

CENTRAL HUDSON GAS & ELECTRIC CORP
Form 10-Q
August 04, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

(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, 2008

OR

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

For the transition period from _____ to _____

<u>Commission File Number</u>	<u>Registrant, State of Incorporation Address and Telephone Number</u>	<u>IRS Employer Identification No.</u>
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

Edgar Filing: CENTRAL HUDSON GAS & ELECTRIC CORP - Form 10-Q

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

Large Accelerated Filer **Accelerated Filer**

Non-Accelerated Filer **Smaller Reporting Company**

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

Large Accelerated Filer **Accelerated Filer**

Non-Accelerated Filer **Smaller Reporting Company**

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

Yes **No**

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

Yes **No**

As of the close of business on August 1, 2008, (i) CH Energy Group, Inc. had outstanding 15,783,083 shares of Common Stock (\$0.10 per share par value) and (ii) all of the outstanding 16,862,087 shares of Common Stock (\$5 per share par value) of Central Hudson Gas & Electric Corporation were held by CH Energy Group, Inc.

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

FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 2008

TABLE OF CONTENTS

	<u>PAGE</u>
<u>PART I – FINANCIAL INFORMATION</u>	
<u>Item 1 – Consolidated Financial Statements (Unaudited)</u>	
<u>CH ENERGY GROUP, INC.</u>	
<u>Consolidated Statement of Income – Three Months Ended June 30, 2008 and 2007</u>	1
<u>Consolidated Statement of Income – Six Months Ended June 30, 2008 and 2007</u>	2
<u>Consolidated Statement of Comprehensive Income – Three Months Ended June 30, 2008 and 2007</u>	3
<u>Consolidated Statement of Comprehensive Income – Six Months Ended June 30, 2008 and 2007</u>	3
<u>Consolidated Statement of Cash Flows – Six Months Ended June 30, 2008 and 2007</u>	4
<u>Consolidated Balance Sheet – June 30, 2008, December 31, 2007 and June 30, 2007</u>	5
<u>CENTRAL HUDSON GAS & ELECTRIC CORPORATION</u>	
<u>Consolidated Statement of Income – Three Months Ended June 30, 2008 and 2007</u>	7
<u>Consolidated Statement of Income – Six Months Ended June 30, 2008 and 2007</u>	8
<u>Consolidated Statement of Comprehensive Income – Three Months Ended June 30, 2008 and 2007</u>	9
<u>Consolidated Statement of Comprehensive Income – Six Months Ended June 30, 2008 and 2007</u>	9
<u>Consolidated Statement of Cash Flows – Six Months Ended June 30, 2008 and 2007</u>	10
<u>Consolidated Balance Sheet – June 30, 2008, December 31, 2007 and June 30, 2007</u>	11
<u>Notes to Consolidated Financial Statements (Unaudited)</u>	13

TABLE OF CONTENTS

	<u>PAGE</u>
<u>ITEM 2</u> <u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	49
<u>ITEM 3</u> <u>QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK</u>	87
<u>ITEM 4</u> <u>CONTROLS AND PROCEDURES</u>	88
<u>PART II – OTHER INFORMATION</u>	
<u>ITEM 1</u> <u>LEGAL PROCEEDINGS</u>	89
<u>ITEM 1A</u> <u>RISK FACTORS</u>	89
<u>ITEM 4</u> <u>SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS</u>	90
<u>ITEM 6</u> <u>EXHIBITS</u>	91
<u>SIGNATURES</u>	92
<u>EXHIBIT INDEX</u>	93
CERTIFICATIONS	96

Filing Format

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

PART 1 – FINANCIAL INFORMATIONItem 1 – Consolidated Financial Statements**CH ENERGY GROUP CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)**

(In Thousands, except per share amounts)

	For the 3 Months Ended June 30,	
	2008	2007
Operating Revenues		
Electric	\$ 145,844	\$ 150,445
Natural gas	44,275	40,242
Competitive business subsidiaries	123,533	80,296
Total Operating Revenues	313,652	270,983
Operating Expenses		
Operation:		
Purchased electricity and fuel used in electric generation	90,441	97,232
Purchased natural gas	31,465	27,925
Purchased petroleum	102,122	60,818
Other expenses of operation - regulated activities	41,254	39,501
Other expenses of operation - competitive business subsidiaries	21,540	17,756
Depreciation and amortization	9,549	9,026
Taxes, other than income tax	9,327	8,660
Total Operating Expenses	305,698	260,918
Operating Income	7,954	10,065
Other Income and Deductions		
Income from unconsolidated affiliates	66	349
Interest on regulatory assets and investment income	1,792	2,254
Other - net	(559)	(530)
Total Other Income	\$ 1,299	\$ 2,073
Interest Charges		
Interest on long-term debt	\$ 5,049	\$ 4,495
Interest on regulatory liabilities and other interest	1,343	923
Total Interest Charges	6,392	5,418
Income before income taxes, preferred dividends of subsidiary and minority interest	2,861	6,720
Income Taxes	972	1,293
Minority Interest	(23)	(4)

