

CHESAPEAKE UTILITIES CORP  
Form 10-K  
March 08, 2013  
[Table of Contents](#)

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-K**

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

**For the Fiscal Year Ended: December 31, 2012**

**Commission File Number: 001-11590**

**CHESAPEAKE UTILITIES CORPORATION**

(Exact name of registrant as specified in its charter)

State of Delaware  
(State or other jurisdiction of

51-0064146  
(I.R.S. Employer

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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)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock par value per share \$0.4867	New York Stock Exchange, Inc.

Securities registered pursuant to Section 12(g) of the Act:

8.25% Convertible Debentures Due 2014

(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendments to this Form 10-K.

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 the definitions of "accelerated filer," "large 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 a check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No

The aggregate market value of the common shares held by non-affiliates of Chesapeake Utilities Corporation as of June 30, 2012, the last business day of its most recently completed second fiscal quarter, based on the last trade price on that date, as reported by the New York Stock Exchange, was approximately \$401.3 million.

As of February 28, 2013 9,598,674 shares of common stock were outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Proxy Statement for the 2013 Annual Meeting of Stockholders are incorporated by reference in Part II and Part III.

**Table of Contents**

CHESAPEAKE UTILITIES CORPORATION

**FORM 10-K**

**YEAR ENDED DECEMBER 31, 2012**

**TABLE OF CONTENTS**

	<b>Page</b>
<b><u>Part I</u></b>	<b><u>1</u></b>
<i><u>Item 1. Business</u></i>	<u>2</u>
<i><u>Item 1A. Risk Factors</u></i>	<u>14</u>
<i><u>Item 1B. Unresolved Staff Comments</u></i>	<u>21</u>
<i><u>Item 2. Properties</u></i>	<u>21</u>
<i><u>Item 3. Legal Proceedings</u></i>	<u>22</u>
<i><u>Item 4. Mine Safety Disclosure</u></i>	<u>22</u>
<i><u>Item 4A. Executive Officers of the Registrant</u></i>	<u>23</u>
<b><u>Part II</u></b>	<b><u>24</u></b>
<i><u>Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u></i>	<u>24</u>
<i><u>Item 6. Selected Financial Data</u></i>	<u>27</u>
<i><u>Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations</u></i>	<u>31</u>
<i><u>Item 7A. Quantitative and Qualitative Disclosures About Market Risk</u></i>	<u>61</u>
<i><u>Item 8. Financial Statements and Supplementary Data</u></i>	<u>61</u>
<i><u>Item 9. Changes In and Disagreements With Accountants on Accounting and Financial Disclosure</u></i>	<u>122</u>
<i><u>Item 9A. Controls and Procedures</u></i>	<u>122</u>
<i><u>Item 9B. Other Information</u></i>	<u>124</u>
<b><u>Part III</u></b>	<b><u>124</u></b>
<i><u>Item 10. Directors, Executive Officers of the Registrant and Corporate Governance</u></i>	<u>124</u>
<i><u>Item 11. Executive Compensation</u></i>	<u>124</u>
<i><u>Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u></i>	<u>124</u>
<i><u>Item 13. Certain Relationships and Related Transactions, and Director Independence</u></i>	<u>125</u>
<i><u>Item 14. Principal Accounting Fees and Services</u></i>	<u>125</u>
<b><u>Part IV</u></b>	<b><u>126</u></b>
<i><u>Item 15. Exhibits, Financial Statement Schedules</u></i>	<u>126</u>
<b><u>Signatures</u></b>	<b><u>131</u></b>

## Table of Contents

### GLOSSARY OF KEY TERMS AND DEFINITIONS

#### KEY TERMS

**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 Public Service Commission for the regulated operations.

**Allowed return:** Return on equity or pre-tax, pre-interest rate of return on investment approved by the state Public Service Commission or the Federal Energy Regulatory Commission for the respective regulated operation.

**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 the 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.

**Firm service:** Regulated utility service that cannot be disrupted to meet the needs of other customers.

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

**Fuel cost recovery mechanism:** A regulatory method of adjusting the utility billing rates to reflect changes in the cost of purchased fuel for the natural gas and electric distribution operations. This allows matching of revenues with natural gas and electric supply and transportation costs and typically provides full recovery of such costs.

**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 Annual Report on Form 10-K.

**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.

**Margins 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. This service is regulated by the Public Service Commission of each respective state.

## **Table of Contents**

**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.

**Rate Case:** A periodic filing with the state Public Service Commission or the Federal Energy Regulatory Commission to establish equitable rates and balance the interests of all classes of customers and shareholders.

**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.

**Transportation service:** Natural gas service to customers whereby a customer purchases natural gas commodity directly from a supplier but pays the utility to transport the gas over its distribution or transmission system to the customer's facility.

## **DEFINITIONS**

**AFUDC:** Allowance for funds used during construction

**ASC:** Accounting Standards Codification

**ASU:** Accounting Standards Update

**BravePoint:** BravePoint®, Inc., an advanced information services subsidiary, headquartered in Norcross, Georgia

**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

**Table of Contents**

**Columbia:** Columbia Gas Transmission, LLC

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

**Crescent:** Crescent Propane, Inc.

**Delaware City Refinery:** An oil refinery located in Delaware City, Delaware and owned by PBF Energy Inc.

**Dodd-Frank Act:** The Dodd-Frank Wall Street Reform and Consumer Protection Act

**DSCP:** Directors Stock Compensation Plan

**Dt:** Dekatherm, which is a natural gas unit of measurement that includes a standard measure for heating value

**Dts/d:** Dekatherms per day

**Eastern Shore:** Eastern Shore Natural Gas Company, a wholly-owned natural gas transmission subsidiary of Chesapeake

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

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

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

**FRP:** Fuel Retention Percentage

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

**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

**GSR:** Gas Service Rates

**Gulf:** Columbia Gulf Transmission Company

**Gulf Power:** Gulf Power Company

**Table of Contents**

**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

**IFRS:** International Financial Accounting Standards

**IGC:** Indiantown Gas Company

**IRS:** Internal Revenue Service

**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

**MWH:** Megawatt hour, which is a unit of measurement for electricity

**NAM:** Natural Attenuation Monitoring

**NRG:** NRG Energy Center Dover LLC

**NYSE:** New York Stock Exchange

**OTC:** Over-the-counter

**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

**Peoples Gas:** The Peoples Gas System division of Tampa Electric Company

**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

**Rayonier:** Rayonier Performance Fibers, LLC

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

**SEC:** Securities and Exchange Commission

**Sharp:** Sharp Energy, Inc., a wholly-owned propane distribution subsidiary of Chesapeake.

**S&P 500 Index:** Standard & Poor's 500 Index

**TETLP:** Texas Eastern Transmission, LP



**Table of Contents**

**TOU:** Time-of-use

**Transco:** Transcontinental Gas Pipe Line Company, LLC

**Virginia LP:** Virginia LP Gas, Inc.

**Xeron:** Xeron, Inc., a wholly-owned propane wholesale marketing subsidiary of Chesapeake, based in Houston, Texas

## **Table of Contents**

### **PART I**

References in this document to Chesapeake, the Company, we, us and our mean Chesapeake Utilities Corporation, its divisions and/or its wholly-owned subsidiaries, as appropriate in the context of the disclosure.

### **Safe Harbor for Forward-Looking Statements**

We make statements in this Annual Report on Form 10-K that do not directly or exclusively relate to historical facts. Such statements are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. One can typically identify forward-looking statements by the use of forward-looking words, such as project, believe, expect, anticipate, intend, plan, estimate, potential, forecast or other similar words, or future or conditional verbs such as may, will, should, would or could. These statements reflect our intentions, plans, expectations, assumptions and beliefs about future financial performance, business strategy, projected plans and objectives of the Company. These statements are subject to many risks and uncertainties. In addition to the risk factors described under Item 1A Risk Factors, the following important factors, among others, could cause actual future results to differ materially from those expressed in the forward-looking statements:

state and federal legislative and regulatory initiatives that affect cost and investment recovery, have an impact on rate structures, and affect the speed at and degree to which competition enters the electric and natural gas industries (including deregulation);

the outcomes of regulatory, tax, environmental and legal matters, including whether pending matters are resolved within current estimates and whether the costs associated with such matters are adequately covered by insurance or recovered in rates;

the loss of customers due to government-mandated sale of our utility distribution facilities;

industrial, commercial and residential growth or contraction in our markets or service territories;

the weather and other natural phenomena, including the economic, operational and other effects of hurricanes, ice storms and other damaging weather events;

the timing and extent of changes in commodity prices and interest rates;

general economic conditions, including any potential effects arising from terrorist attacks and any consequential hostilities or other hostilities or other external factors over which we have no control;

changes in environmental and other laws and regulations to which we are subject and environmental conditions of property that we now or may in the future own or operate;

the results of financing efforts, including our ability to obtain financing on favorable terms, which can be affected by various factors, including credit ratings and general economic conditions;

declines in the value of the pension plan assets and resultant cash funding requirements for our defined benefit pension plans;

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the creditworthiness of counterparties with which we are engaged in transactions;

the extent of success in connecting natural gas and electric supplies to transmission systems and in expanding natural gas and electric markets;

the effect of accounting pronouncements issued periodically by accounting standard-setting bodies;

conditions of the capital markets and equity markets during the periods covered by the forward-looking statements;

the ability to successfully execute, manage and integrate merger, acquisition or divestiture plans, regulatory or other limitations imposed as a result of a merger, acquisition or divestiture, and the success of the business following a merger, acquisition or divestiture;

the ability to establish and maintain new key supply sources;

the effect of spot, forward and future market prices on our distribution, wholesale marketing and energy trading businesses;

the effect of competition on our businesses;

the ability to construct facilities at or below estimated costs; and

changes in technology affecting our advanced information services business.

Chesapeake Utilities Corporation 2012 Form 10-K Page 1

**Table of Contents**

**ITEM 1. BUSINESS.**

**(a) Overview**

Chesapeake Utilities Corporation ( Chesapeake or we ) is a Delaware corporation that was formed in 1947. We are a diversified utility company engaged, through our operating divisions and subsidiaries, in various energy and other businesses. The core of our business is regulated energy, which provides stable earnings from utility operations on the Delmarva Peninsula and in Florida. Our unregulated energy and other businesses provide opportunities to achieve returns greater than those of a traditional utility. The following chart shows, in simplified form, our principal business structure:

On October 28, 2009, we completed a merger with Florida Public Utilities Company ( FPU ), pursuant to which FPU became a wholly-owned subsidiary of Chesapeake. The acquisition of FPU significantly increased our overall presence in Florida and expanded our energy diversity by adding electric distribution to our business. As a result of the FPU acquisition, Chesapeake is a utility holding company subject to the regulatory oversight of the Federal Energy Regulatory Commission ( FERC ).

