

CHESAPEAKE UTILITIES CORP
Form 10-Q
August 09, 2013
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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: June 30, 2013

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	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

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

Common Stock, par value \$0.4867 — 9,625,132 shares outstanding as of July 31, 2013.

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GLOSSARY OF KEY TERMS AND DEFINITIONS

KEY TERMS

Bulk delivery: Propane delivery to customers based on the level of propane remaining in the tank located at the customer's premises. We invoice and record revenues for the bulk delivery service at the time of delivery, rather than upon a customer's actual usage.

Cost of sales: Includes the purchased cost of natural gas, electricity and propane commodities, pipeline capacity costs needed to transport and store natural gas, transmission costs for electricity, transportation costs to transport propane purchases to our storage facilities and the direct cost of labor spent on revenue-producing activities.

Delmarva natural gas distribution operation: Chesapeake's Delaware and Maryland divisions.

Delmarva Peninsula: A peninsula on the east coast of the United States of America occupied by Delaware and portions of Maryland and Virginia. Chesapeake provides natural gas distribution, transmission and marketing services and propane distribution service to customers on the Delmarva Peninsula.

Electric distribution: Regulated electric distribution utility service. Florida Public Utilities Company provides this service to customers in northeast and northwest Florida. This service is regulated by the Florida Public Service Commission.

Florida natural gas distribution operation: Chesapeake's Florida division and the natural gas operation of Florida Public Utilities Company, including its Indiantown division.

Gross margin: A non-GAAP measure, which Chesapeake uses to evaluate the performance of its business segments.

Gross margin is calculated by deducting the cost of sales from operating revenues. A more detailed description of gross margin, including how we calculate it, is provided in the Management's Discussion and Analysis of Financial Condition and Results of Operations section of this Quarterly Report on Form 10-Q.

Interruptible service: Large commercial customers whose regulated utility service can be temporarily interrupted in order for the utility to meet the needs of firm service customers. The interruptible service customers pay lower delivery rates than firm service customers, and they must be able to readily substitute an alternate fuel for natural gas.

Margin per gallon: A measure of profitability for propane distribution sales, calculated for each gallon of propane sold by deducting the cost of propane sold from the propane revenue.

Mark-to-market: The process of adjusting the carrying value of a position held in our forward contracts and derivative instruments to reflect their current fair value.

Natural gas distribution: Regulated natural gas distribution utility service. Both Chesapeake Utilities Corporation, through its Delaware, Maryland and Florida divisions, and Florida Public Utilities Company provide this service, which is regulated by the Public Service Commission of each respective state.

Natural gas marketing: Unregulated natural gas supply and supply management service for the sale of the natural gas commodity directly to residential, commercial and industrial customers through competitively-priced contracts.

Peninsula Energy Services Company, Inc. provides this service.

Natural gas transmission: Regulated natural gas transportation service provided by Eastern Shore Natural Gas Company and Peninsula Pipeline Company, Inc. The interstate transportation service provided by Eastern Shore Natural Gas Company is regulated by the Federal Energy Regulatory Commission. The intrastate transportation service provided by Peninsula Pipeline Company, Inc. in Florida is regulated by the Florida Public Service Commission.

Normal Weather: The most recent 10-year average of heating and/or cooling degree-days in a particular geographic area.

Propane distribution: Unregulated propane distribution service to residential, commercial, industrial and wholesale customers. This service can be provided through delivery to a propane tank located on the customer's premises or through an underground pipeline system.

Propane wholesale marketing: Unregulated service offering where propane is marketed to major independent oil and petrochemical companies, wholesale resellers and retail propane companies located primarily in the southeastern United States of America. This service typically utilizes forward or other option contracts that are financially settled. Xeron, Inc. provides this service.

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Regulated energy: The largest operating segment of Chesapeake Utilities Corporation. All operations in this segment are regulated as to their rates and service, by the Public Service Commission having jurisdiction in each state in which the Company operates or by the Federal Energy Regulatory Commission.

DEFINITIONS

ASU: Accounting Standards Update

Austin Cox: Austin Cox Home Services, Inc.

BravePoint: BravePoint®, Inc., Chesapeake's advanced information services subsidiary, headquartered in Norcross, Georgia

Calpine: Calpine Energy Services, L.P.

