

CHESAPEAKE UTILITIES CORP
Form 10-Q
May 06, 2015
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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: March 31, 2015

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
(State or other jurisdiction
of incorporation or organization)
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)

51-0064146
(I.R.S. Employer
Identification No.)

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 — 15,225,683 shares outstanding as of April 30, 2015.

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GLOSSARY OF DEFINITIONS

ASC: Accounting Standards Codification

ASU: Accounting Standards Update

Aspire Energy of Ohio: Aspire Energy of Ohio, LLC, a newly formed, wholly-owned subsidiary of Chesapeake into which Gatherco, Inc. merged.

BravePoint: BravePoint, Inc., our advanced information services subsidiary, headquartered in Norcross, Georgia, which was sold on October 1, 2014

CDD: Cooling degree-days, 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: 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

Chesapeake Postretirement Plan: An unfunded postretirement health care and life insurance plan sponsored by Chesapeake

Chesapeake SERP: An unfunded supplemental executive retirement pension plan sponsored by Chesapeake

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

Company: Chesapeake Utilities Corporation, its divisions and its subsidiaries, as appropriate in the context of the disclosure

CP: Certificate of Public Convenience and Necessity

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

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

EGWIC: Eastern Gas & Water Investment Company, LLC, an affiliate of Eastern Shore Gas Company

Eight Flags: Eight Flags Energy, LLC, a subsidiary of Chesapeake Onsite 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 Federal 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

FPU Medical Plan: A separate unfunded postretirement medical plan for FPU sponsored by Chesapeake

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FPU Pension Plan: A separate defined benefit pension plan for FPU sponsored by Chesapeake

GAAP: Accounting principles generally accepted in the United States of America

Gatherco: Gatherco, Inc.

GRIP: Gas Reliability Infrastructure Program, which is a surcharge to natural gas customers designed to recover capital and other program-related costs, inclusive of an appropriate return on investment, associated with accelerating the replacement of qualifying distribution mains and services in Florida

Gulf Power: Gulf Power Company

Gulfstream: Gulfstream Natural Gas System, LLC

HDD: Heating degree-days, 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

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

Note Agreement: Note Purchase Agreement entered into by Chesapeake with 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 on September 5, 2013

Notes: Series A and B unsecured Senior Notes that have been entered into with the Note Holders

OPT ≤ 90 Service: Off Peak ≤ 90 Firm Transportation Service, a new tariff associated with Eastern Shore's firm transportation service that will allow Eastern Shore the right not to schedule 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., our wholly-owned Florida intrastate pipeline subsidiary

PESCO: Peninsula Energy Services Company, Inc., our wholly-owned natural gas marketing subsidiary

PSC: Public Service Commission, which is the state agency that regulates the rates and services provided by Chesapeake's natural gas and electric distribution operations in Delaware, Maryland and Florida and Peninsula Pipeline in Florida

Sandpiper: Sandpiper Energy, Inc.

Sanford Group: FPU and other responsible parties involved with the Sanford environmental site

SEC: Securities and Exchange Commission

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

SICP: 2013 Stock and Incentive Compensation Plan

TETLP: Texas Eastern Transmission, LP

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

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PART I—FINANCIAL INFORMATION

Item 1. Financial Statements

Chesapeake Utilities Corporation and Subsidiaries

Condensed Consolidated Statements of Income (Unaudited)

| | Three Months Ended | |
|---|--------------------|------------|
| | March 31, | |
| | 2015 | 2014 |
| (in thousands, except shares and per share data) | | |
| Operating Revenues | | |
| Regulated Energy | \$109,582 | \$102,166 |
| Unregulated Energy and other | 60,499 | 84,171 |
| Total Operating Revenues | 170,081 | 186,337 |
| Operating Expenses | | |
| Regulated Energy cost of sales | 57,129 | 54,307 |
| Unregulated Energy and other cost of sales | 35,234 | 61,325 |
| Operations | 26,945 | 26,626 |
| Maintenance | 2,703 | 2,148 |
| Depreciation and amortization | 6,975 | 6,635 |
| Other taxes | 3,587 | 3,673 |
| Total Operating Expenses | 132,573 | 154,714 |
| Operating Income | 37,508 | 31,623 |
| Other income, net of other expenses | 133 | 6 |
| Interest charges | 2,448 | 2,155 |
| Income Before Income Taxes | 35,193 | 29,474 |
| Income taxes | 14,084 | 11,793 |
| Net Income | \$21,109 | \$17,681 |
| Weighted Average Common Shares Outstanding: | | |
| Basic | 14,604,841 | 14,487,646 |
| Diluted | 14,656,310 | 14,540,151 |
| Earnings Per Share of Common Stock: | | |
| Basic | \$1.45 | \$1.22 |
| Diluted | \$1.44 | \$1.22 |
| Cash Dividends Declared Per Share of Common Stock | \$0.270 | \$0.257 |

The accompanying notes are an integral part of these financial statements.

