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CENTRAL HUDSON GAS & ELECTRIC CORP
Form 10-Q/A
August 24, 2004

FORM 10-Q/A

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

(Mark One)

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

For the quarterly period ended June 30, 2004

OR

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

For the transition period from _____ to _____

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

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

Yes No

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

Yes No

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

Yes No

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As of the close of business on August 4, 2004, (i) CH Energy Group, Inc. had outstanding 15,762,000 shares of Common Stock (\$0.10 per share par value) and (ii) all of the outstanding 16,862,087 shares of Common Stock (\$5 per share par value) of Central Hudson Gas & Electric Corporation were held by CH Energy Group, Inc.

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

Explanatory Note

This amendment to our quarterly report on Form 10-Q for the quarterly period ended June 30, 2004 is filed solely for the purpose of correcting a typographical error appearing in the Risk Factor entitled "Regulatory Risks Related to Limitations on the Potential to Pass Through Increased Costs". No other items or disclosures in our original report are being amended. Our original report, as amended by this Form 10-Q/A, is referred to herein as the "quarterly report".

FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 2004

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Filing Format

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

PART I - FINANCIAL INFORMATION

Item I - Consolidated Financial Statements

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

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	For the Three Months Ended 2004
	----- (Thousands of Dollars)
Operating Revenues	
Electric	\$97,441
Natural gas	26,091
Competitive business subsidiaries	41,822

Total Operating Revenues	165,354

Operating Expenses	
Operation:	
Purchased electricity and fuel used in electric generation	55,317
Purchased natural gas	16,066
Purchased petroleum	29,956
Other expenses of operation - regulated activities	24,507
Other expenses of operation - competitive business subsidiaries ...	12,453
Depreciation and amortization	8,613
Taxes, other than income tax	7,702

Total Operating Expenses	154,614

Operating Income	10,740

Other Income	
Allowance for equity funds used during construction	74
Interest on regulatory assets and investment income	2,913
Other - net	1,473

Total Other Income	4,460

Interest and Other Charges	
Interest on mortgage bonds	--
Interest on other long-term debt	2,909
Interest on regulatory liabilities and other interest	2,139
Allowance for borrowed funds used during construction	(49)
Cumulative Preferred Stock Dividends of Central Hudson	242

Total Interest and Other Charges	5,241

Income Before Income Taxes	9,959
Income Taxes	4,463

Net Income	5,496
Dividends Declared on Common Stock	8,511

Balance Retained in the Business	(\$3,015)
	=====

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Common Stock:	
Average Shares Outstanding (000s) - Basic	15,762
- Diluted	15,771
Earnings Per Share - Basic	\$0.35
- Diluted	\$0.34
Dividends Declared Per Share	\$0.54

See Notes to Consolidated Financial Statements

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

	For the Six Months E 2004 ----- (Thousands of D
Operating Revenues	
Electric	\$216,710
Natural gas	84,795
Competitive business subsidiaries	126,843

Total Operating Revenues	428,348

Operating Expenses	
Operation:	
Purchased electricity and fuel used in electric generation	127,470
Purchased natural gas	55,550
Purchased petroleum	87,796
Other expenses of operation - regulated activities	47,761
Other expenses of operation - competitive business subsidiaries ...	27,459
Depreciation and amortization	17,214
Taxes, other than income tax	14,891

Total Operating Expenses	378,141

Operating Income	50,207

Other Income	
Allowance for equity funds used during construction	162
Interest on regulatory assets and investment income	5,837
Other - net	3,506

Total Other Income	9,505

Interest and Other Charges	
Interest on mortgage bonds	--

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See Notes to Consolidated Financial Statements

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

	For the Six Months 2004
	----- (Thousands of
Net Income	\$28,485
Other comprehensive income:	
Net unrealized gains (losses) net of tax and net income realization:	
FAS 133 Designated Cash Flow Hedges, net of tax of \$58 and \$13	(88)
Investments, net of tax of \$113 and \$(1,368)	(169)

Other comprehensive income (loss)	(257)

Comprehensive Income	\$28,228
	=====

See Notes to Consolidated Financial Statements

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

	June 30, 2004	December 31, 2003	June 30, 2003
	-----	-----	-----
	(Thousands of Dollars)		
ASSETS			
Utility Plant			
Electric	\$666,471	\$656,192	\$619,000
Natural gas	205,929	199,221	192,000
Common	105,657	104,532	104,000
	-----	-----	-----
	978,057	959,945	915,000
Less: Accumulated depreciation	311,526	309,208	381,000
	-----	-----	-----
	666,531	650,737	534,000

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Construction work in progress	66,254	56,764	79,
Net Utility Plant	732,785	707,501	612,
Other Property and Plant, net	22,461	21,589	18,
Current Assets			
Cash and cash equivalents	132,196	125,834	123,
Investments	--	--	20,
Accounts receivable - net of allowance for doubtful accounts of \$4.7 million, \$4.6 million, and \$3.3 million, respectively	57,297	61,223	70,
Accrued unbilled utility revenues	4,949	7,618	4,
Other receivables	3,708	12,216	2,
Fuel and materials and supplies - at average cost	16,853	19,847	17,
Fair value of derivative instruments	54	869	
Bond defeasance escrow	--	--	10,
Special deposits and prepayments	13,142	23,315	19,
Total Current Assets	228,199	250,922	268,
Deferred Charges and Other Assets			
Prefunded pension costs	--	--	100,
Regulatory assets - pension plan	92,816	124,210	34,
Intangible asset - pension plan	24,447	24,447	
Goodwill	50,462	50,462	50,
Other intangible assets - net	30,149	31,518	33,
Regulatory assets	39,733	67,474	51,
Unamortized debt expense	3,860	3,901	3,
Other	19,936	18,468	19,
Total Deferred Charges and Other Assets	261,403	320,480	293,
Total Assets	\$1,244,848	\$1,300,492	\$1,193,

See Notes to Consolidated Financial Statements

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

June 30,
2004

(Thous

CAPITALIZATION AND LIABILITIES

Capitalization

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Common Stock Equity:	
Common stock, 30,000,000 shares authorized;	
16,862,087 shares issued (\$0.10 par value)	\$1,686
Paid-in capital	351,230
Retained earnings	190,857
Treasury stock	(46,252)
(1,100,087 shares at June 30, 2004, and at December 31, 2003;	
1,028,487 shares at June 30, 2003)	
Accumulated comprehensive income (loss)	(564)
Capital stock expense	(328)

Total Common Stock Equity	496,629

Cumulative Preferred Stock of a Consolidated Subsidiary	
Not subject to mandatory redemption	21,030
Subject to mandatory redemption	--

Total Cumulative Preferred Stock	21,030

Long-term Debt	285,881

Total Capitalization	803,540

Current Liabilities	
Current maturities of long-term debt	15,000
Notes payable	--
Accounts payable	35,377
Accrued interest	4,667
Dividends payable	8,754
Accrued vacation and payroll	5,728
Customer deposits	6,106
Accrued taxes payable	4,293
Deferred revenues	6,449
Fair value of derivative instruments	1,350
Other	11,697

Total Current Liabilities	99,421

Deferred Credits and Other Liabilities	
Regulatory liabilities	160,480
Operating reserves	5,722
Deferred gain - sale of major generating assets	4,944
Accrued environmental remediation costs	19,418
Accrued other post-employment benefit costs	14,689
Accrued pension costs	18,278
Other	19,591

Total Deferred Credits and Other Liabilities	243,122

Accumulated Deferred Income Tax (Net)	98,765

Total Capitalization and Liabilities	\$1,244,848
	=====

See Notes to Consolidated Financial Statements

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

For the Six Months
 Ended
 June
 2004

(Thousands of Dollars)

Operating Activities:

Net Income	\$28,485
Adjustments to reconcile net income to net cash provided by (used in) operating activities:	
Depreciation and amortization	17,214
Deferred income taxes - net	9,623
Loss on sale of temporary investments	--
Provision for uncollectibles	2,010
Accrued/deferred pension costs	(10,184)
Amortization of fossil plant incentive	(4,944)
Fair value of derivative instruments	2,165
Other - net	(1,367)
Changes in operating assets and liabilities, net:	
Accounts receivable, unbilled revenues and other receivables	13,094
Fuel, materials and supplies	2,994
Special deposits and prepayments	4,026
Accounts payable	(5,225)
Accrued taxes and interest	10,865
Deferred natural gas and electric costs	8,109
Customer benefit and carrying charge - net	(12,573)
Proceeds from sale of emissions allowances	6,780
Other - net	(3,766)
Net Cash Provided by Operating Activities	67,306

Investing Activities:

Purchase of investments	--
Proceeds from sale of temporary investments	--
Additions to utility plant and other property and plant	(33,064)
Acquisitions made by competitive business subsidiary	--
Other - net	(1,713)
Net Cash (Used in) Provided by Investing Activities	(34,777)

Financing Activities:

Proceeds from issuance of long-term debt	7,000
--	-------

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Retirement of long-term debt	--
Net repayments of short-term debt	(16,000)
Repurchase of treasury stock	--
Dividends paid on common stock	(17,023)
Issuance and redemption costs	(144)

Net Cash Used in Financing Activities	(26,167)

Net Change in Cash and Cash Equivalents	6,362
Cash and Cash Equivalents - Beginning of Year	125,834

Cash and Cash Equivalents - End of Period	\$132,196
	=====
Supplemental Disclosure of Cash Flow Information	
Interest paid	\$6,599
Federal and State income tax paid	\$4,906
2004 Operating activities reflects \$75.0 million non-cash offset of deferred pension and OPEB balances to the Customer Benefit Fund	

See Notes to Consolidated Financial Statements

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

	For the Three Months Ended June 2004	2003
	-----	-----
	(Thousands of Dollars)	
Operating Revenues		
Electric	\$95,993	\$113,281
Natural gas	25,630	28,141
	-----	-----
Total - own territory	121,623	141,422
Electric sales to other utilities	1,448	1,448
Natural gas sales to other utilities	461	461
	-----	-----
Total Operating Revenues	123,532	143,372
	-----	-----
Operating Expenses		
Operation:		
Purchased electricity	55,197	70,141
Fuel used in electric generation	120	120
Purchased natural gas	16,066	18,141
Other expenses of operation	24,506	26,141

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Depreciation and amortization	7,064	6
Taxes, other than income tax	7,652	7
	-----	-----
Total Operating Expenses	110,605	130
	-----	-----
Operating Income	12,927	13
	-----	-----
Other Income		
Allowance for equity funds used during construction	74	
Interest on regulatory assets and other interest income	2,651	2
Other - net	1,741	1
	-----	-----
Total Other Income	4,466	4
	-----	-----
Interest Charges		
Interest on mortgage bonds	--	
Interest on other long-term debt	2,909	2
Interest on regulatory liabilities and other interest	2,164	2
Allowance for borrowed funds used during construction	(49)	
	-----	-----
Total Interest Charges	5,024	5
	-----	-----
Income Before Income Taxes	12,369	12
Income Taxes	5,407	5
	-----	-----
Net Income	6,962	7
Dividends Declared on Cumulative Preferred Stock	242	
	-----	-----
Income Available for Common Stock	\$6,720	\$6
	=====	=====