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

CP: Certificate of Public Convenience and Necessity

DSCP: Directors Stock Compensation Plan

Dts/d: Dekatherms per day

DPA: The Division of the Public Advocate

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

ESG: Eastern Shore Gas Company and its affiliates

EPA: United States Environmental Protection Agency

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 as of October 28, 2009, the date we acquired FPU

FRP: Fuel Retention Percentage

Franchise Agreement: The agreement between the City of Marianna, Florida and Florida Public Utilities Company, which granted a franchise to Florida Public Utilities Company for the operation and distribution and/or sale of electric energy

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

Glades: Glades Gas Co., Inc.

GSR: Gas Service Rates

Gulf Power: Gulf Power Company

Gulfstream: Gulfstream Natural Gas System, LLC

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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

IGC: Indiantown Gas Company

MGP: Manufactured gas plant, which is a site where coal was previously used to manufacture gaseous fuel for industrial, commercial and residential use

MDE: Maryland Department of Environment

Marianna Commission: The City Commission of Marianna, Florida

NAM: Natural Attenuation Monitoring

NRG: NRG Energy Center Dover LLC

OTC: Over-the-counter

PBF Energy: PBF Energy Inc.

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

Peninsula Pipeline: Peninsula Pipeline Company, Inc., a wholly-owned Florida intrastate pipeline subsidiary of Chesapeake

PIP: Performance Incentive Plan

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: Florida Public Utilities Company and other responsible parties involved with the Sanford environmental site

SEC: Securities and Exchange Commission

SERP: Supplemental Executive Retirement Plan

TETLP: Texas Eastern Transmission, LP

TOU: Time-of-use

Xeron: Xeron, Inc., a wholly-owned propane wholesale marketing subsidiary of Chesapeake, 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)

For the Periods Ended June 30, (in thousands, except shares and per share data)	Three Months		Six Months	
	2013	2012	2013	2012
Operating Revenues				
Regulated energy	\$55,216	\$55,553	\$136,783	\$127,849
Unregulated energy	36,025	25,176	91,016	70,063
Other	2,905	3,168	7,075	6,899
Total Operating Revenues	94,146	83,897	234,874	204,811
Operating Expenses				
Regulated energy cost of sales	22,115	23,433	63,730	59,105
Unregulated energy and other cost of sales	28,773	19,861	68,861	54,453
Operations	22,822	20,071	44,577	40,027
Maintenance	1,820	1,858	3,542	3,834
Depreciation and amortization	5,977	5,885	11,797	11,646
Other taxes	3,487	2,334	6,665	5,218
Total Operating Expenses	84,994	73,442	199,172	174,283
Operating Income	9,152	10,455	35,702	30,528
Other income, net of other expenses	24	153	312	349
Interest charges	2,016	2,241	4,088	4,532
Income Before Income Taxes	7,160	8,367	31,926	26,345
Income taxes	2,804	3,307	12,701	10,558
Net Income	\$4,356	\$5,060	\$19,225	\$15,787
Weighted Average Common Shares Outstanding:				
Basic	9,621,580	9,586,159	9,611,610	9,578,715
Diluted	9,695,470	9,681,597	9,687,253	9,674,240
Earnings Per Share of Common Stock:				
Basic	\$0.45	\$0.53	\$2.00	\$1.65
Diluted	\$0.45	\$0.52	\$1.99	\$1.63
Cash Dividends Declared Per Share of Common Stock	\$0.385	\$0.365	\$0.750	\$0.710

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)

For the Periods Ended June 30, (in thousands)	Three Months		Six Months	
	2013	2012	2013	2012
Net Income	\$4,356	\$5,060	\$19,225	\$15,787
Other Comprehensive Income (Loss), net of tax:				
Employee Benefits, net of tax:				
Amortization of prior service cost, net of tax of (\$6), (\$6), (\$12) and (\$13), respectively	(9	) (9	) (18	) (19
Net gain, net of tax of \$43, \$50, \$81 and \$101, respectively	64	76	122	152
Total other comprehensive income	55	67	104	133
Comprehensive Income	\$4,411	\$5,127	\$19,329	\$15,920

