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

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

Date of Report (Date of Earliest Event Reported): November 9, 2023

Chesapeake Utilities Corporation
(Exact name of registrant as specified in its charter)

Delaware	001-11590	51-0064146
(State or other jurisdiction of incorporation)	(Commission File Number)	(I.R.S. Employer Identification No.)

500 Energy Lane, Dover, Delaware	19901
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: 302. 734.6799

Not Applicable
Former name or former address, if changed since last report

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock - par value per share $0.4867	CPK	New York Stock Exchange

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company ☐

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

Item 8.01 Other Events

As previously disclosed, on September 26, 2023, Chesapeake Utilities Corporation, a Delaware corporation (the "Company"), entered into a stock purchase agreement (the "Purchase Agreement") with Florida Power & Light Company, a Florida corporation ("FPL"), to acquire all of the outstanding common shares of Pivotal Utility Holdings, Inc., a wholly owned subsidiary of FPL doing business as Florida City Gas ("FCG"), for approximately $923.4 million in cash, subject to customary purchase price adjustments (the "Acquisition"). The Purchase Agreement is subject to the satisfaction of customary closing conditions, including the expiration of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, which occurred on November 6, 2023, and certain regulatory financing approvals in various jurisdictions, which have been received as of the date hereof. Subject to the satisfaction or waiver of the remaining conditions and the other terms and conditions of the Purchase Agreement, the Acquisition is expected to close in the fourth quarter of 2023.

The Company expects to fund the purchase price of the Acquisition with the net proceeds of an equity offering and from the expected issuance of approximately $550 million principal amount of uncollateralized senior notes (the "New Notes") and additional borrowings under its existing unsecured revolving credit facility.

We have locked in an annual weighted interest rate of 6.54% for the following terms for these New Notes: $100 million for each of three, four, five, seven and ten year terms as well as $50 million under a total fifteen year/ten year average term. Although we have not signed a note purchase agreement as of the date of this report, we expect to do so prior to closing the Acquisition. The New Notes are expected to have terms and conditions that are similar to our more recently issued uncollateralized senior notes.

In connection with the Acquisition, the Company is filing this Current Report on Form 8-K to provide certain historical financial statements of FCG and pro forma financial information of the Company including FCG.

Item 9.01 Financial Statements and Exhibits.

(a) *Financial statements of business acquired.*

Audited financial statements of Pivotal Utility Holdings, Inc. (d/b/a Florida City Gas), comprised of the balance sheets as of December 31, 2022 and 2021, the related statements of income, changes in equity and cash flows for each of the years in the two-year period ended December 31, 2022 and the related notes to the financial statements, are attached hereto as Exhibit 99.1.

Unaudited financial statements of Pivotal Utility Holdings, Inc. (d/b/a Florida City Gas), comprised of the balance sheets as of September 30, 2023 and December 31, 2022, the related statements of income and changes in equity for the three and nine months ended September 30, 2023 and 2022, the statement of cash flows for the nine months ended September 30, 2023 and 2022, and the related notes to the financial statements, are attached hereto as Exhibit 99.2.

(b) *Pro forma financial information.*

The unaudited pro forma condensed financial information of Chesapeake Utilities Corporation as of September 30, 2023, for the year ended December 31, 2022 and for the nine months ended September 30, 2023, giving effect to the Acquisition, are attached hereto as Exhibit 99.3.

(d) Exhibits.

Exhibit Numbers	Description
23.1	Consent of Deloitte & Touche LLP, independent auditors for Pivotal Utility Holdings, Inc. (d/b/a Florida City Gas).
99.1	Audited financial statements of Pivotal Utility Holdings, Inc. (d/b/a Florida City Gas) as of December 31, 2022 and 2021 and for the two years ended December 31, 2022.
99.2	Unaudited financial statements of Pivotal Utility Holdings, Inc. (d/b/a Florida City Gas) as of September 30, 2023 and December 31, 2022, and for the three and nine months ended September 30, 2023 and 2022.
99.3	Unaudited pro forma condensed combined financial information of Chesapeake Utilities Corporation as of September 30, 2023, for the year ended December 31, 2022 and for the nine months ended September 30, 2023.
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

