CHESAPEAKE UTILITIES CORP
Form 10-K
February 29, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended: December 31, 2015
Commission File Number: 001-11590

CHESAPEAKE UTILITIES CORPORATION
(Exact name of registrant as specified in its charter)

State of Delaware (State or other jurisdiction of incorporation or organization)	51-0064146 (I.R.S. Employer Identification No.)

909 Silver Lake Boulevard, Dover, Delaware 19904
(Address of principal executive offices, including zip code)
302-734-6799
(Registrant's telephone number, including area code)
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock—par value per share $0.4867	New York Stock Exchange, Inc.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨. No ý.
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨. No ý.
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. Yes ý. No ¨.
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). Yes ý. No ¨.
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendments to this Form 10-K. ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "accelerated filer," "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	ý	Accelerated filer	¨
Non-accelerated filer	¨	Smaller Reporting Company	¨

Indicate by a check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨. No ý.

The aggregate market value of the common shares held by non-affiliates of Chesapeake Utilities Corporation as of June 30, 2015, the last business day of its most recently completed second fiscal quarter, based on the last trade price on that date, as reported by the New York Stock Exchange, was approximately $781.9 million.

The number of shares of Chesapeake Utilities Corporation Inc.'s common stock outstanding as of February 17, 2016 was 15,276,316.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the 2016 Annual Meeting of Stockholders are incorporated by reference in Part II and Part III.

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GLOSSARY OF DEFINITIONS

401(k) SERP: Supplemental Executive Retirement Savings Plan, which was subsequently merged into the Non-Qualified Deferred Compensation Plan
AFUDC: Allowance for funds used during construction
ASC: Accounting Standards Codification
ASU: Accounting Standards Update
Anderson Gas: Anderson Gas Service, Inc., a small propane distribution company located in Florida
Aspire Energy: Aspire Energy of Ohio, LLC, a wholly-owned subsidiary of Chesapeake Utilities, into which Gatherco merged on April 1, 2015
Austin Cox: Austin Cox Home Services, Inc., a wholly-owned subsidiary of Chesapeake Utilities, providing heating, ventilation and air conditioning, plumbing and electrical services
BravePoint: BravePoint, Inc., the former advanced information services subsidiary of Chesapeake Utilities, headquartered in Norcross, Georgia, which was sold on October 1, 2014
CDD: Cooling degree-day, which is the measure of the variation in weather based on the extent to which the daily average temperature (from 10:00 am to 10:00 am) is above 65 degrees Fahrenheit
Chesapeake or Chesapeake Utilities: Chesapeake Utilities Corporation, its divisions and subsidiaries, as appropriate in the context of the disclosure
Chesapeake Onsight Services: Chesapeake Onsight Services, LLC, a wholly-owned subsidiary of Chesapeake Utilities
Chesapeake Pension Plan: A defined benefit pension plan sponsored by Chesapeake Utilities
Chesapeake Postretirement Plan: An unfunded postretirement health care and life insurance plan sponsored by Chesapeake Utilities
Chesapeake SERP: An unfunded supplemental executive retirement pension plan sponsored by Chesapeake Utilities
Chesapeake Service Company: Chesapeake Service Company, a wholly-owned subsidiary of Chesapeake Utilities and the parent company of Skipjack, CIC and ESRE
CHP: A combined heat and power plant being constructed by Eight Flags in Nassau County, Florida
CIC: Chesapeake Investment Company, a wholly-owned subsidiary of Chesapeake Service Company, which is an investment company incorporated in Delaware
Columbia: Columbia Gas Transmission, LLC
Company: Chesapeake Utilities Corporation, its divisions and subsidiaries, as appropriate in the context of the disclosure
Credit Agreement: An agreement between Chesapeake Utilities and the Lenders related to the Revolver
Deferred Compensation Plan: A non-qualified, deferred compensation arrangement under which certain of our executives and members of the Board of Directors are able to defer payment of all or a part of certain specified types of compensation, including executive cash bonuses, executive performance shares, and directors' retainers and fees; this Plan was subsequently merged into the Non-Qualified Deferred Compensation Plan
Delmarva Peninsula: A peninsula on the east coast of the United States of America occupied by Delaware and portions of Maryland and Virginia
Dodd-Frank Act: The Dodd-Frank Wall Street Reform and Consumer Protection Act
DNREC: Delaware Department of Natural Resources and Environmental Control
Dt: Dekatherm, which is a natural gas unit of measurement that includes a standard measure for heating value

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Dts/d: Dekatherms per day
Eastern Shore: Eastern Shore Natural Gas Company, a wholly-owned natural gas transmission subsidiary of Chesapeake Utilities
EGWIC: Eastern Gas & Water Investment Company, LLC, an affiliate of Eastern Shore Gas Company
Eight Flags: Eight Flags Energy, LLC, a subsidiary of Chesapeake Onsight Services
EPA: United States Environmental Protection Agency
ESG: Eastern Shore Gas Company and its affiliates
ESRE: Eastern Shore Real Estate, Inc., a wholly-owned subsidiary of Chesapeake Utilities that owns and leases office buildings in Delaware and Maryland to divisions and subsidiaries of Chesapeake Utilities
FASB: Financial Accounting Standards Board
FERC: Federal Energy Regulatory Commission, an independent agency of the United States government that regulates the interstate transmission of electricity, natural gas, and oil
FDEP: Florida Department of Environmental Protection
FDOT: Florida Department of Transportation
FGT: Florida Gas Transmission Company
Flo-gas: Flo-gas Corporation, a wholly-owned subsidiary of FPU
Fort Meade: The natural gas system purchased by FPU from the City of Fort Meade, Florida
FPU: Florida Public Utilities Company, a wholly-owned subsidiary of Chesapeake Utilities
FPU Medical Plan: A separate unfunded postretirement medical plan for FPU sponsored by Chesapeake Utilities
FPU Pension Plan: A separate defined benefit pension plan for FPU sponsored by Chesapeake Utilities
GAAP: Accounting principles generally accepted in the United States of America
Gatherco: Gatherco, Inc.
GRIP: The Gas Reliability Infrastructure Program, a natural gas pipeline replacement program in Florida, pursuant to which we collect a surcharge from certain of our Florida customers to recover capital and other program-related costs associated with the replacement of qualifying distribution mains and services in Florida
GSR: Gas Service Rates
Gulf: Columbia Gulf Transmission Company
Gulf Power: Gulf Power Company
Gulfstream: Gulfstream Natural Gas System, LLC
HDD: Heating degree-day, which is a measure of the variation in weather based on the extent to which the daily average temperature (from 10:00 am to 10:00 am) is below 65 degrees Fahrenheit
IGC: Indiantown Gas Company
IRS: Internal Revenue Service
JEA: The community-owned utility located in Jacksonville, Florida, formerly known as Jacksonville Electric Authority
Lenders: PNC, Bank of America, N.A., Citizens Bank N.A., Royal Bank of Canada, and Wells Fargo Bank, National Association, which are collectively the lenders that entered into the Credit Agreement with Chesapeake Utilities on October 8, 2015

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MDE: Maryland Department of Environment
MGP: Manufactured gas plant, which is a site where coal was previously used to manufacture gaseous fuel for industrial, commercial and residential use
MWH: Megawatt hour, which is a unit of measurement for electricity
NAM: Natural Attenuation Monitoring
Non-Qualified Deferred Compensation Plan: A non-qualified, deferred compensation arrangement under which certain of our executives and members of the Board of Directors are able to defer payment of all or a part of certain specified types of compensation, including executive base compensation, executive cash bonuses, executive performance shares, and directors' retainers and fees
Note Agreement: Note Purchase Agreement entered into by Chesapeake Utilities with the Note Holders on September 5, 2013
Note Holders: PAR U Hartford Life & Annuity Comfort Trust, The Prudential Insurance Company of America, The Gibraltar Life Insurance Co., Ltd., The Penn Mutual Life Insurance Company, Thrivent Financial for Lutherans, United of Omaha Life Insurance Company, and Companion Life Insurance Company, which are collectively the lenders that entered into the Note Agreement with Chesapeake Utilities on September 5, 2013
NYSE: New York Stock Exchange
OPT ≤ 90 Service: Off Peak ≤ 90 Firm Transportation Service, a new tariff associated with Eastern Shore's firm transportation service that enables Eastern Shore to forego scheduling service for up to 90 days during the peak months of November through April each year
OTC: Over-the-counter
Peninsula Pipeline: Peninsula Pipeline Company, Inc., Chesapeake Utilities' wholly-owned Florida intrastate pipeline subsidiary
Peoples Gas: The Peoples Gas System division of Tampa Electric Company
PESCO: Peninsula Energy Services Company, Inc., Chesapeake Utilities' wholly-owned natural gas marketing subsidiary
PNC: PNC Bank, National Association, the administrative agent and primary lender for our Revolver
Prudential: Prudential Investment Management Inc., an institutional investment management firm, with which we have entered into the Shelf Agreement for the future purchase of our Shelf Notes
PSC: Public Service Commission, which is the state agency that regulates the rates and services of Chesapeake Utilities' natural gas and electric distribution operations in Delaware, Maryland and Florida and Peninsula Pipeline in Florida
RAP: Remedial Action Plan, which is a plan that outlines the procedures taken or being considered in removing contaminants from a MGP formerly owned by Chesapeake Utilities or FPU
Rayonier: Rayonier Performance Fibers, LLC
Retirement Savings Plan: Chesapeake Utilities' qualified 401(k) retirement savings plan
Revolver: The unsecured revolving credit facility issued to us by the Lenders
Sandpiper: Sandpiper Energy, Inc., a wholly-owned subsidiary of Chesapeake Utilities, providing a tariff-based distribution service to customers in Worcester County, Maryland
Sanford Group: FPU and other responsible parties involved with the Sanford environmental site
SEC: Securities and Exchange Commission
Senior Notes: Our unsecured long-term debt primarily issued to insurance companies on various dates
Series A Notes: Series A of the Senior Notes issued on December 16, 2013 pursuant to the Note Agreement

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Series B Notes: Series B of the Senior Notes issued on May 15, 2014 pursuant to the Note Agreement
Sharp: Sharp Energy, Inc., Chesapeake Utilities' wholly-owned propane distribution subsidiary
Sharpgas: Sharpgas, Inc., a subsidiary of Sharp
Shelf Agreement: An agreement entered into between Chesapeake Utilities and Prudential pursuant to which we may request that Prudential purchase, over the next three years, up to $150.0 million of Shelf Notes at a fixed interest rate and with a maturity date not to exceed twenty years from the date of issuance.
Shelf Notes: Unsecured senior promissory notes that we may request Prudential to purchase under the Shelf Agreement
SICP: 2013 Stock and Incentive Compensation Plan
SIR: A system improvement rate adder designed to fund system expansion costs within the city limits of Ocean City, Maryland

Skipjack: Skipjack, Inc. a wholly-owned subsidiary of Chesapeake Service Company that owns and leases office buildings in Delaware and Maryland to affiliates of Chesapeake Utilities
S&P 500 Index: Standard & Poor’s 500 Index
TETLP: Texas Eastern Transmission, LP
Transco: Transcontinental Gas Pipe Line Company, LLC
Xeron: Xeron, Inc., Chesapeake Utilities' wholly-owned propane wholesale marketing subsidiary, based in Houston, Texas

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PART I

References in this document to “Chesapeake,” “Chesapeake Utilities,” the “Company,” “we,” “us” and “our” mean Chesapeake Utilities Corporation, its divisions and/or its wholly-owned subsidiaries, as appropriate in the context of the disclosure.

Safe Harbor for Forward-Looking Statements

We make statements in this Annual Report on Form 10-K that do not directly or exclusively relate to historical facts. Such statements are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. One can typically identify forward-looking statements by the use of forward-looking words, such as “project,” “believe,” “expect,” “anticipate,” “intend,” “plan,” “estimate,” “continue,” “potential,” “forecast” or other similar words, or fut conditional verbs such as “may,” “will,” “should,” “would” or “could.” These statements represent our intentions, plans, expectations, assumptions and beliefs about future financial performance, business strategy, projected plans and objectives. These statements are subject to many risks and uncertainties. In addition to the risk factors described under Item 1A, Risk Factors, the following important factors, among others, could cause actual future results to differ materially from those expressed in the forward-looking statements:

- state and federal legislative and regulatory initiatives (including deregulation) that affect cost and investment recovery, have an impact on rate structures, and affect the speed at, and the degree to which competition enters the electric and natural gas industries;
- the outcomes of regulatory, tax, environmental and legal matters, including whether pending matters are resolved within current estimates and whether the costs associated with such matters are adequately covered by insurance or recoverable in rates;
- the timing of certification authorizations;
- the loss of customers due to a government-mandated sale of our utility distribution facilities;
- industrial, commercial and residential growth or contraction in our markets or service territories;
- the weather and other natural phenomena, including the economic, operational and other effects of hurricanes, ice storms and other damaging weather events;
- the timing and extent of changes in commodity prices and interest rates;
- general economic conditions, including any potential effects arising from terrorist attacks and any hostilities or other external factors over which we have no control;
- changes in environmental and other laws and regulations to which we are subject and environmental conditions of property that we now or may in the future own or operate;
- the capital intensive nature of our regulated energy businesses;
- the results of financing efforts, including our ability to obtain financing on favorable terms, which can be affected by various factors, including credit ratings and general economic conditions;
- the impact on our cost and funding obligations under our pension and other post retirement benefit plans of potential downturns in the financial markets, lower discount rates, and costs associated with the Patient Protection and Affordable Care Act;
- the creditworthiness of counterparties with which we are engaged in transactions;
- the extent of our success in connecting natural gas and electric supplies to transmission systems and in expanding natural gas and electric markets;
- the ability to continue to hire, train and retain appropriately qualified personnel;
- conditions of the capital markets and equity markets during the periods covered by the forward-looking statements;
- the ability to successfully execute, manage and integrate merger, acquisition or divestiture plans; regulatory or other limitations imposed as a result of a merger; acquisition or divestiture, and the success of the business following a merger, acquisition or divestiture;
- the ability to establish and maintain new key supply sources;
- the effect of spot, forward and future market prices on our various energy businesses;
- the effect of competition on our businesses;
- the ability to construct facilities at or below estimated costs;
- possible increased federal, state and local regulation of the safety of our operations;

- the inherent hazards and risks involved in our energy businesses;
- the effect of accounting pronouncements issued periodically by accounting standard-setting bodies; and
- risks related to cyber-attacks that could disrupt our business operations or result in failure of information technology systems.