See Notes to Consolidated Financial Statements

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

	For the Six Months Ended June 30	2004	2003
	-----	-----	-----
	(Thousands of Dollars)		
Operating Revenues			
Electric	\$213,892	\$226,3	84,9
Natural gas	84,266	84,9	84,9
	-----	-----	-----
Total - own territory	298,158	311,2	311,2

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Electric sales to other utilities	2,818	2,8
Natural gas sales to other utilities	529	2
	-----	-----
Total Operating Revenues	301,505	314,4
	-----	-----
Operating Expenses		
Operation:		
Purchased electricity	127,302	137,8
Fuel used in electric generation	168	
Purchased natural gas	55,550	57,2
Other expenses of operation	47,760	51,2
Depreciation and amortization	14,128	13,4
Taxes, other than income tax	14,781	14,7
	-----	-----
Total Operating Expenses	259,689	274,4
	-----	-----
Operating Income	41,816	39,9
	-----	-----
Other Income		
Allowance for equity funds used during construction	162	2
Interest on regulatory assets and other interest income	5,354	4,8
Other - net	3,434	3,7
	-----	-----
Total Other Income	8,950	8,8
	-----	-----
Interest Charges		
Interest on mortgage bonds	--	5
Interest on other long-term debt	5,740	5,2
Interest on regulatory liabilities and other interest	4,423	5,4
Allowance for borrowed funds used during construction	(108)	(2)
	-----	-----
Total Interest Charges	10,055	10,9
	-----	-----
Income Before Taxes	40,711	37,8
Income Taxes	17,261	15,4
	-----	-----
Net Income	23,450	22,3
Dividends Declared on Cumulative Preferred Stock	485	9
	-----	-----
Income Available for Common Stock	\$22,965	\$21,4
	=====	=====

See Notes to Consolidated Financial Statements

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	June 30, 2004	December 31, 2003

	(Thousands of Dollars)	
ASSETS		
Utility Plant		
Electric	\$666,471	\$656,199
Natural Gas	205,929	199,229
Common	105,657	104,533
	-----	-----
	978,057	959,961
Less: Accumulated depreciation	311,526	309,200
	-----	-----
	666,531	650,761
Construction work in progress	66,254	56,766
Net Utility Plant	732,785	707,527
	-----	-----
Other Property and Plant, net	964	964
	-----	-----
Current Assets		
Cash and cash equivalents	12,887	12,729
Accounts receivable - net of allowance for doubtful accounts of \$3.2 million, \$3.0 million, and \$2.9 million, respectively	36,793	37,488
Accrued unbilled utility revenues	4,949	7,611
Other receivables	2,001	9,566
Fuel and materials and supplies - at average cost	13,995	16,155
Fair value of derivative instruments	54	72
Bond defeasance escrow	--	--
Special deposits and prepayments	10,209	22,500
Total Current Assets	80,888	106,771
	-----	-----
Deferred Charges and Other Assets		
Prefunded pension costs	--	--
Regulatory assets - pension plan	92,816	124,211
Intangible asset - pension plan	24,447	24,447
Regulatory assets	39,733	67,477
Unamortized debt expense	3,860	3,900
Other assets	9,957	8,100
Total Deferred Charges and Other Assets	170,813	228,135
	-----	-----
Total Assets	\$985,450	\$1,043,377
	=====	=====

See Notes to Consolidated Financial Statements

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

	June 30, 2004	December 31, 2003
	-----	-----
	(Thousands of Dollars)	
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	19,431	13,466
Capital stock expense	(4,961)	(4,961)
	-----	-----
Total Common Stock Equity	273,761	267,796
	-----	-----
Cumulative Preferred Stock		
Not subject to mandatory redemption	21,030	21,030
Subject to mandatory redemption	--	--
	-----	-----
Total Cumulative Preferred Stock	21,030	21,030
	-----	-----
Long-term Debt	285,881	278,880
	-----	-----
Total Capitalization	580,672	567,706
	-----	-----
Current Liabilities		
Current maturities of long-term debt	15,000	15,000
Notes payable	--	16,000
Accounts payable	31,026	33,084
Accrued interest	4,667	4,274
Dividends payable	242	242
Accrued vacation and payroll	5,076	5,289
Customer deposits	5,971	5,690
Accrued taxes payable	322	--
Fair value of derivative instruments	1,350	--
Other	6,443	6,622
	-----	-----
Total Current Liabilities	70,097	86,201
	-----	-----
Deferred Credits and Other Liabilities		
Regulatory liabilities	160,480	228,058
Operating reserves	5,722	5,043
Deferred gain - sale of major generating assets	4,944	9,887
Accrued environmental remediation costs	19,418	19,500
Accrued other post-employment benefit costs	14,689	10,561
Accrued pension costs	18,278	9,775
Other	14,075	12,524
	-----	-----
Total Deferred Credits and Other Liabilities	237,606	295,348
	-----	-----

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Accumulated Deferred Income Tax (Net)	97,075	94,120
	-----	-----
Total Capitalization and Liabilities	\$985,450	\$1,043,375
	=====	=====

See Notes to Consolidated Financial Statements

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

	For the Six Months Ending June 30, 2004
	(Thousand)
Operating Activities:	
Net Income	\$23,450
Adjustments to reconcile net income to net cash provided by (used in) operating activities:	
Depreciation and amortization	14,128
Deferred income taxes - net	9,788
Provision for uncollectibles	1,600
Accrued/deferred pension costs	(10,184)
Amortization of fossil plant incentive	(4,944)
Other - net	(2,902)
Changes in operating assets and liabilities - net:	
Accounts receivable, unbilled revenues and other receivables	9,328
Fuel, materials and supplies	2,163
Special deposits and prepayments	4,295
Fair value of derivative instruments	2,018
Accounts payable	(2,058)
Accrued taxes and interest	8,819
Deferred natural gas and electric costs	8,109
Proceeds from sales of emissions allowances	6,780
Customer benefit and carrying charge - net	(12,573)
Other - net	(215)

Net Cash Provided by Operating Activities	57,602

Investing Activities:	
Additions to plant	(29,899)
Other - net	(907)

Net Cash Used in Investing Activities	(30,806)

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Financing Activities:

Proceeds from issuance of long-term debt	7,000
Retirement and redemption of long-term debt	--
Net borrowings of short-term debt	(16,000)
Dividends paid on cumulative preferred and common stock	(17,485)
Issuance and redemption costs	(144)

Net Cash Used in Financing Activities	(26,629)

Net Change in Cash and Cash Equivalents	167
Cash and Cash Equivalents - Beginning of Year	12,720

Cash and Cash Equivalents - End of Period	\$12,887
=====	

Supplemental Disclosure of Cash Flow Information

Interest paid	\$5,432
Federal and State income tax paid	\$3,905
2004 Operating activities reflects \$75.0 million non-cash offset of deferred pension and OPEB balances to the Customer Benefit Fund	

See Notes to Consolidated Financial Statements

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

NOTE 1 - GENERAL

Basis of Presentation

This Quarterly Report on Form 10-Q is a combined report of CH Energy Group, Inc. ("Energy Group") and its regulated electric and natural gas subsidiary, Central Hudson Gas & Electric Corporation ("Central Hudson"). The Notes to the Consolidated Financial Statements apply to both Energy Group and Central Hudson. Energy Group's Consolidated Financial Statements include the accounts of Energy Group and its wholly owned subsidiaries, which include Central Hudson and Energy Group's non-utility subsidiary, Central Hudson Enterprises Corporation ("CHEC" and, together with its subsidiaries, the "competitive business subsidiaries").

Unaudited Consolidated Financial Statements

The accompanying Consolidated Financial Statements of Energy Group and Central Hudson are unaudited but, in the opinion of the respective Managements, reflect adjustments (which include normal recurring adjustments) necessary for a fair statement of the results for the interim periods presented. These

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condensed, unaudited, quarterly Consolidated Financial Statements do not contain the detail or footnote disclosures concerning accounting policies and other matters which would be included in annual Consolidated Financial Statements and, accordingly, should be read in conjunction with the audited Consolidated Financial Statements (including the Notes thereto) included in the combined Energy Group/Central Hudson Annual Report on Form 10-K for the year ended December 31, 2003 (the "Corporations' 10-K Annual Report").

Central Hudson's and CHEC's operations are seasonal in nature and weather-sensitive and, as a result, financial results for interim periods are not necessarily indicative of trends for a twelve-month period.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and Cash Equivalents

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

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Accounting for Derivative Instruments and Hedging Activities

Reference is made to the caption "Accounting for Derivative Instruments and Hedging Activities" of Note 1 - "Summary of Significant Accounting Policies" to the Consolidated Financial Statements of the Corporations' 10-K Annual Report. The total fair value of open Central Hudson derivatives, which hedge electric and natural gas commodity purchases, at June 30, 2004, is \$54,000 (net unrealized gain), which compares to a fair value at December 31, 2003, of \$722,000 (net unrealized gain). Central Hudson realized an actual net gain of \$167,000 for the six months ended June 30, 2004, which compares to a net gain of \$4.2 million for the same period in 2003. These gains and losses, which either decrease or increase actual energy costs, were deferred for pass-back to or recovery from customers under Central Hudson's electric and natural gas cost adjustment clauses as authorized by the New York State Public Service Commission ("PSC") and in accordance with the provisions of Statement of Financial Accounting Standard ("SFAS") 71. Central Hudson also entered into weather derivative contracts for the three months of the heating seasons ended March 31, 2004, and 2003 and for the three months of the cooling seasons ended August 31, 2004, and 2003. Payments of \$187,000 and \$1.7 million, respectively, were made to counter-parties due to the colder than normal weather experienced during the three heating season months ended March 2004 and 2003. No payments were made or received in June 2004 or June 2003 related to the cooling season.

Additionally, in the first quarter of 2004, Central Hudson entered into costless collars consisting of over-the-counter put and call options designed to hedge the prices of a portion of sulfur dioxide emission allowances retained when Central Hudson sold its interests in its major generating assets in January 2001. At June 30, 2004, the call options had a fair value (unrealized loss) of (\$1,350,000). Due to favorable market conditions, a number of allowances were sold during the six months ended June 30, 2004; however, the proceeds of approximately \$6.8 million were deferred for the future benefit of customers in accordance with a PSC order issued in 1993. Proceeds from any future sales and/or option settlements will also be deferred.