Edgar Filing: CENTRAL HUDSON GAS & ELECTRIC CORP - Form 10-Q

Income before preferred dividends of subsidiary	1,912	5,431
Cumulative preferred stock dividends of subsidiary	242	242
Net Income	1,670	5,189
Dividends Declared on Common Stock	8,523	8,512
Change in Retained Earnings	\$ (6,853)	\$ (3,323)
Common Stock:		
Average shares outstanding		
Basic	15,768	15,762
Diluted	15,812	15,784
Earnings per share		
Basic	\$ 0.11	\$ 0.33
Diluted	\$ 0.11	\$ 0.33
Dividends Declared Per Share	\$ 0.54	\$ 0.54

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

CH ENERGY GROUP CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)

(In Thousands, except per share amounts)

	For the 6 Months Ended June 30,	
	2008	2007
Operating Revenues		
Electric	\$ 289,658	\$ 302,120
Natural gas	120,494	104,433
Competitive business subsidiaries	313,292	207,809
Total Operating Revenues	723,444	614,362
Operating Expenses		
Operation:		
Purchased electricity and fuel used in electric generation	174,775	191,268
Purchased natural gas	84,603	71,261
Purchased petroleum	252,980	155,378
Other expenses of operation - regulated activities	84,167	77,150
Other expenses of operation - competitive business subsidiaries	45,207	36,549
Depreciation and amortization	19,009	18,131
Taxes, other than income tax	18,790	17,147
Total Operating Expenses	679,531	566,884
Operating Income	43,913	47,478
Other Income and Deductions		
Income from unconsolidated affiliates	335	1,544
Interest on regulatory assets and investment income	3,065	4,394
Other - net	(118)	(1,026)
Total Other Income	\$ 3,282	\$ 4,912
Interest Charges		
Interest on long-term debt	\$ 10,138	\$ 8,986
Interest on regulatory liabilities and other interest	2,631	1,873
Total Interest Charges	12,769	10,859
Income before income taxes, preferred dividends of subsidiary and minority interest	34,426	41,531
Income Taxes	12,909	14,256
Minority Interest	61	(97)
Income before preferred dividends of subsidiary	21,456	27,372
Cumulative preferred stock dividends of subsidiary	485	485

Edgar Filing: CENTRAL HUDSON GAS & ELECTRIC CORP - Form 10-Q

Net Income	20,971	26,887
Dividends Declared on Common Stock	17,041	17,023
	<u> </u>	<u> </u>
Change in Retained Earnings	\$ 3,930	\$ 9,864
	<u> </u>	<u> </u>
Common Stock:		
Average shares outstanding		
Basic	15,765	15,762
Diluted	15,809	15,784
Earnings per share		
Basic	\$ 1.33	\$ 1.71
Diluted	\$ 1.33	\$ 1.70
Dividends Declared Per Share	\$ 1.08	\$ 1.08

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

CH ENERGY GROUP CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

(In Thousands)

	For the 3 Months Ended June 30,	
	2008	2007
	<u> </u>	<u> </u>
Net Income	\$ 1,670	\$ 5,189
Other Comprehensive Income:		
Fair value of cash flow hedges - FAS 133:		
Unrealized gains (losses) - net of tax of (\$273) and \$16	410	(24)
Reclassification for (gains) losses realized in net income - net of tax of \$340 and (\$28)	(511)	42
Net unrealized gains on investments held by equity method investees - net of tax of (\$33) and (\$286)	<u>50</u>	<u>428</u>
Other comprehensive (loss) income	<u>(51)</u>	<u>446</u>
Comprehensive Income	<u>\$ 1,619</u>	<u>\$ 5,635</u>

	For the 6 Months Ended June 30,	
	2008	2007
	<u> </u>	<u> </u>
Net Income	\$ 20,971	\$ 26,887
Other Comprehensive Income:		
Fair value of cash flow hedges - FAS 133:		
Unrealized gains (losses) - net of tax of (\$455) and \$11	682	(17)
Reclassification for (gains) losses realized in net income - net of tax of \$806 and (\$256)	(1,208)	384
Net unrealized (losses) gains on investments held by equity method investees - net of tax of \$153 and (\$397)	<u>(230)</u>	<u>595</u>
Other comprehensive (loss) income	<u>(756)</u>	<u>962</u>