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ITEM 1. BUSINESS.

CORPORATE OVERVIEW

Chesapeake Utilities Corporation is a Delaware corporation formed in 1947. We are a diversified energy company engaged, through our operating divisions and subsidiaries, in various energy and other businesses. We operate primarily on the Delmarva Peninsula and in Florida, Pennsylvania and Ohio, providing natural gas distribution and transmission, natural gas supply, gathering and processing, electric distribution and propane distribution service. The core of our business is regulated energy services, which provides stable earnings through our utility operations. Our unregulated businesses provide opportunities to achieve returns greater than those of a traditional utility. The following charts present operating income by type of energy served and geographic area for the year ended December 31, 2015 and average investment by type of energy served and geographic area as of December 31, 2015.

OPERATING SEGMENTS

We operate within two reportable segments: Regulated Energy and Unregulated Energy.

The Regulated Energy segment includes our natural gas distribution, natural gas transmission and electric distribution operations. All operations in this segment are regulated, as to their rates and service, by the PSC having jurisdiction in each state in which we operate or by the FERC in the case of Eastern Shore.

The Unregulated Energy segment includes our propane distribution, propane wholesale marketing, natural gas marketing and natural gas supply, gathering and processing services, which are unregulated as to their rates and services. Also included in this segment are other unregulated energy services, such as energy-related merchandise sales and heating, ventilation and air conditioning plumbing and electrical services. In the future, our Unregulated Energy segment will include electricity and steam generation services from the CHP plant we are currently constructing in Nassau County, Florida. The revenues from these services will be included in the Unregulated Energy segment.

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The remainder of our operations is presented as “Other businesses and eliminations". Prior to September 30, 2014, our business included a third segment, "Other", which consisted primarily of BravePoint, our former advanced information services subsidiary. On October 1, 2014, we sold BravePoint. "Other businesses and eliminations" now solely consists of unregulated subsidiaries that own real estate leased to Chesapeake Utilities, as well as certain corporate costs not allocated to other operations.
The following chart shows our principal business structure by segment and other businesses:
The following table shows the size of each of our operating segments and other businesses based on operating income for the year ended December 31, 2015 and total assets as of December 31, 2015:

(dollars in thousands)	Operating Income			Total Assets		
Regulated Energy	$60,985	78	%	$870,559	82	%
Unregulated Energy	16,355	21	%	172,803	16	%
Other businesses	418	1	%	25,224	2	%
Total	$77,758	100	%	$1,068,586	100	%

Additional financial information by business segment is set forth in Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operation, and Item 8, Financial Statements and Supplementary Data (see Note 5, Segment Information, in the Consolidated Financial Statements).

REGULATED ENERGY

Overview of Business

Regulated Energy is our largest segment and consists of: (i) our natural gas distribution operations in Delaware, Maryland and Florida; (ii) our electric distribution operation in Florida; and (iii) our natural gas transmission operations on the Delmarva Peninsula and in Florida. Our natural gas and electric distribution operations, which are local distribution utilities, generate revenues based on tariff rates approved by the PSC of each state in which we operate. The PSCs have also authorized our utilities to negotiate rates, based on approved methodologies, with customers that have competitive alternatives. Some of our customers in Maryland are currently served with propane under PSC-approved tariff rates as we prepare to convert some of our underground propane distribution system customers to natural gas. These customers are included in the Delmarva natural gas distribution operation.

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Eastern Shore, our interstate natural gas transmission subsidiary, bills its customers based upon the FERC-approved tariff rates. Eastern Shore is also authorized by the FERC to negotiate rates above or below the FERC-approved tariff rates. Peninsula Pipeline, our Florida intrastate pipeline subsidiary, is subject to regulation by the Florida PSC, and has negotiated contracts with third-party customers and with certain affiliates. Our rates are designed to provide the opportunity to generate revenues to recover all prudently incurred costs and provide a return on rate base sufficient to pay interest on debt and a reasonable return for our stockholders. Rate base generally consists of the original cost of utility plant less accumulated depreciation on utility plant in service, working capital and certain other assets and, depending upon the particular regulatory jurisdiction, may also include deferred income tax liabilities and other additions or deletions.

The natural gas commodity market for Chesapeake Utilities' Florida division and FPU’s Indiantown division is deregulated. Accordingly, marketers, rather than a traditional utility, sell natural gas to end-use customers in those jurisdictions. For all of our other local distribution utilities, we have fuel cost recovery mechanisms authorized by the PSCs that allow us to periodically adjust fuel rates to reflect changes in the wholesale cost of natural gas and electricity and to ensure we recover all of the costs prudently incurred in purchasing natural gas and electricity for our customers.

Weather

Revenues from our residential and commercial sales are affected by seasonal variations in weather conditions, which directly influence the volume of natural gas and electricity sold and delivered. Specifically, customer demand substantially increases during the winter months, when natural gas and electricity are used for heating. For electricity, customer demand also increases during the summer months, when electricity is used for cooling. Accordingly, the volumes sold for these purposes are directly affected by the severity of summer and winter weather and can vary substantially from year to year. We measure the relative impact of weather by using an accepted degree-day methodology. Degree-day data is used to estimate amounts of energy required to maintain comfortable indoor temperature levels based on each day’s average temperature. A degree-day is the measure of the variation in the weather based on the extent to which the average daily temperature (from 10:00 am to 10:00 am) falls above or below 65 degrees Fahrenheit. Each degree of temperature below 65 degrees Fahrenheit is counted as one heating degree-day. Each degree of temperature above 65 degrees Fahrenheit is counted as one cooling degree-day. Normal heating degree-days are based on the most recent 10-year average.

In an effort to stabilize the level of net revenues collected from customers of Chesapeake Utilities' Maryland division regardless of weather conditions, Chesapeake Utilities' Maryland division’s rates include a weather normalization adjustment for residential heating and smaller commercial heating customers. A weather normalization adjustment is a billing adjustment mechanism (or "decoupled" rate mechanism) that is designed to eliminate the effect of deviations from average seasonal temperatures on utility net revenues. We do not currently have any weather normalization or “decoupled” rate mechanisms for our other local distribution utilities. We recently filed for approval of a weather normalization adjustment by the Delaware PSC for Chesapeake Utilities' Delaware division and by the Maryland PSC for Sandpiper, see Item 8, Financial Statements and Supplementary Data (Note 18, Rates and Other Regulatory Activities, in the Consolidated Financial Statements) for more information.

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Operational Highlights

The following table presents operating revenues, volume and average customers by customer class for our natural gas and electric distribution operations for the year ended December 31, 2015:

(in thousands)	Delmarva Natural Gas Distribution[2]		Florida Natural Gas Distribution [3]		FPU Electric Distribution	
Operating Revenues						
Residential	$63,745	61 %	$27,945	32 %	$46,686	59 %
Commercial	33,776	33 %	31,116	36 %	42,585	54 %
Industrial	7,214	7 %	21,988	25 %	3,111	4 %
Other [1]	(1,175)	(1)%	5,512	7 %	(12,954)	(17)%
Total Operating Revenues	$103,560	100 %	$86,561	100 %	$79,428	100 %
Volume (in Dts for natural gas/MWHs for electric)						
Residential	3,734,888	31 %	1,575,038	6 %	303,642	48 %
Commercial	3,696,839	30 %	7,834,533	32 %	313,757	49 %
Industrial	4,617,183	38 %	14,990,843	62 %	18,880	3 %
Other	82,655	1 %	(84,763)	— %	(1,740)	— %
Total	12,131,565	100 %	24,315,651	100 %	634,539	100 %
Average Customers						
Residential	63,901	90 %	66,900	90 %	24,039	76 %
Commercial	6,637	9 %	5,609	8 %	7,389	24 %
Industrial	118	1 %	1,702	2 %	2	— %
Other	5	— %	—	— %	—	— %
Total	70,661	100 %	74,211	100 %	31,430	100 %

[1] Operating Revenues from "Other" sources include unbilled revenue, under (over) recoveries of fuel cost, conservation revenue, other miscellaneous charges, fees for billing services provided to third parties, and adjustments for pass-through taxes.

[2] Delmarva natural gas distribution operation includes Chesapeake Utilities' Delaware and Maryland divisions in addition to Sandpiper.

[3] Florida natural gas distribution operation includes Chesapeake Utilities' Florida division, FPU and FPU's Indiantown and Fort Meade divisions.

The following table presents operating revenues and design day capacity for Eastern Shore for the year ended December 31, 2015 and contracted firm transportation capacity at December 31, 2015:

(in thousands)	Eastern Shore	
Operating Revenues		
Local distribution companies - affiliated [1]	$18,320	39 %
Local distribution companies - non-affiliated	9,485	20 %
Commercial and industrial	18,995	41 %
Other [2]	44	— %
Total Operating Revenues	$46,844	100 %
Contracted firm transportation capacity (in Dts/d)		
Local distribution companies - affiliated	101,152	43 %

Local distribution companies - non-affiliated	67,293	28	%
Commercial and industrial	67,923	29	%
Total	236,368	100	%
Designed day capacity (in Dts/d)	236,368	100	%

(1) Eastern Shore's service to our local distribution affiliates is based on FERC-approved rates and is an integral component of the cost associated with providing natural gas supplies for those affiliates. We eliminate operating revenues of Eastern Shore against the cost of sales of those affiliates in our consolidated financial information; however, our local distribution affiliates include this amount in their purchased fuel cost and recover it through fuel cost recovery mechanisms.

(2) Operating revenues from "Other" sources are from the rental of gas properties.

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Peninsula Pipeline contracts with both affiliated and non-affiliated customers to provide firm transportation service. All of the contracts provide a fixed annual transportation fee. For the year ended December 31, 2015, operating revenues of Peninsula Pipeline were $5.1 million, $3.8 million of which were related to service to FPU under a contract with FPU, which was previously approved by the Florida PSC. Peninsula Pipeline's operating revenue from FPU is eliminated against the cost of sales in consolidation; however, FPU includes this amount in its purchased fuel cost and recovers it through the fuel cost recovery mechanism.

Regulatory Matters

The following table highlights the key regulatory structure and the most recent base rate proceeding information for each of our major utilities:

	Chesapeake Utilities - Delaware Division	Chesapeake Utilities - Florida Division	FPU Natural Gas	FPU Electric	Chesapeake Utilities - Maryland Division	Eastern Shore	Sandpiper
Commission Structure:	5 commissioners Part-Time Gubernatorial Appointment	5 commissioners Full-Time Gubernatorial Appointment	5 commissioners Full-Time Gubernatorial Appointment	5 commissioners Full-Time Gubernatorial Appointment	5 commissioners Full-Time Gubernatorial Appointment	5 commissioners Full-Time Presidential Appointment	5 commissioners Full-Time Gubernatorial Appointment
Regulatory Jurisdiction:	Delaware PSC	Florida PSC	Florida PSC	Florida PSC	Maryland PSC	FERC	Maryland PSC
Base Rate Proceeding:							
Delay in collection of rates subsequent to filing application	60 days	90 days	90 days	90 days	180 days	Up to 180 days	180 days
Application date associated with the most recent permanent rates	7/6/2007 (1)	7/14/2009	12/17/2008	4/28/2014	5/1/2006	12/30/2010	N/A(1)
Effective date of permanent rates	9/30/2008 (1)	1/14/2010	1/14/2010(2)	11/1/2014	12/1/2007	7/29/2011	N/A(1)
Rate increase (decrease) approved	$325,000 (1)	$2,536,300	$7,969,000	$3,750,000	$648,000	$805,000	N/A(1)
Rate of return approved	10.25% (1) (3)	10.80%(3)	10.85%(3)	10.25%(3)	10.75%(3)	13.90%(4)	N/A(1)

(1) We filed base rate proceedings for Chesapeake Utilities' Delaware division and Sandpiper on December 21, 2015 and December 1, 2015, respectively. See Item 8, Financial Statements and Supplementary Data (Note 18, Rates and Other Regulatory Activities, in the Consolidated Financial Statements) for more information.

(2) The effective date of the order approving the settlement agreement, which adjusted the rates originally approved on June 4, 2009.
(3) Allowed return on equity.
(4) Allowed pre-tax, pre-interest rate of return.

As of December 31, 2015, our investments in our regulated operations were as follows: $112.7 million for Delmarva natural gas distribution; $251.0 million for Florida natural gas and electric distribution; and $166.3 million for natural gas transmission.

The terms of the settlement agreement for the FPU electric division rate case prescribe an authorized return on equity range of 9.25 to 11.25 percent, with a mid-point of 10.25 percent. In addition, the FPU electric division cannot file for a base rate increase prior to December 2016, unless its allowed return on equity falls below the authorized range. If the allowed return on equity exceeds the authorized range, the Office of the Public Counsel can seek a rate decrease.