CHEC had no open derivative positions at June 30, 2004, and the fair value of open derivative instruments at December 31, 2003, was not material. Derivatives entered into during the six months ended June 30, 2004, and 2003 included oil put and call options designated as fair value and cash flow hedges,

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respectively, for fuel oil purchases during the heating season. Actual net gains recorded during the comparative six months ended June 30, 2004, and 2003 for fuel oil put and call options hedging fuel oil purchase transactions, net of related option premium expense, were also not material. CHEC also entered into weather derivative contracts for the three months ended March 31, 2004, and 2003, which resulted in no payment to or from counter-parties for 2004 and \$2.1 million in payments to counter-parties for that period in 2003. No payment to counter-parties was required in 2004 due to more favorable settlement terms and also due to weather that was not as cold as last year.

In addition to the above, Energy Group sold covered call options on stock held in its Alternate Investment Program portfolio during the quarter ended March 31, 2003.

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These covered call options expired in July 2003 and the final gain realized for these derivatives was not material. The Alternate Investment Program was liquidated by July 2003, with proceeds then placed in more secure money market instruments with a lower yield.

Goodwill and Other Intangible Assets

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

Intangible assets include separate, identifiable, intangible assets such as customer lists and covenants not to compete. Intangible assets with finite lives are amortized over their useful lives. The estimated useful life for customer lists is 15 years, which is believed to be appropriate in view of currently experienced customer turnover. However, if customer turnover were to substantially increase, a shorter amortization period would be used, resulting in an increase in amortization expense. The useful life for a covenant not to compete is based on the expiration date of the covenant. Intangible assets with indefinite useful lives and goodwill are no longer amortized, but instead are annually reviewed for impairment. Substantially all of CHEC's intangible assets are the result of business combinations.

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

	June 30, 2004		December 31, 2003	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Customer Lists	\$ 38,371	\$ 8,890	\$ 38,371	\$7,609
Covenants Not to Compete	1,439	771	1,439	683
Total Amortizable Intangibles	\$ 39,810	\$ 9,661	\$ 39,810	\$ 8,292

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Amortization expense was \$0.7 million for the three months ended June 30, 2004, and 2003, respectively, and \$1.4 million for each of the six months ended June 30, 2004, and 2003. The estimated annual amortization expense for each of the next five years, assuming no new acquisitions, is as follows (thousands of dollars):

2004	\$ 2,73
2005	\$ 2,688
2006	\$ 2,670
2007	\$ 2,656
2008	\$ 2,641

The carrying amount for goodwill not subject to amortization was \$50.5 million as of June 30, 2004, and as of December 31, 2003.

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Depreciation and Amortization

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

In 2001, the Financial Accounting Standards Board ("FASB") issued SFAS 143, entitled Accounting for Asset Retirement Obligations ("SFAS 143"). One of the provisions of SFAS 143 precludes the recognition of expected future retirement obligations as a component of depreciation expense or accumulated depreciation. Pursuant to SFAS 71, however, Central Hudson is required to use depreciation methods and rates approved by the PSC. In accordance with SFAS 71, Central Hudson continues to accrue for the future cost of removal for its natural gas and electric assets. For financial reporting purposes, Central Hudson reclassified \$88.6 million, \$79.3 million, and \$76.2 million of net cost of removal from accumulated depreciation to a regulatory liability as of June 30, 2004, December 31, 2003, and June 30, 2003, respectively.

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

Accumulated depreciation for the competitive business subsidiaries was \$10.2 million, \$8.6 million, and \$7.8 million as of June 30, 2004, December 31, 2003, and June 30, 2003, respectively.

Amortization of intangibles (other than goodwill) is computed on a straight-line basis over an asset's expected useful life. See subcaption "Goodwill and Other Intangible Assets" in this Note 2 for further discussion.

Earnings Per Share

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The average dilutive effect of stock options and performance shares was 8,945 shares and 2,773 shares for the quarters ended June 30, 2004, and 2003, and 9,762 shares and 2,748 shares for the six months ended June 30, 2004, and 2003, respectively. Certain stock options were excluded from the computation of diluted earnings per share because the exercise prices of those options were greater than the

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average market price per share of Common Stock for each of the years presented. The number of shares of Common Stock represented by the options excluded from the above calculation was 36,900 and 94,400 shares for the three months and six months ended June 30, 2004, and 2003, respectively. For additional information regarding stock options and performance shares, see Note 5 - "Stock-Based Compensation Incentive Plans."

Stock-Based Compensation

At June 30, 2004, Energy Group had a stock-based employee compensation plan that is described more fully in Note 5 - "Stock-Based Compensation Incentive Plans."

Effective January 1, 2003, Energy Group adopted the fair value recognition provisions of FASB 123, utilizing the modified prospective methods under the provisions of SFAS 148, entitled Accounting for Stock-Based Compensation - Transition and Disclosure. Compensation costs recorded in the second quarters of 2004 and 2003 and the six months ended June 30, 2004, and 2003 were not material.

NOTE 3 - SEGMENTS AND RELATED INFORMATION

Reference is made to Note 14 - "Segments and Related Information" to the Consolidated Financial Statements of the Corporations' 10-K Annual Report.

Energy Group's reportable operating segments are the regulated electric and natural gas operations of Central Hudson and the unregulated fuel oil distribution activities of CHEC. "Unregulated - Other" is currently comprised of the investment and business development activities of Energy Group and the energy efficiency and investment activities of CHEC. The fuel oil distribution segments currently operate in the Northeast and Mid-Atlantic regions of the United States.

Beginning with the Quarterly Report on Form 10-Q for the quarter ended March 31, 2004, Energy Group refined its basis of segmentation to separate the Unregulated Segment into "Fuel Oil Distribution" and "Other." Management is regularly reviewing the operating results of the fuel oil distribution companies as a standalone component of the total unregulated operations and assessing their performance as a basis for allocating resources. This refined segmentation is in response to requests from, and will provide additional information for, investors and potential investors.

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

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CH Energy Group, Inc. Segment Disclosure - 2004

Quarter Ended June 30, 2004					
(\$000s Except Earnings Per Share)					
	Regulated		Unregulated		Elimination
	Electric	Natural Gas	Fuel Oil Distribution	Other	
Revenues from external customers	\$ 97,441	\$ 26,091	\$ 41,555	\$ 267	\$ --
Intersegment revenues	3	42	--	--	(45)
Total revenues	\$ 97,444	\$ 26,133	\$ 41,555	\$ 267	\$ (45)
Earnings before income taxes	\$ 9,948	\$ 2,179	\$ (2,754)	\$ 586	\$ --
Net income	\$ 5,721	\$ 999	\$ (1,653)	\$ 429	\$ --
Earnings Per Share - Basic	\$ 0.37	\$ 0.06	\$ (0.11)	\$ 0.03(1)	\$ --
Segment Assets at 6-30-04	\$ 761,944	\$ 223,506	\$ 133,135	\$ 127,519	\$ (1,256)

(1) The amount attributable to CHEC's other business activities was \$0.02; the balance of \$0.01 was primarily related to Energy Group's investment activities.

Six Months Ended June 30, 2004					
(\$000s Except Earnings Per Share)					
	Regulated		Unregulated		Elimination
	Electric	Natural Gas	Fuel Oil Distribution	Other	
Revenues from external customers	\$ 216,710	\$ 84,795	\$ 126,337	\$ 506	\$ --
Intersegment revenues	6	192	--	--	(198)
Total revenues	\$ 216,716	\$ 84,987	\$ 126,337	\$ 506	\$ (198)

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Earnings before income taxes	\$ 26,078	\$ 14,148	\$ 7,362	\$ 1,633	\$ --
Net income	\$ 15,084	\$ 7,881	\$ 4,417	\$ 1,103	\$ --
Earnings Per Share - Basic	\$ 0.96	\$ 0.50	\$ 0.28	\$ 0.07(1)	\$ --
Segment Assets at 6-30-04	\$ 761,944	\$ 223,506	\$ 133,135	\$ 127,519	\$ (1,256)

(1) The amount attributable to CHEC's other business activities was \$0.03; the balance of \$0.04 was primarily related to Energy Group's investment activities.

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CH Energy Group, Inc. Segment Disclosure - 2003

Quarter Ended June 30, 2003					
(\$000s Except Earnings Per Share)	Regulated		Unregulated		Elimination
	Electric	Natural Gas	Fuel Oil Distribution	Other	
Revenues from external customers	\$ 114,709	\$ 28,760	\$ 39,502	\$ 216	\$ --
Intersegment revenues	3	74	--	--	(77)
Total revenues	\$ 114,712	\$ 28,834	\$ 39,502	\$ 216	\$ (77)
Earnings before income taxes	\$ 9,524	\$ 2,224	\$ (1,540)	\$ 2,708	\$ --
Net income	\$ 5,411	\$ 1,330	\$ (909)	\$ 1,793	\$ --
Earnings Per Share - Basic	\$ 0.34	\$ 0.09	\$ (0.06)	\$ 0.11(1)	\$ --
Segment Assets at 6-30-03	\$ 738,795	\$ 204,835	\$ 134,784	\$ 116,696	\$ (1,252)

(1) The amount is attributable to Energy Group's investment activities.

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Six Months Ended June 30, 2003

(\$000s Except
Earnings Per Share)

	Regulated		Unregulated		Elimination
	Electric	Natural Gas	Fuel Oil Distribution	Other	
Revenues from external customers	\$ 229,214	\$ 85,198	\$ 133,389	\$ 529	\$ --
Intersegment revenues	6	233	--	--	(239)
Total revenues	\$ 229,220	\$ 85,431	\$ 133,389	\$ 529	\$ (239)
Earnings before income taxes	\$ 23,476	\$ 13,432	\$ 7,065	\$ 3,029	\$ --
Net income	\$ 13,556	\$ 7,892	\$ 4,270	\$ 2,100	\$ --
Earnings Per Share - Basic	\$ 0.85	\$ 0.50	\$ 0.27	\$ 0.13(1)	\$ --
Segment Assets at 6-30-03	\$ 738,795	\$ 204,835	\$ 134,784	\$ 116,696	\$ (1,252)

(1) The amount attributable to CHEC's other business activities was \$0.01; the balance of \$0.12 was related to Energy Group's investment activities.