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

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

	June 30, 2013	December 31, 2012
Assets		
(in thousands, except shares and per share data)		
Property, Plant and Equipment		
Regulated energy	\$622,895	\$585,429
Unregulated energy	72,877	70,218
Other	20,660	20,067
Total property, plant and equipment	716,432	675,714
Less: Accumulated depreciation and amortization	(165,646)	(155,378)
Plus: Construction work in progress	42,421	21,445
Net property, plant and equipment	593,207	541,781
Current Assets		
Cash and cash equivalents	2,210	3,361
Accounts receivable (less allowance for uncollectible accounts of \$1,125 and \$826, respectively)	66,933	53,787
Accrued revenue	7,188	11,688
Propane inventory, at average cost	6,375	7,612
Other inventory, at average cost	3,361	5,841
Regulatory assets	1,084	2,736
Storage gas prepayments	3,262	3,716
Income taxes receivable	—	4,703
Deferred income taxes	919	791
Prepaid expenses	3,798	6,020
Mark-to-market energy assets	248	210
Other current assets	165	132
Total current assets	95,543	100,597
Deferred Charges and Other Assets		
Goodwill	4,716	4,090
Other intangible assets, net	3,175	2,798
Investments, at fair value	4,917	4,168
Regulatory assets	75,331	77,408
Receivables and other deferred charges	2,769	2,904
Total deferred charges and other assets	90,908	91,368
Total Assets	\$779,658	\$733,746

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

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

	June 30, 2013	December 31, 2012
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)	\$4,684	\$4,671
Additional paid-in capital	151,391	150,750
Retained earnings	118,187	106,239
Accumulated other comprehensive loss	(4,958	) (5,062
Deferred compensation obligation	1,096	982
Treasury stock	(1,096	) (982
Total stockholders' equity	269,304	256,598
Long-term debt, net of current maturities	107,674	101,907
Total capitalization	376,978	358,505
Current Liabilities		
Current portion of long-term debt	7,996	8,196
Short-term borrowing	75,491	61,199
Accounts payable	45,789	41,992
Customer deposits and refunds	25,532	29,271
Accrued interest	1,121	1,437
Dividends payable	3,706	3,502
Income taxes payable	1,896	—
Accrued compensation	5,437	7,435
Regulatory liabilities	5,329	1,577
Mark-to-market energy liabilities	74	331
Other accrued liabilities	9,126	7,226
Total current liabilities	181,497	162,166
Deferred Credits and Other Liabilities		
Deferred income taxes	131,199	125,205
Deferred investment tax credits	93	113
Regulatory liabilities	6,947	5,454
Environmental liabilities	8,905	9,114
Other pension and benefit costs	33,491	33,535
Accrued asset removal cost—Regulatory liability	38,923	38,096
Other liabilities	1,625	1,558
Total deferred credits and other liabilities	221,183	213,075
Other commitments and contingencies (Note 5 and 6)		
Total Capitalization and Liabilities	\$779,658	\$733,746
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)

For the Six Months Ended June 30, (in thousands)	2013	2012	
Operating Activities			
Net Income	\$ 19,225	\$ 15,787	
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	11,797	11,646	
Depreciation and accretion included in other costs	3,030	2,686	
Deferred income taxes, net	5,796	8,562	
(Gain) loss on sale of assets	(39	) 33	
Unrealized (gain) loss on commodity contracts	(153	) 232	
Unrealized gain on investments	(42	) (502)
Realized gain on sales of investments, net	(310) —	
Employee benefits	458	1,541	
Share-based compensation	861	697	
Other, net	(22	) (14)
Changes in assets and liabilities:			
Purchase of investments	(398	) (232)
Accounts receivable and accrued revenue	(6,268	) 37,103	
Propane inventory, storage gas and other inventory	2,180	5,416	
Regulatory assets	1,721	(162)
Prepaid expenses and other current assets	2,312	2,084	
Accounts payable and other accrued liabilities	8,074	(18,359)
Income taxes receivable	6,599	920	
Accrued interest	(316	) (215)
Customer deposits and refunds	(3,958	) (927)
Accrued compensation	(2,060	) (1,853)
Regulatory liabilities	5,588	(2,859)
Other assets and liabilities, net	(12	) (825)
Net cash provided by operating activities	54,063	60,759	
Investing Activities			
Property, plant and equipment expenditures	(41,220	) (34,386)
Proceeds from sales of assets	45	2,249	
Purchase of investments and acquisitions	(19,541	) (124)
Environmental expenditures	(209	) (194)
Net cash used in investing activities	(60,925	) (32,455)
Financing Activities			
Common stock dividends	(6,356	) (5,987)
Purchase of stock for Dividend Reinvestment Plan	(655	) (619)
Change in cash overdrafts due to outstanding checks	(1,240	) (2,144)
Net borrowing (repayment) under line of credit agreements	15,532	(19,010)
Proceeds from issuance of long-term debt	7,000	—	
Repayment of long-term debt	(8,570	) (1,444)
Net cash provided by (used in) financing activities	5,711	(29,204)
Net Decrease in Cash and Cash Equivalents	(1,151	) (900)
Cash and Cash Equivalents—Beginning of Period	3,361	2,637	
Cash and Cash Equivalents—End of Period	\$ 2,210	\$ 1,737	