**Table of Contents****(b) Operating Segments**

We are composed of three operating segments:

*Regulated Energy.* The regulated energy segment includes natural gas distribution, natural gas transmission and electric distribution operations. All operations in this segment are regulated, as to their rates and service, by the Public Service Commission ( PSC ) having jurisdiction in each state in which we operate or by the FERC in the case of Eastern Shore Natural Gas ( Eastern Shore ).

*Unregulated Energy.* The unregulated energy segment includes propane distribution, propane wholesale marketing and natural gas marketing operations, which are unregulated as to their rates and services.

*Other.* The Other segment consists primarily of the advanced information services operation, unregulated subsidiaries that own real estate leased to Chesapeake and certain corporate costs not allocated to other operations.

The following table shows the size of each of our operating segments based on operating income for 2012 and net property, plant and equipment as of December 31, 2012:

<i>(dollars in thousands)</i>	<b>Operating Income</b>		<b>Net Property, Plant &amp; Equipment</b>	
Regulated Energy	\$ 46,999	83%	\$ 486,072	90%
Unregulated Energy	8,355	15%	38,582	7%
Other	1,281	2%	17,127	3%
Total	\$ 56,635	100%	\$ 541,781	100%

Additional financial information by business segment is included in Item 8 under the heading Notes to the Consolidated Financial Statements Note 5, Segment Information.

**(i) Regulated Energy**Overview of Business

The regulated energy segment is our largest segment and consists of natural gas distribution and transmission operations on the Delmarva Peninsula and in Florida and an electric distribution operation in Florida.

Natural gas supplies nearly one-fourth of the energy used in the United States. Due to its efficiency, cleanliness and reliability, natural gas is growing increasingly popular. Supplies of natural gas are abundant, and 98.5 percent of the natural gas used in the United States comes from North America. Natural gas is delivered to customers through a safe and efficient underground pipeline system. As the cleanest-burning fossil fuel, increased use of natural gas can help address various environmental concerns today.

**Table of Contents****Natural Gas Distribution**

Our Delmarva natural gas distribution operation serves 49,639 residential and 5,320 commercial and industrial customers in central and southern Delaware and on Maryland's eastern shore. For the year ended December 31, 2012, operating revenues and deliveries by customer class for our Delmarva natural gas distribution operation were as follows:

	<b>Operating Revenues</b> <i>(in thousands)</i>		<b>Deliveries</b> <i>(in Dts)</i>	
Residential	\$ 42,452	62%	2,511,444	28%
Commercial	19,250	29%	2,717,673	29%
Industrial	5,648	8%	3,876,693	42%
Subtotal	67,350	99%	9,105,810	99%
Interruptible	229	0%	124,063	1%
Other <sup>(1)</sup>	657	1%		
<b>Total</b>	<b>\$ 68,236</b>	<b>100%</b>	<b>9,229,873</b>	<b>100%</b>

<sup>(1)</sup> Operating revenues from Other include unbilled revenue, rental of gas properties, and other miscellaneous charges. Our Florida natural gas distribution operation consists of Chesapeake's Florida division, FPU's natural gas operation, which was acquired in October 2009, and FPU's Indiantown division, which was acquired in August 2010. Each component of our Florida natural gas distribution operation is separately regulated, as to its rates and service, by the Florida PSC. On a combined basis, our Florida natural gas distribution operation serves 62,386 residential customers and 6,670 commercial and industrial customers in 21 counties in Florida. For the year ended December 31, 2012, operating revenues and deliveries by customer class for our Florida natural gas distribution operation were as follows:

	<b>Operating Revenues</b> <i>(in thousands)</i>		<b>Deliveries</b> <i>(in Dts)</i>	
Residential	\$ 24,578	33%	1,532,234	7%
Commercial	31,331	42%	4,140,437	18%
Industrial	15,897	20%	17,611,441	74%
Other <sup>(1)</sup>	3,561	5%	181,566	1%
<b>Total</b>	<b>\$ 75,367</b>	<b>100%</b>	<b>23,465,678</b>	<b>100%</b>

<sup>(1)</sup> Operating revenues from Other include unbilled revenue, conservation revenue, fees for billing services provided to third parties, other miscellaneous charges and adjustments for pass-through taxes.

**Natural Gas Transmission**

Eastern Shore operates a 428-mile interstate pipeline system that transports natural gas from various points in Pennsylvania to our Delaware and Maryland natural gas distribution divisions, as well as to other utilities and industrial customers in southern Pennsylvania, Delaware and on the eastern shore of Maryland. Eastern Shore also provides swing transportation service and contract storage services. For the year ended December 31, 2012, operating revenues and deliveries by customer class for Eastern Shore were as follows:

**Operating Revenues**                      **Deliveries**

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	<i>(in thousands)</i>		<i>(in Dts)</i>	
Local distribution companies	\$ 22,365	66%	7,765,044	23%
Industrial	8,548	25%	23,337,949	68%
Commercial	2,947	9%	2,986,146	9%
Other <sup>(1)</sup>	46	0%		
<b>Subtotal</b>	<b>33,906</b>	<b>100%</b>	<b>34,089,139</b>	<b>100%</b>
Less: affiliated local distribution companies	(14,125)		(4,082,037)	
<b>Total non-affiliated</b>	<b>\$ 19,781</b>		<b>30,007,102</b>	

<sup>(1)</sup> Operating revenues from Other sources are from rental of gas properties and reserve for rate case refund. Peninsula Pipeline Company, Inc. ( Peninsula Pipeline ) provides natural gas transportation service to FPU s natural gas operation and an unaffiliated customer. Peninsula Pipeline transports natural gas to FPU in Nassau County, Florida, utilizing the 16-mile pipeline from the Duval/Nassau County line to Amelia Island in Nassau County, Florida, which Peninsula Pipeline jointly owns with the Peoples Gas System division of Tampa Electric Company ( Peoples Gas ), as well as other pipelines solely owned by Peninsula Pipeline. Peninsula Pipeline commenced service to FPU in Nassau County, Florida in April 2012 and generated \$1.6 million in operating revenues for the year ended December 31, 2012.

**Table of Contents**

Peninsula Pipeline also provides natural gas transportation service to an unaffiliated customer under a 20-year agreement. This service, which began in January 2009, is provided at a fixed monthly charge through Peninsula Pipeline's eight-mile pipeline located in Suwanee County, Florida. For the year ended December 31, 2012, Peninsula Pipeline generated \$264,000 in operating revenues under the contract.

**Electric Distribution**

Our Florida electric distribution operation distributes electricity to 31,066 customers in four counties in northeast and northwest Florida. For the year ended December 31, 2012, operating revenues and deliveries by customer class for the FPU electric distribution operation were as follows:

	<b>Operating Revenues</b> <i>(in thousands)</i>		<b>Deliveries</b> <i>(in MWHs)</i>	
Residential	\$ 40,814	49%	292,980	44%
Commercial	38,079	46%	310,008	46%
Industrial	7,513	9%	58,640	9%
Subtotal	86,406	104%	661,628	99%
Other <sup>(1)</sup>	(3,845)	-4%	9,370	1%
Total	\$ 82,561	100%	670,998	100%

<sup>(1)</sup> Operating revenues from Other include unbilled revenue, conservation revenue, other miscellaneous charges and adjustments for pass-through taxes.



## **Table of Contents**

### **Supplies, Transmission and Storage**

We believe that the availability of supply and transmission of natural gas and electricity is adequate under existing arrangements to meet the anticipated needs of customers.

#### **Natural Gas Distribution- Delmarva Peninsula**

Our Delaware and Maryland natural gas distribution divisions have both firm and interruptible transportation service contracts with five interstate open access pipeline companies, including our Eastern Shore pipeline. These divisions are directly interconnected with the Eastern Shore pipeline, and have contracts with interstate pipelines upstream of Eastern Shore, including Transcontinental Gas Pipe Line Company LLC ( Transco ), Columbia Gas Transmission LLC ( Columbia ), Columbia Gulf Transmission Company ( Gulf ) and Texas Eastern Transmission, LP ( TETLP ). The Transco, Columbia and TETLP pipelines are directly interconnected with the Eastern Shore pipeline. The Gulf pipeline is directly interconnected with Columbia and indirectly interconnected with the Eastern Shore pipeline. None of the upstream pipelines is owned or operated by Chesapeake or any of its operating divisions and subsidiaries.

On April 8, 2010, our Delaware and Maryland divisions entered into a Precedent Agreement with TETLP in conjunction with TETLP's new expansion project. On February 23, 2012, in accordance with the terms outlined in the Precedent Agreement, our Delaware and Maryland divisions entered into two separate firm transportation service agreements with TETLP for 30,000 Dekatherms per day ( Dts/d ) and 10,000 Dts/d, respectively, commencing in November 2012. In November 2013, the maximum daily quantity under these agreements increases to 34,100 Dts/d and 15,900 Dts/d for our Delaware and Maryland divisions, respectively. These new firm transportation service agreements provide us with an additional direct interconnection with Eastern Shore's transmission system and access to new sources of supply from other natural gas production regions, including the Appalachian production region, thereby providing increased reliability and diversity of supply. They also provide our Delaware and Maryland divisions with needed upstream transportation capacity to meet current and projected customer requirements.

The Delaware and Maryland divisions use their firm transportation resources to meet a significant percentage of their projected demand requirements. They purchase firm natural gas supplies to meet those projected requirements with purchases of baseload, daily spot and storage service. This gas is transported by the upstream pipelines and delivered to their interconnections with the Eastern Shore pipeline. The Delaware and Maryland divisions also have the capability to use propane-air peak-shaving equipment to supplement or displace natural gas purchases.

The following table shows the firm transportation and storage capacity for peak-day deliverability that the Delaware and Maryland divisions currently have under contract with Eastern Shore and pipelines upstream of the Eastern Shore pipeline, including the respective contract expiration dates.