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Central Hudson Gas & Electric Corporation Segment Disclosure

(\$000)	Quarter Ended June 30, 2004			
	Electric	Natural Gas	Eliminations	Total
Revenues from external customers	\$ 97,441	\$ 26,091	\$ --	\$123,532
Intersegment revenues	3	42	(45)	--
Total Revenues	\$ 97,444	\$ 26,133	\$ (45)	\$123,532
Earnings before income taxes	\$ 10,130	\$ 2,239	\$ --	\$ 12,369
Net Income	\$ 5,903	\$ 1,059	\$ --	\$ 6,962
Income Available for Common Stock	\$ 5,721	\$ 999	\$ --	\$ 6,720

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(\$000)	Six Months Ended June 30, 2004			
	Electric	Natural Gas	Eliminations	Total
Revenues from external customers	\$216,710	\$ 84,795	\$ --	\$301,505
Intersegment revenues	6	192	(198)	--
Total Revenues	\$216,716	\$ 84,987	\$ (198)	\$301,505
Earnings before income taxes	\$ 26,443	\$ 14,268	\$ --	\$ 40,711
Net Income	\$ 15,449	\$ 8,001	\$ --	\$ 23,450
Income Available for Common Stock	\$ 15,084	\$ 7,881	\$ --	\$ 22,965

(\$000)	Quarter Ended June 30, 2003			
	Electric	Natural Gas	Eliminations	Total
Revenues from external customers	\$114,709	\$ 28,760	\$ --	\$143,469
Intersegment revenues	3	74	\$ (77)	\$ --
Total Revenues	\$114,712	\$ 28,834	\$ (77)	\$143,469
Earnings before income taxes	\$ 9,862	\$ 2,338	\$ --	\$ 12,200
Net Income	\$ 5,748	\$ 1,444	\$ --	\$ 7,192
Income Available for Common Stock	\$ 5,411	\$ 1,330	\$ --	\$ 6,741

(\$000)	Six Months Ended June 30, 2003			
	Electric	Natural Gas	Eliminations	Total
Revenues from external customers	\$229,214	\$ 85,198	\$ --	\$314,412
Intersegment revenues	\$ 6	\$ 233	\$ (239)	\$ --
Total Revenues	\$229,220	\$ 85,431	\$ (239)	\$314,412
Earnings before income taxes	\$ 24,153	\$ 13,658	\$ --	\$ 37,811
Net Income	\$ 14,232	\$ 8,118	\$ --	\$ 22,350
Income Available for Common Stock	\$ 13,556	\$ 7,892	\$ --	\$ 21,448

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NOTE 4 - NEW ACCOUNTING STANDARDS AND OTHER FASB PROJECTS

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

Property, Plant and Equipment

During the second quarter of 2001, the FASB issued an Exposure Draft entitled Accounting in Interim and Annual Financial Statements for Certain Costs and Activities Related to Property, Plant, and Equipment. This Exposure Draft addressed amendments to certain APB Opinions and FASB Statements to incorporate changes resulting from the issuance of a proposed American Institute of Certified Public Accountants Statement of Position entitled Accounting for Certain Costs and Activities Related to Property, Plant, and Equipment. It had been previously anticipated that the proposed Standard would be issued in the first quarter of 2004.

On April 14, 2004, however, the FASB voted to cease further work on this proposal and has removed the proposal from its agenda.

Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003

In December 2003, the President of the United States signed into law the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "Medicare Act"). On January 12, 2004, FASB issued its FASB Staff Position ("FSP") 106-1, entitled Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003, which permitted a sponsor of a post-retirement health care plan that provides a prescription drug benefit to make a one-time election to defer accounting for the effects of the Medicare Act under SFAS 106, entitled Employers Accounting for Postretirement Benefits Other Than Pensions. On May 19, 2004, FASB issued FSP 106-2 which supersedes FSP 106-1 and provides guidance on the accounting for the effects of the Medicare Act.

Central Hudson elected to defer recognizing any effects of the Medicare Act for the six months ended June 30, 2004, and as such, the net periodic post-retirement cost for the quarter or the six months ended June 30, 2004, does not reflect any amount associated with the subsidy. Based on preliminary indications from Central Hudson's actuaries, it is believed that the prescription drug plan offered to Medicare-eligible retirees is actuarially equivalent and that the plan will qualify for the federal subsidy. It is expected that FSP 106-2 will be adopted in the third quarter of 2004 and it is estimated that the annual reduction of the net periodic post-retirement cost for 2004 will approximate \$2.2 million. Because Central Hudson, under the policy of the PSC regarding post-retirement benefits, is able to defer differences between actual costs and rate allowances covering these costs for future recovery from or return to customers, the adoption of FSP 106-2 is not expected to have a material impact on the financial position, results of operations, and/or cash flows of Central Hudson. The provisions of FSP 106-2 do not affect CHEC.

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Equity-Based Compensation

On March 31, 2004, the FASB issued a proposed Statement, entitled Share-Based Payment, that addresses the accounting for share-based payment transactions in which an enterprise receives an employee's services in exchange for (a) equity instruments of the enterprise or (b) liabilities that are based on the fair value of the enterprise's equity instruments or that may be settled by the issuance of such equity instruments. The proposed Statement would eliminate the ability to account for share-based compensation transactions using APB Opinion No. 25, entitled Accounting for Stock Issued to Employees, and generally would require instead that such transactions be accounted for using a fair value-based method. The comment period for the Exposure Draft for this proposed Statement ended June 30, 2004, and the FASB staff is currently analyzing the comment letters received. A final Statement is expected to be issued in the fourth quarter of 2004.

The proposed Statement covers a wide range of equity-based compensation arrangements. Under the proposed Statement, all forms of share-based payments to employees, including employee stock options, would be treated the same as other forms of compensation by recognizing the related cost on the income statement. The expense of the award would generally be measured at fair value at the grant date. Current accounting guidance allows that the expense relating to so-called fixed plan employee stock options only be disclosed in the footnotes to the financial statements. Energy Group adopted fair-value accounting for stock-based compensation in the first quarter of 2003. Therefore, if adopted as proposed, it is not anticipated that this proposed Statement would impact the financial position, results of operations, and/or cash flows of Energy Group or its subsidiaries at this time.

On July 20, 2004, the House of Representatives voted to override the FASB proposal, amending it to require expensing of options for those owned by a corporation's top five executives. It also would allow newly public companies to delay expensing for top executives in the first three years. Energy Group cannot predict what further action will be taken by Congress related to this FASB proposal.

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 clarifies the application of Accounting Research Bulletin No. 51, entitled Consolidated Financial Statements, as it relates to the consolidation of a variable interest entity ("VIE"). 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 is 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.

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The objective of FIN 46R is to provide 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. 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 VIEs 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 ("IPP"). 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 2003, Central Hudson had contracts with IPPs which represented approximately 1.7% of Central Hudson's electricity purchases.

CHEC has a number of limited partnership interests that are presently accounted for under the equity method. These were also reviewed relative to FIN 46R and it was determined that consolidation is not required. CHEC has limited partnership interests in two cogeneration facilities and a limited partnership interest in a venture capital fund. Neither of the two cogeneration partnerships meet any of the criteria for classification as a VIE. CHEC has only a 4% limited partnership interest in the venture capital fund and therefore is not a primary beneficiary. CHEC's total investment in these limited partnerships is not material, comprising less than 1% of Energy Group's total assets.

Pension Discount Rate

In April 2004, federal legislation was enacted that changes the way pension plan obligations are calculated; this in turn impacts the amount of a company's required pension plan contributions. The legislation ends a requirement that pension obligations be tied to interest rates on 30-year Treasury bonds; instead it substitutes a rate based on a composite of long-term corporate bonds for 2004 and 2005. As discussed in Note 10 - "Post-Employment Benefits" to the Consolidated Financial Statements of the Corporations' 10-K Annual Report, Central Hudson does not expect to make a contribution to its pension plan in 2004 and therefore this change is not expected to impact the financial position, results of operations, and/or cash flows of Energy Group or its subsidiaries at this time.

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NOTE 5 - STOCK-BASED COMPENSATION INCENTIVE PLANS

Reference is made to Note 11 - "Stock-Based Compensation Incentive Plans" to the Consolidated Financial Statements of the Corporations' 10-K Annual Report and to the description of Energy Group's Long-Term Performance-Based Incentive Plan ("Plan") referred to therein.

On January 1, 2003, the number of performance shares granted was 14,800, in aggregate, to executives covered under the Plan. On January 1, 2004, the

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number of performance shares granted was 29,300, in aggregate, to executives covered under the Plan. As of June 30, 2004, the number of these performance shares that remain outstanding were 9,700 and 19,800, respectively. The ultimate number of shares awarded is based on the performance of Energy Group's Common Stock over the three years following the date of the relevant grant, but shall not exceed 150% of the number of shares granted. Compensation expense is recorded as performance shares are earned over the three-year life of the relevant performance share grant prior to its award. The amounts recorded were not material for the quarters and six-month periods ended June 30, 2004, or 2003.

A summary of the status of stock options awarded to executives and non-employee Directors of Energy Group and its subsidiaries under the Plan as of June 30, 2004, is as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contract Life
Outstanding at 1/1/04	107,360	\$44.16	7.57
Granted	--	--	--
Exercised	15,240	38.81	--
Forfeited	--	--	--
Outstanding at 6/30/04	92,120	\$45.05	7.23 years
Total Shares Outstanding	15,762,000		
Potential Dilution	0.6%		

A total of 2,260 non-qualified stock options were exercised during the quarter ended June 30, 2004, and 15,240 were exercised in the six months ended June 30, 2004. These options had exercise prices of \$31.94 and \$44.06 and the resulting compensation expense was not material.

In addition, effective January 1, 2003, Energy Group adopted the fair value method of recording stock-based compensation utilizing the "modified prospective" approach, whereby existing options are expensed prospectively over their respective vesting periods. Under the fair value method, employee stock option grants and other stock-based compensation will be expensed over their respective vesting periods based on the fair value at the date the stock-based compensation is granted. Compensation expense recorded for the quarters ended and six months ended June 30, 2004, and

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2003 resulting from the implementation of fair value accounting for stock options was not material.