The terms of the settlement agreement in Eastern Shore’s most recent base rate proceeding provided a five-year moratorium (which will end on December 31, 2016) on Eastern Shore’s right to file a base rate increase and other parties’ rights to challenge Eastern Shore’s rates. However, Eastern Shore is allowed to file for rate adjustments during those five years in the event certain costs related to government-mandated obligations are incurred and Eastern Shore’s pre-tax earnings do not equal or exceed 13.90 percent. Eastern Shore is also required to file a base rate proceeding by January 2017.

In May 2013, the Maryland PSC approved our application to acquire the ESG operating assets to transfer the ESG franchises to Sandpiper. The Maryland PSC also approved a new gas service tariff and rates applicable to natural gas and propane distribution customers in Worcester County, Maryland, and directed that Sandpiper file a base rate proceeding within two and one-half years. This proceeding was filed on December 1, 2015.

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In addition to the base rates approved by the PSCs, certain of our local distribution utilities have additional surcharge mechanisms, which were separately approved by their respective PSC. The most notable surcharge mechanisms include Delaware's surcharge to increase the availability of natural gas in portions of eastern Sussex County, Delaware; Maryland's surcharge designed to recover the costs associated with conversions to natural gas and to improve infrastructure in Worcester County, Maryland; and Florida's GRIP surcharge designed to recover capital and other costs, inclusive of an appropriate return on investment, associated with accelerating the replacement of qualifying distribution mains.

See Item 8, Financial Statements and Supplementary Data (Note 18, Rates and Other Regulatory Activities, in the Consolidated Financial Statements) for more information.

Competition

Our natural gas and electric distribution operations and our natural gas transmission operations compete with other forms of energy, including natural gas, electricity, oil, propane and other alternative sources of energy. The principal competitive factors are price and, to a lesser extent, accessibility. Our natural gas distribution operations have several large industrial customers that are able to use fuel oil or propane as an alternative to natural gas. When oil or propane prices decline, these interruptible customers may convert to an alternative fuel source to satisfy their fuel requirements, and our sales volumes may decline. To address the uncertainty of alternative fuel prices, we use flexible pricing arrangements on both the supply and sales sides of our business to compete with alternative fuel price fluctuations.

Large industrial natural gas customers may be able to bypass our distribution and transmission systems and make direct connections with "upstream" interstate transmission pipelines when such connections are economically feasible. Certain large industrial electric customers may be capable of generating electricity for their own consumption. Although the risk of bypassing our systems is not considered significant, we may adjust services and rates for these customers to retain their business in certain situations.

Supplies, Transmission and Storage

We believe that the availability of supply and transmission of natural gas and electricity is adequate under existing arrangements to meet the anticipated needs of our customers.

Chesapeake Utilities' Delaware and Maryland divisions use their firm transportation resources to meet a significant percentage of their projected demand requirements. They purchase firm natural gas supplies to meet those projected requirements with purchases of base load, daily spot supplies and storage service. They have both firm and interruptible transportation service contracts with four interstate "open access" pipeline companies (Eastern Shore, Transco, Columbia and TETLP) in order to meet customer demand. Their distribution system is directly interconnected with Eastern Shore's pipeline, which is directly interconnected with the upstream pipelines of Transco, Columbia and TETLP.

Chesapeake Utilities' Delaware division has 72,254 Dts of maximum daily firm transportation capacity with Eastern Shore through contracts expiring on various dates between 2016 and 2028. It also has a total of 66,483 Dts of maximum daily firm transportation capacity with three upstream pipelines through contracts expiring between 2016 and 2028. Chesapeake Utilities' Maryland division has 26,448 Dts/d of maximum firm transportation capacity with Eastern Shore through contracts expiring on various dates between 2016 and 2027 and a total of 26,228 Dts/d of maximum firm transportation capacity with three upstream pipelines through contracts expiring between 2016 and 2027. The Delaware and Maryland divisions also have the capability to use propane-air peak-shaving equipment to supplement or displace natural gas purchases.

Chesapeake Utilities' Delaware and Maryland divisions contract with an unaffiliated energy marketing and risk management company through an asset management agreement to optimize their transportation and storage capacity and secure an adequate supply of natural gas. Pursuant to the asset management agreement, the asset manager pays our divisions a fee, which our divisions share with their customers. The current asset management agreement expires in March 2017.

Sandpiper is a party to a capacity, supply and operating agreement with EGWIC to purchase propane over a six-year term. Approximately three years remain under this contract. Sandpiper's current annual commitment is estimated at approximately 6.5 million gallons. Sandpiper also has 2,450 Dts of maximum daily firm transportation capacity

available from Eastern Shore through contracts expiring on various dates between 2016 and 2027.
In 2015, Chesapeake Utilities' Florida division's previous two firm transportation service agreements with FGT were consolidated under FPU's firm transportation agreements. Chesapeake Utilities' Florida division has a firm transportation service agreement with Gulfstream for firm transportation capacity of 10,000 Dts/d until May 2022. Pursuant to a program approved by the Florida PSC, all of the capacity under this agreement has been released to various third parties, including PESCO. Under the terms of these capacity release agreements, we are contingently liable to Gulfstream, if any party that acquired the capacity through release fails to pay the capacity charge.

FPU has firm transportation service agreements with FGT, Florida City Gas and Peninsula Pipeline, ranging from 52,455 to 81,056 Dts/d. These agreements expire on various dates between 2020 and 2035. FPU uses gas marketers and producers to procure all of its gas supplies to meet projected requirements. FPU also uses Peoples Gas to provide wholesale gas sales service in areas far from FPU's interconnections with FGT.

Eastern Shore has three agreements with Transco for a total of 7,292 Dts/d of firm daily storage injection and withdrawal entitlements and total storage capacity of 288,003 Dts. These agreements expire on various dates between 2018 and 2023. Eastern Shore retains these firm storage services in order to provide swing transportation service and firm storage service to customers requesting such services.

FPU currently purchases its wholesale electricity primarily from two suppliers, JEA and Gulf Power, under full requirements contracts expiring in December 2017 and 2019, respectively. The JEA contract provides generation and transmission service to northeast Florida. The Gulf Power contract provides generation and transmission service to northwest Florida. FPU also has a renewable energy purchase agreement with Rayonier to purchase between 1.7 MWH and 3.0 MWH of electricity annually through 2036. In September 2014, FPU entered into an agreement with its affiliate, Eight Flags, to purchase up to 20 MWH of electricity from a CHP plant located in Nassau County, Florida, once construction of the plant is completed. Both agreements with Rayonier and Eight Flags will serve a portion of FPU's electric distribution customer load in northeast Florida.

UNREGULATED ENERGY

Our Unregulated Energy segment provides propane distribution, propane wholesale marketing, natural gas marketing, supply, gathering and processing and other unregulated energy-related services to customers. Revenues generated from this segment are not subject to any federal, state or local pricing regulations. Our businesses in this segment typically complement our regulated businesses by offering propane as a fuel source where natural gas is not readily available, or by providing natural gas marketing, supply, gathering and processing services to our customers. Through competitive pricing and supply management, these businesses provide the opportunity to generate returns greater than those of a traditional utility.

Propane Distribution

Our propane distribution operations sell propane primarily to residential, commercial/industrial and wholesale customers in Delaware, Maryland, Virginia and in southeastern Pennsylvania through Sharp and Sharpgas, and in Florida through FPU and Flo-gas. Many of our propane distribution customers are “bulk delivery” customers. We make deliveries of propane to the bulk delivery customers as needed, based on the level of propane remaining in the tank located at the customer’s premises. We invoice and record revenues for our bulk delivery service customers at the time of delivery, rather than upon customers’ actual usage, since the customers typically own the propane gas in the tanks on their premises. We also have underground propane distribution systems serving various neighborhoods and communities. Such customers are billed monthly based on actual consumption, which is measured by meters installed on their premises. In Florida, we also offer metered propane distribution service to residential and commercial customers. The customers' tanks are metered, and we read and bill the customers once a month.

Propane Distribution - Weather

Revenues from our propane distribution sales activities are affected by seasonal variations in weather conditions. Weather conditions directly influence the volume of propane used by our metered customers or sold and delivered to our bulk customers; specifically, their demand substantially increases during the winter months when propane is used for heating. The timing of deliveries to the bulk delivery customers can also vary significantly from year to year depending on weather variation. Accordingly, the propane volumes sold for heating are directly affected by the severity of winter weather and can vary substantially from year to year. Sustained warmer-than-normal temperatures will tend to reduce propane use, while sustained colder-than-normal temperatures will tend to increase consumption.

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Propane Distribution - Operational Highlights

For the year ended December 31, 2015, operating revenues, total gallons sold and average customers by customer class for our Delmarva and Florida propane distribution operations were as follows:

(in thousands)	Delmarva Peninsula and Pennsylvania		Florida	
Operating Revenues				
Residential bulk	$23,676	34 %	$5,554	31 %
Residential metered	7,857	11 %	4,770	27 %
Commercial bulk	16,261	23 %	4,533	26 %
Commercial metered	—	— %	1,862	11 %
Wholesale	18,355	26 %	673	4 %
Other [(1)]	4,259	6 %	272	1 %
Total Operating Revenues	$70,408	100 %	$17,664	100 %
Volume (in gallons)				
Residential bulk	9,511	20 %	1,320	22 %
Residential metered	3,749	8 %	960	16 %
Commercial bulk	12,228	26 %	2,215	38 %
Commercial metered	—	— %	747	12 %
Wholesale	21,173	46 %	741	12 %
Other	—	— %	(2)	— %
Total	46,661	100 %	5,981	100 %
Average customers				
Residential bulk	25,532	68 %	8,763	54 %
Residential metered	8,188	22 %	6,224	38 %
Commercial bulk	3,689	10 %	975	6 %
Commercial metered	—	— %	270	2 %
Wholesale	34	— %	7	— %
Total	37,443	100 %	16,239	100 %

(1) Operating revenues from "Other" sources include revenues from customer loyalty programs; delivery, service and appliance fees; and unbilled revenues.

Propane Distribution - Competition

We compete with several other propane distributors in our geographic markets, primarily on the basis of price and service. Our competitors generally include local outlets of national distributors and local independent distributors, whose proximity to customers entails lower costs to provide service. As an energy source, propane competes with home heating oil and electricity, which are typically more expensive (based on equivalent unit of heat value). Since natural gas has historically been less expensive than propane, propane is generally not distributed in geographic areas served by natural gas pipelines or distribution systems.

Propane Distribution - Supplies, Transportation and Storage

We purchase propane for our propane distribution operations primarily from suppliers, including major oil companies, independent producers of natural gas liquids and from Xeron. Although supplies of propane from these and other sources are generally readily available for purchase, extreme market conditions, such as significant fluctuation in weather, closing of refineries and disruption in supply chains, could result in a reduction in available supplies.

Propane is transported by trucks and railroad cars from refineries, natural gas processing plants or pipeline terminals to our bulk storage facilities. We own various bulk propane storage facilities with an aggregate capacity of approximately 4.1 million gallons in Delaware, Maryland, Pennsylvania, Virginia and Florida. From these storage facilities, propane is delivered by “bobtail” trucks, owned and operated by us, to tanks located at the customers’ premises.

Propane Wholesale Marketing

Through Xeron, we market propane and crude oil to major independent oil and petrochemical companies, wholesale resellers and retail propane companies located primarily in the southeastern United States. Xeron enters into forward contracts with various counterparties to commit to purchase or sell an agreed-upon quantity of propane and crude oil at an agreed-upon price at a specified future date, which typically ranges from one to six months from the execution of the contract. At the expiration of the forward

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contracts, Xeron typically settles its purchases and sales financially, without taking physical delivery of the propane or crude oil. Xeron also enters into futures and other option contracts that are traded on the InterContinentalExchange, Inc. The level and profitability of the propane and crude oil wholesale marketing activity is affected by both propane and crude oil wholesale price volatility and liquidity in the wholesale market. In 2015, Xeron had operating revenues, net of the associated cost of propane and crude oil sold, totaling approximately $301,000. For further discussion of Xeron's wholesale marketing activities, market risks and controls that monitor Xeron's risks, refer to Item 7A, Management's Discussion and Analysis of Financial Condition and Results of Operations — Market Risk. Xeron does not own physical storage facilities or equipment to transport propane or crude oil; however, it contracts for storage and pipeline capacity to facilitate the sale of propane and crude oil on a wholesale basis.

Natural Gas Marketing

We provide natural gas supply and supply management services through PESCO to 2,996 customers in Florida, 30 customers located primarily on the Delmarva Peninsula and five customers operating in other states. In 2015, PESCO had operating revenues of $42.0 million in Florida, $7.5 million from customers located primarily on the Delmarva Peninsula and $6.8 million from other customers. PESCO competes with regulated utilities and other unregulated third-party marketers to sell natural gas supplies directly to commercial and industrial customers through competitively-priced contracts. PESCO does not own or operate any natural gas transmission or distribution assets. The gas that PESCO sells is delivered to retail customers through affiliated and non-affiliated local distribution company systems and transmission pipelines. PESCO bills its customers directly or through the billing services of the regulated utilities that deliver the gas.

Other Unregulated Natural Gas Services

On April 1, 2015, we completed the merger with Gatherco, in which Gatherco merged with and into Aspire Energy, a then newly formed, wholly-owned subsidiary of Chesapeake Utilities. As a result, Aspire Energy is an unregulated natural gas infrastructure company with approximately 2,500 miles of pipeline systems in 40 counties throughout Ohio. The majority of Aspire Energy's margin is derived from long-term supply agreements with Columbia Gas of Ohio and Consumers Gas Cooperative, which together serve more than 20,000 end-use customers. Aspire Energy primarily sources gas from 300 conventional producers and provides gathering and processing services necessary to maintain quality and reliability to its wholesale markets.