**Table of Contents***Delaware*

<b>Pipeline</b>	<b>Firm transportation capacity maximum peak-day daily deliverability (in Dts)</b>	<b>Firm storage capacity maximum peak-day daily withdrawal (in Dts)</b>	<b>Expiration</b>
Transco	21,423	6,230	Various dates between 2013 and 2028
Columbia	10,960	8,224	Various dates between 2014 and 2020
Gulf	880		Expires in 2014
TETLP	30,000		Expires in 2027
Eastern Shore	70,654	4,146	Various dates between 2013 and 2027

*Maryland*

<b>Pipeline</b>	<b>Firm transportation capacity maximum peak-day daily deliverability (in Dts)</b>	<b>Firm storage capacity maximum peak-day daily withdrawal (in Dts)</b>	<b>Expiration</b>
Transco	6,128	2,970	Various dates between 2013 and 2015
Columbia	4,200	3,663	Various dates between 2014 and 2019
Gulf	590		Expires in 2014
TETLP	10,000		Expires in 2027
Eastern Shore	27,398	2,307	Various dates between 2013 and 2027

Natural Gas Distribution - Florida

Chesapeake's Florida natural gas distribution division has firm transportation service contracts with Florida Gas Transmission Company ( FGT ) and Gulfstream Natural Gas System, LLC ( Gulfstream ). Pursuant to a program approved by the Florida PSC, all of the capacity under these agreements has been released to various third parties and Peninsula Energy Services Company, Inc. ( PESCO ), our natural gas marketing subsidiary. Under the terms of these capacity release agreements, Chesapeake is contingently liable to FGT and Gulfstream, should any party that acquired the capacity through release fail to pay for the service.

**Table of Contents**

Contracts by Chesapeake's Florida natural gas distribution division include two contracts with FGT, which expire on July 31, 2015 and 2020, and one contract with Gulfstream, which expires in 2022. These contracts are summarized in the following table:

Pipeline	Month(s)	Daily Firm Transportation Capacity	
		(in Dts)	Expiration
FGT	January to December	1,000	July 2015
FGT	November to April	17,639	July 2020
FGT	May to September	15,092	July 2020
FGT	October	16,579	July 2020
Gulfstream	January to December	10,000	May 2022

FPU has two firm transportation contracts with FGT, which expire in February 2015 and July 2020, respectively. FPU also has a third contract with FGT expiring in 2013, which contains reductions in the contracted transportation capacity between 2016 and 2023. FPU's firm transportation contract with Florida City Gas expires in 2013. In 2012, FPU entered into a 15-year firm transportation agreement with Peninsula Pipeline to provide natural gas service into Nassau and Okeechobee counties in Florida. These contracts are summarized in the following table:

Pipeline	Month(s)	Daily Firm Transportation Capacity	
		(in Dts)	Expiration
Florida City Gas	January to December	300	December 2013
FGT	January to April	10,564	February 2015
FGT	May to October	4,478	February 2015
FGT	November to December	10,564	February 2015
FGT	January to March	29,421	July 2020
FGT	April	24,808	July 2020
FGT	May to September	9,943	July 2020
FGT	October	10,485	July 2020
FGT	November to December	29,421	July 2020
FGT	January to December	1,822	Various dates between 2016 and 2023
Peninsula Pipeline	January to December	7,500	December 2027

FPU uses gas marketers and producers to procure all of its gas supplies for its natural gas distribution operation. FPU also uses Peoples Gas to provide wholesale gas sales service in areas distant from its interconnections with FGT.

**Natural Gas Transmission**

Eastern Shore has three contracts with Transco for a total of 7,292 dekatherms ( Dts ) of firm peak day storage entitlements and total storage capacity of 288,003 Dts. One of the contracts expires in 2013 and the other two expire in 2023. Eastern Shore is in the process of negotiating a 10-year extension of the contract which expires in 2013. Eastern Shore has retained these firm storage services in order to provide swing transportation service and firm storage service to customers that have requested such services.

**Electric Distribution**

Our electric distribution operation purchases its wholesale electricity primarily from two suppliers, JEA (formerly known as Jacksonville Electric Authority) and Gulf Power Company ( Gulf Power ), under all requirements contracts expiring in December 2017 and 2019, respectively. The JEA contract provides generation and transmission service to northeast Florida. The Gulf Power contract provides generation and transmission service to northwest Florida. Our electric distribution operation also has a renewable energy purchase agreement with Rayonier Performance Fibers, LLC ( Rayonier ). The Rayonier contract, which expires in 2023, commits FPU to purchase between 1.7 megawatt hour ( MWH ) and 3.0 MWH of electricity annually.



**Table of Contents****Competition**

See discussion of competition in Item 7 under the heading Management's Discussion and Analysis of Financial Condition and Results of Operations - Competition.

**Rates and Regulation**

Our natural gas and electric distribution operations are subject to regulation by the Delaware, Maryland or Florida PSC with respect to various aspects of their business, including rates for sales and transportation to all customers in each respective regulatory jurisdiction. All of our firm distribution sales rates are subject to fuel cost recovery mechanisms, which match revenues with natural gas and electric supply and transportation costs and normally allow full recovery of such costs. Adjustments under these mechanisms, which are limited to such costs, require periodic filings and hearings with the state PSC having jurisdiction.

Eastern Shore is subject to regulation as an interstate pipeline by the FERC, which regulates the terms and conditions of service and the rates Eastern Shore can charge for its transportation and storage services. Peninsula Pipeline is subject to regulation by the Florida PSC.

The following table shows the regulatory jurisdictions under which our regulated energy businesses currently operate, including the effective dates of the most recent full rate proceedings and the rates of return that were authorized therein:

<b>Regulated Business</b>	<b>Regulatory Jurisdiction</b>	<b>Effective Date of the Current Rates</b>	<b>Allowed Return</b>
Chesapeake Delaware Division	Delaware PSC	9/3/2008	10.25% <sup>(1)</sup>
Chesapeake Maryland Division	Maryland PSC	12/1/2007	10.75% <sup>(1)</sup>
Chesapeake Florida Division	Florida PSC	1/14/2010	10.80% <sup>(1)</sup>
FPU Natural Gas	Florida PSC	1/14/2010 <sup>(3)</sup>	10.85% <sup>(1)</sup>
FPU Indiantown Division	Florida PSC	6/17/2004	11.50% <sup>(1)</sup>
FPU Electric	Florida PSC	5/22/2008	11.00% <sup>(1)</sup>
Eastern Shore	FERC	7/29/2011	13.90% <sup>(2)</sup>

<sup>(1)</sup> Allowed return on equity

<sup>(2)</sup> Allowed overall pre-tax, pre-interest rate of return

<sup>(3)</sup> Effective date of the order approving the settlement agreement, which adjusted rates originally approved on June 4, 2009. Peninsula Pipeline provides services based on negotiated rates, which are approved by the Florida PSC.

Management monitors the achieved rates of return of each of our regulated energy operations in order to ensure timely filing of rate cases.

**Regulatory Proceedings**

See discussion of regulatory activities in Item 8 under the heading Notes to the Consolidated Financial Statements - Note 17, Rates and Other Regulatory Activities.

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## **Table of Contents**

### **Seasonality of Natural Gas and Electric Distribution Revenues**

Revenues from our residential and commercial natural gas distribution activities are affected by seasonal variations in weather conditions, which directly influence the volume of natural gas and electricity sold and delivered. Specifically, customer demand substantially increases during the winter months, when natural gas and electricity are used for heating. For electricity, customer demand also increases during the summer months, when electricity is used for cooling. Accordingly, the volumes sold for these purposes are directly affected by the severity of summer and winter weather and can vary substantially from year to year. Sustained warmer-than-normal temperatures during the heating season will tend to reduce use of natural gas and electricity, while sustained colder-than-normal temperatures will tend to increase consumption. Sustained cooler-than-normal temperatures during the cooling season will negatively affect electricity consumption. We measure the relative impact of weather by using an accepted degree-day methodology. Degree-day data is used to estimate amounts of energy required to maintain comfortable indoor temperature levels based on each day's average temperature. 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. Each degree of temperature below 65 degrees Fahrenheit is counted as one heating degree-day. Each degree of temperature above 65 degree Fahrenheit is counted as one cooling degree-day. Normal heating degree-days are based on the most recent 10-year average.

For the electric distribution operations in northeast and northwest Florida, hot summers and cold winters produce year-round electric sales that normally do not have large seasonal fluctuations.

In an effort to stabilize the level of net revenues collected from customers in Maryland regardless of weather conditions, we implemented a weather normalization adjustment for our residential heating and smaller commercial heating customers. A weather normalization adjustment is a billing adjustment mechanism that is designed to eliminate the effect of deviations from average seasonal temperatures on utility net revenues.

Delaware, like many other states, has been looking at ways to enable implementation of energy efficiency and is considering revenue decoupling, which is a mechanism for separating the revenue needed to recover the fixed cost of delivery from the variable cost that fluctuates with the amount of natural gas consumed. Although the Delaware PSC has been investigating whether to implement a revenue decoupling mechanism for the natural gas distribution utilities in the state, it is uncertain as to whether the Delaware PSC will require our Delaware natural gas distribution division to file a request for decoupling or whether our Delaware division will file such request on its own.

## **(ii) Unregulated Energy**

### **Overview of Business**

Our unregulated energy segment provides propane distribution, propane wholesale marketing and natural gas marketing services to customers.

### **Propane Distribution**

Propane is a form of liquefied petroleum gas, which is typically extracted from natural gas or separated during the crude oil refining process. Although propane is a gas at normal pressure, it is easily compressed into liquid form for storage and transportation. Propane is a clean-burning fuel, gaining increased recognition for its environmental superiority, safety, efficiency, transportability and ease of use relative to alternative forms of fossil fuels. Propane is sold primarily in suburban and rural areas which are not served by natural gas distributors.

Our propane distribution operations sell propane primarily to residential, commercial/industrial and wholesale customers. Approximately 77 percent of operating revenues in 2012 were generated by the sales to retail residential, commercial and industrial customers. Sharp Energy Inc. (Sharp), our propane distribution subsidiary, serves 34,837 customers throughout Delaware, the eastern shore of Maryland and Virginia, and southeastern Pennsylvania. Our Florida propane distribution subsidiaries provide propane distribution service to 14,475 customers in various counties in Florida. For the year ended December 31, 2012, operating revenues and total gallons sold by our Delmarva and Florida propane distribution operations were as follows:

**Table of Contents**

Service Area	Operating Revenues		Total Gallons Sold	
	<i>(in thousands)</i>		<i>(in thousands)</i>	
Delmarva	\$ 60,985	76%	31,441	84%
Florida	18,931	24%	5,997	16%
<b>Total</b>	<b>\$ 79,916</b>	<b>100%</b>	<b>37,438</b>	<b>100%</b>

**Propane Wholesale Marketing**

Xeron, Inc. ( Xeron ), our propane wholesale marketing subsidiary, markets propane to major independent oil and petrochemical companies, wholesale resellers and retail propane companies located primarily in the southeastern United States. Xeron enters into forward contracts with various counterparties to commit to purchase or sell an agreed-upon quantity of propane at an agreed-upon price at a specified future date, which typically ranges from one to six months from the execution of the contract. At the expiration of the forward contracts, Xeron typically settles its purchases and sales financially without taking the physical delivery of propane. Xeron also enters into futures and other option contracts that are traded on the InterContinentalExchange, Inc. The level and profitability of the propane wholesale marketing activity is affected by both propane wholesale price volatility and liquidity in the wholesale market. In 2012, Xeron had operating revenues totaling approximately \$2.5 million, net of the associated cost of propane sold. For further discussion of Xeron's wholesale marketing activities, market risks and controls that monitor Xeron's risks, see Item 7 under the heading Management's Discussion and Analysis of Financial Condition and Results of Operations Market Risk.

