

CENTRAL HUDSON GAS & ELECTRIC CORP
Form 10-K
February 10, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2010

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 12601-4839 (845) 452-2000	14-1804460
1-3268	Central Hudson Gas & Electric Corporation (Incorporated in New York) 284 South Avenue Poughkeepsie, New York 12601-4839 (845) 452-2000	14-0555980

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

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

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

Title of each class
Central Hudson Gas & Electric Corporation Cumulative Preferred Stock
4.50% Series
4.75% Series

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

CH Energy Group, Inc.	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
Central Hudson Gas & Electric Corporation	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>

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

CH Energy Group, Inc.	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
Central Hudson Gas & Electric Corporation	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>

Indicate by check mark whether the Registrant (1) has 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 Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

CH Energy Group, Inc.	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
Central Hudson Gas & Electric Corporation	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

CH Energy Group, Inc.	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
Central Hudson Gas & Electric Corporation	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>

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

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

CH Energy Group, Inc.	Central Hudson Gas & Electric Corporation
Large Accelerated Filer <input checked="" type="checkbox"/>	Large Accelerated Filer <input type="checkbox"/>
Accelerated Filer <input type="checkbox"/>	Accelerated Filer <input type="checkbox"/>
Non-Accelerated Filer <input type="checkbox"/>	Non-Accelerated Filer <input checked="" type="checkbox"/>
Smaller Reporting Company <input type="checkbox"/>	Smaller Reporting Company <input type="checkbox"/>

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act):

CH Energy Group, Inc.	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
Central Hudson Gas & Electric Corporation	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>

The aggregate market value of the voting and non-voting common equity of CH Energy Group held by non-affiliates as of February 1, 2011, was \$780,278,742 based upon the price at which CH Energy Group's Common Stock was last traded on that date, as reported on the New York Stock Exchange listing of composite transactions.

The aggregate market value of the voting and non-voting common equity of CH Energy Group held by non-affiliates as of June 30, 2010, the last business day of CH Energy Group's most recently completed second fiscal quarter, was \$620,909,078 computed by reference to the price at which CH Energy Group's Common Stock was last traded on that date, as reported on the New York Stock Exchange listing of composite transactions.

The aggregate market value of the voting and non-voting common equity of Central Hudson held by non-affiliates as of June 30, 2010 was zero.

The number of shares outstanding of CH Energy Group's Common Stock, as of February 1, 2011, was 15,687,148.

The number of shares outstanding of Central Hudson's Common Stock, as of February 1, 2011, was 16,862,087. All such shares are owned by CH Energy Group.

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

DOCUMENTS INCORPORATED BY REFERENCE

CH Energy Group's definitive Proxy Statement to be used in connection with its Annual Meeting of Shareholders to be held on April 26, 2011, is incorporated by reference in Part III hereof. Information required by Part III hereof with respect to Central Hudson has been omitted pursuant to General Instruction (I)(2)(c) of Form 10-K.

GLOSSARY OF TERMS

The following is a glossary of frequently used abbreviations or acronyms used herein.

CH Energy Group Companies and Investments

CHEC	Central Hudson Enterprises Corporation (the parent company of Griffith (not regulated by the PSC) and wholly owned subsidiary of CH Energy Group)
Cornhusker Holdings	Cornhusker Energy Lexington Holdings, LLC (a CHEC investment)
JB Wind	JB Wind Holdings, LLC (a CH-Community Wind investee company)

Regulators

NYS	New York State
PSC	NYS Public Service Commission
FERC	Federal Energy Regulatory Commission
DEC	NYS Department of Environmental Conservation

Terms Related to Business Operations Used By CH Energy Group

1993 PSC Policy	PSC's 1993 Statement of Policy regarding pension and other post-employment benefits
2006 Rate Order	Order Establishing Rate Plan issued by the PSC to Central Hudson on July 24, 2006
2009 Rate Order	Order Establishing Rate Plan issued by the PSC to Central Hudson on June 22, 2009
2010 Rate Order	Order Establishing Rate Plan issued by the PSC to Central Hudson on June 18, 2010
Dth	Decatherms
Distributed Generation	An electrical generating facility located at a customer's point of delivery which may be connected in parallel operation to the utility system
kWh	Kilowatt-hour(s)
Mcf	Thousand Cubic Feet
MGP	Manufactured Gas Plant
MW / MWh	Megawatt(s) / Megawatt-hour(s)
OPEB	Other Post-Employment Benefits
RDMs	Revenue Decoupling Mechanisms
Retirement Plan	Central Hudson's Non-Contributory Defined Benefit Retirement Income Plan
ROE	Return on Equity
ROW	Right-of-Way

