Former Chairman, Michigan Public Service
Commission; Chairman of the Audit Committee;
Member of the Governance & Nominating
Committee;
Joined Board in 2002.

Heinz K. Fridrich

Fernandina Beach, FL
Industry Professor Emeritus, University of Florida;
Former Vice President of Manufacturing, IBM
Corporation; Vice Chairman of the Board;
Chairman of the Governance & Nominating
Committee; Member of the Audit Committee;
Joined Board in 1988.

Edward F. X. Gallagher

Newburgh, NY
Retired Chairman, Gallagher Transportation
Services; Member of the Audit
and Strategy & Finance committees;
Joined Board in 1984.

Stanley J. Grubel

Irvington, NY
Former C.E.O., MiCrus; Chairman of the
Compensation Committee; Member of the
Strategy & Finance Committee;
Joined Board in 1999.

Manuel “Manolo” J. Iraola

Coral Gables, FL
Chairman, President and C.E.O., The Aloaris Group;
Former President, Phelps Dodge Corp.; Joined Board in
2006.

E. Michel Kruse

Greenwich, CT
Former Vice Chairman & C.F.O., Chase
Manhattan Corp.; Chairman of the Strategy &
Finance Committee; Member of the
Governance & Nominating Committee;
Joined Board in 2002.

Jeffrey D. Tranen

New York City, NY
Senior Managing Director, Lexecon, Inc.; Former
President of New England Power Company and
former President and C.E.O. of California I.S.O.;
Member of the Compensation and Strategy &
Finance committees;
Joined Board in 2004.

Front: Steven M. Fetter, Steven V. Lant, Heinz K. Fridrich;
Rear: Margarita K. Dilley, Stanley J. Grubel, E. Michel Kruse,
Edward F.X. Gallagher and Jeffrey D. Tranen.





www.CHEnergyGroup.com