Xeron does not own physical storage facilities or equipment to transport propane; however, it contracts for storage and pipeline capacity to facilitate the sale of propane on a wholesale basis.

**Natural Gas Marketing**

Our natural gas marketing subsidiary, PESCO, provides natural gas supply and supply management services to 3,189 customers in Florida and 28 customers on the Delmarva Peninsula. It 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. PESCO does not own or operate any natural gas transmission or distribution assets. The gas that PESCO sells is delivered to retail customers through affiliated and non-affiliated local distribution company systems and transmission pipelines. PESCO bills its customers through the billing services of the regulated utilities that deliver the gas, or directly, through its own billing capabilities. For the year ended December 31, 2012, PESCO's operating revenues and deliveries were as follows:

Service Area	Operating Revenues		Deliveries	
	<i>(in thousands)</i>		<i>(in Dts)</i>	
Florida	\$ 42,019	86%	14,766,667	91%
Delmarva	7,020	14%	1,544,849	9%
<b>Subtotal</b>	<b>49,039</b>	<b>100%</b>	<b>16,311,516</b>	<b>100%</b>
Less: sale to affiliate	(3,029)		(856,615)	
<b>Total unaffiliated</b>	<b>\$ 46,010</b>		<b>15,454,901</b>	

PESCO currently has contracts with natural gas production companies for the purchase of firm natural gas supplies. These contracts provide a maximum firm daily entitlement of 35,000 Dts and expire in May 2013. PESCO is currently in the process of obtaining and reviewing proposals from suppliers and anticipates executing agreements prior to the end of the term of the existing contracts.

**Supplies, Transportation and Storage**

Our propane distribution operations purchase propane primarily from suppliers, including major oil companies, independent producers of natural gas liquids and from Xeron. In current markets, supplies of propane from these and other sources are readily available for purchase.





## **Table of Contents**

Our propane distribution operations use trucks and railroad cars to transport propane from refineries, natural gas processing plants or pipeline terminals to our bulk storage facilities. We own bulk propane storage facilities with an aggregate capacity of approximately 3.4 million gallons at various locations in Delaware, Maryland, Pennsylvania, Virginia and Florida. From these storage facilities, propane is delivered by bobtail trucks, owned and operated by us, to tanks located at the customers' premises.

### **Competition**

See discussion of competition in Item 7 under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations - Competition."

### **Rates and Regulation**

Propane distribution, propane wholesale marketing and natural gas marketing activities are not subject to any federal or state pricing regulation. Transport operations are subject to regulations concerning the transportation of hazardous materials promulgated by the Federal Motor Carrier Safety Administration within the United States Department of Transportation and enforced by the various states in which such operations take place. Propane distribution operations are also subject to state safety regulations relating to hook-up and placement of propane tanks.

### **Seasonality of Propane Revenues**

Revenues from our propane distribution sales activities are affected by seasonal variations in weather conditions. Weather conditions directly influence the volume of propane sold and delivered to customers; specifically, customers' demand substantially increases during the winter months when propane is used for heating. Accordingly, the propane volumes sold for this purpose are directly affected by the severity of winter weather and can vary substantially from year to year. Sustained warmer-than-normal temperatures will tend to reduce propane use, while sustained colder-than-normal temperatures will tend to increase consumption.

Many of our propane distribution customers are bulk delivery customers. We make deliveries of propane to the bulk delivery customers as needed, based on the level of propane remaining in the tank located at the customer's premises. We invoice and record revenues for our bulk delivery service customers at the time of delivery, rather than upon customers' actual usage, since the customers own the propane gas in the tank on their premises. The timing of deliveries to the bulk delivery customers can vary significantly from year to year depending on weather variation.

### **(iii) Other**

The Other segment consists primarily of our advanced information services subsidiary, other unregulated subsidiaries that own real estate leased to Chesapeake and its subsidiaries and certain unallocated corporate costs, which are not directly attributable to a specific business unit.

### **Advanced Information Services**

Our advanced information services subsidiary, BravePoint<sup>®</sup>, Inc. ( BravePoint ), is headquartered in Norcross, Georgia, and provides domestic and a limited number of international clients with information technology services and solutions for both enterprise and e-business applications.

### **Other Subsidiaries**

Skipjack, Inc. and Eastern Shore Real Estate, Inc. own and lease office buildings in Delaware and Maryland to affiliates of Chesapeake. Chesapeake Investment Company is an affiliated investment company incorporated in Delaware.

## **(c) Additional Information about the Business**

### **(i) Capital Budget**

A discussion of capital expenditures by business segment and capital expenditures for environmental remediation facilities is included in Item 7 under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources."



**Table of Contents**

**(ii) Employees**

As of December 31, 2012, we had a total of 738 employees, 127 of whom are union employees represented by three labor unions: the International Brotherhood of Electrical Workers, the International Chemical Workers Union and United Food and Commercial Workers Union, all of whose collective bargaining agreements expire in 2013.

**(iii) Financial Information about Geographic Areas**

All of our material operations, customers and assets are located in the United States.

**(d) Available Information**

As a public company, we file annual, quarterly and other reports, as well as our annual proxy statement and other information, with the Securities and Exchange Commission ( SEC ). The public may read and copy any materials that we file with the SEC at the SEC s Public Reference Room, 100 F Street, N.E., Washington, DC 20549-5546; the public may obtain information from the Public Reference Room by calling the SEC at 1-800-SEC-0330.

The SEC also maintains an Internet site that contains reports, proxy and information statements and other information regarding the Company. The address of the SEC s Internet website is [www.sec.gov](http://www.sec.gov). We make available, free of charge, on our Internet website, our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports, as soon as reasonably practicable after such reports are electronically filed with or furnished to the SEC. The address of our Internet website is [www.chpk.com](http://www.chpk.com). The content of this website is not part of this report.

We have a Business Code of Ethics and Conduct applicable to all employees, officers and directors and a Code of Ethics for Financial Officers. Copies of the Business Code of Ethics and Conduct and the Code of Ethics for Financial Officers are available on our Internet website. We also adopted Corporate Governance Guidelines and Charters for the Audit Committee, Compensation Committee and Corporate Governance Committee of the Board of Directors, each of which satisfies the regulatory requirements established by the SEC and the New York Stock Exchange ( NYSE ). The Board of Directors has also adopted Corporate Governance Guidelines on Director Independence, which conform to the NYSE listing standards on director independence. These documents are available on our Internet website or may be obtained by writing to: Corporate Secretary; c/o Chesapeake Utilities Corporation, 909 Silver Lake Boulevard, Dover, DE 19904.

If we make any amendment to, or grant a waiver of, any provision of the Business Code of Ethics and Conduct or the Code of Ethics for Financial Officers applicable to our principal executive officer, president, principal financial officer, principal accounting officer or controller, the amendment or waiver will be disclosed within four business days in a press release, by website disclosure, or by filing a current report on Form 8-K with the SEC.

Our Chief Executive Officer certified to the NYSE on May 31, 2012, that as of that date, he was unaware of any violation by Chesapeake of the NYSE s corporate governance listing standards.

## **Table of Contents**

### **ITEM 1A. RISK FACTORS.**

The following is a discussion of the primary factors that may affect the operations or financial performance of our regulated and unregulated businesses. Refer to the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" under Item 7 of this report for an additional discussion of these and other related factors that affect our operations and/or financial performance.

#### **Financial Risks**

*Instability and volatility in the financial markets could have a negative impact on our ability to access capital at competitive rates.*

Our business strategy includes the continued pursuit of growth, both organically and through acquisitions. To the extent that we do not generate sufficient cash flow from operations, we may incur additional indebtedness to finance our growth. Specifically, we rely on access to both short-term and long-term capital markets as a significant source of liquidity for capital requirements not satisfied by the cash flows from our operations. We are committed to maintaining a sound capital structure and strong credit ratings to provide the financial flexibility needed to access the capital markets when required. However, if we are not able to access capital at competitive rates, our ability to implement our strategic plan, undertake improvements and make other investments required for our future growth may be limited.

*A downgrade in our credit rating could adversely affect our access to capital markets and our cost of capital.*

Our ability to obtain adequate and cost-effective capital depends on our credit ratings, which are greatly affected by our financial performance and the liquidity of financial markets. A downgrade in our current credit ratings could adversely affect our access to capital markets, as well as our cost of capital.

*If we fail to comply with our debt covenant obligations, we could experience adverse financial consequences that could affect our liquidity and ability to borrow funds.*

Our long-term debt obligations and committed short-term lines of credit contain financial covenants related to debt-to-capital ratios and interest-coverage ratios. Failure to comply with any of these covenants could result in an event of default which, if not cured or waived, could result in the acceleration of outstanding debt obligations or the inability to borrow under certain credit agreements. Any such acceleration would cause a material adverse change in our financial condition.

*An increase in interest rates may adversely affect our results of operations and cash flows.*

An increase in interest rates, without the recovery of the higher cost of debt in the sales and/or transportation rates we charge our utility customers, could adversely affect future earnings. An increase in short-term interest rates would negatively affect our results of operations, which depend on short-term lines of credit to finance accounts receivable and storage gas inventories, as well as to temporarily finance capital expenditures.

*Inflation may impact our results of operations, cash flows and financial position.*

Inflation affects the cost of supply, labor, products and services required for operations, maintenance and capital improvements. To help cope with the effects of inflation on our capital investments and returns, we seek rate increases from regulatory commissions for regulated operations and closely monitor the returns of our unregulated operations. There can be no assurance that we will be able to obtain adequate and timely rate increases to offset the effects of inflation. To compensate for fluctuations in propane gas prices, we adjust our propane selling prices to the extent allowed by the market. There can be no assurance, however, that we will be able to increase propane sales prices sufficiently to compensate fully for such fluctuations in the cost of propane gas to us.