For the period from April 1, 2015 (the date the merger closed) to December 31, 2015, operating revenues and deliveries by customer class were as follows:

	Operating revenues (in thousands)	Deliveries (in Dts)
Supply to Columbia Gas of Ohio	$4,884	1,258
Supply to Consumers Gas Cooperative	4,019	635
Supply to Marketers - affiliated	3,330	1,342
Supply to Marketers - unaffiliated	2,507	1,009
Other (including natural gas gathering and processing)	1,992	260
Total	$16,732	4,504

Other Unregulated Businesses

We provide heating, ventilation and air conditioning, plumbing and electrical services to residential, commercial and industrial customers throughout the lower Delmarva Peninsula. FPU sells energy-related merchandise in Florida. Operating revenues in 2015 from these other unregulated businesses totaled $5.3 million.

OTHER BUSINESSES

Overview

Other businesses consists primarily of other unregulated subsidiaries, including Skipjack and ESRE that own real estate leased to affiliates; and certain unallocated corporate costs, which are not directly attributable to a specific business unit. Skipjack and ESRE own and lease office buildings in Delaware and Maryland to divisions and other subsidiaries of Chesapeake Utilities.

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ENVIRONMENTAL COMPLIANCE

We are subject to federal, state and local laws and regulations governing environmental quality and pollution control. These laws and regulations require us to remove or remediate the effect on the environment of the disposal or release of specified substances at current and former operating sites. We have participated in the investigation, assessment or remediation, and have exposures at seven former MGP sites. At December 31, 2015, we have recorded $10.6 million in environmental liabilities associated with these MGP sites, representing our estimate of future costs principally related to two of the seven former MGP sites. The most significant site is located in West Palm Beach, Florida, where FPU previously operated an MGP and is currently implementing a remedial plan approved by the FDEP. The estimated cost of remediation for the West Palm Beach site ranges from approximately $4.5 million to $15.4 million. We are also currently assessing a remediation plan and actively remediating a former MGP site in Winter Haven, Florida. The estimated cost of remediation for the Winter Haven site is not expected to exceed $443,000. We have entered into a voluntary clean-up program for our former MGP site in Seaford Delaware, where the cost of potential remedial actions for the site is estimated to be between $273,000 and $465,000. We are also discussing with the MDE another former MGP site in Maryland.

Base rates of our local distribution utilities include, or are expected to include, recovery of environmental remediation costs adequate to fully recover our current estimate of remediation costs. We continue to expect that any costs related to environmental remediation and related activities beyond our current estimate will also be recoverable from customers through rates.

We completed the investigation, assessment and remediation of eight natural gas pipeline facilities in Ohio that Aspire Energy acquired from Gatherco pursuant to the merger. The costs incurred to date associated with remediation activities for these facilities, is approximately $1.0 million. Pursuant to the merger agreement, an escrow was established to fund certain claims by Chesapeake Utilities and Aspire Energy for indemnification by Gatherco, including environmental claims. Gatherco's indemnification obligations for environmental matters apply to remediation costs in excess of $431,250 and are capped at $1.65 million. We expect to be reimbursed for substantially all remediation costs we have incurred to date associated with these pipeline facilities in excess of $431,250.

For additional information on each site, refer to Item 8, Financial Statements and Supplementary Data (see Note 19, Environmental Commitments and Contingencies in the Consolidated Financial Statements).

EMPLOYEES

As of December 31, 2015, we had a total of 832 employees, 116 of whom are union employees represented by two labor unions: the International Brotherhood of Electrical Workers and Commercial Workers Union, whose collective bargaining agreements expire in 2019.

FINANCIAL INFORMATION ABOUT GEOGRAPHICAL AREAS

All of our operations, customers and assets are located in the United States.

AVAILABLE INFORMATION AND CORPORATE GOVERNANCE DOCUMENTS

Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and other reports and amendments to these reports that we file with or furnish to the SEC are available free of charge at our website, www.chpk.com, as soon as reasonably practicable after we electronically file these reports with, or furnish these reports to, the SEC. The content of this website is not part of this report. These reports, and amendments to these reports, that we file with or furnish to the SEC are also available on the SEC’s website, www.sec.gov. The public may also read and copy any materials that we file with the SEC at the SEC’s Public Reference Room, 100 F Street, N.E., Washington, DC 20549-5546. The public may obtain information from the Public Reference Room by calling the SEC at 1-800-SEC-0330.

In addition, the following documents are available free of charge on our website, www.chpk.com:

- Business Code of Ethics and Conduct applicable to all employees, officers and directors;
- Code of Ethics for Financial Officers;
- Corporate Governance Guidelines;
- Charters for the Audit Committee, Compensation Committee and Corporate Governance Committee of the Board of Directors; and

•Corporate Governance Guidelines on Director Independence.

Any of these reports or documents may also be obtained by writing to: Corporate Secretary; c/o Chesapeake Utilities Corporation, 909 Silver Lake Boulevard, Dover, DE 19904.

If we make any amendment to, or grant a waiver of, any provision of the Business Code of Ethics and Conduct or the Code of

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Ethics for Financial Officers applicable to our principal executive officer, president, principal financial officer, principal accounting officer or controller, the amendment or waiver will be disclosed within four business days in a press release, by website disclosure, or by filing a current report on Form 8-K with the SEC.

CERTIFICATION TO THE NYSE

Our Chief Executive Officer certified to the NYSE on May 20, 2015, that as of that date, he was unaware of any violation by Chesapeake Utilities of the NYSE's corporate governance listing standards.

ITEM 1A. RISK FACTORS.

The following is a discussion of the primary factors that may affect the operations or financial performance of our regulated and unregulated businesses. Refer to the section entitled Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations of this report for an additional discussion of these and other related factors that affect our operations and/or financial performance.

FINANCIAL RISKS

Instability and volatility in the financial markets could negatively impact our ability to access capital at competitive rates, which could affect our ability to implement our strategic plan, undertake improvements and make other investments required for our future growth.

Our business strategy includes the continued pursuit of growth, both organically and through acquisitions. To the extent that we do not generate sufficient cash flow from operations, we may incur additional indebtedness to finance our growth. We rely on access to both short-term and long-term capital markets as a significant source of liquidity for capital requirements not satisfied by the cash flows from our operations. We are committed to maintaining a sound capital structure and strong credit ratings to provide the financial flexibility needed to access capital markets when required. However, if we are not able to access capital at competitive rates, our ability to implement our strategic plan, undertake improvements and make other investments required for our future growth may be limited.

A downgrade in our credit rating could adversely affect our access to capital markets and our cost of capital.

Our ability to obtain adequate and cost-effective capital depends on our credit ratings, which are greatly affected by our financial performance and the liquidity of financial markets. A downgrade in our current credit ratings could adversely affect our access to capital markets, as well as our cost of capital.

If we fail to comply with our debt covenant obligations, we could experience adverse financial consequences that could affect our liquidity and ability to borrow funds.

Our long-term debt obligations, the Revolver and our committed short-term lines of credit contain financial covenants related to debt-to-capital ratios and interest-coverage ratios. Failure to comply with any of these covenants could result in an event of default which, if not cured or waived, could result in the acceleration of outstanding debt obligations or the inability to borrow under certain credit agreements. Any such acceleration could cause a material adverse change in our financial condition.

An increase in interest rates may adversely affect our results of operations and cash flows.

An increase in interest rates, without the recovery of the higher cost of debt in the sales and/or transportation rates we charge our utility customers, could adversely affect future earnings. An increase in short-term interest rates could negatively affect our results of operations, which depend on short-term lines of credit to finance accounts receivable and storage gas inventories and to temporarily finance capital expenditures.

Inflation may impact our results of operations, cash flows and financial position.

Inflation affects the cost of supply, labor, products and services required for operations, maintenance and capital improvements. To help cope with the effects of inflation on our capital investments and returns, we seek rate increases from regulatory commissions for regulated operations and closely monitor the returns of our unregulated operations. There can be no assurance that we will be able to obtain adequate and timely rate increases to offset the effects of inflation. If we are unable to offset the effects of inflation through rate increases, our results of operations, cash flows, and financial position may be adversely affected.

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Fluctuations in propane gas prices could negatively affect results or operations.

To compensate for fluctuations in propane gas prices, we adjust our propane selling prices to the extent allowed by the market. There can be no assurance, however, that we will be able to increase propane sales prices sufficiently to compensate fully for such fluctuations in the cost of propane gas to us. If we are unable to increase propane sales prices sufficiently to compensate fully for such fluctuations, our earnings could be negatively affected, which would adversely impact our results of operations.

Our energy marketing subsidiaries are exposed to market risks beyond our control, which could adversely affect our financial results and capital requirements.

Our energy marketing subsidiaries are subject to market risks beyond our control, including market liquidity and commodity price volatility. Although we maintain risk management policies, we may not be able to offset completely the price risk associated with volatile commodity prices, which could lead to volatility in earnings. Physical trading also has price risk on any net open positions at the end of each trading day, as well as volatility resulting from: (i) intra-day fluctuations of natural gas and/or propane prices, and (ii) daily price movements between the time natural gas and/or propane is purchased or sold for future delivery and the time the related purchase or sale is economically hedged. The determination of our net open position at the end of any trading day requires us to make assumptions as to future circumstances, including the use of natural gas and/or propane by our customers in relation to anticipated market positions. Because the price risk associated with any net open position at the end of such day may increase if the assumptions are not realized, we review these assumptions daily. Net open positions may increase volatility in our financial condition or results of operations if market prices move in a significantly favorable or unfavorable manner, because the changes in fair value of trading contracts are immediately recognized as profits or losses for financial accounting purposes. This volatility may occur, with a resulting increase or decrease in earnings or losses, even though the expected profit margin is essentially unchanged from the date the transactions were consummated.

Our energy marketing subsidiaries are exposed to credit risk of their counterparties.

Our energy marketing subsidiaries extend credit to counterparties and continually monitor and manage collections aggressively. Each of these subsidiaries is exposed to the risk that it may not be able to collect amounts owed to it. If the counterparty to such a transaction fails to perform, and any underlying collateral is inadequate, we could experience financial losses, which would negatively impact our results of operations.

Our energy marketing subsidiaries are dependent upon the availability of credit to successfully operate their businesses.

Our energy marketing subsidiaries are dependent upon the availability of credit to buy propane and natural gas for resale or to trade. If financial market conditions decline generally, or the financial condition of these subsidiaries or of our Company declines, then the cost of credit available to these subsidiaries could increase. If credit is not available, or if credit is more costly, our results of operations, cash flows and financial condition may be adversely affected.

Current market conditions could adversely impact the return on plan assets for our pension plans, which may require significant additional funding.

Our pension plans are closed to new employees, and the future benefits are frozen. The costs of providing benefits and related funding requirements of these plans are subject to changes in the market value of the assets that fund the plans and the discount rates used to estimate the pension benefit obligations. As a result of the extreme volatility and disruption in the domestic and international equity, bond and interest rate markets in recent years, the asset values and benefit obligations of Chesapeake Utilities' and FPU’s Pension Plans have fluctuated significantly since 2008. The funded status of the plans and the related costs reflected in our financial statements are affected by various factors that are subject to an inherent degree of uncertainty, particularly in the current economic environment. Future losses of asset values and further declines in discount rates may necessitate accelerated funding of the plans in the future to meet minimum federal government requirements as well as higher pension expense to be recorded in future years. Adverse changes in the asset values and benefit obligations of our pension plans may require us to record higher pension expense and fund obligations earlier than originally planned, which would have an adverse impact on our cash flows from operations, decrease borrowing capacity and increase interest expense.

OPERATIONAL RISKS

We are dependent upon construction of new facilities to support future growth in earnings in our natural gas and electric distribution and natural gas transmission operations.

Construction of new facilities required to support future growth is subject to various regulatory and developmental risks, including but not limited to: (i) our ability to obtain timely certificate authorizations, necessary approvals and permits from regulatory

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agencies and on terms that are acceptable to us; (ii) potential changes in federal, state and local statutes and regulations, including environmental requirements, that prevent a project from proceeding or increase the anticipated cost of the project; (iii) inability to acquire rights-of-way or land rights on a timely basis on terms that are acceptable to us; (iv) lack of anticipated future growth in available natural gas and electricity supply; and (v) insufficient customer throughput commitments.

We operate in a competitive environment, and we may lose customers to competitors.

Natural Gas. Our natural gas marketing operations compete with third-party suppliers to sell natural gas to commercial and industrial customers. Our natural gas transmission and distribution operations compete with interstate pipelines when our transmission and/or distribution customers are located close enough to a competing pipeline to make direct connections economically feasible. Failure to retain and grow our natural gas customer base would have an adverse effect on our financial condition, cash flows and results of operations.

Electric. While there is active wholesale power sales competition in Florida, our retail electric business through FPU has remained substantially free from direct competition from other electric service providers. Generally, however, our retail electric business through FPU remains subject to competition from other energy sources. Changes in the competitive environment caused by legislation, regulation, market conditions, or initiatives of other electric power providers, particularly with respect to retail competition, could adversely affect our results of operations, cash flows and financial condition.

Propane. Our propane distribution operations compete with other propane distributors, primarily on the basis of service and price. Some of our competitors have significantly greater resources. Our ability to grow the propane distribution business is contingent upon capturing additional market share, expanding into new markets, and successfully utilizing pricing programs that retain and grow our customer base. Failure to retain and grow our customer base in our propane distribution operations would have an adverse effect on our results of operations, cash flows and financial condition.