The following table summarizes information concerning outstanding and exercisable options at June 30, 2004:

Exercise Price	Number of Options Outstanding	Weighted Average Remaining Contractual Life in Years	Number of Options Exercisable
-----	-----	-----	-----

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\$31.94	6,360	5.50	5,088
\$44.06	48,860	6.50	42,476
\$48.62	36,900	8.50	16,200
	-----		-----
	92,120		63,764
	=====		=====

NOTE 6 - INVENTORY

Inventory is valued at average cost and is comprised of the following:

	Energy Group		
	June 30, 2004	December 31, 2003	June 30, 2003
(In Thousands)			
Natural Gas	\$ 7,813	\$ 9,802	\$ 7,332
Petroleum Products and Propane	1,853	2,779	3,084
Materials and Supplies	7,187	7,266	7,318
Total	\$ 16,853	\$ 19,847	\$ 17,734

	Central Hudson		
	June 30, 2004	December 31, 2003	June 30, 2003
(In Thousands)			
Natural Gas	\$ 7,813	\$ 9,802	\$ 7,332
Petroleum Products and Propane	454	505	333
Materials and Supplies	5,728	5,851	6,154
Total	\$ 13,995	\$ 16,158	\$ 13,819

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NOTE 7 - POST-EMPLOYMENT BENEFITS

The following are the components of Central Hudson's net periodic benefits costs for its Pension and Other Post-Employment Benefit ("OPEB") plans for the quarters and six months ended June 30, 2004, and 2003:

	Quarter Ended June 30,	
	Pension Benefits	Other Post-Employment Benefits
	-----	-----

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	2004 (In Thousands)	2003	2004 (In Thousands)	2003 (In Thousands)
Service cost	\$ 1,739	\$ 1,486	\$ 931	\$ 715
Interest cost	5,378	5,240	2,313	2,161
Expected return on plan assets	(5,510)	(5,352)	(1,234)	(1,149)
Amortization of:				
Prior service cost	538	427	(2)	(2)
Transitional (asset) or obligation	--	--	642	642
Recognized actuarial (gain) or loss	2,209	2,195	786	673
Net periodic benefit cost	\$ 4,354	\$ 3,996	\$ 3,436	\$ 3,040

	Six Months Ended June 30,			
	Pension Benefits		Other Post-Employment Benefits	
	2004 (In Thousands)	2003	2004 (In Thousands)	2003 (In Thousands)
Service cost	\$ 3,478	\$ 2,971	\$ 1,863	\$ 1,430
Interest cost	10,756	10,481	4,625	4,322
Expected return on plan assets	(11,020)	(10,705)	(2,469)	(2,298)
Amortization of:				
Prior service cost	1,076	853	(5)	(5)
Transitional (asset) or obligation	--	--	1,283	1,283
Recognized actuarial (gain) or loss	4,418	4,390	1,573	1,347
Net periodic benefit cost	\$ 8,708	\$ 7,990	\$ 6,870	\$ 6,079

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No contributions were made to Central Hudson's pension plan during the six months ended June 30, 2004, nor are contributions currently anticipated in 2004. However, an actuarial assessment will be made by the end of the quarter ending September 30, 2004, to determine if an additional contribution will be required in 2004. Employer contributions paid in the quarter ended June 30, 2004, for OPEBs totaled \$1.4 million and totaled \$2.8 million for the six months ended June 30, 2004. The total amount expected to be paid for 2004 is estimated at \$7 million. For additional information related to Pensions and OPEBs, see Note 10 - "Post-Employment Benefits" to the Consolidated Financial Statements of the Corporations' 10-K Annual Report.

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NOTE 8 - REGULATORY MATTERS

On June 14, 2004, the PSC issued an Order ("Joint Proposal Order") adopting the terms of a Joint Proposal for Rate Plan Modification ("Joint Proposal"). The Joint Proposal was developed in response to the PSC Orders concerning future uses of a fund established to benefit customers ("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 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 effective July 1, 2001;
- (ii) expiration, as scheduled, of the current customer refund which is \$85 million (pre-tax) through June 30, 2004, followed by an additional \$5 million refund from the Customer Benefit Fund for certain classes of electric customers in the period from July 1, 2004, through June 30, 2005;
- (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) use of the Customer Benefit Fund to offset deferred pension and OPEB costs of \$75 million; and to offset future deferred pension and OPEB costs until the fund balance reaches \$8 million, anticipated to occur in early 2005; and
- (vi) modification of the earnings sharing formula from the current equal sharing by shareholders and customers of earnings between an 11.3% and a 14% return on equity ("ROE") to 70% shareholders / 30% customers for earnings between a 10.5% and an 11.3% ROE and 65% shareholders / 35% customers for earnings between an 11.3% and a 14% ROE. All earnings above a 14% ROE will continue to be reserved for customers.

NOTE 9 - COMMITMENTS AND CONTINGENCIES

Energy Group and Central Hudson face a number of contingencies which arise during the normal course of business and which have been discussed in Note 13 - "Commitments and Contingencies" to the Consolidated Financial Statements of the Corporations' 10-K Annual Report. Except for that which is disclosed in Part II of this Quarterly Report on Form 10-Q and all documents previously filed with the Securities

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and Exchange Commission ("SEC") in 2004, there have been no material changes in the matters discussed in said Note 13.

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

EXECUTIVE SUMMARY

Energy Group

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Energy Group posted earnings per share during the second quarter of 2004 totaling \$0.35, down from the \$0.48 per share posted in the second quarter of 2003. The \$0.13 decline was due largely to the absence of investment gains and higher interest income from securities that were liquidated in 2003 with the proceeds invested in lower-yield money market instruments in order to provide increased access to the capital for redeployment purposes. Energy Group is actively pursuing opportunities consistent with its pre-established investment criteria to deploy the proceeds from the sale of Central Hudson's interests in its major generating assets. Business development efforts to invest the funds have cost approximately \$0.03 per share during the six months ended June 30, 2004.

Earnings for first half of 2004 were \$1.81 per share, a 3% increase over the \$1.75 per share reported for the first half of 2003, due in large measure to an increased number of customers, improved expense management, and fewer storms.

Central Hudson

Central Hudson's earnings remained stable from year to year for the quarter. While they increased slightly due to reduced operating expenses and carrying charges on the Customer Benefit Fund, the enhancement in earnings was offset entirely by warmer weather during the latter part of the heating season, as well as increased depreciation and taxes. Central Hudson continues to enhance its system infrastructure to meet the growing demands of its service territory. Electric sales increased by 3% during the quarter as compared to the second quarter of 2003 due to a rise in both the number of residential and commercial customers and increased usage by all classes of customers. Firm natural gas sales decreased 8% due to warmer weather, as heating billing degree-days during the period declined by 19% from those of a year ago.

CHEC

CHEC's earnings declined by \$0.03 per share during the quarter as compared to one year ago, as continued productivity enhancements and increased earnings from cogeneration partnerships helped to offset the impact of lower sales due to warmer weather. Despite that warmer weather, CHEC's contributions to earnings grew from \$0.27 per share during the first half of 2003 to \$0.28 during the first six months of 2004.

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REGULATORY MATTERS

On June 14, 2004, the PSC issued the Joint Proposal Order adopting the terms of the Joint Proposal. This Joint Proposal was filed with the PSC on March 29, 2004, by Central Hudson and a number of other parties. The PSC approved the Joint Proposal in its entirety without modifications or conditions.

The Joint Proposal was developed in response to the 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 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 effective July 1, 2001;
- (ii) expiration, as scheduled, of the current customer refund which is

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\$85 million (pre-tax) through June 30, 2004, followed by an additional \$5 million refund from the Customer Benefit Fund for certain classes of electric customers in the period from July 1, 2004, through June 30, 2005;

- (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) use of the Customer Benefit Fund to offset prior deferred pension and OPEB costs of \$75 million as of June 30, 2004, and to offset future deferred pension and OPEB costs until the fund balance reaches \$8 million, anticipated to occur in early 2005; and
- (vi) modification of the earnings sharing formula from the current equal sharing by shareholders and customers of earnings between an 11.3% and a 14% ROE to 70% shareholders / 30% customers for earnings between a 10.5% and an 11.3% ROE and 65% shareholders / 35% customers for earnings between an 11.3% and a 14% ROE. All earnings above a 14% ROE will continue to be reserved for customers.

CAPITAL RESOURCES AND LIQUIDITY

The growth of Energy Group's retained earnings in the first six months of 2004 contributed to the increase in the book value per share of its Common Stock from \$30.80 at December 31, 2003, to \$31.51 at June 30, 2004; the common equity ratio increased from 59.5% at December 31, 2003, to 60.7% at June 30, 2004.

Both Energy Group's and Central Hudson's liquidity reflect cash flows from operating, investing, and financing activities, as shown on their respective Consolidated Statements of Cash Flows and as discussed below.

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The principal factors affecting Energy Group's liquidity are the dividends it pays to its shareholders and, as it relates to both Central Hudson and CHEC, cash flows generated from operations, construction expenditures, and dividends paid to Energy Group. Central Hudson's liquidity is also affected by its debt obligations.

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

Energy Group and Central Hudson each believes that it will be able to meet its reasonably likely short-term and long-term cash requirements.

Changes in Energy Group's and Central Hudson's cash and temporary cash investments resulting from operating, investing, and financing activities for the six months ended June 30, 2004, and June 30, 2003, are summarized as follows:

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Energy Group - Cash Flow Summary

(Millions of Dollars)	2004	2003	Variance 2004 vs. 2003
Operating Activities	\$ 67.3	\$ 37.3	\$ 30.0
Investing Activities	(34.8)	38.0	(72.8)
Financing Activities	(26.1)	(35.2)	9.1
Net change for the period	6.4	40.1	(33.7)
Balance at beginning of period	125.8	83.5	42.3
Balance at end of period	\$ 132.2	\$ 123.6	\$ 8.6

Energy Group's net cash flows provided by operating activities during the six months ended June 30, 2004, were \$30 million higher as compared to the six months ended June 30, 2003. Cash flows increased due primarily to a decrease in accounts receivable from sales resulting from a decrease in fuel oil and natural gas sales due to warmer weather, a refund received in 2004 for an amended Utility Service Tax Return for 2001 for Central Hudson, a decrease in the amount of cash disbursed through the Customer Benefit Fund primarily as a result of lower expenditures for the Electric Reliability Improvement Program, the recording of proceeds from the sale of emissions allowances by Central Hudson in the first six months of 2004, and higher net income.

Additionally, as authorized in the Joint Proposal Order, deferred electric pension and OPEB costs as of June 30, 2004, including carrying charges, were offset against the Customer Benefit Fund with no impact to cash flow for the period. The total amount of offset was \$75 million.

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Net cash flows used in investing activities were \$72.8 million higher during the six months ended June 30, 2004, as compared to the six months ended June 30, 2003, because of higher additions to plant, property, and equipment, as well as the absence of proceeds from the sale of investments that were reflected in 2003.

Net cash flows used in financing activities were \$9.1 million lower during the six months ended June 30, 2004, as compared to the six months ended June 30, 2003, due primarily to the absence of the Stock Repurchase Program that was temporarily suspended in the later part of 2003 in order to assess alternative future investment opportunities. Slightly offsetting this decrease was the repayment of short-term debt in the first quarter of 2004. The Stock Repurchase Program is discussed in greater detail below.

At June 30, 2004, Energy Group had \$15 million of current maturities of long-term debt and no short-term debt outstanding. Cash and cash equivalents for Energy Group were \$132.2 million at June 30, 2004.