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## **Table of Contents**

***Our energy marketing subsidiaries are exposed to market risks, beyond our control, which could adversely affect our financial results and capital requirements.***

Our energy marketing subsidiaries are subject to market risks beyond their control, including market liquidity and commodity price volatility. Although we maintain risk management policies, we may not be able to offset completely the price risk associated with volatile commodity prices, which could lead to volatility in earnings. Physical trading also has price risk on any net open positions at the end of each trading day, as well as volatility resulting from: (i) intra-day fluctuations of natural gas and/or propane prices, and (ii) daily price movements between the time natural gas and/or propane is purchased or sold for future delivery and the time the related purchase or sale is hedged. The determination of our net open position at the end of any trading day requires us to make assumptions as to future circumstances, including the use of natural gas and/or propane by its customers in relation to its anticipated market positions. Because the price risk associated with any net open position at the end of such day may increase if the assumptions are not realized, we review these assumptions daily. Net open positions may increase volatility in our financial condition or results of operations if market prices move in a significantly favorable or unfavorable manner, because the timing of the recognition of profits or losses on the economic hedges for financial accounting purposes usually does not match up with the timing of the economic profits or losses on the item being hedged. This volatility may occur, with a resulting increase or decrease in earnings or losses, even though the expected profit margin is essentially unchanged from the date the transactions were consummated.

***Our energy marketing subsidiaries are exposed to credit risk of their counterparties.***

Our energy marketing subsidiaries extend credit to counterparties and continually monitor and manage collections aggressively. Each of these subsidiaries is exposed to the risk that it may not be able to collect amounts owed to it. If the counterparty to such a transaction fails to perform, and any underlying collateral is inadequate, we could experience financial losses.

***Our energy marketing subsidiaries are dependent upon the availability of credit to successfully operate their businesses.***

Our energy marketing subsidiaries are dependent upon the availability of credit to buy propane and natural gas for resale or to trade. If financial market conditions decline generally, or the financial condition of these subsidiaries or of our Company declines, then the cost of credit available to these subsidiaries could increase. If credit is not available, or if credit is more costly, our results of operations, cash flows and financial condition may be adversely affected.

***Current market conditions have adversely impacted the return on plan assets for our pension plans, which may require significant additional funding.***

We have pension plans that have been closed to new employees. The costs of providing benefits and related funding requirements of these plans are subject to changes in the market value of the assets that fund the plans and the discount rates used to estimate the pension benefit obligations. As a result of the extreme volatility and disruption in the domestic and international equity, bond and interest rate markets in recent years, the asset values and benefit obligations of Chesapeake's and FPU's pension plans have fluctuated significantly since 2008. The funded status of the plans and the related costs reflected in our financial statements are affected by various factors that are subject to an inherent degree of uncertainty, particularly in the current economic environment. Future losses of asset values and further declines in discount rates may necessitate accelerated funding of the plans in the future to meet minimum federal government requirements as well as higher pension expense to be recorded in future years. Adverse changes on the asset values and benefit obligations of our pension plans may require us to record higher pension expense and fund obligations earlier than originally planned, which would have an adverse impact on our cash flows from operations, decrease borrowing capacity and increase interest expense.

## **Operational Risks**

***Fluctuations in weather may cause a significant variance in our earnings.***

Our natural gas and propane distribution operations are sensitive to fluctuations in weather conditions, which directly influence the volume of natural gas and propane we sell and deliver to our customers. A significant portion of our natural gas and propane distribution revenues is derived from the sales and deliveries of natural gas and propane to residential and commercial heating customers during the five-month peak heating season (November through March). If the weather is warmer than normal, we sell and deliver less natural gas and propane to customers, and earn less revenue, which could adversely affect our results of operations, cash flows and financial condition.

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**Table of Contents**

Our electric operation, while generally less seasonal than natural gas and propane sales because electricity is used for both heating and cooling in our service areas, is also affected by variations in general weather conditions and particularly unusually severe weather conditions.

***The amount and availability of natural gas, propane and electricity supplies are difficult to predict; a substantial reduction in available supplies could reduce our earnings in those segments.***

Natural gas, propane and electricity production can be affected by factors beyond our control, such as weather, closings of energy generation facilities and refineries. If we are unable to obtain sufficient natural gas, electricity and propane supplies to meet demand, results in those businesses may be adversely affected. Any substantial decrease in the availability of supplies of natural gas, propane and electricity could result in increased supply costs and higher prices for customers, which could also adversely affect our financial condition and results of operations.

***We rely on a limited number of natural gas, propane and electricity suppliers, the loss of which could have a material adverse effect on our financial condition and results of operations.***

We have entered into various agreements with suppliers to purchase natural gas, propane and electricity to serve our customers. The loss of any significant suppliers or our inability to renew these contracts at favorable terms upon their expiration could significantly affect our ability to serve our customers and have a material adverse impact on our financial condition and results of operations.

***A substantial disruption or lack of growth in interstate natural gas pipelines transmission and storage capacity and electric transmission capacity may impair our ability to meet customers existing and future requirements.***

In order to meet existing and future customer demands for natural gas and electricity, we must acquire sufficient supplies of natural gas and electricity, interstate pipeline transmission and storage capacity, and electric transmission capacity to serve such requirements. We must contract for reliable and adequate upstream transmission capacity for our distribution systems while considering the dynamics of the interstate pipeline and storage and electric transmission markets, our own on-system resources, as well as the characteristics of our markets. Our financial condition and results of operations would be materially and adversely affected if the future availability of these capacities were insufficient to meet future customer demands for natural gas and electricity. Currently, our Florida natural gas operation relies primarily on one pipeline system, FGT, for most of its natural gas supply and transmission. Our Florida electric operation relies primarily on two suppliers, Gulf Power for the northwest service territory and JEA for the northeast service territory. Any interruption to these systems could adversely affect our ability to meet the demands of FPU's customers and our earnings.

***Commodity price increases may adversely affect the operating costs and competitive positions of our natural gas, electric and propane distribution operations, which may adversely affect our results of operations, cash flows and financial condition.***

**Natural Gas/Electric.** Higher natural gas prices can significantly increase the cost of gas billed to our natural gas customers. Increases in the cost of coal, natural gas and other fuels used to generate electricity can significantly increase the cost of electricity billed to our electric customers. Damage to the production or transportation facilities of our suppliers, decreasing their supply of natural gas and electricity, could result in increased supply costs and higher prices for our customers. Such cost increases generally have no immediate effect on our revenues and net income because of our regulated fuel cost recovery mechanisms. Our net income, however, may be reduced by higher expenses that we may incur for uncollectible customer accounts and by lower volumes of natural gas and electricity deliveries when customers reduce their consumption. Therefore, increases in the price of natural gas, coal and other fuels can affect our operating cash flows and the competitiveness of natural gas and electricity as energy sources and consequently have an adverse effect on our operating cash flows.

**Table of Contents**

**Propane.** Propane costs are subject to volatile changes as a result of product supply or other market conditions, including weather and economic and political factors affecting crude oil and natural gas supply or pricing. For example, weather conditions could damage production or transportation facilities, which could result in decreased supplies of propane, increased supply costs and higher prices for customers. Such cost changes can occur rapidly and can affect profitability. There is no assurance that we will be able to pass on propane cost increases fully or immediately, particularly when propane costs increase rapidly. Therefore, average retail sales prices can vary significantly from year to year as product costs fluctuate in response to propane, fuel oil, crude oil and natural gas commodity market conditions. In addition, in periods of sustained higher commodity prices, declines in retail sales volumes due to reduced consumption and increased amounts of uncollectible accounts may adversely affect net income.

***Our propane inventory is subject to inventory valuation risk, which may result in a write-down of inventory.***

Our propane distribution operations own bulk propane storage facilities, with an aggregate capacity of approximately 3.4 million gallons. We purchase and store propane based on several factors, including inventory levels and the price outlook. We may purchase large volumes of propane at current market prices during periods of low demand and low prices, which generally occur during the summer months. Propane is a commodity, and as such, its price is subject to volatile fluctuations in response to changes in supply or other market conditions. We have no control over these market conditions. Consequently, the wholesale price of the propane that we purchase can change rapidly over a short period of time. The retail market price for propane could fall below the price at which we made the purchases, which would adversely affect our profits or cause sales from that inventory to be unprofitable. In addition, falling propane prices may result in inventory write-downs as required by accounting principles generally accepted in the United States of America ( GAAP ) if the market price of propane falls below our weighted average cost of inventory, which could adversely affect net income.

***Operating events affecting public safety and the reliability of our natural gas and electric distribution and transmission systems could adversely affect our operations and increase our costs.***

Our natural gas and electric operations are exposed to operational events and risks, such as major leaks, outages, mechanical failures and breakdown, operations below expected level of performance or efficiency and accidents that could affect public safety and the reliability of our distribution and transmission systems, significantly increase costs and cause loss of customer confidence. If we are unable to recover from customers through the regulatory process, all or some of these costs and our authorized rate of return, our results of operations, financial condition and cash flows could be adversely affected.

***We operate in a competitive environment and we may lose customers to competitors.***

**Natural Gas.** Our natural gas marketing operations compete with third-party suppliers to sell natural gas to commercial and industrial customers. Our natural gas transmission and distribution operations compete with interstate pipelines when our transmission and/or distribution customers are located close enough to a competing pipeline to make direct connections economically feasible. Failure to retain and grow our customer base in the natural gas operations would have an adverse effect on our financial condition, cash flows and results of operations.

**Electric.** While there is active wholesale power sales competition in Florida, our retail electric business through FPU has remained substantially free from direct competition from other electric service providers. Generally, however, our retail electric business through FPU remains subject to competition from other energy sources. Changes in the competitive environment caused by legislation, regulation, market conditions or initiatives of other electric power providers, particularly with respect to retail competition, could adversely affect our results of operations, cash flows and financial condition.

**Propane.** Our propane distribution operations compete with other propane distributors, primarily on the basis of service and price. Some of our competitors have significantly greater resources. Our ability to grow the propane distribution business is contingent upon capturing additional market share, expanding into new markets, and successfully utilizing pricing programs that retain and grow our customer base. Failure to retain and grow our customer base in our propane distribution operations would have an adverse effect on our results of operations, cash flows and financial condition.

## **Table of Contents**

Our propane wholesale marketing operation competes with various marketers, many of which have significantly greater resources and are able to obtain price or volumetric advantages.

