

CHESAPEAKE UTILITIES CORP

Form 10-Q

November 08, 2012

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

FORM 10-Q

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

For the quarterly period ended: September 30, 2012

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)

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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)

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 9,594,446 shares outstanding as of October 31, 2012.

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GLOSSARY OF KEY TERMS AND DEFINITIONS

Accounting Principles Generally Accepted in the United States of America (GAAP): A standard framework of accounting rules used to prepare and present financial statements in the United States of America.

Acquisition adjustment: The recovery, through rates, and inclusion in rate base, of the premium (amount in excess of net book value) paid for an acquisition as approved by the state PSCs for the regulated operations.

Application Evolution : A new product developed and launched by BravePoint. Application Evolution is a component of ProfitZoom and is being marketed to customers both in the fire suppression industry and other unrelated businesses.

BravePoint[®], Inc. (BravePoint): An advanced information services subsidiary, headquartered in Norcross, Georgia. BravePoint is a wholly owned subsidiary of Chesapeake Services Company, which is a wholly owned subsidiary of Chesapeake.

Chesapeake Utilities Corporation (Chesapeake or the Company): The Registrant, its divisions, the Registrant and its subsidiaries, or the Registrant's subsidiaries, as appropriate in the context of the disclosure.

Come-Back filing: The regulatory filing that was required by the Florida PSC within 18 months of the completion of the FPU merger to detail known benefits, synergies, cost savings and cost increases as a result of the merger.

Cooling Degree-Day (CDD): 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 the next day) is above 65 degrees Fahrenheit. This measurement is used to determine the impact of hot weather on our electric distribution operation during the cooling season.

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

Dekatherm (Dt): A natural gas unit of measurement that measures heating value. A dekatherm (or 10 therms) of gas contains 10,000 British thermal units of heat, or the energy equivalent of burning approximately 1,000 cubic feet of natural gas under normal conditions.

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 that includes Delaware and portions of Maryland and Virginia. Chesapeake provides natural gas distribution, transmission and marketing services and propane distribution service to its customers on the Delmarva Peninsula.

Eastern Shore Natural Gas Company (Eastern Shore): A wholly owned natural gas transmission subsidiary of Chesapeake. Eastern Shore operates an interstate pipeline system that transports natural gas from various points in Pennsylvania to customers in southern Pennsylvania and on the Delmarva Peninsula.

Federal Energy Regulatory Commission (FERC): An independent agency of the Federal government that regulates the interstate transmission of electricity, natural gas, and oil. The FERC also reviews proposals to build liquefied natural gas terminals and interstate natural gas pipelines. Eastern Shore is regulated by the FERC.

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

Florida Public Utilities Company (FPU): A wholly owned subsidiary of Chesapeake as of October 28, 2009, the date we acquired FPU through the merger. FPU provides natural gas, electric and propane distribution services in Florida.

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.

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Heating Degree-Day (HDD): 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 the next day) is below 65 degrees Fahrenheit. This measurement is used to determine the impact of cold weather on our natural gas, electric and propane distribution operations during the heating season.

Manufactured Gas Plant (MGP): A site that previously used coal to manufacture gaseous fuel used for industrial, commercial and residential use. Some MGPs are currently undergoing remedial action to remove contamination in the soil and water at or near these sites.

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

Peninsula Pipeline Company, Inc. (Peninsula Pipeline): A wholly owned Florida intrastate pipeline subsidiary of Chesapeake.

Peninsula Energy Services Company, Inc. (PESCO): A wholly owned natural gas marketing subsidiary of Chesapeake. 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.

ProfitZoom : A new product developed and launched by BravePoint. ProfitZoom is an integrated system encompassing financial, job costing and service management modules, which was designed specifically for the fire protection and specialty contracting industries.

Public Service Commission (PSC): The state agency that regulates the rates and services provided by Chesapeake's natural gas and electric distribution operations in Delaware, Maryland and Florida. Peninsula Pipeline's service and rates are also regulated by the Florida PSC.

Xeron, Inc. (Xeron): A wholly owned propane wholesale marketing subsidiary of Chesapeake 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)**

For the Three Months Ended September 30, <i>(in thousands, except shares and per share data)</i>	2012	2011
Operating Revenues		
Regulated Energy	\$ 52,196	\$ 53,651
Unregulated Energy	23,259	23,721
Other	2,720	3,238
Total operating revenues	78,175	80,610
Operating Expenses		
Regulated energy cost of sales	22,102	25,811
Unregulated energy and other cost of sales	17,602	20,306
Operations	20,804	19,560
Maintenance	1,801	2,029
Depreciation and amortization	5,767	4,978
Other taxes	2,535	2,332
Total operating expenses	70,611	75,016
Operating Income	7,564	5,594
Other (loss) income, net of expenses	(136)	649
Interest charges	2,126	2,389
Income Before Income Taxes	5,302	3,854
Income tax expense	2,083	1,457
Net Income	\$ 3,219	\$ 2,397
Weighted-Average Common Shares Outstanding:		
Basic	9,592,417	9,564,012
Diluted	9,676,658	9,657,970
Earnings Per Share of Common Stock:		
Basic	\$ 0.34	\$ 0.25
Diluted	\$ 0.33	\$ 0.25
Cash Dividends Declared Per Share of Common Stock	\$ 0.365	\$ 0.345