	Chesapeake Utilities Corporation	
November 9, 2023	By:	*/s/ Beth W. Cooper*
	Name:	*Beth W. Cooper*
	Title:	Executive Vice President, Chief Financial Officer, Treasurer, and Assistant Corporate Secretary

Exhibit 23.1

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in Registration Statement Nos. 333-250803, 333-274203, and 333-274284 on Form S-3ASR and Registration Statement Nos. 333-192198 and 333-271610 on Form S-8 of Chesapeake Utilities Corporation of our report dated October 31, 2023, relating to the financial statements of Pivotal Utility Holdings, Inc. d/b/a Florida City Gas appearing in this Current Report on Form 8-K dated November 9, 2023.

/s/ Deloitte & Touche LLP

Boca Raton, Florida

November 9, 2023

Pivotal Utility Holdings, Inc. (d/b/a Florida City Gas)
Financial Statements as of and for the
Years Ended December 31, 2022 and December 31, 2021
(Audited)

Deloitte & Touche LLP
Certified Public Accountants
Suite 200
1800 North Military Trail
Boca Raton, FL 33431-6386
USA

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INDEPENDENT AUDITOR'S REPORT

Pivotal Utility Holdings, Inc.
700 Universe Blvd.
Juno Beach, FL

Opinion

We have audited the financial statements of Pivotal Utility Holdings, Inc. d/b/a Florida City Gas (the "Company"), which comprise the balance sheets as of December 31, 2022 and 2021, and the related statements of income, changes in equity, and cash flows for the years then ended, and the related notes to the financial statements (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company’s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

/s/ Deloitte & Touche LLP

October 31, 2023

BALANCE SHEETS
Pivotal Utility Holdings, Inc. (d/b/a Florida City Gas)
At December 31, 2022 and 2021

Assets	2022	2021
	(in thousands)	
Current Assets:		
Cash	**$ 5,796**	$ 7,067
Receivables —		
Customer accounts receivable	**9,343**	8,242
Unbilled and deferred clause revenues	**6,776**	5,772
Due from affiliates	**142**	—
Other accounts receivable	**140**	106
Accumulated provision for uncollectible accounts	**(610)**	(793)
Materials and supplies	**14**	14
Natural gas for sale	**582**	441
Prepaid expenses	**1,585**	1,335
Regulatory assets, current	**8,080**	5,896
Total current assets	**31,848**	28,080
Property, Plant, and Equipment:		
In service	**577,240**	549,501
Less: Accumulated depreciation	**172,519**	163,024
Plant in service, net of depreciation	**404,721**	386,477
Construction work in progress	**72,377**	30,801
Total property, plant, and equipment	**477,098**	417,278
Deferred Charges and Other Assets:		
Regulatory assets, deferred	**4,339**	5,713
Prepaid pension asset	**3,750**	2,603
Right-of-use asset	**7,432**	7,974
Prepaid software service costs	**9,822**	10,056
Deferred software implementation costs	**4,779**	5,077
Miscellaneous deferred debits	**3,754**	399
Deferred rate case expenses	**1,737**	73
Other deferred charges and assets	**17**	211
Total deferred charges and other assets	**35,630**	32,106
Total Assets	**$ 544,576**	$ 477,464

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

BALANCE SHEETS
Pivotal Utility Holdings, Inc. (d/b/a Florida City Gas)
At December 31, 2022 and 2021

Liabilities and Stockholder's Equity	2022	2021
	(in thousands)	
Current Liabilities:		
Due to affiliates	**$ 7,234**	$ 2,738
Accounts payable	**20,132**	7,604
Customer deposits	**4,391**	3,820
Accrued taxes —		
Accrued income taxes	**3,104**	3,725
Other accrued taxes	**977**	1,213
Accrued compensation	**2,434**	2,601
Current portion of long-term debt	**25,150**	24,375
Regulatory liabilities, current	**3,011**	2,343
Construction accruals	**3,725**	242
Other current liabilities	**2,123**	1,489
Total current liabilities	**72,281**	50,150
Long-Term Debt	**176,150**	170,625
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes, net	**34,597**	33,048
Accrued removal costs	**39,770**	37,742
Other regulatory liabilities	**19,087**	20,091
Long-term lease obligation	**6,867**	7,431
Other noncurrent liabilities	**117**	107
Total deferred credits and other liabilities	**100,438**	98,419
Total Liabilities	**348,869**	319,194
Stockholder's Equity:		
Total Stockholder's Equity	**195,707**	158,270
Total Liabilities and Stockholder's Equity	**$ 544,576**	$ 477,464