Central Hudson - Cash Flow Summary

(Millions of Dollars)	2004	2003	Variance 2004 vs. 2003
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Operating Activities	\$ 57.6	\$ 32.9	\$ 24.7
Investing Activities	(30.8)	(26.1)	(4.7)
Financing Activities	(26.6)	(23.6)	(3.0)
Net change for the period	.2	(16.8)	17.0
Balance at beginning of period	12.7	55.0	(42.3)
Balance at end of period	\$ 12.9	\$ 38.2	\$ (25.3)

Central Hudson's net cash flows provided by operating activities in the six months ended June 30, 2004, were \$24.7 million higher as compared to the six months ended June 30, 2003. Cash flow increased due primarily to a decrease in accounts receivable resulting from a decrease in natural gas sales due to warmer weather and an increase in the amounts collected through Central Hudson's cost adjustment mechanisms for the recovery of electric and natural gas supply costs; a refund received in 2004 for an amended Utility Service Tax Return for 2001; a decrease in the amount of cash utilized through the Customer Benefit Fund, primarily due to lower expenditures for the Electric Reliability Improvement Program; and the recording of proceeds from the sale of emissions allowances in the first six months of 2004.

Net cash flows used in investing activities were \$4.7 million higher in the first six months of 2004 as compared to 2003 due to increased expenditures related to property, plant, and equipment.

Net cash flows used in financing activities were \$3 million higher in the first six months of 2004 as compared to 2003 due to the repayment of short-term debt during that period. Net cash flows used in financing activities for the first six months of 2004 reflect the issuance in February 2004 of \$7 million of 4.73% medium-term notes, due

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February 27, 2014, and the net repayment of \$16 million of short-term debt. Cash flows from financing activities for the first six months of 2003 reflect the redemption at maturity of \$5.5 million of 7.97% first mortgage bonds.

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.

On June 8, 2004, Central Hudson filed a Registration Statement on Form S-3 with the SEC for the purpose of issuing unsecured debt securities on a continuous basis up to a maximum aggregate amount of \$85 million. Central Hudson expects the Registration Statement to become effective in the third quarter of 2004 after the SEC's final review.

A portion of the Customer Benefit Fund was earmarked for refunds to Central Hudson's customers and for economic development initiatives through June 30, 2004, under Central Hudson's regulatory agreement approved by the PSC on October 25, 2001. As directed by the Joint Proposal Order, \$5 million will continue to be refunded from the Customer Benefit Fund for certain classes of electric customers in the period July 1, 2004, through June 30, 2005. Additionally, as directed in the Joint Proposal Order, deferred electric pension and OPEB costs as of June 30, 2004, including carrying charges, were offset against the Customer Benefit Fund with no impact to cash flow. The total amount

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of offset was \$75 million.

As of June 30, 2004, Central Hudson had \$15 million of current maturities of long-term debt, no short-term debt outstanding, and cash and cash equivalents of \$12.9 million. Effective July 1, 2004, Central Hudson entered into a 5-year, \$75 million revolving credit agreement with a group of commercial banks, replacing a similar agreement that expired on June 30, 2004. Central Hudson also has committed short-term credit facilities totaling \$1 million with a regional bank. Existing PSC authorization limits the amount of short-term borrowing Central Hudson may have outstanding at any time to \$77 million in the aggregate.

Central Hudson's current senior unsecured debt ratings/outlook are A/Stable by Standard and Poor's Corporation and by Fitch Ratings and A2/Stable by Moody's Investors Service. On June 7, 2004, Moody's Investors Service affirmed ratings of Central Hudson's senior unsecured debt at A2 and changed its rating outlook to Stable from Positive.

CHEC is finalizing a \$15 million line of credit replacing a \$25 million line of credit with a commercial bank and, as of June 30, 2004, there was no outstanding balance.

Energy Group and certain of its subsidiaries (other than Central Hudson) have issued guarantees that provide financial or performance assurance to third parties on behalf of Energy Group subsidiaries under certain commodity, derivative, and stock sale contracts. These agreements 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 subsidiary's intended

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commercial purposes. Guarantees have been provided to counter-parties to guarantee the payment, when due, of obligations incurred by the Energy Group subsidiaries in physical and financial transactions related to natural gas, fuel oil, propane, weather hedges, and certain obligations related to the sale of former subsidiary CH Resources, Inc. in 2002.

At June 30, 2004, the aggregate amount of actual liabilities covered by these guarantees was \$2.5 million. The related liabilities are reflected in the Consolidated Balance Sheet, and each such guarantee is not considered to be material.

It is Management's belief that the possibility that Energy Group would be required to perform or incur any material losses associated with any of the above guarantees is remote.

On July 25, 2002, the Board of Directors of Energy Group authorized a Common Stock Repurchase Program ("Stock Repurchase Program") to repurchase up to 4 million shares, or approximately 25%, of its then-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 Stock Repurchase Program, but had authorized the repurchase of up to 1.2 million shares during the first year. Between August 1, 2002, and December 31, 2003, 600,087 shares were repurchased under the Stock Repurchase Program at a cost of \$27.5 million. No shares were repurchased during the six months ended June 30, 2004. Energy Group intends to set repurchase targets, if any, each year based on circumstances then prevailing. Repurchases have been temporarily suspended while Energy Group assesses opportunities to redeploy its cash reserves in energy-related investments. Energy Group reserves the right to modify, suspend, or terminate the Stock Repurchase Program at any time without notice.

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Energy Group will continue to investigate opportunities to invest its cash reserves in energy-related investments that provide diversification and offer attractive returns with acceptable risks. Such opportunities may include, but are not limited to, currently operating assets that use proven technology and have a relatively stable customer base such as electric, natural gas, fuel oil, or propane delivery companies, electric generating plants, and natural gas pipelines and storage facilities.

EARNINGS PER SHARE

Three Months Ended June 30, 2004

Energy Group's earnings per share (basic) for the second quarter of 2004 were \$0.35 versus \$0.48 for the second quarter of 2003, a decrease of \$0.13 per share.

Energy Group accounted for \$0.10 of this \$0.13 per share decrease due primarily to a reduction in investment and interest income. In June 2003, Energy Group liquidated the majority of its Alternate Investment Program portfolio of marketable securities realizing a \$0.07 per share gain from the sale of the securities. The balance

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of the portfolio was liquidated in July 2003 and all of the proceeds have been reinvested in low risk and lower yield money market instruments. In addition, business development costs were incurred related to efforts to redeploy available capital, which reduced earnings by \$0.02 per share.

Central Hudson's earnings remained unchanged due to the net effect of a number of factors. Earnings per share were enhanced by a reduction in operating expenses largely related to the operation and maintenance of electric distribution lines, an overall favorable effect related to the recording of regulatory carrying charges related primarily to the Customer Benefit Fund and pensions, and a reduction in preferred stock dividends due to the repurchase of certain issues of preferred stock in October 2003. The increase in earnings was offset by an increase in depreciation on utility plant assets, an increase in income taxes resulting largely from a reduction in write-offs of uncollectible accounts, and a decrease in electric net operating revenues, net of the cost of purchased electricity, fuel, and revenue taxes.

The reduction in electric net revenues reflects an increase in shared earnings, which benefits customers, fully offsetting an increase in net revenues from sales to all customers and the recording of revenues deferred in a prior year. Electric delivery revenues totaling \$3.1 million were deferred during the twelve months ended June 30, 2002, for recording to income over the twelve months ended June 30, 2004, and in the quarter ended June 30, 2004, \$768,000 was recorded. The deferral and restoration of revenues was done in accordance with Central Hudson's prior PSC approved rate plans. The increase in sales results primarily from an increase in the average number of residential and commercial customers and increased usage by all customer classes.

Natural gas net operating revenues, net of the cost of natural gas and revenue taxes, remained unchanged from the quarter ended June 30, 2003. A reduction in net revenues from sales to all customer classes was offset by a reduction in the deferral of natural gas shared earnings and the recording of previously deferred revenues (the total amount previously deferred was \$885,000, of which \$221,250 was recorded as revenue for the quarter ended June 30, 2004). Firm natural gas sales volume decreased 8% primarily due to a decrease in

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heating sales volume to residential and commercial customers resulting from the warmer weather. Billing heating-degree days decreased 19% as compared to last year, reducing earnings by approximately \$0.04 per share. This reduction in sales volume was partially offset by customer growth.

The financial results also include a \$0.03 per share decrease from CHEC due to a decrease in net revenues (net of fuel and other related expenses) from its fuel oil distribution subsidiaries primarily because of lower sales volumes resulting from warmer weather and lower margins on its fuel oil products. These factors were partially offset by a reduction in operating expenses resulting from improved operating efficiencies at the fuel oil distribution subsidiaries and lower sales, and the net effect of various other items, primarily increased income from investments in partnerships.

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Six Months Ended June 30, 2004

Energy Group's earnings per share for the six months ended June 30, 2004, increased \$0.06 per share from \$1.75 per share for the six months ended June 30, 2003, to \$1.81 per share in the comparable period in 2004. The enhancement in earnings reflects increases in Central Hudson's electric and natural gas net operating revenues due to an increase in electric sales volumes to all customer classes resulting from an increase in both customers and usage, the recording of previously deferred electric and natural gas revenues, and the favorable effect of weather hedging contracts. These increases were partially offset by an increase in electric and natural gas shared earnings. Earnings also increased due to the favorable effect of regulatory carrying charges recorded, a reduction in Central Hudson's preferred stock dividends, and an increase in CHEC's earnings. CHEC's contribution to earnings reflects the effect of weather hedging contracts with more favorable terms, a reduction in operating expenses due to improved operating efficiencies at its fuel oil distribution subsidiaries and lower sales due to warmer weather than last year, and increased income from investments in partnerships. The repurchase of additional shares of Energy Group common stock outstanding in 2003 also favorably impacted earnings per share.

The increase in earnings due to the above was partially offset by a reduction in earnings resulting from a decrease in Energy Group's investment and interest income due largely to the liquidation of its Alternate Investment Program portfolio, an increase in Energy Group's business development costs, an increase in depreciation on utility plant assets, and an increase in utility income taxes.

RESULTS OF OPERATIONS

The following financial review identifies the causes of significant changes in the amounts of revenues and expenses for Energy Group and its subsidiaries, comparing the three-month and six-month periods ended June 30, 2004, to the three-month and six-month periods ended June 30, 2003, respectively. The operating results of the regulated subsidiary reflect Central Hudson's electric and natural gas sales volumes and revenues, and the operating results of the unregulated subsidiary reflect CHEC's operations.