Table of ContentsChesapeake Utilities Corporation and Subsidiaries
Condensed Consolidated Statements of Comprehensive Income (Unaudited)

| | Three Months Ended March 31, | |
|---|---------------------------------|----------|
| | 2015 | 2014 |
| (in thousands) | | |
| Net Income | \$21,109 | \$17,681 |
| Other Comprehensive Income (Loss), net of tax: | | |
| Employee Benefits, net of tax: | | |
| Amortization of prior service cost, net of tax of \$(7), \$(6), respectively | (10 |) (9 |
| Net gain, net of tax of \$62 and \$27, respectively | 92 | 40 |
| Cash Flow Hedges, net of tax: | | |
| Unrealized gain on commodity contract cash flow hedges, net of tax of \$17 and \$0, respectively. | 26 | — |
| Total Other Comprehensive Income | 108 | 31 |
| Comprehensive Income | \$21,217 | \$17,712 |
| The accompanying notes are an integral part of these financial statements. | | |

Table of ContentsChesapeake Utilities Corporation and Subsidiaries
Condensed Consolidated Balance Sheets (Unaudited)

| Assets | March 31, 2015 | December 31, 2014 |
|--|-------------------|----------------------|
| (in thousands, except shares) | | |
| Property, Plant and Equipment | | |
| Regulated Energy | \$779,394 | \$766,855 |
| Unregulated Energy | 84,386 | 84,773 |
| Other businesses and eliminations | 19,459 | 18,497 |
| Total property, plant and equipment | 883,239 | 870,125 |
| Less: Accumulated depreciation and amortization | (198,181 |) (193,369 |
| Plus: Construction work in progress | 24,137 | 13,006 |
| Net property, plant and equipment | 709,195 | 689,762 |
| Current Assets | | |
| Cash and cash equivalents | 16,170 | 4,574 |
| Accounts receivable (less allowance for uncollectible accounts of \$1,274 and \$1,120, respectively) | 62,062 | 53,300 |
| Accrued revenue | 12,869 | 13,617 |
| Propane inventory, at average cost | 4,550 | 7,250 |
| Other inventory, at average cost | 4,411 | 3,699 |
| Regulatory assets | 7,472 | 8,967 |
| Storage gas prepayments | 910 | 4,258 |
| Income taxes receivable | — | 18,806 |
| Prepaid expenses | 4,510 | 6,652 |
| Mark-to-market energy assets | 46 | 1,055 |
| Other current assets | 294 | 195 |
| Total current assets | 113,294 | 122,373 |
| Deferred Charges and Other Assets | | |
| Goodwill | 4,952 | 4,952 |
| Other intangible assets, net | 2,316 | 2,404 |
| Investments, at fair value | 3,770 | 3,678 |
| Regulatory assets | 78,113 | 78,136 |
| Receivables and other deferred charges | 2,067 | 3,164 |
| Total deferred charges and other assets | 91,218 | 92,334 |
| Total Assets | \$913,707 | \$904,469 |

The accompanying notes are an integral part of these financial statements.

Table of ContentsChesapeake Utilities Corporation and Subsidiaries
Condensed Consolidated Balance Sheets (Unaudited)

| | March 31, 2015 | December 31, 2014 |
|---|-------------------|----------------------|
| Capitalization and Liabilities | | |
| (in thousands, except shares and per share data) | | |
| Capitalization | | |
| Stockholders' equity | | |
| Common stock, par value \$0.4867 per share (authorized 25,000,000 shares) | \$7,119 | \$7,100 |
| Additional paid-in capital | 156,749 | 156,581 |
| Retained earnings | 159,446 | 142,317 |
| Accumulated other comprehensive loss | (5,568 |) (5,676 |
| Deferred compensation obligation | 1,715 | 1,258 |
| Treasury stock | (1,715 |) (1,258 |
| Total stockholders' equity | 317,746 | 300,322 |
| Long-term debt, net of current maturities | 158,083 | 158,486 |
| Total capitalization | 475,829 | 458,808 |
| Current Liabilities | | |
| Current portion of long-term debt | 9,116 | 9,109 |
| Short-term borrowing | 66,772 | 88,231 |
| Accounts payable | 46,284 | 44,610 |
| Customer deposits and refunds | 22,307 | 25,197 |
| Accrued interest | 3,109 | 1,352 |
| Dividends payable | 3,950 | 3,939 |
| Income taxes payable | 2,946 | — |
| Deferred income taxes | 586 | 832 |
| Accrued compensation | 4,845 | 10,076 |
| Regulatory liabilities | 18,621 | 3,268 |
| Mark-to-market energy liabilities | 20 | 1,018 |
| Other accrued liabilities | 7,797 | 6,603 |
| Total current liabilities | 186,353 | 194,235 |
| Deferred Credits and Other Liabilities | | |
| Deferred income taxes | 160,055 | 160,232 |
| Regulatory liabilities | 43,518 | 43,419 |
| Environmental liabilities | 9,147 | 8,923 |
| Other pension and benefit costs | 34,798 | 35,027 |
| Deferred investment tax credits and other liabilities | 4,007 | 3,825 |
| Total deferred credits and other liabilities | 251,525 | 251,426 |
| Other commitments and contingencies (Note 6) | | |
| Total Capitalization and Liabilities | \$913,707 | \$904,469 |

The accompanying notes are an integral part of these financial statements.

