

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for authorization to issue common stock, preferred stock and secured and/or unsecured debt, and to enter into agreements for interest rate swap products, equity products and other financial derivatives, and to exceed limitation placed on short-term borrowings in 2015, by Chesapeake Utilities Corporation.

DOCKET NO. 140224-GU
ORDER NO. PSC-15-0065-FOF-GU
ISSUED: January 23, 2015

The following Commissioners participated in the disposition of this matter:

ART GRAHAM, Chairman
LISA POLAK EDGAR
RONALD A. BRISÉ
EDUARDO E. BALBIS
JULIE I. BROWN

FINAL ORDER GRANTING APPROVAL TO ISSUE AND SELL SECURITIES

BY THE COMMISSION:

Chesapeake Utilities Corporation (Chesapeake or Company) filed an application on November 20, 2014, seeking authority to issue common stock, preferred stock and secured and/or unsecured debt, and to enter into agreements for interest rate swap products, equity products and other financial derivatives, and to exceed limitation placed on short-term borrowings in 2015. Notice of Chesapeake's application was published in the Florida Administrative Register on November 26, 2014.

The Company seeks authority in 2015, pursuant to Section 366.04, Florida Statutes, to issue up to 9,765,000 shares of Chesapeake common stock, up to 1,000,000 shares of Chesapeake preferred stock; up to \$300,000,000 in secured and/or unsecured debt; to enter into agreements up to \$150,000,000 in Interest Rate Swap Products, Equity Products and other Financial Derivatives; and to obtain authorization to exceed the limitation placed on short-term borrowings by Section 366.04, Florida Statutes, so as to issue short-term obligations in 2015, in an amount not to exceed \$210,000,000.

Chesapeake Utilities Corporation allocates funds to the Florida Division, Florida Public Utilities, and Indiantown Gas Company on an as-needed basis, although in no event shall such allocations exceed 75 percent of the proposed equity securities (common stock and preferred stock), long-term debt, short-term debt, interest rate swap products, equity products, and financial derivatives.

Chesapeake proposes to issue up to 465,000 new shares of its common stock during 2015 for the purpose of administering the Company's Retirement Savings Plan, Stock and Incentive Compensation Plan, and Dividend Reinvestment and Stock Purchase Plan, and for the conversion of the Company's Convertible Debentures. The share breakdown for each specific purpose is as follows:

| Number of Shares | Purpose |
|-------------------------|---|
| 105,000 | Issuance pursuant to the Company's Retirement Savings Plan. |
| 180,000 | Issuance under the terms of the Company's Stock and Incentive Compensation Plan. |
| 180,000 | Issuance pursuant to the Company's Dividend Reinvestment and Stock Purchase Plan. |

In addition, Chesapeake seeks approval to issue up to 1,800,000 shares of Chesapeake stock or an equity-linked instrument equivalent in value in 2015 to permanently finance Chesapeake's ongoing capital expenditure program. The capital expenditure program is subject to continuous review and modification and is funded from short-term borrowings and cash provided by operating activities. The Company may, from time to time, permanently finance its short-term borrowings through the issuance of common stock or an equity-linked instrument, as opposed to long-term debt.

Chesapeake also requests authorization to issue up to \$210,000,000 in secured and/or unsecured debt during 2015 for general corporate purposes including, but not limited to, working capital, retirement of short-term debt, retirement of long-term debt and capital improvements and acquisitions.

Due to the nature of typical cash for stock acquisitions, the \$210,000,000 in secured and/or unsecured debt may be initially issued through a bridge loan in the form of notes held by banks or some similar form of short-term obligations. For this reason, Chesapeake seeks our authorization to exceed the limitation placed on short-term borrowings by Section 366.04, Florida Statutes, so as to issue short-term obligations in an amount not to exceed \$300,000,000 during 2015. The bridge financing could be under a Revolving Credit Facility up to five years and subsequently be refinanced as unsecured long-term debt with an estimated rate of interest of up to 300 basis points above U.S. Treasury rates (or extrapolated U.S. Treasury rates) with equivalent average life.

In this application, Chesapeake also requests our authorization to issue up to 1,000,000 shares of Chesapeake preferred stock in 2015, for possible acquisitions, financing transactions, and other general corporate purposes, including potential distribution under the Company's Shareholder Rights Agreement ("Rights Agreement") adopted by the Board of Directors on August 20, 1999, and subsequently, modified and extended by the Board of Directors on September 12, 2008. On September 12, 2008, the Board extended the expiration of the Rights

from August 20, 2009 to August 20, 2019 and increased the Exercise Price per share from \$54.56 to \$105.