OPERATING REVENUES

Energy Group's operating revenues decreased \$17.8 million, or 9.7%, from \$183.2 million in the second quarter of 2003 to \$165.4 million for the second quarter of 2004. For the six months ended June 30, 2004, Energy Group's operating revenues decreased \$20 million, or 4.5%, from \$448.3 million for the six months ended June 30, 2003, to \$428.3 million for the six months ended June

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30, 2004. Details of these revenue changes by electric, natural gas, and unregulated subsidiaries are as follows (thousands of dollars):

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2004/2003 Increase (Decrease) Three Months Ended June 30, 2004				
	Electric	Natural Gas	Unregulated	Total
Customer Revenues (a)	\$ 1,256	\$ (763) (b)	\$ 2,104	\$ 2,597
Other Utilities' Revenues	(139)	250	--	111
Energy Cost Adjustment	(15,772)	(2,545)	--	(18,317)
Deferred Revenues (c)	(2,503)	416	--	(2,087)
Miscellaneous	(110)	(27)	--	(137)
Total	\$ (17,268)	\$ (2,669)	\$ 2,104	\$ (17,833)

2004/2003 Increase (Decrease) Six Months Ended June 30, 2004				
	Electric	Natural Gas	Unregulated	Total
Customer Revenues (a)	\$ 1,622	\$ (719) (b)	\$ (7,075)	\$ (6,172)
Other Utilities' Revenues	(64)	294	--	230
Energy Cost Adjustment	(11,343)	(1,117)	--	(12,460)
Deferred Revenues (c)	(3,673)	273	--	(3,400)
Miscellaneous	954	866	--	1,820
Total	\$ (12,504)	\$ (403)	\$ (7,075)	\$ (19,982)

- (a) Includes delivery of electricity and natural gas supplied by others and an offsetting restoration of revenues from Central Hudson's Customer Benefit Fund (described under the caption "Summary of Regulatory Assets and Liabilities" and "Rate Proceedings Electric and Gas" in Note 2 to the Consolidated Financial Statements of the Corporations' 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) 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 of the

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Corporations' 10-K Annual Report).

For the quarter ended June 30, 2004, Central Hudson's electric and natural gas operating revenues decreased \$20 million from \$143.5 million in 2003 to \$123.5 million in 2004. Electric revenues decreased \$17.3 million, or 15%, and natural gas revenues decreased \$2.7 million, or 9.3%, due largely to a decrease in revenues collected through Central Hudson's energy cost adjustment clauses to recover its cost of purchased electricity and natural gas. The decrease in electric revenues also reflects a shared earnings adjustment, whereby revenues are deferred for future customer benefits, partially offset by an increase in revenues from sales volumes and the recording of previously deferred revenues in accordance with Central Hudson's prior PSC approved rate plans. The decrease in natural gas revenues also reflects a decrease in sales volumes due to warmer weather, which was partially offset by the recording of previously deferred revenues and a reduction in shared earnings.

For the six months ended June 30, 2004, Central Hudson's electric and natural gas operating revenues decreased \$12.9 million from \$314.4 million in 2003 to \$301.5 million in 2004. Electric revenues decreased \$12.5 million, or 5.5%, and natural gas

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revenues decreased \$0.4 million, or 0.5%, due largely to decreases in revenues collected through Central Hudson's energy cost adjustment clauses to recover its cost of purchased electricity and natural gas. The decrease in electric revenues was partially offset by an increase in revenues due to customer growth and increased usage. The decrease in both electric and natural gas revenues were also partially offset by the recording of previously deferred revenue.

CHEC's revenues for the second quarter increased \$2.1 million, or 5.3%, from \$39.7 million in 2003 to \$41.8 million in 2004. The increase in revenues primarily reflects an increase in the average sales price per gallon of liquid petroleum products. During the first six months of 2004, as compared with the first six months of 2003, CHEC's revenues decreased \$7.1 million, or 5.3%, from \$133.9 million in 2003 to \$126.8 million in 2004. The decrease in revenues primarily reflects a decrease in sales due to warmer weather. For the second quarter of 2004, heating degree-days were on average 5% higher than the second quarter of 2003 and on average 10% higher for the first six months of 2004 than the first six months of 2003.

SALES VOLUMES

Central Hudson's sales volumes vary in response to weather conditions. Electric sales volumes peak in the summer, and natural gas sales volumes peak in the winter.

Total kilowatt-hour sales volumes of electricity within Central Hudson's service territory increased 3% and firm sales volumes of natural gas decreased 8% in the second quarter of 2004 as compared to the second quarter of 2003. For the six months ended June 30, 2004, total kilowatt-hour sales volumes of electricity within Central Hudson's service territory increased 3% and firm sales volumes of natural gas decreased 8% as compared to the six months ended June 30, 2003. Changes in Central Hudson's electric and natural gas deliveries from last year by major customer classifications are set forth below.

% Increase (Decrease) From 2003

Three Months Ended June 30

Six Months Ended June 30

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	Electric	Natural Gas	Electric	Natural
Residential	3%	(11)%	3%	(4)%
Commercial	4%	(5)%	3%	(1)%
Industrial	4%	(13)%	4%	(11)%
Interruptible	(N/A)	(3)%	(N/A)	(2)%

Central Hudson's sales volumes of electricity to full service customers within its service territory, plus delivery of electricity supplied by others, increased 3% in the second quarter of 2004 as compared to the second quarter of 2003. Sales volumes to residential and commercial customers increased 3% and 4%, respectively, due to customer growth and increased usage by these customers. Industrial sales volumes increased 4% due primarily to increased usage by a large industrial customer.

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Sales volume of electricity to full service customers within its service territory, plus delivery of electricity supplied by others, increased 3% in the first six months of 2004 as compared to the first six months of 2003. Despite warmer winter weather (billing heating degree days decreased by 10%), sales volume to both residential and commercial customers increased 3% due to customer growth and increased usage by these customers. Industrial sales volume increased 4% due primarily to increased usage by a large industrial customer.

Sales volume of natural gas to firm Central Hudson customers, plus transportation of natural gas supplied by others, decreased 8% in the second quarter of 2004 as compared to the second quarter of 2003. Due to warmer winter weather, sales volume to residential customers, primarily related to space heating, decreased 11% due to a reduction in usage which was partially offset by an increase in sales volume from customer growth. Sales volume to commercial customers decreased 5% as the effect of warmer weather more than offset customer growth. Industrial sales volume, which represents less than 5% of total firm sales, decreased 13% and interruptible sales decreased 3%.

For the six months ended June 30, 2004, sales volume of natural gas to firm Central Hudson customers, plus transportation of natural gas supplied by others, decreased 3% as compared to the first six months of 2003. Because of warmer winter weather, sales volume to residential customers decreased 4%. Sales to commercial customers decreased 1%, and industrial sales, which represent less than 5% of total firm sales volume, decreased 11% and interruptible sales volume increased 2%. The reduction in residential and commercial sales was partially offset by an increase in sales volume due to customer growth.

CHEC's sales volume of petroleum products decreased by 900,000 gallons, or 3%, to 28 million gallons in the second quarter of 2004 from 28.9 million gallons in the second quarter of 2003. CHEC's sales volume of petroleum products decreased by 800,000 gallons to 87.1 million gallons for the first six months of 2004 from 87.9 million gallons during the same period in 2003. These decreases were primarily due to warmer weather, as evidenced by a 5% average decrease in heating degree-days for the second quarter and by a 10% average decrease for the first six months of 2004, as compared to the same periods in 2003. CHEC's sales volume of natural gas decreased by approximately 440,000 Mcf to 0 Mcf for the second quarter of 2004 from 440,000 Mcf in the same period in 2003. In 2004, CHEC's sales volume of natural gas decreased by approximately 1,370,000 Mcf to 0

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Mcf for the first six months of 2004 as compared to 1,370,000 Mcf in the same period in 2003; both decreases are a result of the sale of SCASCO, Inc.'s ("SCASCO") natural gas business in the fourth quarter of 2003.

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OPERATING EXPENSES

Energy Group's total operating expenses, including income taxes, decreased \$17.3 million, or 9.8%, in the second quarter of 2004 from the comparable period in 2003.

For the six months ended June 30, 2004, Energy Group's total operating expenses, including income taxes, decreased \$20.6 million, or 4.9%, as compared to the first six months of 2003.

Central Hudson's operating expenses for the second quarter of 2004, including income taxes, decreased \$19.4 million, or 14.3%, from \$135.4 million in 2003 to \$116 million in 2004. For the six months ended June 30, Central Hudson's operating expenses, including income taxes, decreased \$13 million from \$290 million in 2003 to \$277 in 2004. These decreases in operating expenses largely resulted from a decrease in purchased electricity and natural gas expense due primarily to the recording of amounts related to the recovery of electric supply and natural gas costs via Central Hudson's cost recovery mechanisms partially offset by an increase in the cost of natural gas during these periods. Purchased electricity expense decreased \$15.1 million and purchased natural gas expense decreased \$2.7 million in each case for the second quarter of 2004 as compared to the comparable period in 2003, and purchased electricity expense decreased \$10.5 million and natural gas expense decreased \$1.7 million for the six months ended June 30, 2004. Other operating expenses decreased \$1.9 million in each case for the second quarter of 2004 as compared to the comparable period in 2003, and \$0.8 million for the quarter and six months ended June 30, 2004, respectively, primarily due to a decrease in expense related to Central Hudson's electric reliability program, which is funded by the Customer Benefit Fund, and a reduction in costs related to the operation and maintenance of electric distribution lines.

CHEC's operating expenses for the second quarter increased \$3.2 million, or 7.8%, from \$40.8 million in 2003 to \$44 million in 2004. CHEC's operating expenses for the first six months decreased \$7.3 million, or 5.8%, from \$125.8 million in 2003 to \$118.5 in 2004. Operating expenses are primarily the cost of petroleum and natural gas, which increased \$4.1 million for the second quarter of 2004 as compared to 2003. The increase is due primarily to the increase in petroleum wholesale market prices partially offset by a decrease in natural gas costs due to the sale of SCASCO's natural gas business in the fourth quarter of 2003. The cost of petroleum and natural gas decreased \$6.1 million for the first six months of 2004 as compared to 2003. The decrease is due primarily to decreased volume related to the warmer weather and the sale of SCASCO's natural gas business in the fourth quarter of 2003.

Other operating expenses decreased \$900,000 in the second quarter of 2004 as compared to 2003 due to improved operating efficiencies at the fuel oil distribution subsidiaries. Other operating expenses decreased \$1.2 million in the first six months of 2004 as compared to 2003 primarily due to reduced delivery costs related to lower sales volume in 2004.

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OTHER INCOME

Energy Group's other income decreased \$2.2 million and \$1.3 million, respectively, for the quarter and six months ended June 30, 2004, as compared to the same periods in the 2003. The reduction was largely attributable to decreased interest and investment income from Energy Group. The decrease was due to the recording of capital gains in the second quarter of 2003 from the liquidation of Energy Group's Alternate Investment Program. Also, reference is made to Note 2 - "Regulatory Matters" and, in particular, "Expiring Amortization" in the Corporations' 10-K Annual Report.

INTEREST AND OTHER CHARGES

Interest and other charges decreased \$600,000 and \$1.4 million, respectively, for the quarter and six months ended June 30, 2004, due primarily to a reduction of regulatory carrying charges due to customers relating largely to Central Hudson's Customer Benefit Fund. The reduction also reflects a decrease in preferred stock dividends due to the redemption of certain issues of preferred stock by Central Hudson in October 2003.