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

STATEMENTS OF INCOME
Pivotal Utility Holdings, Inc. (d/b/a Florida City Gas)
For the Years Ended December 31, 2022 and 2021

	2022	2021
	(in thousands)	
Operating Revenues	**$ 118,491**	$ 111,407
Operating Expenses:		
Cost of natural gas	**33,414**	23,486
Other operations and maintenance	**33,868**	31,365
Depreciation and amortization	**17,959**	23,528
Taxes other than income taxes	**10,328**	9,115
Total operating expenses	**95,569**	87,494
Operating Income	**22,922**	23,913
Other Income and (Expense):		
Interest expense	**(6,584)**	(4,447)
Other income (expense), net	**35**	1
Total other income and (expense)	**(6,549)**	(4,446)
Earnings Before Income Taxes	**16,373**	19,467
Income taxes	**3,636**	4,241
Net income	**$ 12,737**	$ 15,226

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

STATEMENTS OF CHANGES IN EQUITY
Pivotal Utility Holdings, Inc. (d/b/a Florida City Gas)
For the Years Ended December 31, 2022 and 2021

(in thousands)	Number of Common Shares	Paid-in Capital	Retained Earnings	Total
Balance, December 31, 2020	**12,807**	**$151,381**	**$ 11,663**	**$163,044**
Dividends to Parent	—		(20,000)	(20,000)
Net Income	—	—	15,226	15,226
Balance, December 31, 2021	**12,807**	**$151,381**	**$ 6,889**	**$158,270**
Contributions from Parent	—	24,700	—	24,700
Net Income	—	—	12,737	12,737
Balance, December 31, 2022	**12,807**	**$176,081**	**$ 19,626**	**$195,707**

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

STATEMENTS OF CASH FLOWS
Pivotal Utility Holdings, Inc. (d/b/a Florida City Gas)
For the Years Ended December 31, 2022 and 2021

	2022	2021
	(in thousands)	
Operating Activities:		
Net income	**$ 12,737**	$ 15,226
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**17,959**	23,528
Other amortization	**885**	1,101
Changes in deferred income taxes	**701**	431
Cost recovery clauses and franchise fees	**(2,190)**	(3,190)
Changes in operating assets and liabilities		
Current assets	**(2,333)**	1,165
Noncurrent assets	**(2,201)**	2
Current liabilities	**2,332**	702
Noncurrent liabilities	**(20)**	(5)
Net cash provided by operating activities	**27,870**	38,960
Investing Activities:		
Capital expenditures	**(59,652)**	(43,639)
Other	**54**	—
Net cash used in investing activities	**(59,598)**	(43,639)
Financing Activities:		
Dividends to parent	**—**	(20,000)
Issuances of related party debt	**31,000**	25,000
Other	**(543)**	(522)
Net cash provided by financing activities	**30,457**	4,478
Net change in cash	**(1,271)**	(201)
Cash at the Beginning of the Period	**7,067**	7,268
Cash at the End of the Period	**$ 5,796**	$ 7,067
Supplemental Disclosure of Cash Flow Information		
Cash paid during the period for interest	**6,410**	4,266
Cash paid during the period for federal income taxes	**3,196**	496
Cash paid (received) during the period for state income taxes	**360**	(385)
Supplemental Disclosure of Non-cash Investing and Financing Activities		
Non-cash contribution for capital structure rebalancing	**24,700**	—
Accrued but not paid for capital expenditures	**21,333**	2,968

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

I. ORGANIZATION AND BUSINESS

Pivotal Utility Holdings, Inc. (Pivotal Utility) d/b/a Florida City Gas (the Company) engages in the sale and distribution of natural gas to approximately 118 thousand customers in Florida's Miami-Dade, Brevard, St. Lucie and Indian River counties. Pivotal Utility is a wholly owned subsidiary of Florida Power & Light Company (FPL), and FPL is a wholly owned subsidiary of NextEra Energy, Inc. (NextEra Energy).

II. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - The financial statements included herein are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles in the United States of America (GAAP).

Net income and comprehensive income are the same for the years ended December 31, 2022 and 2021.

Use of Estimates - The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Regulatory Accounting - As a public utility operating in Florida, the Company is subject to rate regulation by the Florida Public Service Commission (FPSC). Its rates are designed to recover the cost of providing service to its customers including a reasonable rate of return on invested capital. As a result of this cost-based regulation, the Company follows the accounting guidance that allows regulators to create assets and impose liabilities that would not be recorded by non-rate regulated entities. Regulatory assets and liabilities represent probable future revenues that will be recovered from or refunded to customers through the ratemaking process.

Cost recovery clauses, which are designed to permit full recovery of certain costs and provide a return on certain assets allowed to be recovered through various clauses, including purchased gas and the Company's Safety, Access, and Facility Enhancement (SAFE) program. Revenues from cost recovery clauses are recorded when billed; the Company achieves matching of costs and related revenues by deferring the net under-recovery or over-recovery. Any under-recovered costs or over-recovered revenues are collected from or returned to customers in subsequent periods.

See Note 3 - Regulatory Matters for additional information.

Revenue Recognition - The Company records revenues when goods or services are provided to customers. Those revenues are based on rates approved by the FPSC. The Company has a rate structure that includes a volumetric rate design that allows the opportunity to recover certain costs based on gas usage. Revenues from sales and transportation services are recognized in the same period in which the related volumes are delivered to customers. Revenues from residential and certain commercial and industrial customers are recognized based on scheduled meter readings. Additionally, unbilled revenues are recognized for estimated deliveries of natural gas not yet billed to these customers, from the last bill date to the end of the accounting period. For other commercial and industrial customers, revenues are based on actual deliveries to the end of the period. The Company has a diversified base of customers. No single customer or industry comprises 10% or more of revenues. For all periods presented, uncollectible accounts averaged less than 1% of revenues.

Property, Plant and Equipment – Property, plant and equipment (PP&E) consists primarily of gas assets. PP&E is recorded at cost and depreciated on a straight-line average remaining life basis. Accumulated depreciation consists of the cost of units of utility property retired less estimated net salvage value. Maintenance and repairs of property as well as replacements and renewals of items determined to be less than units of utility property are charged to Other operations and maintenance expenses.

Construction work in progress includes construction materials, progress payments on major equipment contracts, third-party engineering costs and other costs directly associated with the construction of various projects. Upon completion of the projects, these costs are transferred to utility plant in service.

See Note 4 – Property, Plant and Equipment for additional information.

Cost of Natural Gas - The Company charges its customers for natural gas consumed using a natural gas cost recovery mechanism set by the FPSC, under which all prudently incurred natural gas costs are passed through to customers without markup, subject to regulatory review. The Company defers or accrues the difference between the actual cost of natural gas and the amount of commodity revenue earned in a given period such that no operating income is recognized related to these costs. The deferred or accrued amount is either billed or refunded to customers prospectively through adjustments to the commodity rate. Deferred and accrued natural gas costs are included in the balance sheets as regulatory assets and regulatory liabilities, respectively.

Income and Other Taxes - The Company uses the liability method of accounting for deferred income taxes and provides deferred income taxes for all income tax temporary differences. Taxes that are collected from customers on behalf of governmental agencies to be remitted to these agencies are presented on the balance sheet.

The Company recognizes tax positions that are “more likely than not” of being sustained upon examination by the appropriate taxing authorities. See Note 9 - Unrecognized Tax Benefits for additional information.