Table of ContentsChesapeake Utilities Corporation and Subsidiaries
Condensed Consolidated Statements of Cash Flows (Unaudited)

| | Three Months Ended | |
|---|--------------------|----------|
| | March 31, | |
| | 2015 | 2014 |
| (in thousands) | | |
| Operating Activities | | |
| Net income | \$21,109 | \$17,681 |
| Adjustments to reconcile net income to net operating cash: | | |
| Depreciation and amortization | 6,975 | 6,635 |
| Depreciation and accretion included in other costs | 1,689 | 1,783 |
| Deferred income taxes, net | (496) | (231) |
| Realized gain on commodity contracts/sale of assets/investments | (840) | (8) |
| Unrealized loss on investments/commodity contracts | 21 | 31 |
| Employee benefits and compensation | 300 | 162 |
| Share-based compensation | 537 | 638 |
| Other, net | 4 | (1) |
| Changes in assets and liabilities: | | |
| Accounts receivable and accrued revenue | (8,014) | (3,647) |
| Propane inventory, storage gas and other inventory | 5,337 | 8,243 |
| Regulatory assets/liabilities, net | 16,185 | 200 |
| Prepaid expenses and other current assets | 2,500 | 2,185 |
| Accounts payable and other accrued liabilities | 2,376 | 4,821 |
| Income taxes receivable/payable | 21,753 | 11,565 |
| Customer deposits and refunds | (2,890) | (1,735) |
| Accrued compensation | (5,262) | (3,505) |
| Other assets and liabilities, net | 2,753 | 1,246 |
| Net cash provided by operating activities | 64,037 | 46,063 |
| Investing Activities | | |
| Property, plant and equipment expenditures | (27,508) | (18,528) |
| Proceeds from sales of assets | 198 | 29 |
| Environmental expenditures | (49) | (26) |
| Net cash used in investing activities | (27,359) | (18,525) |
| Financing Activities | | |
| Common stock dividends | (3,573) | (3,369) |
| Purchase of stock for Dividend Reinvestment Plan | 27 | (341) |
| Change in cash overdrafts due to outstanding checks | (2,191) | (501) |
| Net repayment under line of credit agreements | (19,269) | (21,696) |
| Repayment of long-term debt and capital lease obligation | (76) | (196) |
| Net cash used in financing activities | (25,082) | (26,103) |
| Net Increase in Cash and Cash Equivalents | 11,596 | 1,435 |
| Cash and Cash Equivalents—Beginning of Period | 4,574 | 3,356 |
| Cash and Cash Equivalents—End of Period | \$16,170 | \$4,791 |

The accompanying notes are an integral part of these financial statements.

Table of ContentsChesapeake Utilities Corporation and Subsidiaries
Condensed Consolidated Statements of Stockholders' Equity (Unaudited)

| (in thousands, except shares and per share data) | Common Stock | | | Retained Earnings | Accumulated Other Comprehensive Loss | Deferred Compensation | Treasury Stock | Total |
|--|------------------------------------|--------------|----------------------------------|----------------------|---|--------------------------|-------------------|-----------|
| | Number of Shares ⁽¹⁾ | Par Value | Additional Paid-In Capital | | | | | |
| Balance at December 31, 2013 | 14,457,345 | \$4,691 | \$152,341 | \$124,274 | \$ (2,533) | \$ 1,124 | \$(1,124) | \$278,773 |
| Net income | — | — | — | 36,092 | — | — | — | 36,092 |
| Other comprehensive loss | — | — | — | — | (3,143) | — | — | (3,143) |
| Dividend declared (\$1.067 per share) | — | — | — | (15,675) | — | — | — | (15,675) |
| Retirement savings plan and dividend reinvestment plan | 43,367 | 16 | 1,844 | — | — | — | — | 1,860 |
| Conversion of debentures | 47,313 | 15 | 520 | — | — | — | — | 535 |
| Share-based compensation and tax benefit ⁽²⁾ ⁽³⁾ | 40,686 | 13 | 1,876 | — | — | — | — | 1,889 |
| Stock split in the form of stock dividend | — | 2,365 | — | (2,374) | — | — | — | (9) |
| Treasury stock activities | — | — | — | — | — | 134 | (134) | — |
| Balance at December 31, 2014 | 14,588,711 | 7,100 | 156,581 | 142,317 | (5,676) | 1,258 | (1,258) | 300,322 |
| Net income | — | — | — | 21,109 | — | — | — | 21,109 |
| Other comprehensive income | — | — | — | — | 108 | — | — | 108 |
| Dividend declared (\$0.27 per share) and dividend reinvestment plan | 8,059 | 4 | 388 | (3,980) | — | — | — | (3,588) |
| Share-based compensation and tax benefit ⁽³⁾ | 31,219 | 15 | (220) | — | — | — | — | (205) |
| Treasury stock activities | — | — | | | | | | |