



STATE OF DELAWARE

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TO: The Chair and Members of the Commission

FROM: Jason R. Smith
Public Utility Analyst II

SUBJECT: IN THE MATTER OF THE APPLICATION OF CHESAPEAKE UTILITIES CORPORATION FOR APPROVAL OF THE ISSUANCE OF COMPANY STOCK AND LONG-TERM DEBT (FILED SEPTEMBER 25, 2014) – PSC DOCKET NO. 14-0418

Application:

On September 25, 2014, Chesapeake Utilities Corporation (“Chesapeake” or the “Company”), filed an application requesting approval for the issuance of up to \$110,000,000 of Chesapeake unsecured long-term debt securities (“LTD”) in addition to the issuance of approximately 2,250,000 shares of common stock for a total of \$90,000,000 in equity. If this application is approved, the Company anticipates using the proceeds to finance capital expenditures and working capital requirements over the next twelve to eighteen months.

Chesapeake’s expected capital expenditures for 2014 are primarily investments in its regulated natural gas distribution and transmission business segments. The Company also expects that additional equity and debt will be needed to finance capital expenditures in 2015 primarily for the Company’s regulated energy division keeping in alignment with the Company’s strategic plan. Additionally, the Company has advised that depending on the timing of these capital requirements and funding of the new issue debt, it’s possible the Company may utilize the proceeds of the newly-issued debt to pay down a portion of its outstanding debt under its short-term revolving lines of credit. The Company has requested Commission approval at this time because it intends to execute a note agreement within the next few months.

Pending the outcome of this application, the Board of Directors of Chesapeake (“BOD”) will be requested to authorize the officers of the Company to proceed with the issuance of up to \$110,000,000 of the LTD over the next twelve to eighteen months. In addition, the Company is exploring the possibility of utilizing a revolving loan facility (the “facility”) in order to diversify the Company’s long-term debt portfolio. The Company believes that a committed facility would allow it to have the flexibility to borrow and pay down debt for up to five years.

Chesapeake believes the LTD issuance to be competitive in relation to the interest cost associates with the rates. Presently, the Company expects the interest rate on up to \$110,000,000 of new debt to be at or below 4.00%. This would be in addition to any premium charged for the delayed drawdown, which the Company expects to be less than 0.50%.

The Company maintains that the private placement of long-term debt with insurance companies continues to be an attractive source of funding for the Company. While the Company has not executed unsecured debt agreements at this time, it is seeking approval as it intends to secure these agreements within the next few months.¹ The Company believes the new debt issuance will have terms and conditions similar to the most recent Note Agreement in the last application the Commission considered.²

Lastly, Chesapeake is requesting approval to issue approximately 2,250,000 shares of voting common stock (post-split)³ for a total of \$90,000,000 to fund the known capital expenditures of \$148,946,000 plus potential future capital projects. The Company believes any common stock issuances will be well received by investors.

Staff's Review:

Staff performed a review of the application and additional supporting documents provided by the Company for accuracy and completeness. The mathematical calculations of the schedules provided in the application were also reviewed. Staff has calculated the before and after issuance of the debt to equity rates and summarized the percentages in the chart below.

	Before Issuance	After Issuance
Debt Percentage	43.09%	46.76%
Equity Percentage	56.91%	53.24%

The Company has represented that this debt issuance is consistent with its current debt covenants which limit the level of unsecured debt to total capitalization to 65%.

Staff has also reviewed a copy of a legal opinion dated September 25, 2014, by Parkowski, Guerke & Swayze for Chesapeake regarding the legality of the proposed issuance of up to 2,250,000 shares of voting common stock and up to \$110,000,000 in LTD. This legal

¹ In order to ensure long-term liquidity, the Company may enter bank revolving credit and private placement shelf facilities in a combined amount exceeding the \$110,000,000 requested in the Application, but Chesapeake will limit funding to \$110,000,000 under further necessary required notice and approvals.

² The Company's most recent Note Agreement was filed with the Commission on May 30, 2014, under PSC Docket No. 13-242.

³ Please see the Application filed by Chesapeake for PSC Docket No. 14-0412 which was filed on September 17, 2014 requesting approval to increase the total allowed issuance of shares of Chesapeake common stock due to the Company's Board of Directors recently approving a three-for-two stock split.

opinion represented that based on its knowledge of the applicable statute (26 *Del. C.* §215) and its regulatory and judicial interpretation and application, the proposed issuance of unsecured notes for the purposes set forth in the application is valid and in accordance with law, subject to any necessary approval on the part of the Maryland and/or Florida Public Service Commission, compliance by Chesapeake with all applicable federal securities laws, and approval of the Board of Directors of Chesapeake.

Staff's Recommendation:

Staff's review indicates that the Company has complied with the filing requirements to issue up to 2,250,000 shares of the Company's voting common stock and the issuance of up to \$110,000,000 in LTD pursuant to 26 *Del. C.* §215, in that the issuance is made in accordance with law, is made for a proper purpose, and is consistent with the public interest. Therefore, Staff respectfully recommends that the Commission approve Chesapeake's application for the reasons stated above and subject to the conditions that (i) Chesapeake's Delaware Division may not construe this approval as a ratemaking treatment for future case filings; (ii) Chesapeake must obtain the prior approval of its BOD as to the actual amount of stock to be issued and the terms and conditions of any issuance; (iii) within 30 days of the closing of the issuance of the \$110,000,000 of LTD, the Company must file copies of its fully executed note agreement for this application with the Commission; and (iv) Chesapeake must obtain any additional necessary approvals from the Maryland and/or Florida Public Service Commission and comply with all applicable federal securities laws.