Receivables and Provision for Uncollectible Accounts - The Company’s receivables consist primarily of natural gas sales and transportation services billed to residential, commercial, industrial, and other customers. Customers are billed monthly and payment is due within 30 days. For the majority of receivables, a provision for uncollectible accounts is established based on historical collection experience and other factors. For the remaining receivables, if the Company is aware of a specific customer’s inability to pay, a provision for uncollectible accounts is recorded to reduce the receivable balance to the amount the Company reasonably expects to collect. If circumstances change, the estimate of the recoverability of accounts receivable could change as well. Circumstances that could affect this estimate include, but are not limited to, customer credit issues, customer deposits, and general economic conditions. Customers’ accounts are written off once they are deemed to be uncollectible.

The Company applies the current expected credit loss (CECL) model, to account for credit Losses for certain financial assets, including customer receivables. The CECL model requires an entity to consider current conditions and reasonable and supportable forecasts in addition to historical information when developing an allowance for credit losses. The Company books the estimate of lifetime credit losses in the month revenue is recognized or in the month losses on previously recognized revenues are identified. As of December 31, 2022 and 2021, the Company has a provision for uncollectible customer accounts of approximately $0.6 million and $0.8 million, respectively.

Materials and Supplies - Generally, materials and supplies are charged to inventory when purchased and then expensed or capitalized to plant, as appropriate, at weighted average cost when installed.

Natural Gas for Sale - The Company’s natural gas inventories are carried at cost on a weighted average cost of gas basis.

Internal-Use Software - The Company defers qualifying implementation costs incurred to develop or obtain internal use software associated with cloud computing and hosting arrangements. As of December 31, 2022 and 2021, the Company has recognized approximately $4.8 million and $5.1 million, respectively, in Deferred software implementation costs. The costs are included in depreciation and amortization over the 20-year term of the arrangement. As of December 31, 2022 and 2021, the Company has approximately $0.7 million and $0.7 million, respectively, of current Prepaid expenses, and $9.8 million and $10.1 million, respectively, of Prepaid software service costs relating to perpetual licensing fees which is being amortized to Other operations and maintenance expenses over the 20 year life of the arrangement.

Fair Value of Financial Instruments - The carrying amount of financial instruments, including receivables, accounts payable, due to affiliates, other current assets and liabilities and accrued interest, approximates fair value due to the short maturity of these instruments.

III. REGULATORY MATTERS

Base Rates

In March 2018, the FPSC issued an order approving a stipulation and settlement between the Company and several intervenors in the Company’s base rate proceeding that, after including the impact of the tax reform legislation, approved an $11.5 million increase in annual base rate revenues, effective June 1, 2018. The stipulation and settlement also approved the Company to recover the construction costs related to a liquefied natural gas storage facility through an increase in rates to become effective when the facility is placed in service. The storage facility will improve reliability and capacity at the southern section of the Company’s system. Under the terms of the settlement, the Company’s allowed regulatory ROE was 10.19%, with a range of 9.19% to 11.19%. However, if the Company’s earned regulatory ROE falls below 9.19%, the Company could seek retail rate relief. If the earned regulatory ROE rises above 11.19%, any party withstanding, other than the Company, could seek a review of the Company’s retail base rates. The Company agreed not to file a new base rate case with an effective date prior to June 1, 2022.

On May 31, 2022, the Company filed a general base rate increase with the FPSC (2022 base rate case) based on a projected 2023 Test Year. On June 9, 2023, the FPSC issued an order approving a single total base revenue increase of $23.3 million (which included an incremental increase of $14.1 million, a previously approved increase of $3.8 million for a liquefied natural gas facility, and $5.3 million to transfer the SAFE investments from clause to base), with new rates becoming effective as of May 1, 2023. The FPSC approved an allowed regulatory ROE of 9.5% with a range of 8.5% to 10.5%, and an equity ratio of 59.6%. The Commission also approved the Company's proposed reserve surplus amortization mechanism (RSAM) with a $25 million reserve amount, continuation and expansion of the capital SAFE program, implementation of an automated metering infrastructure pilot, and continuation of the storm damage reserve with a target reserve of $800,000. On June 23, 2023, the Office of Public Counsel (OPC) filed a motion for reconsideration of the FPSC's approval of RSAM, which was denied on September 12, 2023. On July 7, 2023, OPC filed a notice of appeal with the Florida Supreme Court, which is pending.

