

CHESAPEAKE UTILITIES CORP
Form 10-Q
May 08, 2018
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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, 2018

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, a smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer" "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

Emerging growth company "

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If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

..

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 — 16,363,792 shares outstanding as of April 30, 2018.

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GLOSSARY OF DEFINITIONS

ARM: ARM Energy Management, LLC, a natural gas supply and supply management company servicing commercial and industrial customers in Western Pennsylvania, which sold certain natural gas marketing assets to PESCO in August 2017

ASC: Accounting Standards Codification issued by the FASB

Aspire Energy: Aspire Energy of Ohio, LLC, a wholly-owned subsidiary of Chesapeake Utilities

ASU: Accounting Standards Update issued by the FASB

AutoGas: Alliance AutoGas, a national consortium of companies providing an industry-leading complete program for fleets interested in shifting from gasoline to clean-burning propane, of which Sharp is a member

CDD: Cooling 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 above 65 degrees Fahrenheit

Central Gas: Central Gas Company of Okeechobee, Incorporated, a propane distribution provider in Southeast Florida, which sold certain assets to Flo-gas in December 2017

CGC: Consumer Gas Cooperative, an Ohio natural gas cooperative

Chesapeake or Chesapeake Utilities: Chesapeake Utilities Corporation, and its direct and indirect 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

Chipola: Chipola Propane Gas Company, Inc., a propane distribution service provider in Northwest Florida, which sold certain assets to Flo-gas in August 2017

CHP: Combined heat and power plant

CIAC: Contributions from customers that are used to construct facilities

Columbia Gas: Columbia Gas of Ohio, an unaffiliated local distribution company based in Ohio

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

CP: Certificate of Public Convenience and Necessity

Credit Agreement: The Credit Agreement dated October 8, 2015, among 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 salaries and cash bonuses, executive performance shares, and directors' retainers

Degree-Day: 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

Delaware Division: Chesapeake Utilities' natural gas distribution operation serving customers in Delaware

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

DSR: Delivery Service Rate

Dt(s): Dekatherm(s), 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 ESG

Eight Flags: Eight Flags Energy, LLC, a subsidiary of Chesapeake OnSight Services, LLC, which owns and operates a CHP plant on Amelia Island, Florida, that supplies electricity to FPU and industrial steam to Rayonier

EPA: United States Environmental Protection Agency

ESG: Eastern Shore Gas Company and its affiliates

FASB: Financial Accounting Standards Board

FDEP: Florida Department of Environmental Protection

FERC: Federal Energy Regulatory Commission, an independent agency of the United States government that regulates the interstate transmission of electricity, natural gas, and oil

FGT: Florida Gas Transmission Company

Flo-gas: Flo-gas Corporation, a wholly-owned subsidiary of FPU

FPL: Florida Power & Light Company, an unaffiliated electric company that supplies electricity to FPU

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

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 customers to recover capital and other program-related costs associated with the replacement of qualifying distribution mains and services

Gulf Power: Gulf Power Company, an unaffiliated electric company that supplies electricity to FPU

Gulfstream: Gulfstream Natural Gas System, LLC, an unaffiliated pipeline network that supplies natural gas to FPU

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 unaffiliated 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

MDE: Maryland Department of Environment

MetLife: MetLife Investment Advisors, an institutional debt investment management firm, with which we entered into the MetLife Shelf Agreement

MetLife Shelf Agreement: An agreement entered into by Chesapeake Utilities and MetLife in March 2017 pursuant to which Chesapeake Utilities may request that MetLife purchase, through March 2, 2020, up to \$150.0 million of unsecured senior debt at a fixed interest rate and with a maturity date not to exceed 20 years from the date of issuance

MetLife Shelf Notes: Unsecured senior promissory notes issuable under the MetLife Shelf Agreement

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

MTM: Fair value (mark-to-market) accounting required for derivatives in accordance with ASC 815, Derivatives and Hedging