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Settlement Agreement	Amended and Restated Settlement Agreement dated January 2, 1998, and thereafter amended, among Central Hudson, PSC Staff, and Certain Other Parties
Temporary State Assessment	New York State Temporary State Energy and Utility Service Conservation Assessment required to be collected from April 4, 2009 to March 31, 2014

Other

COSO	Committee of Sponsoring Organizations of the Treadway Commission
EITF	FASB Emerging Issues Task Force
Exchange Act	Securities Exchange Act of 1934
GAAP	Accounting Principles Generally Accepted in the United States of America
NYISO	New York Independent System Operator
NYSERDA	New York State Energy Research and Development Authority
Registrants	CH Energy Group and Central Hudson
SFAS	Statement of Financial Accounting Standards

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PART I

FILING FORMAT

This 10-K Annual Report for the fiscal year ended December 31, 2010, is a combined report being filed by two different Registrants: CH Energy Group and Central Hudson. Any references in this 10-K Annual Report to CH Energy Group include all subsidiaries of CH Energy Group, including Central Hudson, except where the context clearly indicates otherwise. Central Hudson makes no representation as to the information contained in this 10-K Annual Report in relation to CH Energy Group and its subsidiaries other than Central Hudson. When this 10-K Annual Report is incorporated by reference into any filing with the SEC made by Central Hudson, the portions of this 10-K Annual Report that relate to CH Energy Group and its subsidiaries, other than Central Hudson, are not incorporated by reference therein.

CH Energy Group's wholly owned subsidiaries include Central Hudson and CHEC. For additional information, see the sub-caption "CHEC and Its Subsidiaries and Investments" in Item 1 - "Business" under the caption "Subsidiaries of CH Energy Group."

FORWARD-LOOKING STATEMENTS

Statements included in this Annual Report on Form 10-K and any 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 Exchange Act. Forward-looking statements may be identified by words including "anticipates," "intends," "estimates," "believes," "projects," "expects," "plans," "assumes," "seeks," and similar expressions. Forward-looking statements including, without limitation, those relating to CH Energy Group's and Central Hudson's future business prospects, revenues, proceeds, working capital, investment valuations, 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: deviations from normal seasonal weather and storm activity; fuel prices; plant capacity factors; energy supply and demand; potential future acquisitions; the ability of the Company to divest non-core assets at acceptable prices within expected time frames, legislative, regulatory, and competitive developments; interest rates; access to capital; market risks; electric and natural gas industry restructuring and cost recovery; the ability to obtain adequate and timely rate relief; changes in fuel supply or costs including future market prices for energy, capacity, and ancillary services; the success of strategies to satisfy electricity, natural gas, fuel oil, and propane requirements; the outcome of pending litigation and certain environmental matters, particularly the status of inactive hazardous waste disposal sites and waste site remediation requirements; and certain presently unknown or unforeseen factors, including, but not limited to, acts of terrorism. CH 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.

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

ITEM 1 - Business

CORPORATE STRUCTURE

CH Energy Group is the holding company parent corporation of two principal, wholly owned subsidiaries, Central Hudson and CHEC. Central Hudson is a regulated electric and natural gas subsidiary. CHEC, the parent company of CH Energy Group's unregulated businesses and investments, has six wholly owned subsidiaries, Griffith Energy Service, Inc. ("Griffith"), CH-Auburn Energy, LLC ("CH-Auburn"), CH-Greentree, LLC ("CH-Greentree"), CH-Lyonsdale, LLC ("CH-Lyonsdale"), Lyonsdale Biomass, LLC ("Lyonsdale") and CH Shirley Wind, LLC ("CH Shirley"). CHEC also has ownership interests in certain subsidiaries that are less than 100%. For more information, see sub-caption "CHEC and Its Subsidiaries and Investments" under caption "Subsidiaries of CH Energy Group."