Regulatory Assets and Liabilities

The Company is subject to accounting requirements for the effects of rate regulation. Regulatory assets represent probable future revenues associated with certain costs that are expected to be recovered from customers through the ratemaking process. Regulatory liabilities represent probable future reductions in revenues associated with amounts that are expected to be credited to customers through the ratemaking process.

Regulatory assets and liabilities reflected in the balance sheets at December 31, relate to:

	2022	2021
	(in thousands)	
Regulatory Assets:		
Current:		
Regulatory infrastructure programs	$ 487	$ 558
Natural gas costs	6,522	2,889
Energy conservation program	158	1,292
Competitive rate adjustment	913	691
Underrecovered SAFE/Franchise Costs	—	466
Total	$ 8,080	$ 5,896
Noncurrent:		
Regulatory infrastructure programs	$ 1,106	$ 1,593
Deferred customer conversion costs	2,671	3,101
Recoverable pension and retiree welfare benefit costs	20	139
Deferred piping	272	243
Deferred income tax adjustment	—	213
Unamortized Loss on Reacquired Debt	270	424
Total	$ 4,339	$ 5,713
Regulatory Liabilities:		
Current:		
Overrecovered SAFE/Franchise Costs	$ 146	—
Unbilled Revenue	2,865	2,343
Total	$ 3,011	$ 2,343
Noncurrent:		
Deferred income tax credits(*)	$18,882	$19,943
Asset removal costs	39,770	37,742
Storm Damage Reserve	205	148
Total	$58,857	$57,833

(*) Includes excess deferred income tax liabilities resulting from the Tax Cuts and Jobs Act that was signed into law on December 22, 2017 and became effective January 1, 2018 (Tax Reform Legislation).

In the event that the Company's operations are no longer subject to the accounting rules applicable for rate regulation, the Company would be required to write off to income the existing regulatory assets and liabilities unless regulators specify an alternative means of recovery or refund. In addition, the Company would be required to determine if any impairment to other assets, including plant, exists and write down the assets, if impaired, to their fair values. All regulatory assets and liabilities are to be reflected in rates.

Cost Recovery Clauses

Cost recovery clauses are designed to permit full recovery of certain costs and provide a return on certain assets allowed to be recovered through these clauses. Generally, these clause charges are calculated annually based on estimated costs and estimated customer usage for the following year, plus or minus true-up adjustments to reflect the estimated over or under recovery of costs for the current and prior periods. The Company's regulatory assets and liabilities related to cost recovery clauses represent the under and over recovery balances and the regulatory infrastructure program costs, which are recovered through specific rate riders on a dollar-for-dollar basis. The rate riders that authorize the recovery of regulatory infrastructure program costs include both a recovery of cost and a return on investment during the recovery period.

In 2015, the FPSC approved the Company's SAFE program, under which costs incurred for replacing aging pipes are recovered through a rate rider with annual adjustments and true-ups. Under the program, the Company is authorized to spend $105 million over a 10-year period on infrastructure relocation and enhancement projects. As part of its 2022 base rate case, the FPSC approved the Company's request to (i) continue the SAFE program beyond 2025 and (ii) expand the SAFE program to include the replacement of approximately 160 miles of early vintage polymer pipelines.

In 2012, the Company developed a project that makes use of the Area Extension Program (AEP) provided for in its tariff. Under the AEP, the Company is authorized to recover the costs to extend service to a single point or multiple points in a geographical area when the cost of the facilities exceeds the maximum allowable investment under its tariff and the margin from the investment. The AEP charge is initially set at a rate sufficient to recover the investment in ten years from the date the project is placed in service. The Company reassesses the amount of additional revenue required to recover the unamortized excess cost of the facilities and re-calculated the AEP charge multiple times during the ten-year recovery period.

IV. PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment is stated at original cost less any regulatory disallowances and impairments. Original cost includes: materials; labor; minor items of property; appropriate administrative and general costs; payroll-related costs such as taxes, pensions, and other benefits. The cost of replacements of property, exclusive of minor items of property, is capitalized. The cost of maintenance, repairs, and replacement of minor items of property is charged to other operations and maintenance expenses as incurred or performed.