Our propane wholesale marketing operation competes with various marketers, many of which have significantly greater resources and are able to obtain price or volumetric advantages. Failure to effectively compete with these marketers would have an adverse effect on our results of operations, cash flows and financial condition.

Fluctuations in weather may cause a significant variance in our earnings.

Our natural gas distribution, propane distribution and natural gas supply, gathering and processing operations, are sensitive to fluctuations in weather conditions, which directly influence the volume of natural gas and propane we sell and deliver to our customers. A significant portion of our natural gas and propane distribution revenue is derived from the sales and deliveries to residential and commercial heating customers during the five-month peak heating season (November through March). If the weather is warmer than normal, we sell and deliver less natural gas and propane to customers, and earn less revenue, which could adversely affect our results of operations, cash flows and financial condition. A significant portion of our Ohio natural gas supply, gathering and processing services operation’s revenue is also generated during the five-month peak heating season (November through March) as a result of the natural gas requirements of its key customers, including Columbia Gas of Ohio, various regional marketers, and the Consumers Gas Cooperative.

Our electric distribution operation is also affected by variations in weather conditions generally and unusually severe weather conditions. However, electricity consumption is generally less seasonal than natural gas and propane because it is used for both heating and cooling in our service areas.

Accidents, natural disasters, severe weather (such as a major hurricane) and acts of terrorism could adversely impact earnings.

Inherent in energy transmission and distribution activities are a variety of hazards and operational risks, such as leaks, ruptures, fires, explosions, sabotage and mechanical problems. Natural disasters and severe weather may damage our assets, cause operational interruptions and result in the loss of human life, all of which could negatively affect our earnings, financial condition and results of operations. Acts of terrorism and the impact of retaliatory military and other action by the United States and its allies may lead to increased political, economic and financial market instability and volatility in the price of natural gas, electricity and propane that could negatively affect our operations. Companies in the energy industry may face a heightened risk of exposure to acts of terrorism, which could affect our earnings, financial condition and results of operations. The insurance industry may also be affected by natural disasters, severe weather and acts of terrorism; as a result, the availability of insurance covering risks against which we and our competitors typically insure may be limited. In addition, the insurance we are able to obtain may have higher deductibles, higher premiums and more restrictive policy terms, which could adversely affect our results of operations, financial condition and cash flows.

Operating events affecting public safety and the reliability of our natural gas and electric distribution and transmission systems could adversely affect our operations and increase our costs.

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Our natural gas and electric operations are exposed to operational events and risks, such as major leaks, outages, mechanical failures and breakdown, operations below the expected level of performance or efficiency, and accidents that could affect public safety and the reliability of our distribution and transmission systems, significantly increase costs and cause loss of customer confidence. If we are unable to recover all or some of these costs from customers through the regulatory process, our authorized rate of return, our results of operations, financial condition and cash flows could be adversely affected.

A security breach disrupting our operating systems and facilities or exposing confidential information may adversely affect our reputation, disrupt our operations and increase our costs.

Security breaches of our information technology infrastructure, including cyber-attacks and cyber-terrorism, could lead to system disruptions or cause facility shutdowns. If such an attack or security breach were to occur, our business, results of operations and financial condition could be adversely affected. In addition, the protection of customer, employee and Company data is crucial to our operational security. A breach or breakdown of our systems that results in the unauthorized release of individually identifiable customer or other sensitive data could have an adverse effect on our reputation, results of operations and financial condition and could also materially increase our costs of maintaining our system and protecting it against future breakdowns or breaches. We take reasonable precautions to safeguard our information systems from cyber-attacks and security breaches; however, there is no guarantee that the procedures implemented to protect against unauthorized access to our information systems are adequate to safeguard against all attacks and breaches.

Failure to attract and retain an appropriately qualified employee workforce could adversely affect operations.

Our ability to implement our business strategy and serve our customers is dependent upon our continuing ability to attract and retain talented professionals and a technically skilled workforce, and being able to transfer the knowledge and expertise of our workforce to new employees as our aging employees retire. Failure to hire and adequately train replacement employees, including the transfer of significant internal historical knowledge and expertise to the new employees, or the future availability and cost of contract labor could adversely affect our ability to manage and operate our business. If we were unable to hire, train and retain appropriately qualified personnel, our results of operations could be adversely affected.

A strike, work stoppage or a labor dispute could adversely affect our operations.

We are party to collective bargaining agreements with labor unions at some of our Florida operations. A strike, work stoppage or a labor dispute with a union or employees represented by a union could cause interruption to our operations. If a strike, work stoppage or other labor dispute were to occur, our results could be adversely affected.

Our businesses are capital intensive, and the increased costs and/or delays of capital projects may adversely affect our future earnings.

Our businesses are capital intensive and require significant investments in on-going infrastructure projects. Our ability to complete our infrastructure projects on a timely basis and manage the overall cost of those projects may be affected by the limited availability of the necessary materials and qualified vendors. Our future earnings could be adversely affected if we are unable to manage such capital projects effectively, or if full recovery of such capital costs is not permitted in future regulatory proceedings.

Our regulated energy business may be at risk if franchise agreements are not renewed, or new franchise agreements are not obtained, which could adversely affect our future results or operating cash flows and financial condition.

Our regulated natural gas and electric distribution operations hold franchises in each of the incorporated municipalities that require franchise agreements in order to provide natural gas and electricity. Our natural gas and electric distribution operations are currently in negotiations for franchises with certain municipalities for new service areas and renewal of some existing franchises. Ongoing financial results would be adversely impacted from the loss of service to certain operating areas within our electric or natural gas territories in the event that franchise agreements were not renewed. If we are unable to obtain franchise agreements for new service areas, growth in our future earnings could be negatively impacted.

Slowdowns in customer growth may adversely affect earnings and cash flows.

Our ability to increase gross margins in our regulated energy, unregulated propane distribution and our other unregulated natural gas services businesses is dependent upon growth in the residential construction market, adding

new commercial and industrial customers and conversion of customers to natural gas, electricity or propane from other energy sources. Slowdowns in growth may adversely affect our gross margin, earnings and cash flows.
Energy conservation could lower energy consumption, which would adversely affect our earnings.

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We have seen various legislative and regulatory initiatives to promote energy efficiency and conservation at both the federal and state levels. In response to the initiatives in the states in which we operate, we have implemented programs to promote energy efficiency by our current and potential customers. To the extent a PSC allows us to recover the cost of such energy efficiency programs, funding for such programs is recovered through the rates we charge to our regulated customers. However, lower energy consumption as a result of energy efficiency and conservation by current and potential customers may adversely affect our results of operations, cash flows and financial condition.

Commodity price increases may adversely affect the operating costs and competitive positions of our natural gas, electric and propane distribution operations, which may adversely affect our results of operations, cash flows and financial condition.

Natural Gas/Electricity. Higher natural gas prices can significantly increase the cost of gas billed to our natural gas customers. Increases in the cost of coal, natural gas and other fuels used to generate electricity can significantly increase the cost of electricity billed to our electric customers. Damage to the production or transportation facilities of our suppliers, which decreases their supply of natural gas and electricity, could result in increased supply costs and higher prices for our customers. Such cost increases generally have no immediate effect on our revenues and net income because of our regulated fuel cost recovery mechanisms. However, our net income may be reduced by higher expenses that we may incur for uncollectible customer accounts and by lower volumes of natural gas and electricity deliveries when customers reduce their consumption. Therefore, increases in the price of natural gas, coal and other fuels can adversely affect our operating cash flows, results of operations and financial condition, as well as the competitiveness of natural gas and electricity as energy sources.

Propane. Propane costs are subject to volatile changes as a result of product supply or other market conditions, including weather, economic and political factors affecting crude oil and natural gas supply or pricing. For example, weather conditions could damage production or transportation facilities, which could result in decreased supplies of propane, increased supply costs and higher prices for customers. Such increases in costs can occur rapidly and can negatively affect profitability. There is no assurance that we will be able to pass on propane cost increases fully or immediately, particularly when propane costs increase rapidly. Therefore, average retail sales prices can vary significantly from year to year as product costs fluctuate in response to propane, fuel oil, crude oil and natural gas commodity market conditions. In addition, in periods of sustained higher commodity prices, declines in retail sales volumes due to reduced consumption and increased amounts of uncollectible accounts may adversely affect net income

A substantial disruption or lack of growth in interstate natural gas pipeline transmission and storage capacity or electric transmission capacity may impair our ability to meet customers' existing and future requirements.

In order to meet existing and future customer demands for natural gas and electricity, we must acquire sufficient supplies of natural gas and electricity, interstate pipeline transmission and storage capacity, and electric transmission capacity to serve such requirements. We must contract for reliable and adequate upstream transmission capacity for our distribution systems while considering the dynamics of the interstate pipeline and storage and electric transmission markets, our own on-system resources, as well as the characteristics of our markets. Our financial condition and results of operations would be materially and adversely affected if the future availability of these capacities were insufficient to meet future customer demands for natural gas and electricity. Currently, our Florida natural gas operation relies primarily on one pipeline system, FGT, for most of its natural gas supply and transmission. Our Florida electric operation relies primarily on two suppliers, Gulf Power for the northwest service territory and JEA for the northeast service territory. Any interruption to these systems could adversely affect our ability to meet the demands of FPU's customers, which could negatively impact our earnings, financial condition and results of operations.

The amount and availability of natural gas, propane and electricity supplies are difficult to predict; a substantial reduction in available supplies could reduce our earnings in those segments.

Natural gas, propane and electricity production can be affected by factors beyond our control, which may affect our ability to obtain sufficient supplies to meet demand and may adversely impact the financial results in those businesses. Any disruption in the availability of supplies of natural gas, propane and electricity could result in increased supply costs and higher prices for customers, which could also adversely affect our financial condition and results of operations.

We rely on a limited number of natural gas, propane and electricity suppliers and producers, the loss of which could have a material adverse effect on our financial condition and results of operations.

We have entered into various agreements with suppliers and producers to purchase natural gas, propane and electricity to serve our customers. The loss of any significant suppliers and/or producers or our inability to renew these contracts at favorable terms upon their expiration could significantly affect our ability to serve our customers and have a material adverse impact on our financial condition and results of operations.

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Our use of derivative instruments may adversely affect our results of operations.

Fluctuating commodity prices may affect our earnings and financing costs because our propane distribution, wholesale marketing and natural gas marketing operations use derivative instruments, including forwards, futures, swaps, puts, and calls, to hedge price risk. While we have risk management policies and operating procedures in place to control our exposure to risk, if we purchase derivative instruments that are not properly matched to our exposure, our results of operations, cash flows, and financial condition may be adversely affected.

Our propane inventory is subject to inventory valuation risk, which may result in a write-down of inventory.

Our propane distribution operations own bulk propane storage facilities, with an aggregate capacity of approximately 4.1 million gallons. We purchase and store propane based on several factors, including inventory levels and the price outlook. We may purchase large volumes of propane at current market prices during periods of low demand and low prices, which generally occur during the summer months. Propane is a commodity, and as such, its price is subject to volatile fluctuations in response to changes in supply or other market conditions. We have no control over these market conditions. Consequently, the wholesale purchase price can change rapidly over a short period of time. The retail market price for propane could fall below the price at which we made the purchases, which would adversely affect our profits or cause sales from that inventory to be unprofitable. In addition, falling propane prices may result in inventory write-downs, as required by GAAP, if the market price of propane falls below our weighted average cost of inventory, which could adversely affect net income.

REGULATORY, LEGAL AND ENVIRONMENTAL RISKS

Regulation of our businesses, including changes in the regulatory environment, may adversely affect our results of operations, cash flows and financial condition.

The Delaware, Maryland and Florida PSCs regulate our utility operations in those states. Eastern Shore is regulated by the FERC. The PSCs and the FERC set the rates that we can charge customers for services subject to their regulatory jurisdiction. Our ability to obtain timely future rate increases and rate supplements to maintain current rates of return depends on regulatory approvals, and there can be no assurance that our regulated operations will be able to obtain such approvals or maintain currently authorized rates of return. When our earnings from the regulated utilities exceed the authorized rate of return, the respective PSC, or the FERC in the case of Eastern Shore, may require us to reduce our rates charged to customers in the future.

We may face certain regulatory and financial risks related to pipeline safety legislation.

A number of legislative proposals to implement increased oversight over natural gas pipeline operations and facilities to inspect pipeline facilities, upgrade pipeline facilities, or control the impact of a breach of such facilities are pending at the federal level. Additional operating expenses and capital expenditures may be necessary to remain in compliance with the increased federal oversight that may result from such proposals. If such legislation is adopted and we incur additional expenses and expenditures, our financial condition, results of operations and cash flows could be adversely affected, particularly if we are not authorized through the regulatory process to recover from customers some or all of these costs and our authorized rate of return.

We are subject to operating and litigation risks that may not be fully covered by insurance.

Our operations are subject to the operating hazards and risks normally incidental to handling, storing, transporting, transmitting and delivering natural gas, electricity and propane to end users. From time to time, we are a defendant in legal proceedings arising in the ordinary course of business. We maintain insurance coverage for our general liabilities in the amount of $51 million, which we believe is reasonable and prudent. However, there can be no assurance that such insurance will be adequate to protect us from all material expenses related to potential future claims for personal injury and property damage or that such levels of insurance will be available in the future at economical prices.

Costs of compliance with environmental laws may be significant.