For a discussion of CH Energy Group's and its subsidiaries' capital structure and financing program, see Item 7 - "Management's Discussion and Analysis of Financial Condition and Results of Operations" of this 10-K Annual Report under the sub-captions "Capital Structure" and "Financing Program" under the caption "Capital Resources and Liquidity." For a discussion of short-term borrowing, capitalization, and long-term debt, see Note 7 - "Short-Term Borrowing Arrangements," Note 8 - "Capitalization - Common and Preferred Stock," and Note 9 - "Capitalization - Long-Term Debt," respectively, to the financial statements contained in Item 8 - "Financial Statements and Supplementary Data" of this 10-K Annual Report (each Note being hereinafter called a "Note"). For information concerning revenues, certain expenses, earnings per share, and information regarding assets of Central Hudson's regulated electric and regulated natural gas segments and of Griffith, see Note 13 - "Segments and Related Information."

HOLDING COMPANY REGULATION

CH Energy Group is a "holding company" under Public Utility Holding Company Act of 2005 ("PUHCA 2005") because of its ownership interests in Central Hudson and CHEC. CH Energy Group, however, is exempt from regulation as a holding company under PUHCA 2005, because it derives substantially all of its public utility company revenues from business conducted within a single state, the State of New York. CH Energy Group will retain this exemption until such time as it derives more than 13% of its public utility revenues from businesses conducted outside of the State of New York. At the present time, CH Energy Group cannot predict whether and when its circumstances may change such that it no longer qualifies for exemption from PUHCA 2005 or whether regulation under PUHCA 2005 would have a material impact on its financial condition or results of operations.

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SUBSIDIARIES OF CH ENERGY GROUP

Central Hudson

Central Hudson is a New York State natural gas and electric corporation formed in 1926. Central Hudson purchases, sells at wholesale, and distributes electricity and natural gas at retail in portions of New York State. Central Hudson also generates a small portion of its electricity requirements.

Central Hudson serves a territory extending about 85 miles along the Hudson River and about 25 to 40 miles east and west of the Hudson River. The southern end of the territory is about 25 miles north of New York City and the northern end is about 10 miles south of the City of Albany. The territory, comprising approximately 2,600 square miles, has a population estimated at 688,000. Electric service is available throughout the territory, and natural gas service is provided in and about the cities of Poughkeepsie, Beacon, Newburgh, and Kingston, New York, and in certain outlying and intervening territories. The number of Central Hudson employees at December 31, 2010, was 856.

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

Seasonality

Central Hudson's delivery revenues have historically varied seasonally in response to weather. Sales of electricity are usually highest during the summer months, primarily due to the use of air-conditioning and other cooling equipment. Sales of natural gas are highest during the winter months, primarily due to space heating usage. Central Hudson's rates are developed based on forecasts of monthly sales volumes, which reflect natural seasonality under normal weather conditions. Effective July 1, 2009 and continuing in the 2010 Rate Order through June 30, 2013, Central Hudson's delivery rate structure includes revenue decoupling mechanisms ("RDMS"), which provide the ability to record revenues equal to those forecasted in the development of current rates for most of Central Hudson's customers. As a result, fluctuations in actual sales volumes as compared to those under normal weather conditions, no longer have a significant impact on earnings. However, higher expenses incurred due to storm activity than the amount set in rates may impact the Company's earnings. Central Hudson has the ability to request regulatory recovery of significant incremental costs incurred if certain criteria are met as defined by the PSC and, as such, any impact on earnings for higher storm expenses should be limited to non-material amounts, as long as the other criteria for deferred accounting were met.

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Competition

Central Hudson is a regulated utility with a legal obligation to deliver electricity and natural gas within its PSC-approved franchise territory. Central Hudson has no direct competitors in its electricity distribution business; indirect competitors include distributed generation systems, including net metered systems. To date, the primary source of competition is solar net metered systems, which are currently capped at 12 MW. Central Hudson was authorized by the PSC to defer lost revenues attributable to photovoltaic net metering through June 30, 2009, under an order issued in Case 07-E-0437 on October 19, 2007. Beginning July 1, 2009, Central Hudson no longer has the authorization to defer lost revenues attributable to photovoltaic net metering since the RDM provides similar protection. Central Hudson's natural gas business competes with other fuels, especially fuel oil and propane.