Depreciation

Depreciation of the original cost of utility plant in service is provided using composite straight-line rates, which approximated 2.9% for 2022 and 2021. Depreciation studies are conducted periodically to update the composite rate that is approved by the FPSC. When property subject to composite depreciation is retired or otherwise disposed of in the normal course of business, its original cost, together with the cost of removal, less salvage, is charged to accumulated depreciation. As such, gains or losses are not recognized, as they are ultimately refunded to, or recovered from, customers through future rate adjustments. Minor items of property included in the original cost of the asset are retired when the related property unit is retired.

Acquisition Adjustment

Until July 2018, the Company was held by Southern Company Gas, a wholly owned, direct subsidiary of Southern Company. Upon Southern Company Gas' acquisition of Pivotal Utility in 2004, a $21.7 million intangible was recorded for the difference between the cost of acquiring the Company and the original cost. The FPSC approved a 30-year amortization period for this intangible asset included in Plant in service, net of depreciation. A roll forward of the intangible asset, net of accumulated amortization is as follows:

	(in thousands)
December 31, 2020	$ 11,671
2021 amortization expense	722
December 31, 2021	12,393
2022 amortization expense	722
December 31, 2022	$ 13,115

V. DEBT

Loan Agreement with FPL

The Company entered into a loan agreement with FPL for the purpose of funding the Company's ongoing cash and working capital requirements. The loan agreement is available from January l, 2019 through January 1, 2069, (the Availability Period). The agreement allows for a maximum of $150 million of short-term loans and $300 million of long-term loans to be outstanding at one time through the Availability Period. Each short-term Loan will not exceed a 365-day term. Long-terms loans will have a term between 1 year and 50 years, not to exceed the Availability Period. The interest rates for the loans will be variable and equal to FPL's weighted average debt rate.

At December 31, 2022 and 2021, amounts outstanding were as follows:

	December 31, 2022		December 31, 2021	
	Weighted-average interest rate	Outstanding	Weighted-average interest rate	Outstanding
		(in thousands)		
Long-term loans	3.53%	$ 176,150	3.72%	$ 170,625
Short-term loans	1.13%	25,150	0.45%	24,375
Total		$ 201,300		$ 195,000

VI. LEASES

The Company has a finance lease regarding a transport service agreement. Lease payments under the associated agreements are fixed and convey exclusive use of the assets during the arrangement. The lease terminates in 2033.

At December 31, 2022 and December 31, 2021, the Company reflected a Right-of-use asset in connection with the lease of $7.4 million and $8.0 million, and a corresponding lease liability (including current and long-term obligations) of $7.4 million and $8.0 million, respectively. The lease liability was calculated using a weighted-average incremental borrowing rate at the lease inception of 3.85%.

Lease amortization and accretion of the lease liability is included in depreciation and amortization expense and interest expense in the Company's statements of operations. The Company recorded a lease amortization and interest expense of $0.8 million and $0.8 million for the years ended December 31, 2022 and 2021, respectively.

The following table presents fixed lease payments and a reconciliation of the undiscounted cash flows to finance lease liabilities (including current and long-term obligations) as of December 31, 2022 and December 31, 2021:

	(in thousands)
2023	$ 800
2024	800
2025	800
2026	800
2027	800
Thereafter	4,900
Total	8,900
Less present value discount	(1,500)
Total finance lease liabilities	$ 7,400

The Company also entered into another finance lease regarding a transport service agreement in 2021. The lease commenced in April 2023 upon the subject pipeline being placed in service and will terminate in 2053.

VII. RETIREMENT BENEFITS

The Company's employees participate in NextEra Energy's qualified noncontributory defined benefit pension plan. NextEra Energy uses multiemployer accounting and allocates net pension benefit income or expense to its subsidiaries based on the pensionable earnings of the subsidiaries' employees. The calculation includes several components of cost, offset by the expected return on plan assets. For the year ended December 31, 2022 and 2021, NextEra Energy allocated approximately $1.3 million and $0.9 million, respectively, of net pension benefit income to the Company.