We are subject to federal, state and local laws and regulations governing environmental quality and pollution control. These evolving laws and regulations may require expenditures over a long period of time to control environmental effects at our current and former operating sites, especially former MGP sites. To date, we have been able to recover, through regulatory rate mechanisms, the costs associated with the remediation of former MGP sites. However, there is no guarantee that we will be able to recover future remediation costs in the same manner or at all. A change in our approved rate mechanisms for recovery of environmental remediation costs at former MGP sites could adversely affect our results of operations, cash flows and financial condition

Further, existing environmental laws and regulations may be revised, or new laws and regulations seeking to protect the environment may be adopted and be applicable to us. Revised or additional laws and regulations could result in additional operating restrictions on our facilities or increased compliance costs, which may not be fully recoverable. Any such increase in compliance costs could adversely affect our financial condition and results of operations. Compliance with these legal obligations requires us to commit capital. If we fail to comply with environmental laws and regulations, even if such failure is caused by factors beyond our control, we may be assessed civil or criminal penalties and fines, which could impact our financial condition and results of operations.

Derivatives legislation and the implementation of related rules could have an adverse impact on our ability to hedge risks associated with our business.

The Dodd-Frank Act regulates derivative transactions, which include certain instruments used in our risk management activities. The Dodd-Frank Act contemplates that most swaps will be required to be cleared through a registered clearing facility and traded on a designated exchange or swap execution facility, subject to certain exceptions for entities that use swaps to hedge or mitigate commercial risk. Although the Dodd-Frank Act includes significant new provisions regarding the regulation of derivatives, the impact of those requirements will not be known definitively until regulations have been adopted and fully implemented by both the SEC and the Commodities Futures Trading Commission, and market participants establish registered clearing facilities under those regulations. Although we may qualify for exceptions, our derivatives counterparties may be subject to new capital, margin and business conduct requirements imposed as a result of the Dodd-Frank Act, which may increase our transaction costs, make it more difficult for us to enter into hedging transactions on favorable terms or affect the number and/or creditworthiness of available counterparties. Our inability to enter into hedging transactions on favorable terms, or at all, could increase operating expenses and increase exposure to risks of adverse changes in commodity prices, which could adversely affect the predictability of cash flows.

Our business may be subject in the future to additional regulatory and financial risks associated with global warming and climate change.

There have been a number of federal and state legislative and regulatory initiatives proposed in recent years in an attempt to control or limit the effects of global warming and overall climate change, including greenhouse gas emissions, such as carbon dioxide. The adoption of this type of legislation by Congress, or similar legislation by states, or the adoption of related regulations by federal or state governments mandating a substantial reduction in greenhouse gas emissions in the future could have far-reaching and significant impacts on the energy industry. Such new legislation or regulations could result in increased compliance costs for us or additional operating restrictions on our business, affect the demand for natural gas and propane or impact the prices we charge to our customers. At this time, we cannot predict the potential impact of such laws or regulations that may be adopted on our future business, financial condition or financial results.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES.

Key Properties

We own approximately 1,374 miles of natural gas distribution mains (together with related service lines, meters and regulators) located in New Castle, Kent and Sussex Counties, Delaware; and Cecil, Caroline, Dorchester, Wicomico and Worcester Counties, Maryland. We own approximately 2,762 miles of natural gas distribution mains (and related equipment) in Nassau, Polk, Osceola, Citrus, DeSoto, Liberty, Hillsborough, Holmes, Jackson, Gadsden, Gilchrist, Union, Washington, Pasco, Suwannee, Palm Beach, Broward, Martin, Marion, Seminole and Volusia Counties, Florida. In addition, we have adequate gate stations to handle receipt of the gas into each of the distribution systems. We also own facilities in Delaware and Maryland, which we use for propane-air injection during periods of peak demand.

Through Eastern Shore, we own and operate approximately 442 miles of natural gas transmission pipeline, extending from supply interconnects at Parkesburg, Daleville and Honey Brook, Pennsylvania; and Hockessin, Delaware, to 90 delivery points in southeastern Pennsylvania, Delaware and the eastern shore of Maryland. Through Peninsula Pipeline, we own and operate approximately 44 miles of natural gas transmission pipeline in Suwannee, Indian River, Palm Beach and Polk counties, Florida. We also own approximately 45 percent of the 16-mile natural gas pipeline extending from the Duval/Nassau County line to Amelia Island in Nassau County, Florida. The remaining 55 percent of the natural gas pipeline is owned by Peoples Gas.

Through FPU, we own and operate approximately 20 miles of electric transmission line located in Nassau County, Florida and approximately 889 miles of electric distribution line in Jackson, Liberty, Calhoun and Nassau Counties, Florida.

We own approximately 378 miles of underground propane distribution mains in Delaware; Dorchester, Princess Ann, Queen Anne's, Somerset, Talbot, Wicomico and Worcester Counties, Maryland; Chester and Delaware Counties, Pennsylvania; and

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Alachua, Brevard, Broward, Citrus, Duval, Hillsborough, Marion, Nassau, Orange, Palm Beach, Polk, Seminole, St. Johns and Volusia Counties, Florida.

We own bulk propane storage facilities, with an aggregate capacity of approximately 3.2 million gallons, at 33 propane storage facilities in Delaware, Maryland, Pennsylvania and Virginia, located on real estate that is either owned or leased by us. In Florida, we own bulk propane storage facilities with an aggregate capacity of approximately 870,000 gallons at 17 propane storage facilities. Xeron does not own physical storage facilities or equipment to transport propane; however, it leases propane storage and pipeline capacity from non-affiliated third parties.

Through Aspire Energy, we own 16 natural gas gathering systems and approximately 2,500 miles of pipeline in Central and Eastern Ohio.

We own or lease offices and other operational facilities in the following locations: Anne Arundel, Worcester, Wicomico, Dorchester, Talbot, Cecil and Somerset Counties, Maryland; New Castle, Kent and Sussex Counties, Delaware; Accomack County, Virginia; Palm Beach, Volusia, Levy, Martin, Jackson, Broward, Nassau, Brevard, Alachua, Hendry, Okeechobee, and Polk Counties, Florida; and Orrville, Ohio.

All of the assets owned by FPU are subject to a lien in favor of the holders of its first mortgage bond securing its indebtedness under its Mortgage Indenture and Deed of Trust. FPU owns offices and facilities in the following locations: Palm Beach, Volusia, Levy, Martin, Jackson, Broward, Nassau, Brevard, Alachua, Hendry and Okeechobee Counties, Florida. The FPU assets subject to the lien also include: 1,885 miles of natural gas distribution mains (and related equipment) in its service areas; 20 miles of electric transmission line located in Nassau County, Florida; 889 miles of electric distribution line located in Jackson, Liberty, Calhoun and Nassau Counties in Florida; 17 propane storage facilities with a total capacity of 870,000 gallons, located in south and central Florida; and 59 miles of underground propane distribution mains in Alachua, Brevard, Broward, Citrus, Duval, Hillsborough, Marion, Nassau, Orange, Palm Beach, Polk, Seminole, St. Johns and Volusia Counties, Florida.

ITEM 3. LEGAL PROCEEDINGS.

LEGAL PROCEEDINGS

As disclosed in Item 8, Financial Statements and Supplementary Data (see Note 20, Other Commitments and Contingencies, in the Consolidated Financial Statements), we are involved in various legal actions and claims arising in the normal course of business. We are also involved in certain administrative proceedings before various governmental or regulatory agencies concerning rates. In the opinion of management, the ultimate disposition of these current proceedings will not have a material effect on our consolidated financial position, results of operations or cash flows.

ITEM 4A. EXECUTIVE OFFICERS OF THE REGISTRANT.

Set forth below are the names, ages, and positions of our executive officers with their recent business experience. The age of each officer is as of the filing date of this report.

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Name	Age	Position
Michael P. McMasters	57	President (March 2010 - present) Chief Executive Officer (January 2011 - present) Director (March 2010 - present) Executive Vice President (September 2008 - February 2010) Chief Operating Officer (September 2008 - December 2010) Chief Financial Officer (January 1997 - September 2008) Mr. McMasters also previously served as Senior Vice President, Vice President, Treasurer, Director of Acc
Beth W. Cooper	49	Senior Vice President (September 2008 - present) Chief Financial Officer (September 2008 - present) Assistant Secretary (March 2015-present) Corporate Secretary (June 2005 - March 2015) Vice President (June 2005 - September 2008) Treasurer (March 2003 - May 2012) Ms. Cooper also previously served as Assistant Vice President, Assistant Treasurer, Director of Internal Au
Elaine B. Bittner	46	Senior Vice President of Strategic Development (May 2013 - present) Chief Operating Officer - Sharp, Aspire Energy, PESCO and Xeron (May 2014 - Present) Vice President of Strategic Development (June 2010 - May 2013) Vice President, Eastern Shore (May 2005 - June 2010) Ms. Bittner also previously served as Director of Eastern Shore, Director of Customer Services and Regulat
Stephen C. Thompson	55	Senior Vice President (September 2004 - present) President, Eastern Shore (January 1997 - present) Vice President (May 1997 - September 2004) Mr. Thompson also previously served as Director of Gas Supply and Marketing for Eastern Shore, Superint
Jeffry M. Householder	58	President of Florida Public Utilities Company (June 2010 - present) Prior to joining Chesapeake Utilities, Mr. Householder operated a consulting practice that provided busines
James F. Moriarty	58	Vice President, General Counsel & Corporate Secretary (March 2015 - present) Prior to joining Chesapeake Utiliti D.C.

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PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

COMMON STOCK PRICE RANGES, COMMON STOCK DIVIDENDS AND STOCKHOLDER INFORMATION:

At February 17, 2016, there were 2,398 holders of record of our common stock. Our common stock is listed on the NYSE under the symbol "CPK." The high, low and closing prices of our common stock and dividends declared per share for each calendar quarter during 2015 and 2014 are included in the below table. The high, low and closing prices and dividends declared per share of our common stock for the first and second quarters of 2014 have been adjusted for the three-for-two stock split effected as a stock dividend on September 9, 2014.

	Quarter Ended	High	Low	Close	Dividends Declared Per Share
2015					
	March 31	$52.22	$44.83	$50.61	$0.2700
	June 30	$55.72	$44.37	$53.85	$0.2875
	September 30	$56.15	$45.25	$53.08	$0.2875
	December 31	$61.13	$49.50	$56.75	$0.2875
2014					
	March 31	$43.01	$37.49	$42.11	$0.2567
	June 30	$47.69	$39.77	$47.55	$0.2700
	September 30	$48.73	$39.28	$41.66	$0.2700
	December 31	$52.66	$40.88	$49.66	$0.2700

We have paid a cash dividend to our common stock stockholders for 55 consecutive years. Dividends are payable at the discretion of our Board of Directors. Future payment of dividends, and the amount of these dividends, will depend on our financial condition, results of operations, capital requirements, and other factors. We declared quarterly cash dividends on our common stock in 2015 and 2014, totaling $1.1325 per share and $1.0667 per share, respectively.

Indentures to our long-term debt contain various restrictions which limit our ability to pay dividends. Each of our Senior Notes contains a "restricted payments" covenant. The most restrictive covenants of this type are included within the 6.64 percent, 5.50 percent and 5.93 percent Senior Notes, due October 31, 2017, October 12, 2020 and October 31, 2023, respectively. The covenant provides that we cannot pay or declare any dividends or make any other restricted payments (such as dividends) in excess of the sum of $10.0 million plus our consolidated net income accrued on and after January 1, 2003. As of December 31, 2015, our cumulative consolidated net income base was $285.0 million, offset by restricted payments of $138.4 million, leaving $146.6 million of cumulative net income free of restrictions.

FPU's first mortgage bonds, which are due in 2022, contain a similar restriction that limits the payment of dividends by FPU. The bonds provide that FPU cannot make dividend or other restricted payments in excess of the sum of $2.5 million plus FPU's consolidated net income accrued on and after January 1, 1992. As of December 31, 2015, FPU had a cumulative net income base of $116.3 million, offset by restricted payments of $37.6 million, leaving $78.7 million of cumulative net income of FPU free of restrictions based on this covenant.

No securities were sold during fiscal 2015 that were not registered under the Securities Act of 1933, as amended.

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PURCHASES OF EQUITY SECURITIES BY THE ISSUER

The following table sets forth information on purchases by us or on our behalf of shares of our common stock during the quarter ended December 31, 2015.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs [2]	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs [2]
October 1, 2015 through October 31, 2015 [1]	377	$53.43	—	—
November 1, 2015 through November 30, 2015	—	—	—	—
December 1, 2015 through December 31, 2015	—	—	—	—
Total	377	$53.43	—	—

(1) In October, we purchased shares of common stock on the open market for the purpose of reinvesting the dividend on shares held in the Rabbi Trust accounts for certain Directors and Senior Executives under the Non-Qualified Deferred Compensation Plan. The Non-Qualified Deferred Compensation Plan is discussed in detail in Item 8, Financial Statements and Supplementary Data (see Note 16, Employee Benefit Plans, in the Consolidated Financial Statements). During the quarter, 377 shares were purchased through the reinvestment of dividends.

(2) Except for the purpose described in Footnote [1], we have no publicly announced plans or programs to repurchase our shares.

Discussion of our compensation plans, for which shares of our common stock are authorized for issuance, is included in the portion of the Proxy Statement captioned "Equity Compensation Plan Information" to be filed no later than March 31, 2016, in connection with our Annual Meeting to be held on or about May 6, 2016, and is incorporated herein by reference.

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COMMON STOCK PERFORMANCE GRAPH

The stock performance graph and table below compares cumulative total stockholder return on our common stock during the five fiscal years ended December 31, 2015, with the cumulative total stockholder return of the S&P 500 Index and the cumulative total stockholder return of select peers, which include the following companies: AGL Resources, Inc., Atmos Energy Corporation, Delta Natural Gas Company, Inc., The Laclede Group, Inc., New Jersey Resources Corporation, Northwest Natural Gas Company, Piedmont Natural Gas Company, Inc., RGC Resources, Inc., South Jersey Industries, Inc., and WGL Holdings, Inc.