Chesapeake further seeks our approval to enter into financial agreements with institutions in 2015 to negotiate and execute financial derivatives enabling the Company to lock in its future financing costs and minimize its risk. A financial derivative is a risk-shifting agreement, the value of which is derived from the value of an underlying asset. The underlying asset could be a physical commodity, an interest rate, a company's stock, a stock index, a currency, or virtually any other tradable instrument upon which two parties can agree. A financial derivative can be used for hedging, protecting against financial risk, or can be used to speculate on the movement of commodity or security prices, interest rates or the levels of financial indices. Financial derivatives fall into two categories. One consists of customized, privately negotiated derivatives, referred to as over-the-counter (OTC) derivatives or swaps. The other category consists of standardized, exchangeable derivatives, known generically as futures. In addition, there are various types of products within each of the two categories.

In its application, the Company identified some of the financial derivatives that the Company may evaluate in 2015, although the listing is not intended to be all-inclusive. Rather, the Company seeks approval to evaluate and employ those financial derivatives that would mitigate its financial risk associated with a particular financing transaction(s). Chesapeake is proposing to have the flexibility and authority to enter into the following (a) Treasury rate locks, credit spread locks, interest rate swaps, collars, caps and/or floors (the "Interest Rate Swap products"); (b) equity collars, floors, prepaid forward contracts, covered calls, forward sales and purchases and/or equity-linked instruments (the "Equity Products"); or (c) any other Financial Derivatives that meet the objectives described above on such terms as Chesapeake considers to be appropriate, provided that the notional amount(s) for said Interest Rate Swap Products, Equity Products, and/or other Financial Derivatives do not, in the aggregate, exceed the sum of \$150,000,000.

After reviewing the application, we find that the issuance and sale of the aforementioned securities will not impair the ability of Chesapeake to perform the services of a public utility. These transactions are for lawful purposes within the Company's corporate powers. As such, the application is granted subject to the conditions stated herein.

Our approval of the proposed issuance of securities by Chesapeake does not indicate specific approval of any rates, terms, or conditions associated with the issuance. Such matters are properly reserved for review by this Commission within the context of a rate proceeding.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the application of Chesapeake Utilities Corporation to issue up to 9,765,000 shares of Chesapeake common stock, up to 1,000,000 shares of Chesapeake preferred stock, up to \$300,000,000 in secured and/or unsecured debt, and to enter into agreements up to \$150,000,000 for Interest Rate Swap Products, Equity Products and other Financial Derivatives during 2015, is approved. It is further

ORDERED by the Florida Public Service Commission that the application of Chesapeake Utilities Corporation to issue short-term obligations in an amount not to exceed \$210,000,000 during 2015, as discussed within the body of this Order, is approved. It is further

ORDERED that Chesapeake Utilities Corporation may allocate funds to the Florida Division, Florida Public Utilities, and Indiantown Gas Company on an as-needed basis, although in no event shall such allocations exceed 75 percent of the proposed equity securities (common stock and preferred stock), long-term debt, short-term debt, interest rate swap products, equity products, and financial derivatives. It is further

ORDERED that Chesapeake Utilities Corporation shall file a consummation report in compliance with Rule 25-8.009, Florida Administrative Code, within 90 days of the end of the fiscal year in which it issues any securities authorized by this Order. It is further

ORDERED that this docket shall remain open until April 25, 2016, to monitor the issuance and/or sale of securities until Chesapeake Utilities Corporation submits, and we have reviewed, the consummation report, at which time it shall be closed administratively.

By ORDER of the Florida Public Service Commission this 23rd day of January, 2015.



CARLOTTA S. STAUFFER
Commission Clerk
Florida Public Service Commission
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Copies furnished: A copy of this document is provided to the parties of record at the time of issuance and, if applicable, interested persons.

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

Any party adversely affected by the Commission's final action in this matter may request: 1) reconsideration of the decision by filing a motion for reconsideration with the Office of Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, within fifteen (15) days of the issuance of this order in the form prescribed by Rule 25-22.060, Florida Administrative Code; or 2) judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or the First District Court of Appeal in the case of a water and/or wastewater utility by filing a notice of appeal with the Office of Commission Clerk, and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days after the issuance of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.