### ***Energy conservation could lower energy consumption and adversely affect our earnings.***

We have seen various legislative and regulatory initiatives to promote energy efficiency and conservation at both federal and state levels. In response to the initiatives in the states, in which we operate, we have put into place programs to promote energy efficiency by our current and potential customers. To the extent a PSC allows us to recover the cost of such energy efficiency promotion, funding for such programs is recovered through the rates we charge to our regulated customers. However, lower energy consumption as a result of energy efficiency and conservation by current and potential customers may adversely affect our results of operations, cash flows and financial condition.

### ***Changes in technology may adversely affect our advanced information services subsidiary's competitiveness.***

BravePoint participates in a market that is characterized by rapidly changing technology and accelerating product introduction cycles. The success of our advanced information services subsidiary depends upon our ability to address the rapidly changing needs of our customers by developing and supplying high-quality, cost-effective products, product enhancements and services, on a timely basis, and by keeping pace with technological developments and emerging industry standards. There is no assurance that we will be able to keep up with technological advancements to the degree necessary to keep our products and services competitive.

### ***Our use of derivative instruments may adversely affect our results of operations.***

Fluctuating commodity prices may affect our earnings and financing costs because our propane distribution and wholesale marketing operations use derivative instruments, including forwards, futures, swaps and puts, to hedge price risk. In addition, we have utilized in the past, and may decide, after further evaluation, to continue to utilize derivative instruments to hedge price risk. While we have risk management policies and operating procedures in place to control our exposure to risk, if we purchase derivative instruments that are not properly matched to our exposure, our results of operations, cash flows, and financial condition may be adversely affected.

### ***Changes in customer growth may affect earnings and cash flows.***

Our ability to increase gross margins in our regulated energy and unregulated propane distribution businesses is dependent upon growth in the residential construction market, adding new commercial and industrial customers and conversion of customers to natural gas, electricity or propane from other energy sources. Slowdowns in growth may adversely affect our gross margin, earnings and cash flows.

### ***Our businesses are capital intensive, and the increased costs and/or delays of capital projects may adversely affect our future earnings.***

Our businesses are capital intensive and require significant investments in on-going infrastructure projects. There are limited materials and qualified vendors that can be used in our projects. Our ability to timely complete our infrastructure projects and manage the overall cost of those projects is affected by the availability of the necessary materials and qualified vendors. Our future earnings could be adversely affected if we are unable to manage such capital projects effectively, or if full recovery of such capital costs is not permitted in future regulatory proceedings.

### ***Our regulated energy business may be at risk if franchise agreements are not renewed.***

Our regulated natural gas and electric distribution operations hold franchises in each of the incorporated municipalities that require franchise agreements in order to provide natural gas and electricity. Our natural gas and electric distribution operations are currently in negotiations for franchises with certain municipalities for new service areas and renewal of some existing franchises. Ongoing financial results would be adversely impacted from the loss of service to certain operating areas within our electric or natural gas territories in the event that franchise agreements were not renewed.

### ***A strike, work stoppage or a labor dispute could adversely affect our operations.***

We are party to collective bargaining agreements with various labor unions at some of our Florida operations. A strike, work stoppage or a labor dispute with a union or employees represented by a union could cause interruption to our operations. If a strike, work stoppage or other labor dispute were to occur, our results could be adversely affected.





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**Table of Contents**

*Accidents, natural disasters, severe weather (such as a major hurricane) and acts of terrorism could adversely impact earnings.*

Inherent in energy transmission and distribution activities are a variety of hazards and operational risks, such as leaks, ruptures, fires, explosions, sabotage and mechanical problems. Natural disasters and severe weather may damage our assets, cause operational interruptions and result in the loss of human life. The threat of terrorism and the impact of retaliatory military and other action by the United States and its allies may lead to increased political, economic and financial market instability and volatility in the price of natural gas, electricity and propane that could affect our operations. In addition, future acts of terrorism could be directed against companies operating in the United States, and companies in the energy industry may face a heightened risk of exposure to acts of terrorism. The insurance industry may also be affected by natural disasters, severe weather and acts of terrorism, and as a result, the availability of insurance covering risks against which we and our competitors typically insure may be limited. In addition, the insurance we are able to obtain may have higher deductibles, higher premiums and more restrictive policy terms, which could adversely affect our results of operations, financial condition and cash flows.

*A security breach disrupting our operating systems and facilities or exposing confidential information may adversely affect our reputation, disrupt our operations and increase our costs.*

Security breaches of our information technology infrastructure, including cyber-attacks and cyber-terrorism, could lead to system disruptions or generate facility shutdowns. If such an attack or security breach were to occur, our business, results of operations and financial condition could be adversely affected. Additionally, the protection of customer, employee and Company data is crucial to our operational security. A breakdown or a breach in our systems that results in the unauthorized release of individually identifiable customer or other sensitive data could occur and have an adverse effect on our reputation, results of operations and financial condition. A breakdown or breach could also materially increase our costs of maintaining our system and protecting it against future breakdowns or breaches. We take reasonable precautions to safeguard our information systems from cyber-attacks and security breaches; however, there is no guarantee that the procedures implemented to protect against unauthorized access to our information systems are adequate to safeguard against all attacks and breaches.

**Regulatory, Legal and Environmental Risks**

*Regulation of our businesses, including changes in the regulatory environment, may adversely affect our results of operations, cash flows and financial condition.*

The Delaware, Maryland and Florida PSCs regulate our utility operations in those states. Eastern Shore is regulated by the FERC. The PSCs and the FERC set the rates that we can charge customers for services subject to their regulatory jurisdiction. Our ability to obtain timely future rate increases and rate supplements to maintain current rates of return depends on regulatory approvals, and there can be no assurance that our regulated operations will be able to obtain such approvals or maintain currently authorized rates of return. When our earnings from the regulated utilities exceed the authorized rate of return, the respective PSC or the FERC in the case of Eastern Shore may require us to reduce our rates charged to customers in the future.

*We are dependent upon construction of new facilities to support future growth in earnings in our natural gas and electric distribution and natural gas transmission operations.*

Construction of new facilities required to support future growth is subject to various regulatory and developmental risks, including but not limited to: (a) our ability to obtain necessary approvals and permits from regulatory agencies on a timely basis and on terms that are acceptable to us; (b) potential changes in federal, state and local statutes and regulations, including environmental requirements, that prevent a project from proceeding or increase the anticipated cost of the project; (c) inability to acquire rights-of-way or land rights on a timely basis on terms that are acceptable to us; (d) lack of anticipated future growth in available natural gas and electricity supply; and (e) insufficient customer throughput commitments.

## **Table of Contents**

### ***We are subject to operating and litigation risks that may not be fully covered by insurance.***

Our operations are subject to the operating hazards and risks normally incidental to handling, storing, transporting, transmitting and delivering natural gas, electricity and propane to end users. From time to time, we are a defendant in legal proceedings arising in the ordinary course of business. We maintain insurance policies with insurers to cover our general liabilities in the amount of \$51 million, which we believe are reasonable and prudent. There can be no assurance, however, that such insurance will be adequate to protect us from all material expenses related to potential future claims for personal injury and property damage or that such levels of insurance will be available in the future at economical prices.

### ***We may face certain regulatory and financial risks related to pipeline safety legislation.***

A number of legislative proposals to implement increased oversight over natural gas pipeline operations and increased investment in facilities to inspect pipeline facilities, upgrade pipeline facilities, or control the impact of a breach of such facilities are pending at the federal level. Additional operating expenses and capital expenditures may be necessary to remain in compliance with the increased federal oversight resulting from such proposals. If such legislation is adopted and we incur additional expenses and expenditures as a result, our financial condition, results of operations and cash flows could be adversely affected, particularly if we are not authorized through the regulatory process to recover from customers some or all of these costs and our authorized rate of return.

### ***Costs of compliance with environmental laws may be significant.***

We are subject to federal, state and local laws and regulations governing environmental quality and pollution control. These evolving laws and regulations may require expenditures over a long period of time to control environmental effects at our current and former operating sites, especially former manufactured gas plant ( MGP ) sites. Compliance with these legal obligations requires us to commit capital. If we fail to comply with environmental laws and regulations, even if such failure is caused by factors beyond our control, we may be assessed civil or criminal penalties and fines.

To date, we have been able to recover, through regulatory rate mechanisms, the costs associated with the remediation of former MGP sites. There is no guarantee, however, that we will be able to recover future remediation costs in the same manner or at all. A change in our approved rate mechanisms for recovery of environmental remediation costs at former MGP sites could adversely affect our results of operations, cash flows and financial condition.

Further, existing environmental laws and regulations may be revised, or new laws and regulations seeking to protect the environment may be adopted and be applicable to us. Revised or additional laws and regulations could result in additional operating restrictions on our facilities or increased compliance costs, which may not be fully recoverable.

### ***Derivatives legislation and the implementation of related rules could have an adverse impact on our ability to hedge risks associated with our business.***

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act ) regulates derivative transactions, which include certain instruments used in our risk management activities. The Dodd-Frank Act contemplates that most swaps will be required to be cleared through a registered clearing facility and traded on a designated exchange or swap execution facility, subject to certain exceptions for entities that use swaps to hedge or mitigate commercial risk. Although the Dodd-Frank Act includes significant new provisions regarding the regulation of derivatives, the impact of those requirements will not be known definitively until regulations have been adopted and fully implemented by both the SEC and the Commodities Futures Trading Commission, and market participants establish registered clearing facilities under those regulations. The legislation and any new regulations could increase the operational and transactional cost of derivatives contracts and affect the number and/or creditworthiness of available counterparties.

### ***Our business may be subject in the future to additional regulatory and financial risks associated with global warming and climate change.***

There have been a number of federal and state legislative and regulatory initiatives proposed in recent years in an attempt to control or limit the effects of global warming and overall climate change, including greenhouse gas emissions, such as carbon dioxide. The adoption of this type of legislation by Congress or similar legislation by states or the adoption of related regulations by federal or state governments mandating a substantial reduction in greenhouse gas emissions in the future could have far-reaching and significant impacts on the energy industry. Such new legislation or regulations could result in increased compliance costs for us or additional operating restrictions on our business, affect the demand for natural gas and propane or impact the prices we charge to our customers. At this time, we cannot predict the potential impact of such laws or regulations that may be adopted on our future business, financial condition or financial results.



## **Table of Contents**

### **ITEM 1B. UNRESOLVED STAFF COMMENTS.**

None.