The comparison assumes $100 was invested on December 31, 2010 in our common stock and in each of the foregoing indices and assumes reinvested dividends. The comparisons in the graph below are based on historical data and are not intended to forecast the possible future performance of our common stock.

	2010	2011	2012	2013	2014	2015
Chesapeake Utilities	$100	$108	$116	$158	$200	$233
Industry Index	$100	$121	$119	$142	$178	$214
S&P 500 Index	$100	$102	$118	$156	$177	$180

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ITEM 6. SELECTED FINANCIAL DATA

	For the Year Ended December 31, 2015	2014	2013
Operating [1]			
(in thousands)			
Revenues			
Regulated Energy	$301,902	$300,442	$264,637
Unregulated Energy	162,108	184,961	166,723
Other businesses and eliminations	(4,766)	13,431	12,946
Total revenues	$459,244	$498,834	$444,306
Operating income			
Regulated Energy	$60,985	$50,451	$50,084
Unregulated Energy	16,355	11,723	12,353
Other businesses and eliminations	418	105	297
Total operating income	$77,758	$62,279	$62,734
Net income from continuing operations	$41,140	$36,092	$32,787
Assets			
(in thousands)			
Gross property, plant and equipment	$1,070,263	$883,131	$805,394
Net property, plant and equipment	$854,950	$689,762	$631,246
Total assets	$1,068,586	$904,469	$837,522
Capital expenditures [1]	$142,713	$98,057	$108,039
Capitalization			
(in thousands)			
Stockholders' equity	$358,138	$300,322	$278,773
Long-term debt, net of current maturities	149,340	158,486	117,592
Total capitalization	$507,478	$458,808	$396,365
Current portion of long-term debt	9,151	9,109	11,353
Short-term debt	173,397	88,231	105,666
Total capitalization and short-term financing	$690,026	$556,148	$513,384

(1) These amounts exclude the results of distributed energy due to their reclassification to discontinued operations. We closed our distributed energy operation in 2007. These amounts also include accruals for capital expenditures that we have incurred for each reporting period.

(2) These amounts include the financial position and results of operation of FPU for the period from the merger (October 28, 2009) to December 31, 2009. These amounts also include the effects of acquisition accounting and issuance of our common shares as a result of the merger.

For the Year Ended December 31,

2012	2011	2010	2009[2]	2008	2007	2006
$246,208	$256,226	$269,438	$138,671	$116,123	$128,566	$124,438
133,049	149,586	146,793	119,973	161,290	115,190	94,320
13,245	12,215	11,315	10,141	14,030	14,530	12,442
$392,502	$418,027	$427,546	$268,785	$291,443	$258,286	$231,200
$46,999	$43,911	$43,267	$26,668	$23,833	$21,739	$18,618
8,355	9,619	8,150	8,390	3,600	5,244	3,650
1,281	175	513	(1,322)	1,046	1,131	1,064
$56,635	$53,705	$51,930	$33,736	$28,479	$28,114	$23,332
$28,863	$27,622	$26,056	$15,897	$13,607	$13,218	$10,748
$697,159	$625,488	$584,385	$543,905	$381,689	$352,838	$325,836
$541,781	$487,704	$462,757	$436,587	$280,671	$260,423	$240,825
$733,746	$709,066	$670,993	$615,811	$385,795	$381,557	$325,585
$78,210	$44,431	$46,955	$26,294	$30,844	$30,142	$49,154
$256,598	$240,780	$226,239	$209,781	$123,073	$119,576	$111,152
101,907	110,285	89,642	98,814	86,422	63,256	71,050
$358,505	$351,065	$315,881	$308,595	$209,495	$182,832	$182,202
8,196	8,196	9,216	35,299	6,656	7,656	7,656
61,199	34,707	63,958	30,023	33,000	45,664	27,554
$427,900	$393,968	$389,055	$373,917	$249,151	$236,152	$217,412

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	For the Year Ended December 31,		
	2015	2014	2013
Common Stock Data and Ratios			
Basic earnings per share from continuing operations (1) (5)	$2.73	$2.48	$2.27
Diluted earnings per share from continuing operations (1) (5)	$2.72	$2.47	$2.26
Return on average equity from continuing operations (1)	12.1 %	12.2 %	12.2 %
Common equity / total capitalization	70.6 %	65.5 %	70.3 %
Common equity / total capitalization and short-term financing	51.9 %	54.0 %	54.3 %
Book value per share (5)	$23.45	$20.59	$19.28
Market price:			
High	$61.130	$52.660	$40.780
Low	$44.370	$37.493	$30.560
Close	$56.750	$49.660	$40.013
Weighted average number of shares outstanding (5)	15,094,423	14,551,308	14,430,962
Shares outstanding at year-end (5)	15,270,659	14,588,711	14,457,345
Registered common shareholders	2,396	2,329	2,345
Cash dividends declared per share (5)	$1.13	$1.07	$1.01
Dividend yield (annualized) (3)	2.0 %	2.2 %	2.6 %
Payout ratio from continuing operations (1) (4)	41.5 %	43.0 %	44.6 %
Additional Data			
Customers			
Natural gas distribution	144,872	141,227	138,210
Electric distribution	31,430	31,272	31,151
Propane distribution	53,682	53,272	51,988
Volumes			
Natural gas deliveries (in Dts)	79,564,618	77,623,201	74,117,121
Electric Distribution (in MWHs)	634,539	643,332	649,025
Propane distribution (in thousands of gallons)	52,643	53,525	48,511
Other unregulated natural gas services deliveries (in Dts)	4,504	—	—
Heating degree-days (Delmarva Peninsula)			
Actual HDD	4,363	4,826	4,638
10-year average HDD (normal)	4,496	4,483	4,454
Heating degree-days (Florida)			
Actual HDD	569	888	671
10-year average HDD (normal)	859	856	885
Cooling degree-days (Florida)			
Actual CDD	3,338	2,705	2,750
10-year average CDD (normal)	2,760	2,768	2,750
Propane bulk storage capacity (in thousands of gallons)	4,060	3,833	3,566
Total employees	832	753	842

(1) These amounts exclude the results of a former distributed energy subsidiary due to its reclassification to discontinued operations in 2007.

(2) These amounts include the financial position and results of operation of FPU for the period from the merger closing (October 28, 2009) to December 31, 2009.

(3) Dividend yield (annualized) is calculated by multiplying the fourth quarter dividend by four (4), then dividing that amount by the closing common stock price at December 31.

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For the Year Ended December 31,

2012	2011	2010	2009[(2)]	2008	2007	2006
$2.01	$1.93	$1.83	$1.45	$1.33	$1.31	$1.19
$1.99	$1.91	$1.82	$1.43	$1.32	$1.29	$1.17
11.6 %	11.6 %	11.6 %	11.2 %	11.2 %	11.5 %	11.0 %
71.6 %	68.6 %	71.6 %	68.0 %	58.7 %	65.4 %	61.0 %
60.0 %	61.1 %	58.2 %	56.1 %	49.4 %	50.6 %	51.1 %
$17.82	$16.78	$15.84	$14.89	$12.02	$11.76	$11.08
$32.613	$29.687	$28.133	$23.333	$23.227	$24.833	$23.767
$26.593	$24.000	$18.673	$14.680	$14.620	$18.667	$18.600
$30.267	$28.900	$27.680	$21.367	$20.987	$21.233	$20.433
14,379,216	14,333,699	14,211,831	10,969,980	10,217,772	10,114,562	9,048,693
14,396,248	14,350,959	14,286,293	14,091,471	10,240,682	10,166,115	10,032,126
2,396	2,481	2,482	2,670	1,914	1,920	1,978
$0.96	$0.91	$0.87	$0.83	$0.81	$0.78	$0.77
3.2 %	3.2 %	3.2 %	3.9 %	3.9 %	3.7 %	3.8 %
47.8 %	47.4 %	47.6 %	57.6 %	60.5 %	60.2 %	65.2 %
124,015	121,934	120,230	117,887	65,201	62,884	59,132
31,066	30,986	30,966	31,030	—	—	—
49,312	48,824	48,100	48,680	34,981	34,143	33,282
66,784,690	57,493,022	49,310,314	50,159,227	46,539,142	42,910,964	41,826,357
670,998	694,653	751,507	105,739	—	—	—
37,438	37,387	39,807	32,546	27,956	29,785	24,243
—	—	—	—	—	—	—
3,936	4,221	4,831	4,729	4,431	4,504	3,931
4,491	4,499	4,528	4,462	4,401	4,376	4,372
633	753	1,501	911	—	—	—
915	920	863	849	—	—	—
2,871	2,858	2,859	2,770	—	—	—
2,756	2,718	2,695	2,687	—	—	—
3,400	3,351	3,041	3,042	2,471	2,441	2,315
738	711	734	757	448	445	437

(4) The payout ratio from continuing operations is calculated by dividing cash dividends declared per share (for the year) by basic earnings per share from continuing operations.

(5) Shares and per share amounts for all periods presented reflect the three-for-two stock split declared on July 2, 2014, effected in the form of a stock dividend, and distributed on September 8, 2014.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This section provides management's discussion of Chesapeake Utilities and its consolidated subsidiaries, with specific information on results of operations, liquidity and capital resources, as well as discussion of how certain accounting principles affect our financial statements. It includes management's interpretation of our financial results and our operating segments, the factors affecting these results, the major factors expected to affect future operating results as well as investment and financing plans. This discussion should be read in conjunction with our Consolidated Financial Statements and notes thereto in Item 8, Financial Statements and Supplementary Data.

Several factors exist that could influence our future financial performance, some of which are described in Item 1A, Risk Factors. They should be considered in connection with forward-looking statements contained in this report, or otherwise made by or on behalf of us, since these factors could cause actual results and conditions to differ materially from those set out in such forward-looking statements.

The following discussions and those later in the document on operating income and segment results include the use of the term "gross margin." Gross margin is determined by deducting the cost of sales from operating revenue. Cost of sales includes the purchased cost of natural gas, electricity and propane and the cost of labor spent on direct revenue-producing activities. Gross margin should not be considered an alternative to operating income or net income, which are determined in accordance with GAAP. We believe that gross margin, although a non-GAAP measure, is useful and meaningful to investors as a basis for making investment decisions. It provides investors with information that demonstrates the profitability achieved by us under our allowed rates for regulated energy operations and under our competitive pricing structure for non-regulated segments. Our management uses gross margin in measuring our business units' performance and has historically analyzed and reported gross margin information publicly. Other companies may calculate gross margin in a different manner.

Shares and per share amounts for all periods presented reflect the three-for-two stock split declared on July 2, 2014, which was effected in the form of a stock dividend and distributed on September 8, 2014. Unless otherwise noted, earnings per share information is presented on a diluted basis.

INTRODUCTION

We are a diversified energy company engaged, directly or through our operating divisions and subsidiaries, in regulated and unregulated energy businesses.

Our strategy is focused on growing earnings from a stable utility foundation and investing in related businesses and services that provide opportunities for returns greater than traditional utility returns. The key elements of this strategy include:

- executing a capital investment program in pursuit of organic growth opportunities that generate returns equal to or greater than our cost of capital;
- expanding the regulated energy distribution and transmission businesses into new geographic areas and providing new services in our current service territories;
- expanding the propane distribution business in existing and new markets through our bulk delivery capabilities, our community gas system services and our propane vehicle fuel offerings ;
- expanding both our regulated energy and unregulated energy businesses through strategic acquisitions;
- utilizing our expertise across our various businesses to improve overall performance;
- pursuing and entering new unregulated energy markets and business lines that will complement our existing strategy and operating units while capitalizing on opportunities across the natural gas value chain;
- enhancing marketing channels to attract new customers;
- providing reliable and responsive customer service to existing customers so they become our best promoters;
- engaging our customers through a distinctive service excellence initiative;
- developing and retaining a high-performing team that advances our goals;
- empowering and engaging our employees to live our brand and vision;
- demonstrating community leadership and engaging our local communities and governments in a cooperative and mutually beneficial way;

- maintaining a capital structure that enables us to access capital as needed;

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- continuing to build our brand in a culture with a shared mission, vision and values;
- achieving strong growth in earnings and capital investment, thereby generating above regulated return on equity performance;
- maintaining a consistent and competitive dividend for stockholders;
- maximizing shareholder value; and
- creating and maintaining a diversified customer base, energy portfolio and utility foundation.

CRITICAL ACCOUNTING POLICIES

We prepare our financial statements in accordance with GAAP. Application of these accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosures of contingencies during the reporting period. We base our estimates on historical experience and on various assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Since most of our businesses are regulated and the accounting methods used by these businesses must comply with the requirements of the regulatory bodies, the choices available are limited by these regulatory requirements. In the normal course of business, estimated amounts are subsequently adjusted to actual results that may differ from estimates. Management believes that the following policies require significant estimates or other judgments of matters that are inherently uncertain. These policies and their application have been reviewed by our Audit Committee.

Regulatory Assets and Liabilities

As a result of the ratemaking process, we record certain assets and liabilities in accordance with FASB ASC Topic 980, Regulated Operations, and consequently, the accounting principles applied by our regulated energy businesses differ in certain respects from those applied by the unregulated businesses. Costs are deferred when there is a probable expectation that they will be recovered in future revenues as a result of the regulatory process. As more fully described in Item 8, Financial Statements and Supplementary Data (see Note 2, Summary of Significant Accounting Policies, in the Consolidated Financial Statements), we have recorded regulatory assets of $85.8 million and regulatory liabilities of $50.4 million at December 31, 2015. If we were required to terminate the application of ASC Topic 980, we would be required to recognize all such deferred amounts as a charge or a credit to earnings, net of applicable income taxes. Such an adjustment could have a material effect on our results of operations.