Comprehensive Income	\$	20,215	\$	27,849
----------------------	----	--------	----	--------

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

CH ENERGY GROUP CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

(In Thousands)

	For the 6 Months Ended June 30,	
	2008	2007
Operating Activities:		
Net Income	\$ 20,971	\$ 26,887
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	19,009	18,131
Deferred income taxes - net	13,434	3,043
Provision for uncollectibles	4,596	2,422
Undistributed equity in earnings of unconsolidated affiliates	488	(844)
Pension expense	6,565	6,800
OPEB expense	5,226	5,419
Regulatory liability - rate moderation	(5,900)	(12,547)
Regulatory asset amortization	2,765	—
Minority interest	61	(97)
Gain on sale of property and plant	(27)	(468)
Changes in operating assets and liabilities - net of business acquisitions:		
Accounts receivable, unbilled revenues and other receivables	4,153	(10,599)
Fuel and materials and supplies	2,148	246
Special deposits and prepayments	4,110	(1,374)
Prepaid income taxes	(9,828)	11,244
Accounts payable	6,954	(2,691)
Accrued taxes and interest	(997)	275
Customer advances	(12,544)	(12,763)
Pension plan contribution	(12,762)	—
OPEB contribution	(4,200)	(3,461)
Regulatory asset - MGP site remediations	(789)	3,434
Deferred natural gas and electric costs	(8,790)	4,605
Customer benefit fund	(366)	(610)
Other - net	931	(3,332)
	<u>35,208</u>	<u>33,720</u>
Investing Activities:		
Purchase of short-term investments	\$ —	\$ (43,101)
Proceeds from sale of short-term investments	3,545	56,762
Proceeds from sale of property and plant	45	1,021
Additions to utility and other property and plant	(39,545)	(39,235)
Acquisitions made by competitive business subsidiaries	(9,259)	(11,585)
Other - net	712	1,718
	<u>(44,502)</u>	<u>(34,420)</u>
Financing Activities:		

Edgar Filing: CENTRAL HUDSON GAS & ELECTRIC CORP - Form 10-Q

Redemption of long-term debt	—	(33,000)
Proceeds from issuance of long-term debt	—	33,000
Borrowings of short-term debt - net	33,500	16,000
Dividends paid on common stock	(17,036)	(17,023)
Debt issuance costs	(7)	(359)
	<u>16,457</u>	<u>(1,382)</u>
Net cash provided by (used in) financing activities	16,457	(1,382)
Net Change in Cash and Cash Equivalents	7,163	(2,082)
Cash and Cash Equivalents at Beginning of Period	11,313	24,121
	<u>18,476</u>	<u>22,039</u>
Cash and Cash Equivalents at End of Period	\$ 18,476	\$ 22,039
Supplemental Disclosure of Cash Flow Information:		
Interest paid	\$ 11,447	\$ 9,979
Federal and state income tax paid	\$ 9,852	\$ 8,023
Additions to plant included in liabilities	\$ 12,523	\$ 3,749

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

CH ENERGY GROUP CONSOLIDATED BALANCE SHEET (UNAUDITED)

(In Thousands)

	June 30, 2008	December 31, 2007	June 30, 2007
ASSETS			
Utility Plant			
Electric	\$ 832,509	\$ 807,412	\$ 788,734
Natural gas	257,348	248,894	240,870
Common	117,247	113,494	113,937
	<u>1,207,104</u>	<u>1,169,800</u>	<u>1,143,541</u>
Less: Accumulated depreciation	362,363	354,353	348,975
	<u>844,741</u>	<u>815,447</u>	<u>794,566</u>
Construction work in progress	70,346	75,866	56,165
	<u>915,087</u>	<u>891,313</u>	<u>850,731</u>
Other Property and Plant - net	31,292	31,236	33,469
Current Assets			
Cash and cash equivalents	18,476	11,313	22,039
Short-term investments - available-for-sale securities	—	3,545	28,950
Accounts receivable from customers - net of allowance for doubtful accounts of \$5.6 million, \$4.8 million, and \$4.5 million, respectively	134,288	139,107	93,485
Accrued unbilled utility revenues	7,372	12,022	6,846
Other receivables	7,288	6,568	6,186
Fuel and materials and supplies	31,580	33,321	28,955
Regulatory assets	46,090	35,012	32,525
Prepaid income tax	9,828	—	—
Fair value of derivative instruments	9,997	1,218	—
Special deposits and prepayments	24,014	28,108	25,012
Accumulated deferred income tax	1,088	7,378	6,584
	<u>290,021</u>	<u>277,592</u>	<u>250,582</u>
Total Current Assets			
Deferred Charges and Other Assets			
Regulatory assets - pension plan	44,078	51,393	91,532
Regulatory assets - OPEB	—	15,967	32,766
Regulatory assets	103,816	86,821	83,219
Goodwill	67,559	63,433	57,539
Other intangible assets - net	38,065	35,720	30,926