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

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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					
Balances at December 31, 2011	9,567,307	\$4,656	\$149,403	\$91,248	\$ (4,527)	\$ 817	\$(817)	\$240,780
Net Income	—	—	—	28,863	—	—	—	28,863
Other comprehensive loss	—	—	—	—	(535)	—	—	(535)
Dividend Reinvestment Plan	—	—	(7)	—	—	—	—	(7)
Conversion of debentures	10,975	5	181	—	—	—	—	186
Share-based compensation ^{(2) (3)}	19,217	10	1,001	—	—	—	—	1,011
Tax benefit on share-based compensation	—	—	172	—	—	—	—	172
Deferred Compensation Plan	—	—	—	—	—	165	(165)	—
Purchase of treasury stock	(1,019)	—	—	—	—	—	(45)	(45)
Sale and distribution of treasury stock	1,019	—	—	—	—	—	45	45
Dividends on share-based compensation	—	—	—	(64)	—	—	—	(64)
Cash dividends ⁽⁴⁾	—	—	—	(13,808)	—	—	—	(13,808)
Balances at December 31, 2012	9,597,499	\$4,671	\$150,750	\$106,239	\$ (5,062)	\$ 982	\$(982)	\$256,598
Net Income	—	—	—	19,225	—	—	—	19,225
Other comprehensive income	—	—	—	—	104	—	—	104
Dividend Reinvestment Plan	—	—	(3)	—	—	—	—	(3)
Conversion of debentures	4,227	2	70	—	—	—	—	72
Share-based compensation ^{(2) (3)}	23,348	11	574	—	—	—	—	585
Deferred Compensation Plan	—	—	—	—	—	114	(114)	—
Purchase of treasury stock	(504)	—	—	—	—	—	(24)	(24)
	504	—	—	—	—	—	24	24

Sale and distribution
of treasury stock

Dividends on share-based compensation	—	—	—	(62)	—	—	—	(62)
Cash dividends ⁽⁴⁾	—	—	—	(7,215)	—	—	—	(7,215)
Balances at June 30, 2013	9,625,074	\$4,684	\$151,391	\$118,187	\$ (4,958)	\$ 1,096	\$(1,096)	\$269,304

(1) Includes 33,965 and 33,461 shares at June 30, 2013 and December 31, 2012, respectively, held in a Rabbi Trust related to the Company's Deferred Compensation Plan.

(2) Includes amounts for shares issued for Directors' compensation.

The shares issued under the Performance Incentive Plan ("PIP") are net of shares withheld for employee taxes. For the six months ended June 30, 2013 and for the year ended December 31, 2012, the Company withheld 10,411 and 5,670 shares, respectively, for taxes.

(3) the six months ended June 30, 2013 and for the year ended December 31, 2012, the Company withheld 10,411 and 5,670 shares, respectively, for taxes.

(4) Cash dividends per share for the periods ended June 30, 2013 and December 31, 2012 were \$0.75 and \$1.440, respectively.

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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. Summary of Accounting Policies

Basis of Presentation

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

The accompanying unaudited condensed consolidated financial statements have been prepared in compliance with the rules and regulations of the Securities and Exchange Commission (“SEC”) and accounting principles generally accepted in the United States of America (“GAAP”). In accordance with these rules and regulations, certain information and disclosures normally required for audited financial statements have been condensed or omitted. These financial statements should be read in conjunction with the consolidated financial statements and notes thereto, included in our