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

Table of Contents**Chesapeake Utilities Corporation and Subsidiaries****Condensed Consolidated Statements of Income (Unaudited)**

For the Nine Months Ended September 30, <i>(in thousands, except shares and per share data)</i>	2012	2011
Operating Revenues		
Regulated Energy	\$ 180,045	\$ 192,713
Unregulated Energy	93,323	112,164
Other	9,619	9,162
Total operating revenues	282,987	314,039
Operating Expenses		
Regulated energy cost of sales	81,207	98,683
Unregulated energy and other cost of sales	72,056	89,017
Operations	60,831	59,796
Maintenance	5,635	5,624
Depreciation and amortization	17,413	14,936
Other taxes	7,753	7,774
Total operating expenses	244,895	275,830
Operating Income	38,092	38,209
Other income, net of expenses	212	699
Interest charges	6,657	6,654
Income Before Income Taxes	31,647	32,254
Income tax expense	12,641	12,590
Net Income	\$ 19,006	\$ 19,664
Weighted-Average Common Shares Outstanding:		
Basic	9,583,316	9,552,472
Diluted	9,673,681	9,647,632
Earnings Per Share of Common Stock:		
Basic	\$ 1.98	\$ 2.06
Diluted	\$ 1.97	\$ 2.04
Cash Dividends Declared Per Share of Common Stock	\$ 1.080	\$ 1.020

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

Table of Contents**Chesapeake Utilities Corporation and Subsidiaries****Condensed Consolidated Statements of Comprehensive Income (Unaudited)**

For the periods ended September 30, (in thousands)	Three months		Nine months	
	2012	2011	2012	2011
Net Income	\$ 3,219	\$ 2,397	\$ 19,006	\$ 19,664
Other Comprehensive Income, net of tax:				
Employee Benefits net of tax:				
Amortization of prior service cost, net of tax of (\$6), \$1, \$(19) and \$4, respectively	(9)	2	(28)	6
Amortization of actuarial gain/loss, net of tax of \$51, \$120, \$152 and \$359, respectively	76	180	228	537
Other comprehensive income	67	182	200	543
Comprehensive income	\$ 3,286	\$ 2,579	\$ 19,206	\$ 20,207

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

Table of Contents**Chesapeake Utilities Corporation and Subsidiaries****Condensed Consolidated Balance Sheets (Unaudited)**

	September 30, 2012	December 31, 2011
Assets		
<i>(in thousands, except shares and per share data)</i>		
Property, Plant and Equipment		
Regulated energy	\$ 549,318	\$ 528,790
Unregulated energy	68,956	67,327
Other	19,031	19,988
Total property, plant and equipment	637,305	616,105
Less: Accumulated depreciation and amortization	(150,859)	(137,784)
Plus: Construction work in progress	36,745	9,383
Net property, plant and equipment	523,191	487,704
Current Assets		
Cash and cash equivalents	2,046	2,637
Accounts receivable (less allowance for uncollectible accounts of \$961 and \$1,090, respectively)	42,107	76,605
Accrued revenue	8,394	10,403
Propane inventory, at average cost	6,256	9,726
Other inventory, at average cost	3,284	4,785
Regulatory assets	2,745	1,846
Storage gas prepayments	4,593	5,003
Income taxes receivable	7,967	6,998
Deferred income taxes	2,158	2,712
Prepaid expenses	6,097	5,072
Mark-to-market energy assets	721	1,754
Other current assets	121	219
Total current assets	86,489	127,760
Deferred Charges and Other Assets		
Goodwill	4,090	4,090
Other intangible assets, net	2,879	3,127
Investments, at fair value	4,670	3,918
Regulatory assets	75,634	79,256
Receivables and other deferred charges	2,999	3,211
Total deferred charges and other assets	90,272	93,602
Total Assets	\$ 699,952	\$ 709,066

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

Table of Contents**Chesapeake Utilities Corporation and Subsidiaries****Condensed Consolidated Balance Sheets (Unaudited)**