The competitive marketplace continues to develop for electric and natural gas supply markets, and Central Hudson's electric and natural gas customers may purchase energy and related services from other providers. Central Hudson's rate making structure neutralizes any earnings impact of customers' decisions to purchase electricity and natural gas from other providers.

Regulation

Central Hudson is subject to regulation by the PSC regarding, among other things, services rendered (including the rates charged), major transmission facility siting, accounting treatment of certain items, and issuance of securities. For certain restrictions imposed by the Settlement Agreement, see Note 2 - "Regulatory Matters."

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

Central Hudson is not subject to the provisions of the Natural Gas Act. Central Hudson's hydroelectric facilities are not required to be licensed under the Federal Power Act but are regulated by the DEC.

Central Hudson is subject to regulation by the North American Electric Reliability Corporation regarding its ownership, operation and use of bulk power system.

Rates

General: The electric and natural gas rates charged by Central Hudson applicable to service supplied to retail customers within New York State are regulated by the PSC. Costs of service, both for electric and gas delivery service and for electric and gas supply costs, are recovered from customers through PSC approved tariffs, subject to a standard of prudence. Both transmission rates and rates for electricity sold for resale which involve interstate commerce are regulated by FERC.

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The 2009 Rate Order provides for implementation of both Electric and Gas RDMs. RDMs are intended to minimize the earnings impact resulting from reduced energy consumption as energy efficiency programs are implemented by breaking the link between energy sales and utility revenues and/or profits. Central Hudson's RDMs allow the Company to recognize electric delivery revenues and gas sales per customer at the levels approved in rates for most of Central Hudson's electric and gas customer classes.

Central Hudson's retail electricity rate structure consists of various service classifications covering delivery service and full service (which includes electricity supply) for residential, commercial, and industrial customers. Retail rates for delivery and supply are shown separately on retail bills to allow customers to see the costs associated with their commodity supply, and thus facilitate retail competition. During 2010, the average price of electricity for full service customers was 14.94 cents per kWh as compared to an average of 14.20 cents per kWh in 2009. The PSC has authorized Central Hudson to recover the costs of the electric commodity from customers, without earning a profit on the commodity costs. The average delivery price in 2010 was 5.26 cents per kWh and 4.44 cents per kWh in 2009. The increase in delivery price was primarily due to the implementation of new rates as part of the 2009 Rate Order and the 2010 Rate Order. The year over year increase related to the Rate Orders was approximately 0.51 cents per kWh. The additional increase is associated with updated surcharges to cover additional assessments from New York State agencies. The average delivery price in 2010 includes a surcharge of approximately 0.07 cents per kWh resulting from the Electric RDM.

Central Hudson's retail natural gas rate structure consists of various service classifications covering transport, retail access service, and full service (which includes natural gas supply) for residential, commercial, and industrial customers. During 2010, the average price of natural gas for full-service customers was \$14.86 per Mcf as compared to an average of \$15.83 per Mcf in 2009. The PSC has authorized Central Hudson to recover the costs of the gas commodity from customers, without earning a profit on the commodity costs. The average delivery price for natural gas for retail and full service in 2010 was \$6.67 per Mcf and \$5.14 per Mcf in 2009. The increase in delivery price was primarily due to the implementation of new rates as part of the 2009 Rate Order and the 2010 Rate Order. The average delivery price in 2010 includes a surcharge of approximately \$0.05 per Mcf resulting from the Gas RDM. The increase in the average delivery price was more than offset by the decrease in gas commodity costs.

For further information regarding the terms of the 2006 Rate Order, 2009 Rate Order and 2010 Rate Order under which Central Hudson operated during the current reporting period, see Note 2 - "Regulatory Matters" under the captions "2006 Rate Order", "2009 Rate Order" and "2010 Rate Order."

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

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Capital Expenditures and Financing

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

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

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

Purchased Power and Generation Costs

For the year ended December 31, 2010, the sources and related costs of purchased electricity and electric generation for Central Hudson were as follows (In Thousands):

Sources of Energy	Aggregate Percentage of Energy Requirements		Costs in 2010
Purchased Electricity	98.2	%	\$245,933
Hydroelectric and Other	1.8	%	65
	100.0	%	
Deferred Electricity Cost			