### **ITEM 2. PROPERTIES.**

#### **(a) General**

We own offices and operate facilities in the following locations: Pocomoke, Salisbury, Cambridge, Easton, Elkton and Princess Anne, Maryland; Dover, Seaford, Laurel and Georgetown, Delaware; Lecato, Virginia; and West Palm Beach, DeBary, Inglis, Indiantown, Marianna, Lantana, Lauderdale, Fernandina Beach, Micco, Newberry, Clewiston, Okeechobee, and Winter Haven, Florida. We rent office space in Dover and Ocean View, Delaware; West Palm Beach, Fernandina Beach, Clewiston, Okeechobee, and Lecato, Florida; Chincoteague and Belle Haven, Virginia; Colora and Centerville, Maryland; Honey Brook, Blakeslee, Mount Pocono and Allentown, Pennsylvania; Houston, Texas; and Norcross, Georgia. In general, we believe that our offices and facilities are adequate for the uses for which they are employed.

#### **(b) Natural Gas Distribution**

Our Delmarva natural gas distribution operation owns approximately 1,162 miles of natural gas distribution mains (together with related service lines, meters and regulators) located in our Delaware and Maryland service areas. Our Florida natural gas distribution operation owns 2,532 miles of natural gas distribution mains (and related equipment). In addition, we have adequate gate stations to handle receipt of the gas in each of the distribution systems. We also own facilities in Delaware and Maryland, which we use for propane-air injection during periods of peak demand.

#### **(c) Natural Gas Transmission**

Eastern Shore owns and operates approximately 428 miles of transmission pipeline, extending from supply interconnects at Parkesburg, Daleville and Honey Brook, Pennsylvania; and Hockessin, Delaware, to approximately 93 delivery points in southeastern Pennsylvania, Delaware and the eastern shore of Maryland.

Peninsula Pipeline owns and operates approximately eight miles of transmission pipeline in Suwanee County, Florida. Peninsula Pipeline also owns approximately 45 percent of the 16-mile pipeline extending from the Duval/Nassau County line to Amelia Island in Nassau County, Florida. The remaining 55 percent of the pipeline is owned by Peoples Gas.

#### **(d) Electric Distribution**

Our electric distribution operation owns and operates 20 miles of electric transmission line located in northeast Florida and 878 miles of electric distribution line located in northeast and northwest Florida.

#### **(e) Propane Distribution and Wholesale Marketing**

Our Delmarva propane distribution operation owns bulk propane storage facilities, with an aggregate capacity of approximately 2.7 million gallons, at 31 plant facilities in Delaware, Maryland, Pennsylvania and Virginia, located on real estate that is either owned or leased by our Company. Our Florida propane distribution operation owns 32 bulk propane storage facilities with a total capacity of 732,000 gallons. Xeron does not own physical storage facilities or equipment to transport propane; however, it leases propane storage and pipeline capacity from non-affiliated third parties.

**Table of Contents**

**(f) Lien**

All of the properties owned by FPU are subject to a lien in favor of the holders of its first mortgage bonds securing its indebtedness under its Mortgage Indenture and Deed of Trust. FPU owns offices and operates facilities in the following locations: West Palm Beach, DeBary, Inglis, Indiantown, Marianna, Lantana, Lauderhill, Fernandina Beach, Micco, Newberry, Clewiston and Okeechobee, Florida. FPU's natural gas distribution operation owns 1,722 miles of natural gas distribution mains (and related equipment) in its service areas. FPU's electric distribution operation owns and operates 20 miles of electric transmission line located in northeast Florida and 878 miles of electric distribution line located in northeast and northwest Florida. FPU's propane distribution operation owns 32 bulk propane storage facilities with a total capacity of 732,000 gallons located in south and central Florida.

**ITEM 3. LEGAL PROCEEDINGS.**

**(a) General**

As disclosed in Item 8 under the heading "Notes to the Consolidated Financial Statements - Note 19, Other Commitments and Contingencies," we are involved in various legal actions and claims arising in the normal course of business. We are also involved in certain administrative proceedings before various governmental or regulatory agencies concerning rates. In the opinion of management, the ultimate disposition of these current proceedings will not have a material effect on our consolidated financial position, results of operations or cash flows.

**(b) Environmental**

See discussion of environmental commitments and contingencies in Item 8 under the heading "Notes to the Consolidated Financial Statements Note 18, Environmental Commitments and Contingencies."

**ITEM 4. MINE SAFETY DISCLOSURES.**

Not applicable.

**Table of Contents****ITEM 4A. EXECUTIVE OFFICERS OF THE REGISTRANT.**

Set forth below are the names, ages, and positions of our executive officers with their recent business experience. The age of each officer is as of the filing date of this report.

<b>Name</b>	<b>Age</b>	<b>Position</b>
Michael P. McMasters	54	President and Chief Executive Officer
Beth W. Cooper	46	Senior Vice President and Chief Financial Officer
Stephen C. Thompson	52	Senior Vice President and President, Eastern Shore
Elaine B. Bittner	43	Vice President of Strategic Development

Michael P. McMasters was appointed Chief Executive Officer effective January 1, 2011. He was appointed President on March 1, 2010 and was elected a director in 2010. Prior to his appointments and election, Mr. McMasters served as Executive Vice President and Chief Operating Officer since September 2008, Chief Financial Officer from 1997 to 2008 and Senior Vice President since 2004 to 2008. He has previously held the positions of Vice President, Treasurer, Director of Accounting and Rates, and Controller of the Company. In addition to his tenure with Chesapeake, Mr. McMasters also served as Director of Operations Planning for Equitable Gas Company. He has 33 years of experience in the utilities industry.

Beth W. Cooper was appointed Senior Vice President and Chief Financial Officer in September 2008 and Corporate Secretary in June 2005. Previously, she has served as Vice President from June 2005 to September 2008 and Treasurer from 2003 to May of 2012. Ms. Cooper joined the Company in 1990 and has previously served in the following roles: Assistant Vice President, Assistant Treasurer, Assistant Secretary, Director of Internal Audit and Director of Strategic Planning. Before joining the Company, Ms. Cooper was an auditor with Ernst & Young's Entrepreneurial Services Group. She has 22 years of experience in the utilities industry.

Stephen C. Thompson was appointed Senior Vice President in 2004. Mr. Thompson is also President of Eastern Shore. Mr. Thompson joined the Company in 1983 and during his tenure has served as Senior Vice President and Vice President of the Company. Mr. Thompson also served as Director of Gas Supply and Marketing, Superintendent of Eastern Shore, and Regional Manager for the Florida distribution operations. Mr. Thompson has 29 years of experience in the utilities industry.

Elaine B. Bittner was appointed Vice President of Strategic Development in June of 2010. Previously, she has held various positions within the Company including Vice President of Eastern Shore from 2005 to 2010, Director of Eastern Shore, Director of Customer Services and Regulatory Affairs for Eastern Shore, Director of Environmental Affairs for Chesapeake and Environmental Engineer. Prior to joining the Company, Ms. Bittner was a Project Chemist, Client Consultant and Environmental Lab Chemist in the environmental industry specializing in environmental analysis and reporting related to volatile organic compounds. Ms. Bittner has 16 years of experience in the utilities industry.

**Table of Contents****PART II****ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTER AND ISSUER PURCHASES OF EQUITY SECURITIES.****(a) Common Stock Price Ranges, Common Stock Dividends and Shareholder Information:**

Our common stock is listed on the NYSE under the symbol CPK. The high, low and closing prices of our common stock and dividends declared per share for each calendar quarter during 2012 and 2011 were as follows:

	Quarter Ended	High	Low	Close	Dividends Declared Per Share
<b>2012</b>					
	<b>March 31</b>	<b>\$ 43.83</b>	<b>\$ 39.89</b>	<b>\$ 41.12</b>	<b>\$ 0.345</b>
	<b>June 30</b>	<b>\$ 45.15</b>	<b>\$ 40.22</b>	<b>\$ 43.72</b>	<b>\$ 0.365</b>
	<b>September 30</b>	<b>\$ 48.51</b>	<b>\$ 43.65</b>	<b>\$ 47.36</b>	<b>\$ 0.365</b>
	<b>December 31</b>	<b>\$ 48.92</b>	<b>\$ 41.17</b>	<b>\$ 45.40</b>	<b>\$ 0.365</b>
<b>2011</b>					
	March 31	\$ 42.47	\$ 37.67	\$ 41.62	\$ 0.330
	June 30	\$ 43.14	\$ 37.66	\$ 40.03	\$ 0.345
	September 30	\$ 41.50	\$ 36.00	\$ 40.11	\$ 0.345
	December 31	\$ 44.53	\$ 38.30	\$ 43.35	\$ 0.345

 **Holders**

At February 28, 2013, there were 2,348 holders of record of Chesapeake common stock.

 **Dividends**

We have paid a cash dividend to common stock shareholders for 52 consecutive years. Dividends are payable at the discretion of our Board of Directors. Future payment of dividends, and the amount of these dividends, will depend on our financial condition, results of operations, capital requirements, and other factors. We declared quarterly cash dividends on our common stock in 2012 and 2011, totaling \$1.440 per share and \$1.365 per share, respectively.

Indentures to our long-term debt contain various restrictions. In terms of restrictions which limit the payment of dividends by Chesapeake, each of its unsecured senior notes contains a Restricted Payments covenant. The most restrictive covenants of this type are included within the 7.83 percent Senior Notes, due January 1, 2015. The covenant provides that Chesapeake cannot pay or declare any dividends or make any other Restricted Payments (such as dividends) in excess of the sum of \$10.0 million plus consolidated net income of the Company accrued on and after January 1, 2001. As of December 31, 2012, Chesapeake's cumulative consolidated net income base was \$185.3 million, offset by Restricted Payments of \$103.0 million, leaving \$82.3 million of cumulative net income free of restrictions.

Each series of FPU's first mortgage bonds contains a similar restriction that limits the payment of dividends by FPU. The most restrictive covenants of this type are included within the series that is due in 2022, which provides that FPU cannot make dividend or other restricted payments in excess of the sum of \$2.5 million plus FPU's consolidated net income accrued on and after January 1, 1992. As of December 31, 2012, FPU had a cumulative net income base of \$85.1 million, offset by restricted payments of \$37.6 million, leaving \$47.5 million of cumulative net income of FPU free of restrictions based on this covenant.

 **Recent Sales of Unregistered Securities**

No securities were sold during the year 2012 that were not registered under the Securities Act of 1933, as amended.



**Table of Contents**

**(b) Purchases of Equity Securities by the Issuer**

The following table sets forth information on purchases by or on behalf of Chesapeake of shares of its common stock during the quarter ended December 31, 2012.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (2)	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs (2)
October 1, 2012 through October 31, 2012 (1)	250	\$ 48.31		
November 1, 2012 through November 30, 2012				
December 1, 2012 through December 31, 2012				
Total	250	\$ 48.31		

(1) Chesapeake purchased shares of common stock on the open market for the purpose of reinvesting the dividend on deferred stock units held in the Rabbi Trust accounts for certain Directors and Senior Executives under the Deferred Compensation Plan. The Deferred Compensation Plan is discussed in detail in Item 8 under the heading "Notes to the Consolidated Financial Statements - Note 15, Employee Benefit Plans." During the quarter, 250 shares were purchased through the reinvestment of dividends on deferred stock units.