Edgar Filing: CENTRAL HUDSON GAS & ELECTRIC CORP - Form 10-Q

Unamortized debt expense	4,161	4,345	4,217
Investments in unconsolidated affiliates	10,799	12,226	13,417
Other investments	9,797	8,613	8,560
Other	14,628	16,089	11,730
	<u> </u>	<u> </u>	<u> </u>
Total Deferred Charges and Other Assets	292,903	294,607	333,906
	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$ 1,529,303</u>	<u>\$ 1,494,748</u>	<u>\$ 1,468,688</u>

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

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

(In Thousands)

	June 30, 2008	December 31, 2007	June 30, 2007
CAPITALIZATION AND LIABILITIES			
Capitalization			
Common Stock, 30,000,000 shares authorized: \$0.10 par value - 15,782,774 shares outstanding at June 30, 2008 15,762,000 shares outstanding at December 31, and June 30, 2007; 16,862,087 shares issued	\$ 1,686	\$ 1,686	\$ 1,686
Paid-in capital	350,783	351,230	351,230
Retained earnings	219,569	215,639	216,919
Treasury stock (1,079,313 shares June 30, 2008; 1,100,087 shares December 31, and June 30, 2007)	(45,397)	(46,252)	(46,252)
Accumulated other comprehensive income	417	1,173	433
Capital stock expense	(328)	(328)	(328)
Total Common Shareholders' Equity	526,730	523,148	523,688
Cumulative Preferred Stock			
Not subject to mandatory redemption	21,027	21,027	21,027
Long-term debt	383,892	403,892	370,890
Total Capitalization	931,649	948,067	915,605
Current Liabilities			
Current maturities of long-term debt	20,000	—	—
Notes payable	76,000	42,500	29,000
Accounts payable	50,448	44,880	38,705
Accrued interest	5,964	6,127	5,546
Dividends payable	8,765	8,760	8,754
Accrued vacation and payroll	8,080	7,640	7,198
Customer advances	10,501	23,045	12,969
Customer deposits	8,328	8,126	8,152
Regulatory liabilities	11,225	9,392	15,261
Fair value of derivative instruments	—	1,235	6,546
Accrued environmental remediation costs	7,075	2,703	2,604
Accrued income taxes	—	834	374
Deferred revenues	6,528	7,437	5,053
Accumulated deferred income tax	4,173	—	—
Other	23,019	16,820	14,159
Total Current Liabilities	240,106	179,499	154,321
Deferred Credits and Other Liabilities			
Regulatory liabilities	123,024	111,663	104,762
Regulatory liabilities - OPEB	9,804	—	—
Operating reserves	5,222	5,212	5,245

Edgar Filing: CENTRAL HUDSON GAS & ELECTRIC CORP - Form 10-Q

Accrued environmental remediation costs	23,393	15,027	14,678
Accrued OPEB costs	29,470	55,560	68,172
Accrued pension costs	6	11,202	48,760
Other	12,389	19,805	12,709
	<u>203,308</u>	<u>218,469</u>	<u>254,326</u>
Total Deferred Credits and Other Liabilities			
Minority Interest	1,406	1,345	1,369
	<u>152,834</u>	<u>147,368</u>	<u>143,067</u>
Accumulated Deferred Income Tax			
Commitments and Contingencies			
Total Capitalization and Liabilities	\$ 1,529,303	\$ 1,494,748	\$ 1,468,688

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

CENTRAL HUDSON CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)

(In Thousands)

	For the 3 Months Ended June 30,	
	2008	2007
Operating Revenues		
Electric	\$ 145,844	\$ 150,445
Natural gas	44,275	40,242
Total Operating Revenues	190,119	190,687
Operating Expenses		
Operation:		
Purchased electricity and fuel used in electric generation	89,138	95,796
Purchased natural gas	31,465	27,925
Other expenses of operation	41,254	39,501
Depreciation and amortization	7,450	7,144
Taxes, other than income tax	9,132	8,522
Total Operating Expenses	178,439	178,888
Operating Income	11,680	11,799
Other Income and Deductions		
Interest on regulatory assets and other interest income	1,436	1,634
Other - net	(158)	(309)
Total Other Income	1,278	1,325
Interest Charges		
Interest on other long-term debt	5,049	4,495
Interest on regulatory liabilities and other interest	1,114	923
Total Interest Charges	6,163	5,418