	September 30, 2012	December 31, 2011
Capitalization and Liabilities		
<i>(in thousands, except shares and per share data)</i>		
Capitalization		
Stockholders' equity		
Common stock, par value \$0.4867 per share (authorized 25,000,000 shares)	\$ 4,669	\$ 4,656
Additional paid-in capital	150,230	149,403
Retained earnings	99,912	91,248
Accumulated other comprehensive loss	(4,327)	(4,527)
Deferred compensation obligation	970	817
Treasury stock	(970)	(817)
Total stockholders' equity	250,484	240,780
Long-term debt, net of current maturities	108,721	110,285
Total capitalization	359,205	351,065
Current Liabilities		
Current portion of long-term debt	8,196	8,196
Short-term borrowing	30,756	34,707
Accounts payable	35,478	55,581
Customer deposits and refunds	29,832	30,918
Accrued interest	3,146	1,637
Dividends payable	3,501	3,300
Accrued compensation	6,417	6,932
Regulatory liabilities	2,641	6,653
Mark-to-market energy liabilities	556	1,496
Other accrued liabilities	10,078	8,079
Total current liabilities	130,601	157,499
Deferred Credits and Other Liabilities		
Deferred income taxes	127,262	115,624
Deferred investment tax credits	127	171
Regulatory liabilities	3,479	3,564
Environmental liabilities	9,170	9,492
Other pension and benefit costs	22,947	26,808
Accrued asset removal cost Regulatory liability	37,899	36,584
Other liabilities	9,262	8,259
Total deferred credits and other liabilities	210,146	200,502
Other commitments and contingencies (Note 6)		
Total Capitalization and Liabilities	\$ 699,952	\$ 709,066

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

Table of Contents**Chesapeake Utilities Corporation and Subsidiaries****Condensed Consolidated Statements of Cash Flows (Unaudited)**

For the Nine Months Ended September 30, <i>(in thousands)</i>	2012	2011
<i>Operating Activities</i>		
Net Income	\$ 19,006	\$ 19,664
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	17,413	14,936
Depreciation and accretion included in other costs	4,079	3,755
Deferred income taxes, net	12,102	14,183
(Gain) loss on sale of assets	18	(449)
Unrealized (gain) loss on commodity contracts	147	(33)
Unrealized gain on investments	(401)	(51)
Realized gain on sale of investments, net	(20)	
Employee benefits	435	823
Share-based compensation	1,111	1,078
Other, net	(21)	(43)
Changes in assets and liabilities:		
Sale (purchase) of investments	(292)	699
Accounts receivable and accrued revenue	36,523	28,975
Propane inventory, storage gas and other inventory	3,722	159
Regulatory assets	(249)	962
Prepaid expenses and other current assets	(856)	(744)
Accounts payable and other accrued liabilities	(20,138)	(24,884)
Income taxes receivable	(1,010)	(3,064)
Accrued interest	1,509	1,562
Customer deposits and refunds	(1,086)	727
Accrued compensation	(554)	(1,220)
Regulatory liabilities	(4,097)	(1,534)
Other liabilities	(3,245)	(2,727)
Net cash provided by operating activities	64,096	52,774
<i>Investing Activities</i>		
Property, plant and equipment expenditures	(50,982)	(33,377)
Proceeds from sales of assets	2,281	905
Purchase of investments	(124)	(300)
Environmental expenditures	(345)	(525)
Net cash used in investing activities	(49,170)	(33,297)
<i>Financing Activities</i>		
Common stock dividends	(9,160)	(8,673)
Purchase of stock for Dividend Reinvestment Plan	(946)	(920)
Change in cash overdrafts due to outstanding checks	(4,181)	1,079
Net repayment under line of credit agreements	229	(9,346)
Other short-term borrowing		(29,100)
Proceeds from issuance of long-term debt		29,000
Repayment of long-term debt	(1,459)	(1,390)
Net cash used in financing activities	(15,517)	(19,350)

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Net Increase (Decrease) in Cash and Cash Equivalents		(591)	127
Cash and Cash Equivalents	Beginning of Period	2,637	1,643
Cash and Cash Equivalents	End of Period	\$ 2,046	\$ 1,770

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

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Table of Contents**Chesapeake Utilities Corporation and Subsidiaries****Condensed Consolidated Statements of Stockholders Equity (Unaudited)**

<i>(in thousands, except shares and per share data)</i>	Common Stock			Accumulated				Total
	Number of Shares ⁽¹⁾	Par Value	Additional Paid-In Capital	Retained Earnings	Other Comprehensive Loss	Deferred Compensation	Treasury Stock	
Balances at December 31, 2010	9,524,195	\$ 4,635	\$ 148,159	\$ 76,805	(\$3,360)	\$ 777	(\$777)	\$ 226,239
Net Income				27,622				27,622
Other comprehensive loss					(1,167)			(1,167)
Dividend Reinvestment Plan			(22)					(22)
Retirement Savings Plan	2,002	1	79					80
Conversion of debentures	10,680	5	176					181
Share-based compensation ^{(2) (3)}	30,430	15	998					1,013
Tax benefit on share-based compensation			13					13
Deferred Compensation Plan						40	(40)	
Purchase of treasury stock	(993)						(40)	(40)
Sale and distribution of treasury stock	993						40	40
Dividends on share-based compensation				(129)				(129)
Cash dividends ⁽⁴⁾				(13,050)				(13,050)
Balances at December 31, 2011	9,567,307	4,656	149,403	91,248	(4,527)	817	(817)	240,780
Net Income				19,006				19,006
Other comprehensive income					200			200
Dividend Reinvestment Plan			(5)					(5)
Conversion of debentures	6,572	3	108					111