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MW: Megawatts, which is a unit of measurement for electric base load power and capacity

NYL: New York Life Investors LLC, an institutional debt investment management firm, with which we entered into the NYL Shelf Agreement

NYL Shelf Agreement: An agreement entered into by Chesapeake Utilities and NYL pursuant to which Chesapeake Utilities may request that NYL purchase, through March 2, 2020, up to \$100.0 million of unsecured senior debt at a fixed interest rate and with a maturity date not to exceed 20 years from the date of issuance

NYL Shelf Notes: Unsecured senior promissory notes issuable under the NYL Shelf Agreement

OPT Service: Off Peak ≤ 30 or ≤ 90 Firm Transportation Service, a tariff associated with Eastern Shore's firm transportation service that allows Eastern Shore to not schedule service for up to 30 or 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

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 Prudential Shelf Agreement

Prudential Shelf Agreement: An agreement entered into by Chesapeake Utilities and Prudential pursuant to which Chesapeake Utilities may request that Prudential purchase, through October 7, 2018, up to \$150.0 million of Prudential Shelf Notes at a fixed interest rate and with a maturity date not to exceed 20 years from the date of issuance

Prudential Shelf Notes: Unsecured senior promissory notes issuable under the Prudential Shelf Agreement

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

Rayonier: Rayonier Performance Fibers, LLC, the company that owns the property on which Eight Flags' CHP plant is located, and a customer of the steam generated by the CHP plant

Retirement Savings Plan: Chesapeake Utilities' qualified 401(k) retirement savings plan

Revolver: Our unsecured revolving credit facility with the Lenders

Sandpiper: Sandpiper Energy, Inc., Chesapeake Utilities' wholly-owned subsidiary, which provides a tariff-based distribution service to customers in Worcester County, Maryland

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

SEC: Securities and Exchange Commission

Senior Notes: Our unsecured long-term debt issued primarily to insurance companies on various dates

Sharp: Sharp Energy, Inc., Chesapeake Utilities' wholly-owned propane distribution subsidiary

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

TCJA: The Tax Cuts and Jobs Act of 2017, which is legislation passed by Congress and signed into law by the President on December 22, 2017, and which, among other things, reduced the corporate income tax rate from 35 percent to 21 percent, effective January 1, 2018

TETLP: Texas Eastern Transmission, LP, an interstate pipeline interconnected with Eastern Shore's pipeline

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Xeron: Xeron, Inc., an inactive subsidiary of Chesapeake Utilities, which previously engaged in propane and crude oil trading

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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,	
	2018	2017
(in thousands, except shares and per share data)		
Operating Revenues		
Regulated Energy	\$ 109,393	\$ 97,654
Unregulated Energy and other	129,963	87,506
Total Operating Revenues	239,356	185,160
Operating Expenses		
Regulated Energy cost of sales	48,231	40,244
Unregulated Energy and other cost of sales	99,826	60,754
Operations	32,702	32,490
Maintenance	3,593	3,231
Depreciation and amortization	9,704	8,812
Other taxes	4,894	4,530
Total Operating Expenses	198,950	150,061
Operating Income	40,406	35,099
Other income (expense), net	68	(700)
Interest charges	3,664	2,739
Income Before Income Taxes	36,810	31,660
Income taxes	9,955	12,516
Net Income	\$26,855	\$ 19,144
Weighted Average Common Shares Outstanding:		
Basic	16,351,338	16,317,224
Diluted	16,402,985	16,363,796
Earnings Per Share of Common Stock:		
Basic	\$ 1.64	\$ 1.17
Diluted	\$ 1.64	\$ 1.17
Cash Dividends Declared Per Share of Common Stock	\$ 0.3250	\$ 0.3050