(2) Except for the purpose described in Footnote (1), Chesapeake has no publicly announced plans or programs to repurchase its shares. Discussion of our compensation plans, for which shares of Chesapeake common stock are authorized for issuance, is included in the portion of the Proxy Statement captioned "Equity Compensation Plan Information" to be filed no later than March 31, 2013, in connection with our Annual Meeting to be held on or about May 2, 2013, and is incorporated herein by reference.

**(c) Chesapeake Utilities Corporation Common Stock Performance Graph**

The following Stock Performance graph compares cumulative total stockholder return on a hypothetical investment in our common stock during the five fiscal years ended December 31, 2012, with the cumulative total stockholder return on a hypothetical investment in both (i) the Standard & Poor's 500 Index ( "S&P 500 Index" ), and (ii) an industry index consisting of Chesapeake and 10 companies from the current Edward Jones Natural Gas Distribution Group, a published listing of selected gas distribution utilities' results. The Compensation Committee compares the performance of the companies from the Edward Jones Natural Gas Distribution Group to our performance for purposes of determining the level of long-term performance awards earned by our named executive officers.

The 10 companies from the current Edward Jones Natural Gas Distribution Group are: AGL Resources, Inc., Atmos Energy Corporation, Delta Natural Gas Company, Inc., The Laclede Group, Inc., New Jersey Resources Corporation, Northwest Natural Gas Company, Piedmont Natural Gas Company, Inc., RGC Resources, Inc., South Jersey Industries, Inc., and WGL Holdings, Inc.

The comparison assumes \$100 was invested on December 31, 2007 in our common stock and in each of the foregoing indices and assumes reinvested dividends. The comparisons in the graph below are based on historical data and are not intended to forecast the possible future performance of our common stock.

**Table of Contents**

	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
<b>Chesapeake</b>	\$ 100	\$ 103	\$ 109	\$ 145	\$ 156	\$ 169
<b>Industry Index</b>	\$ 100	\$ 107	\$ 111	\$ 130	\$ 151	\$ 147
<b>S&amp;P 500</b>	\$ 100	\$ 63	\$ 80	\$ 92	\$ 94	\$ 109

**Table of Contents****ITEM 6. SELECTED FINANCIAL DATA**

For the Years Ended December 31,	2012	2011	2010
<b><u>Operating</u></b> <sup>(1)</sup>			
<i>(in thousands)</i>			
Revenues			
Regulated Energy	\$ 246,208	\$ 256,226	\$ 269,438
Unregulated Energy	133,049	149,586	146,793
Other	13,245	12,215	11,315
Total revenues	\$ 392,502	\$ 418,027	\$ 427,546
Operating income			
Regulated Energy	\$ 46,999	\$ 43,911	\$ 43,267
Unregulated Energy	8,355	9,619	8,150
Other	1,281	175	513
Total operating income	\$ 56,635	\$ 53,705	\$ 51,930
Net income from continuing operations	\$ 28,863	\$ 27,622	\$ 26,056
<b><u>Assets</u></b>			
<i>(in thousands)</i>			
Gross property, plant and equipment	\$ 697,159	\$ 625,488	\$ 584,385
Net property, plant and equipment	\$ 541,781	\$ 487,704	\$ 462,757
Total assets	\$ 733,746	\$ 709,066	\$ 670,993
Capital expenditures <sup>(1)</sup>	\$ 78,210	\$ 44,431	\$ 46,955
<b><u>Capitalization</u></b>			
<i>(in thousands)</i>			
Stockholders' equity	\$ 256,598	\$ 240,780	\$ 226,239
Long-term debt, net of current maturities	101,907	110,285	89,642
Total capitalization	\$ 358,505	\$ 351,065	\$ 315,881
Current portion of long-term debt	8,196	8,196	9,216
Short-term debt	61,199	34,707	63,958
Total capitalization and short-term financing	\$ 427,900	\$ 393,968	\$ 389,055

(1) These amounts exclude the results of distributed energy and water services due to their reclassification to discontinued operations. We closed our distributed energy operation in 2007. All assets of the water businesses were sold in 2004 and 2003. These amounts also include accruals for capital expenditures that we have incurred for each reporting period.

(2) These amounts include the financial position and results of operation of FPU for the period from the merger (October 28, 2009) to December 31, 2009. These amounts also include the effects of acquisition accounting and issuance of Chesapeake common shares as a result of the merger.

(3) FASB ASC 718, Compensation - Stock Compensation, and FASB ASC 715, Compensation - Retirement Plans, were adopted in the year 2006; therefore, they were not applicable for the years prior to 2006.

**Table of Contents**

2009 <sup>(2)</sup>	2008	2007	2006 <sup>(3)</sup>	2005	2004	2003
\$ 138,671	\$ 116,123	\$ 128,566	\$ 124,438	\$ 124,445	\$ 98,037	\$ 91,990
119,973	161,290	115,190	94,320	90,995	67,607	59,197
10,141	14,030	14,530	12,442	14,045	12,311	12,381
\$ 268,785	\$ 291,443	\$ 258,286	\$ 231,200	\$ 229,485	\$ 177,955	\$ 163,568
\$ 26,668	\$ 23,833	\$ 21,739	\$ 18,618	\$ 16,278	\$ 16,270	\$ 16,208
8,390	3,600	5,244	3,650	4,167	3,185	4,321
(1,322)	1,046	1,131	1,064	1,476	722	1,050
\$ 33,736	\$ 28,479	\$ 28,114	\$ 23,332	\$ 21,921	\$ 20,177	\$ 21,579
\$ 15,897	\$ 13,607	\$ 13,218	\$ 10,748	\$ 10,699	\$ 9,686	\$ 10,079
\$ 543,905	\$ 381,689	\$ 352,838	\$ 325,836	\$ 280,345	\$ 250,267	\$ 234,919
\$ 436,587	\$ 280,671	\$ 260,423	\$ 240,825	\$ 201,504	\$ 177,053	\$ 167,872
\$ 615,811	\$ 385,795	\$ 381,557	\$ 325,585	\$ 295,980	\$ 241,938	\$ 222,058
\$ 26,294	\$ 30,844	\$ 30,142	\$ 49,154	\$ 33,423	\$ 17,830	\$ 11,822
\$ 209,781	\$ 123,073	\$ 119,576	\$ 111,152	\$ 84,757	\$ 77,962	\$ 72,939
98,814	86,422	63,256	71,050	58,991	66,190	69,416
\$ 308,595	\$ 209,495	\$ 182,832	\$ 182,202	\$ 143,748	\$ 144,152	\$ 142,355
35,299	6,656	7,656	7,656	4,929	2,909	3,665
30,023	33,000	45,664	27,554	35,482	5,002	3,515
\$ 373,917	\$ 249,151	\$ 236,152	\$ 217,412	\$ 184,159	\$ 152,063	\$ 149,535

**Table of Contents**

For the Years Ended December 31,	2012	2011	2010
<b>Common Stock Data and Ratios</b>			
Basic earnings per share from continuing operations <sup>(1)</sup>	\$ 3.01	\$ 2.89	\$ 2.75
Diluted earnings per share from continuing operations <sup>(1)</sup>	\$ 2.99	\$ 2.87	\$ 2.73
Return on average equity from continuing operations <sup>(1)</sup>	11.6%	11.6%	11.6%
Common equity / total capitalization	71.6%	68.6%	71.6%
Common equity / total capitalization and short-term financing	60.0%	61.1%	58.2%
Book value per share	\$ 26.74	\$ 25.15	\$ 23.75
Market price:			
High	\$ 48.920	\$ 44.530	\$ 42.200
Low	\$ 39.890	\$ 36.000	\$ 28.010
Close	\$ 45.400	\$ 43.350	\$ 41.520
Average number of shares outstanding	9,586,144	9,555,799	9,474,554
Shares outstanding at year-end	9,597,499	9,567,307	9,524,195
Registered common shareholders	2,396	2,481	2,482
Cash dividends declared per share	\$ 1.44	\$ 1.37	\$ 1.31
Dividend yield (annualized) <sup>(4)</sup>	3.2%	3.2%	3.2%
Payout ratio from continuing operations <sup>(1) (5)</sup>	47.8%	47.4%	47.6%
<b>Additional Data</b>			
Customers			
Natural gas distribution	124,015	121,934	120,230
Electric distribution	31,066	30,986	30,966
Propane distribution	49,312	48,824	48,100
Volumes			
Natural gas deliveries (in Dts)	66,784,690	57,493,022	49,310,314
Electric Distribution (in MWHs)	670,998	694,653	751,507
Propane distribution (in thousands of gallons)	37,438	37,387	39,807
Heating degree-days (Delmarva Peninsula)			
Actual HDD	3,936	4,221	4,831
10-year average HDD (normal)	4,491	4,499	4,528
Heating degree-days (Florida)			
Actual HDD	633	753	1,501
10-year average HDD (normal)	915	920	863
Cooling degree-days (Florida)			
Actual CDD	2,871	2,858	2,859
10-year average CDD (normal)	2,756	2,718	2,695
Propane bulk storage capacity (in thousands of gallons)	3,400	3,351	3,041
Total employees <sup>(1)</sup>	738	711	734

(1) These amounts exclude the results of distributed energy and water services due to their reclassification to discontinued operations. We closed our distributed energy operation in 2007. All assets of the water businesses were sold in 2004 and 2003.

(2) These amounts include the financial position and results of operation of FPU for the period from the merger closing (October 28, 2009) to December 31, 2009.

(3) FASB ASC 718, Compensation - Stock Compensation, and FASB ASC 715, Compensation - Retirement Plans, were adopted in the year 2006; therefore, they were not applicable for the years prior to 2006.

(4) Dividend yield (annualized) is calculated by multiplying the fourth quarter dividend by four (4), then dividing that amount by the closing common stock price at December 31.

(5)

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The payout ratio from continuing operations is calculated by dividing cash dividends declared per share (for the year) by basic earnings per share from continuing operations.

Chesapeake Utilities Corporation 2012 Form 10-K Page 29

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**Table of Contents**

<b>2009<sup>(2)</sup></b>	<b>2008</b>	<b>2007</b>	<b>2006<sup>(3)</sup></b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
\$ 2.17	\$ 2.00	\$ 1.96				