COMMON STOCK DIVIDENDS

Reference is made to the caption "Common Stock Dividends and Price Ranges" of Part II, Item 7 of the Corporations' 10-K Annual Report for a discussion of Energy Group's dividend payments. On March 26, 2004, the Board of Directors of Energy Group declared a quarterly dividend of \$0.54 per share, which was paid May 3, 2004, to shareholders of record as of April 9, 2004. On May 21, 2004, the Board of Directors of Energy Group declared a quarterly dividend of \$0.54 per share, payable August 2, 2004, to shareholders of record as of July 9, 2004.

FORWARD-LOOKING STATEMENTS

Statements included in this Quarterly Report on Form 10-Q and the documents incorporated by reference which are not historical in nature are intended to be and are hereby identified as, "forward-looking statements" for purposes of the safe harbor provided by Section 21E of the Securities Exchange Act of 1934 ("Exchange Act"), as amended. 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 Energy Group's and Central Hudson's 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

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rate relief; changes in fuel supply or costs, the success of strategies to satisfy electricity requirements following the sale of Central Hudson's interests in its major generating assets; future market prices for energy, capacity and ancillary services; 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.

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Energy Group and Central Hudson undertake no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise. In addition, such statements are subject to the risks and uncertainties discussed in the "Risk Factors" section and elsewhere in this document.

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

RISK FACTORS

Energy Group - Risks Affecting Future Earnings

Redeployment Of Capital

Energy Group is seeking to invest in energy-related assets approximately \$110 million currently held in money market instruments. Such investments are being sought with a view to produce new earnings intended to replace, in whole or in part, the income recorded in 2001, 2002, 2003, and 2004 from the sales of Central Hudson's interests in its major generating assets. If such investments are not made timely or are insufficient to replace the expiring income, Energy Group's results of operations could be adversely affected. Reference is made to Note 2 - "Regulatory Matters" in the Corporations' 10-K Annual Report and, in particular, to the subcaption "Expiring Amortization." No projected income from such future investments in new energy-related assets has been included in any earnings guidance issued by Energy Group for 2004.

Weather Related Risks

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. The majority of Central Hudson's natural gas deliveries and of the fuel oil deliveries by CHEC's subsidiaries are directly related to the use of these fuels for space heating. As a result, sales fluctuate and vary from normal expected levels based on variations in weather from seasonal normal levels. Such variations in sales volumes could affect results of operations significantly. Central Hudson and the fuel oil delivery businesses have programs in place to constrain the potential variability in results of operations through the use of derivative instruments. However, no assurance can be given that suitable risk management instruments will remain available; in addition, if a sustained trend of increasing temperatures were to occur (i.e. "global warming"), net income derived from Central Hudson's natural gas business and from CHEC's fuel oil delivery businesses could be adversely affected.

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Revenues And Results Of Operations Are Subject To Other Uncontrollable Risks

The cost of repairing damage to the facilities of Energy Group's operating subsidiaries and the potential disruption of their operations due to storms, natural disasters, wars, terrorist acts, and other catastrophic events could adversely impact financial position, results of operations, and/or cash flows. The occurrence or risk of occurrence of future terrorist attacks or related acts of war could also adversely affect the New York or the United States economy. A lower level of economic activity could result in a decline in energy consumption, which could adversely affect revenues and earnings and limit future growth prospects. In addition, Central Hudson and CHEC's subsidiaries deliver energy to customers as part of an integrated system of production, transmission,

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and distribution systems. Large portions of such systems are owned and operated by other unrelated entities, and Central Hudson and CHEC rely on such entities to perform their functions reliably and at reasonable cost. Failure or disruption of third party facilities can cause a disruption in services and may result in lower revenues, or increased expenses, or both, that may not be fully recovered through rates, insurance, sales margins, or other means in a timely manner, or at all.

Risks Affecting CHEC's Fuel Oil Delivery Subsidiaries

CHEC's subsidiaries in the fuel oil delivery segment are subject to the risk of changes in the competitive environment and customer preferences, each of which could result in loss of customers and/or reduced margins. If these events were to occur, they could adversely affect future results of operations and/or the carrying value of intangible assets, including goodwill, on Energy Group's balance sheet. Severe winter weather can increase the delivery costs and create the potential for a commodity shortage.

Central Hudson - Risks Affecting Future Earnings

Risks Related to Regulatory Requirements and Compliance

Central Hudson is subject to regulation at the state and federal levels. It 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. It is also subject to regulation by the Federal Energy Regulatory Commission, which regulates wholesale electric transmission rates, certain other aspects of Central Hudson's business, and interstate natural gas pipelines. The regulations adopted by these state and federal agencies affect the manner in which Central Hudson does business, its ability to undertake specified actions, and its results of operations. Although Central Hudson has maintained generally constructive regulatory relationships to date, Central Hudson cannot predict the ways in which changes in regulation by state and federal governmental authorities could affect Central Hudson's business and results of operations. It cannot be assured that costs incurred in response to such regulation, or changes therein, will be recoverable through rates in a timely manner, or at all.

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Regulatory Risks Related to Limitations on the Potential to Pass Through Increased Costs

Central Hudson's Rate Order effective November 1, 2001, and the Joint Proposal Order effective June 2004 (together the "Rate Plans") cover the rates it 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 could have a significant effect on financial position, results of operations, and/or cash flows. The current Rate Plans and material matters relating to potential rate changes are described in Item 2 - "Regulatory Matters." The current Rate Plans permit Central Hudson to file for changes in rates any time after June 30, 2004, but rates are generally not changed by the PSC until eleven months after the filing of proposed rate changes. Central Hudson expects to file for new retail rates within the next two year period. It cannot predict the rates that will be established by the PSC, or whether its

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business may be adversely affected by the rates determined, in such proceeding.

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 its former manufactured gas plant sites. Reference is made to Note 13 - "Commitments and Contingencies" in Corporations' 10-K Annual Report and in particular to the subcaptions in the Note regarding "Asbestos Litigation" and "Former Manufactured Gas Plant Facilities."

ITEM 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Reference is made to Part II, Item 7A of the Corporations' 10-K Annual Report for a discussion of market risk. There has been no material change in either the market risks or the practices employed by Energy Group and Central Hudson to mitigate these risks discussed in the Corporations' 10-K Annual Report. For related discussion on this activity, see Note 2 - "Summary of Significant Accounting Policies" under the caption "Accounting for Derivative Instruments and Hedging Activities" and Item 2 - "Capital Resources and Liquidity."

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ITEM 4 - CONTROLS AND PROCEDURES

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

There have not been any changes to the Registrants' internal control over financial reporting that occurred during the Registrants' last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Registrants' internal control over financial reporting.

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PART II - OTHER INFORMATION

ITEM 1 - LEGAL PROCEEDINGS

Asbestos Litigation

For a discussion of lawsuits against Central Hudson involving asbestos, see Note 13 - "Commitments and Contingencies" under the caption "Asbestos Litigation" in Part II, Item 8 of the Corporations' 10-K Annual Report.

As of July 20, 2004, a total of 3,205 cases involving asbestos have been brought against Central Hudson of the type described under the caption, of which

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1,518 remain pending. Of the 1,687 cases no longer pending against Central Hudson, 1,548 have been dismissed or discontinued, and Central Hudson has settled 139 cases. Energy Group and Central Hudson are presently unable to assess the validity of the remaining asbestos lawsuits; accordingly, Energy Group and Central Hudson cannot determine the ultimate liability relating to these cases. Based on information known to Energy Group and Central Hudson at this time, including Central Hudson's experience in settling and in obtaining dismissals of asbestos cases, Energy Group and Central Hudson believe that the cost to be incurred in connection with the remaining lawsuits will not have a material adverse effect on Energy Group's and/or Central Hudson's financial position, results of operations, and/or cash flows.

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

The Annual Meeting of Shareholders of Energy Group was held on Tuesday, April 27, 2004. For a description of the matters voted on and the election outcome, see Part II, Item 4 of Registrants' Quarterly Report on Form 10-Q for the quarter ended March 31, 2004.

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ITEM 6 - EXHIBITS AND REPORTS ON FORM 8-K

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

Exhibit No. Regulation S-K Item 601 Designation	Exhibit Description
10.1	Credit Agreement dated as of June 30, 2004, among Central Hudson, the Lenders party thereto, and J.P. Morgan Chase Bank, as Administrative Agent Arranger.*
12(i)	Statement Showing Computation of the Ratio of Earnings to Fixed Charges for Energy Group.*
12(i)(i)	Statement Showing Computation of the Ratio of Earnings to Fixed Charges and the Ratio of Earnings to Fixed Charges and Preferred Dividends for Central Hudson.*
31.1	Rule 13a-14(a)/15d-14(a) Certification by Steven V. Lant.
31.2	Rule 13a-14(a)/15d-14(a) Certification by Christopher M. Capone.
32.1	Section 1350 Certification by Steven V. Lant.
32.2	Section 1350 Certification by Christopher M. Capone.
99(i)13	Order of the PSC, issued and effective April 6, 2004, authorizing new revolving credit facilities and a New Medium Term Note Program for Central Hudson.*
99(i)14	Order of the PSC, issued and effective June 14, 2004, modifying the rate plan.*

* Incorporated herein by reference to Energy Group and Central Hudson's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2004.

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(b) Reports on Form 8-K. During the period covered by this Quarterly Report on Form 10-Q, Energy Group filed the following Current Reports on Form 8-K:

- (i) A Report dated April 26, 2004, which reports first quarter 2004 earnings.
- (ii) A Report, dated April 28, 2004, which reports the election of Steven V. Lant as Chairman of the Board of Energy Group and the retirement from employment of Paul J. Ganci, the former Chairman of the Board.

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- (iii) A Report, dated June 14, 2004, which reports the PSC's June 14, 2004, issuance of an Order adopting the terms of a Joint Proposal modifying certain terms of Central Hudson's Rate Plan.

During the period covered by this Quarterly Report on Form 10-Q, Central Hudson filed the following Current Reports on Form 8-K:

- (i) A Report, dated May 5, 2004, which reported Paul J. Ganci's resignation from his positions as Chairman of the Board of Central Hudson and as a director of Central Hudson and the appointment of Steven V. Lant as Chairman of the Board and Chief Executive Officer of Central Hudson.
- (ii) A Report, dated June 14, 2004, which reports the PSC's June 14, 2004, issuance of an Order adopting the terms of a Joint Proposal modifying certain terms of Central Hudson's Rate Plan.

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SIGNATURES

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

CH ENERGY GROUP, INC.
(Registrant)

By: /s/ Donna S. Doyle

Donna S. Doyle
Vice President - Accounting and Controller

CENTRAL HUDSON GAS & ELECTRIC
CORPORATION
(Co-Registrant)

By: /s/ Donna S. Doyle

Donna S. Doyle
Vice President - Accounting and Controller

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Date: August 24, 2004

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EXHIBIT INDEX

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

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