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,	
	2018	2017
(in thousands)		
Net Income	\$26,855	\$19,144
Other Comprehensive (Loss) Income, net of tax:		
Employee Benefits, net of tax:		
Amortization of prior service cost, net of tax of \$(5) and \$(8), respectively	(14) (11
Net gain, net of tax of \$41 and \$77, respectively	108	93
Cash Flow Hedges, net of tax:		
Unrealized (loss)/gain on commodity contract cash flow hedges, net of tax of (\$756) and \$192, respectively	(1,788) 338
Total Other Comprehensive (Loss) Income, net of tax	(1,694) 420
Comprehensive Income	\$25,161	\$19,564

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, 2018	December 31, 2017
Assets		
(in thousands, except shares and per share data)		
Property, Plant and Equipment		
Regulated Energy	\$1,083,004	\$1,073,736
Unregulated Energy	213,803	210,682
Other businesses and eliminations	27,892	27,699
Total property, plant and equipment	1,324,699	1,312,117
Less: Accumulated depreciation and amortization	(279,802)	(270,599)
Plus: Construction work in progress	131,640	84,509
Net property, plant and equipment	1,176,537	1,126,027
Current Assets		
Cash and cash equivalents	5,996	5,614
Trade and other receivables (less allowance for uncollectible accounts of \$901 and \$936, respectively)	69,447	77,223
Accrued revenue	18,907	22,279
Propane inventory, at average cost	7,345	8,324
Other inventory, at average cost	4,607	12,022
Regulatory assets	10,833	10,930
Storage gas prepayments	1,197	5,250
Income taxes receivable	4,378	14,778
Prepaid expenses	8,199	13,621
Derivative assets, at fair value	208	1,286
Other current assets	6,717	7,260
Total current assets	137,834	178,587
Deferred Charges and Other Assets		
Goodwill	22,104	22,104
Other intangible assets, net	4,482	4,686
Investments, at fair value	6,641	6,756
Regulatory assets	75,536	75,575
Other assets	4,316	3,699
Total deferred charges and other assets	113,079	112,820
Total Assets	\$1,427,450	\$1,417,434

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, 2018	December 31, 2017
Capitalization and Liabilities		
(in thousands, except shares and per share data)		
Capitalization		
Stockholders' equity		
Preferred stock, par value \$0.01 per share (authorized 2,000,000 shares), no shares issued and outstanding	\$—	\$—
Common stock, par value \$0.4867 per share (authorized 50,000,000 shares)	7,964	7,955
Additional paid-in capital	254,126	253,470
Retained earnings	250,024	229,141
Accumulated other comprehensive loss	(6,873) (4,272
Deferred compensation obligation	3,573	3,395
Treasury stock	(3,573) (3,395
Total stockholders' equity	505,241	486,294
Long-term debt, net of current maturities	222,014	197,395
Total capitalization	727,255	683,689
Current Liabilities		
Current portion of long-term debt	9,389	9,421
Short-term borrowing	229,108	250,969
Accounts payable	57,457	74,688
Customer deposits and refunds	34,795	34,751
Accrued interest	3,256	1,742
Dividends payable	5,318	5,312
Accrued compensation	5,444	13,112
Regulatory liabilities	18,503	6,485
Derivative liabilities, at fair value	2,359	6,247
Other accrued liabilities	8,694	10,273
Total current liabilities	374,323	413,000
Deferred Credits and Other Liabilities		
Deferred income taxes	141,484	135,850
Regulatory liabilities	141,346	140,978
Environmental liabilities	8,215	8,263
Other pension and benefit costs	28,981	29,699
Deferred investment tax credits and other liabilities	5,846	5,955
Total deferred credits and other liabilities	325,872	320,745
Environmental and other commitments and contingencies (Note 5 and 6)		
Total Capitalization and Liabilities	\$1,427,450	\$1,417,434

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

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Chesapeake Utilities Corporation and Subsidiaries
Condensed Consolidated Statements of Cash Flows (Unaudited)
Three
Months
Ended
March 31,
2018 2017
(in thousands)