Valuation of Environmental Liabilities and Related Regulatory Assets

As more fully described in Item 8, Financial Statements and Supplementary Data (see Note 19, Environmental Commitments and Contingencies, in the Consolidated Financial Statements), we are currently participating in the investigation, assessment or remediation of seven former MGP sites for which we have or will seek regulatory approval to recover through rates the estimated costs of remediation and related activities. Amounts have been recorded as environmental liabilities based on estimates of future costs to remediate these sites, which are provided by independent consultants. At December 31, 2015, we have recorded $10.6 million in environmental liabilities associated with these MGP sites, representing our estimate of such future costs. We have also recorded regulatory and other assets to reflect future recovery of those costs in rates and have recorded $4.2 million of such assets at December 31, 2015, representing the amount of our environmental remediation costs to be recovered in future rates. There is uncertainty in these amounts, as the EPA, or other applicable state environmental authority, may not have selected the final remediation methods. In addition, there is uncertainty with regard to amounts that may be recovered from other potentially responsible parties.

We have also completed the investigation, assessment and remediation of eight natural gas pipeline facilities in Ohio that Aspire Energy acquired from Gatherco pursuant to the merger. The costs incurred to date associated with remediation activities for these facilities is approximately $1.0 million. Pursuant to the merger agreement, an escrow was established to fund certain claims by Chesapeake Utilities and Aspire Energy for indemnification by Gatherco, including environmental claims. Gatherco's indemnification obligations for environmental matters apply to remediation costs in excess of $431,250 and are capped at 1.65 million. We expect to be reimbursed for substantially all remediation costs we have incurred to date associated with these pipeline facilities in excess of $431,250.

Derivatives

We use derivative and non-derivative instruments to manage the risks related to obtaining adequate supplies and the price fluctuations of natural gas, electricity and propane. We also use derivative instruments to engage in propane wholesale marketing activities. We continually monitor the use of these instruments to ensure compliance with our risk management policies and account for them in accordance with the appropriate GAAP, such that every derivative instrument is recorded as either an asset or a liability measured at its fair value. It also requires that changes in the derivatives' fair value are recognized in the current period earnings unless specific hedge accounting criteria are met. If these instruments do not meet the definition of derivatives or are considered “normal purchases and sales,” they are accounted for on an accrual basis of accounting.

Additionally, GAAP also requires us to classify the derivative assets and liabilities based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the fair value of the assets and liabilities and their placement within the fair value hierarchy.

During the last three years, we had the following derivative assets and liabilities:

- Propane forward contracts entered into by Xeron;
- Propane put options, call options and swap agreements entered into by Sharp; and
- Natural gas futures contracts entered into by PESCO.

We determined that certain propane put options, call options, swap agreements and natural gas futures contracts met the specific hedge accounting criteria. We also determined that most of our contracts for the purchase or sale of natural gas, electricity and propane either (i) did not meet the definition of derivatives because they did not have a minimum purchase/sell requirement or (ii) were considered “normal purchases and sales,” because the contracts provided for the purchase or sale of natural gas, electricity or propane to be delivered in quantities that we expect to use or sell over a reasonable period of time in the normal course of business. Accordingly, these contracts were accounted for on an accrual basis of accounting. Additional information about our derivative instruments is disclosed in Item 8, Financial Statements and Supplementary Data (See Note 7: Derivative Instruments, in the Consolidated Financial Statements).

As of December 31, 2015, we recorded $153,000 and $433,000 of derivative assets and liabilities, respectively. As of December 31, 2014, we have recorded $1.1 million and $1.0 million of derivative assets and liabilities, respectively.

Operating Revenues

Revenues for our natural gas and electric distribution operations are based on rates approved by the PSC of each state in which we operate. Customers’ base rates may not be changed without formal approval by these PSCs. However, PSCs authorized our regulated operations to negotiate rates, based on approved methodologies, with customers that have competitive alternatives. Eastern Shore’s revenues are based on rates approved by the FERC. The FERC has also authorized Eastern Shore to negotiate rates above or below the FERC-approved maximum rates, which customers can elect as an alternative to negotiated rates.

Peninsula Pipeline, our Florida intrastate pipeline subsidiary that is subject to regulation by the Florida PSC, has negotiated firm transportation service contracts with third-party customers and with certain affiliates.

For regulated deliveries of natural gas, propane and electricity, we read meters and bill customers on monthly cycles that do not coincide with the accounting periods used for financial reporting purposes. We accrue unbilled revenues for natural gas and electricity that have been delivered, but not yet billed, at the end of an accounting period to the extent that they do not coincide. We estimate the amount of the unbilled revenue by jurisdiction and customer class. A similar computation is made to accrue unbilled revenues for propane customers with meters, such as community gas system customers and natural gas marketing customers, whose billing cycles do not coincide with the accounting periods.

We record trading activity for open propane wholesale marketing contracts on a net mark-to-market basis in the consolidated statements of income. For propane bulk delivery customers without meters we record revenue in the period the products are delivered and/or services are rendered.

Our natural gas supply operation in Ohio recognizes revenues based on actual volumes of natural gas shipped using contractual rates, which are based upon index prices that are published monthly.

Each of our natural gas distribution operations in Delaware and Maryland, our bundled natural gas distribution service in Florida and our electric distribution operation in Florida has a fuel cost recovery mechanism. This mechanism provides a method of adjusting billing rates to reflect changes in the cost of purchased fuel. The difference between the current cost of fuel purchased and the cost of fuel recovered in billed rates is deferred and accounted for as either unrecovered fuel cost or amounts payable to customers. Generally, these deferred amounts are recovered or refunded within one year.

We charge flexible rates to industrial interruptible customers on our natural gas distribution systems to compete with the price of alternative fuel that they can use. Neither we, nor any of our interruptible customers, are contractually obligated to deliver or receive natural gas on a firm service basis.

Allowance for Doubtful Accounts

An allowance for doubtful accounts is recorded against amounts due to reduce the net receivable balance to the amount we reasonably expect to collect based upon our collections experience, the condition of the overall economy and our assessment of our customers’ inability or reluctance to pay. If circumstances change, however, our estimate of the recoverability of accounts receivable may also change. Circumstances which could affect our estimates include, but are not limited to, customer credit issues, the level of natural gas, electricity and propane prices and general economic conditions. Accounts are written off once they are deemed to be uncollectible.

Goodwill and Other Intangible Assets

We test goodwill for impairment at least annually in December of each year. The testing of goodwill for 2015 indicated no goodwill impairment. At December 31, 2014, we recorded a non-cash, pre-tax impairment charge of $412,000 related to the impairment of goodwill and intangible assets associated with the 2013 acquisition of certain assets of Austin Cox.

Other Asset Impairment Evaluations

We periodically evaluate whether events or circumstances have occurred which indicate that long-lived assets may not be recoverable. When events or circumstances indicating impairment are present, we record an impairment loss equal to the excess of the assets' carrying value over its fair value, if any.

On May 29, 2015, we entered into a settlement agreement with a vendor related to the implementation of a customer billing system. Pursuant to the agreement, we received $1.5 million in cash, which is reflected as "Gain from a settlement" in the accompanying consolidated statements of income. Previously, at December 31, 2014, we recorded a $6.5 million pre-tax, non-cash impairment loss related to the same billing system implementation. We may also receive $750,000 in additional cash and discounts on future services; however, the receipt or retention of additional cash and future discounts is contingent upon engaging this vendor to provide agreed-upon services over the next five years. We will establish a regulatory asset for the portion of impairment loss not recovered from the vendor when future recovery through rates is probable.

Pension and Other Postretirement Benefits

Pension and other postretirement plan costs and liabilities are determined on an actuarial basis and are affected by numerous assumptions and estimates including the market value of plan assets, estimates of the expected returns on plan assets, assumed discount rates, the level of contributions made to the plans, and current demographic and actuarial mortality data. The assumed discount rates and the expected returns on plan assets are the assumptions that generally have the most significant impact on the pension costs and liabilities. The assumed discount rates, the assumed health care cost trend rates and the assumed rates of retirement generally have the most significant impact on our postretirement plan costs and liabilities. Additional information is presented in Item 8, Financial Statements and Supplementary Data (See Note 16, Employee Benefit Plans, in the Consolidated Financial Statements), including plan asset investment allocation, estimated future benefit payments, general descriptions of the plans, significant assumptions, the impact of certain changes in assumptions, and significant changes in estimates.

For 2015, actuarial assumptions include expected long-term rates of return on plan assets of 6.00 percent and 7.00 percent for Chesapeake Utilities' pension plan and FPU’s pension plan, respectively, and discount rates of 3.50 percent and 3.75 percent for Chesapeake Utilities' and FPU’s plans, respectively. The discount rate for each plan was determined by management considering high-quality corporate bond rates, such as Prudential curve index and the Citigroup yield curve, changes in those rates from the prior year and other pertinent factors, including the expected lives of the plans and the availability of the lump-sum payment option. A 0.25 percent decrease in the discount rate could increase our annual pension and postretirement costs by approximately $19,000, and a 0.25 percent increase could decrease our annual pension and postretirement costs by approximately $19,000.

The mortality assumption used for our pension and postretirement plans is based on the actuarial table that is most reflective of the expected mortality of the plan participants and reviewed periodically. We adopted a new mortality table (RP 2014 MP-2015), which was developed by the Society of Actuaries and published in 2015.

Actual changes in the fair value of plan assets and the differences between the actual return on plan assets and the expected return on plan assets could have a material effect on the amount of pension benefit costs that we ultimately recognize. A 0.25 percent change in the rate of return could change our annual pension cost by approximately

$126,000 and would not have an impact on the postretirement and Chesapeake SERP because these plans are not funded.

The health care inflation rate for 2015 used to calculate the benefit obligation is five percent for medical and six percent for prescription drugs for the Chesapeake Postretirement Plan; and five percent for the FPU Medical Plan. A one–percentage point increase in the health care inflation rate from the assumed rate would increase the accumulated postretirement benefit obligation by approximately $335,000 as of December 31, 2015, and would increase the aggregate of the service cost and interest cost

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components of the net periodic postretirement benefit cost for 2015 by approximately $13,000. A one-percentage point decrease in the health care inflation rate from the assumed rate would decrease the accumulated postretirement benefit obligation by approximately $268,000 as of December 31, 2015, and would decrease the aggregate of the service cost and interest cost components of the net periodic postretirement benefit cost for 2015 by approximately $10,000.

Tax-related Contingency

We account for uncertainty in income taxes in the financial statements only if it is more likely than not that an uncertain tax position is sustainable based on technical merits. Recognizable tax positions are then measured to determine the amount of benefit recognized in the financial statements. We recognize penalties and interest related to unrecognized tax benefits as a component of other income.

We account for contingencies associated with taxes other than income when the likelihood of a loss is both probable and estimable. In assessing the likelihood of a loss, we do not consider the existence of current inquiries, or the likelihood of future inquiries, by tax authorities as a factor. Our assessment is based solely on our application of the appropriate statutes and the likelihood of a loss, assuming the proper inquiries are made by tax authorities.

As of December 31, 2015 and 2014, we recorded total liabilities of $50,000 and $100,000, respectively, associated with unrecognized income tax benefits. As of December 31, 2015 and 2014, we recorded total liabilities of $310,000 and $724,000, respectively, related to taxes other than income.

OVERVIEW AND HIGHLIGHTS

(in thousands except per share)			Increase			Increase
For the Year Ended December 31,	2015	2014	(decrease)	2014	2013	(decrease)
Business Segment:						
Regulated Energy	$60,985	$50,451	$10,534	$50,451	$50,084	$367
Unregulated Energy	16,355	11,723	4,632	11,723	12,353	(630)
Other businesses and eliminations	418	105	313	105	297	(192)
Operating Income	77,758	62,279	15,479	62,279	62,734	(455)
Gains from sales of businesses	—	7,139	(7,139)	7,139	—	7,139
Other income, net of other expenses	293	101	192	101	372	(271)
Interest charges	10,006	9,482	524	9,482	8,234	1,248
Income Before Income Taxes	68,045	60,037	8,008	60,037	54,872	5,165
Income taxes	26,905	23,945	2,960	23,945	22,085	1,860
Net Income	$41,140	$36,092	$5,048	$36,092	$32,787	$3,305
Earnings Per Share of Common Stock						
Basic	$2.73	$2.48	$0.25	$2.48	$2.27	$0.21
Diluted	$2.72	$2.47	$0.25	$2.47	$2.26	$0.21

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2015 compared to 2014
Our net income increased by approximately $5.0 million or $0.25 per share (diluted) in 2015, compared to 2014. Key variances included:

(in thousands, except per share)	Pre-tax Income	Net Income	Earnings Per Share
Year ended December 31, 2014 Reported Results	$ 60,037	$ 36,092	$ 2.47
Adjusting for unusual items:			
Gains on sales of businesses, recorded in 2014	(7,139)	(4,292)	(0.29)
Asset impairment charges, recorded in 2014	6,880	4,136	0.28
Weather impact	(4,408)	(2,650)	(0.18)
Gain from a customer billing system settlement	1,500	902	0.06
	(3,167)	(1,904)	(0.13)
Increased (Decreased) Gross Margins:			
Higher retail propane margins	8,930	5,369	0.37
Service expansions (see Major Projects and Initiatives table)	5,215	3,135	0.21
Other natural gas growth	4,260	2,561	0.17
GRIP	4,151	2,496	0.17
FPU electric base rate increase	2,465		