

CHESAPEAKE UTILITIES CORP
Form 10-Q
August 04, 2016
Table of Contents

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

FORM 10-Q

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

For the quarterly period ended: June 30, 2016

OR

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

For the transition period from _____ to _____

Commission File Number: 001-11590

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

Delaware 51-0064146
(State or other jurisdiction (I.R.S. Employer
of incorporation or organization) 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)

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 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 No

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 definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

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

Common Stock, par value \$0.4867 — 15,323,102 shares outstanding as of July 31, 2016.

Table of Contents

Table of Contents

<u>PART I—FINANCIAL INFORMATION</u>	<u>1</u>
ITEM 1. <u>FINANCIAL STATEMENTS</u>	<u>1</u>
ITEM 2. <u>MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	<u>31</u>
ITEM 3. <u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	<u>53</u>
ITEM 4. <u>CONTROLS AND PROCEDURES</u>	<u>55</u>
<u>PART II—OTHER INFORMATION</u>	<u>56</u>
ITEM 1. <u>LEGAL PROCEEDINGS</u>	<u>56</u>
ITEM 1A. <u>RISK FACTORS</u>	<u>56</u>
ITEM 2. <u>UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>	<u>56</u>
ITEM 3. <u>DEFAULTS UPON SENIOR SECURITIES</u>	<u>56</u>
ITEM 5. <u>OTHER INFORMATION</u>	<u>56</u>
ITEM 6. <u>EXHIBITS</u>	<u>57</u>
<u>SIGNATURES</u>	<u>58</u>

Table of Contents

GLOSSARY OF DEFINITIONS

ASC: Accounting Standards Codification

ASU: Accounting Standards Update

Aspire Energy: Aspire Energy of Ohio, LLC, a wholly-owned subsidiary of Chesapeake Utilities into which Gatherco merged on April 1, 2015

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 its subsidiaries, as appropriate in the context of the disclosure

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

CHP: A combined heat and power plant constructed by Eight Flags in Nassau County, Florida

Columbia Gas: Columbia Gas of Ohio

Company: Chesapeake Utilities Corporation, its divisions and its 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

Delmarva Peninsula: A peninsula on the east coast of the United States of America occupied by Delaware and portions of Maryland and Virginia

DNREC: Delaware Department of Natural Resources and Environmental Control

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 ESG

Eight Flags: Eight Flags Energy, LLC, a subsidiary of Chesapeake OnSight Services, LLC

EPA: United States Environmental Protection Agency

ESG: Eastern Shore Gas Company and its affiliates

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

FPU: Florida Public Utilities Company, a wholly-owned subsidiary of Chesapeake Utilities

Table of Contents

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 is 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

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

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

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

NAM: Natural Attenuation Monitoring

NYSE: New York Stock Exchange

OPT \leq 90 Service: Off Peak \leq 90 Firm Transportation Service, an Eastern Shore firm transportation service that allows Eastern Shore not to schedule service for up to 90 days during the peak months of November through April

OTC: Over-the-counter

Peninsula Pipeline: Peninsula Pipeline Company, Inc., our wholly-owned Florida intrastate pipeline subsidiary

PESCO: Peninsula Energy Services Company, Inc., our 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 potential future purchase of our Shelf Notes

PSC: Public Service Commission, which is the state agency that regulates the rates and services provided by 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

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

SCO supplier agreement: Standard Choice Offer (SCO) supplier agreement between PESCO and Columbia Gas

SEC: Securities and Exchange Commission

Sharp: Sharp Energy, Inc., our wholly-owned propane distribution subsidiary

Table of Contents

Shelf Agreement: An agreement entered into by Chesapeake Utilities and Prudential pursuant to which Chesapeake Utilities may request that Prudential purchase, by October 8, 2018, 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

TETLP: Texas Eastern Transmission, LP

Xeron: Xeron, Inc., our propane wholesale marketing subsidiary, based in Houston, Texas

Table of Contents

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements

Chesapeake Utilities Corporation and Subsidiaries

Condensed Consolidated Statements of Income (Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
(in thousands, except shares and per share data)				
Operating Revenues				
Regulated Energy	\$67,395	\$62,060	\$156,611	\$171,642
Unregulated Energy and other	34,947	30,622	92,027	91,121
Total Operating Revenues	102,342	92,682	248,638	262,763
Operating Expenses				
Regulated Energy cost of sales	21,635	21,124	56,540	78,253
Unregulated Energy and other cost of sales	22,934	20,272	56,958	55,507
Operations	28,087	26,190	55,246	53,133
Maintenance	2,904	2,727	5,383	5,431
Gain from a settlement	(130)	(1,500)	(130)	(1,500)
Depreciation and amortization	7,780	7,543	15,283	14,518
Other taxes	3,390	3,156	7,236	6,743
Total Operating Expenses	86,600	79,512	196,516	212,085
Operating Income	15,742	13,170	52,122	50,678
Other Expense, net	(8)	(171)	(42)	(38)
Interest charges	2,624	2,485	5,274	4,933
Income Before Income Taxes	13,110	10,514	46,806	