VIII. CONTINGENCIES

General Litigation Matters

The Company is subject to certain claims and legal actions arising in the ordinary course of business. One such claim is a personal injury claim alleged to have occurred on July 6, 2016, in Miami-Dade County, Florida. The plaintiff claimed multiple fractures and traumatic brain injury arising from an accident on bicycle path with a gas cap belonging to the Company. However, the Company was not added as a defendant until October 2020, after other named defendants settled or were dismissed from the case. At the time the claim was filed against the Company, the Company did not believe it was probable that any amounts would be paid out in relation to the claim. As a result of the Company's discovery efforts conducted through the third quarter of 2023, including depositions, production of documents, examinations, and expert reviews, the Company ultimately determined that a payout on plaintiff's claim was probable and it was in the Company's best interest to settle and resolve the case. The matter was settled in October 2023 for $850,000 and the loss was reflected in Other operations and maintenance expenses for the nine months ended September 30, 2023. The ultimate outcome of all other matters and such pending or potential litigation against the Company cannot be determined at this time; however, for current proceedings not specifically reported herein, management does not anticipate that the ultimate liabilities, if any, arising from such current proceedings would have a material effect on the Company's financial statements.

IX. INCOME TAXES

NextEra Energy will file a consolidated income tax return and various combined and separate state tax returns on behalf of the Company. Under the tax sharing agreement between NextEra Energy and certain of its subsidiaries, the income tax provision at each applicable subsidiary reflects the use of the "separate return method," except that tax benefits that could not be used on a separate return basis, but are used on the consolidated tax return, are recorded by the subsidiary that generated the tax benefits. Any remaining consolidated income tax benefits or expenses are recorded at the corporate level. Included in Regulatory Assets, Deferred and Other Regulatory Liabilities on the Company's balance sheet is the revenue equivalent of the difference in deferred income taxes computed under accounting rules, as compared to regulatory accounting rules. The components of income taxes are as follows:

	2022	2021
	(in thousands)	
Federal —		
Current	$2,503	$3,414
Deferred	191	(78)
	2,694	3,336
State —		
Current	$ 432	$ 396
Deferred	510	509
	942	905
Total	$3,636	$4,241

The tax effects of temporary differences between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases, which give rise to assets and liabilities are as follows:

	2022	2021
	(in thousands)	
Deferred tax liabilities —		
Property related	$37,940	$37,171
Employee benefit obligations	955	695
Leases	1,883	2,021
Other	1,188	953
Total	$41,966	$40,840
Deferred tax assets —		
Leases	$ 1,883	$ 2,021
Tax Reform Legislation	4,786	5,054
Other	700	717
Total	7,369	7,792
Accumulated deferred income taxes, net	$34,597	$33,048

Effective Tax Rate

A reconciliation of the federal statutory income tax rate to the effective income tax rate is as follows:

	Years Ended December 31,	
	2022	2021
Federal statutory rate	21.0%	21.0%
State income tax, net of federal deduction	4.5	3.7
Amortization of deferred regulatory credit	(3.9)	(3.1)
Other, net	0.6	0.2
Effective income tax rate	22.2%	21.8%

Unrecognized Tax Benefits

The Company has no unrecognized tax benefits for any year presented. The Company classifies interest on tax uncertainties as interest expense; however, the Company had no accrued interest or penalties for unrecognized tax benefits for any year presented. The tax years 2018 through 2022 (Federal and State) remain subject to examination by the Company's major tax jurisdictions.

X. COMMITMENTS

Pipeline charges and storage capacity include charges recoverable through a natural gas cost recovery mechanism, or alternatively, billed to marketers of natural gas.

The Company has also made commitments in connection with a portion of their projected capital expenditures. Capital expenditures include, among other things, the cost for construction or acquisition of additional facilities and equipment to meet customer demand, as well as capital improvements to and maintenance to existing facilities.

Contractual obligations and estimated expenditures at December 31, 2022 were as follows:

	2023	2024	2025	2026	2027	Thereafter	Total
				(in thousands)			
Pipeline charges and storage capacity (a)	$10,382	$10,449	$ 9,654	$ 9,289	$ 9,289	$23,931	$ 72,994
Capital expenditures (b)	52,925	50,597	50,345	52,273	52,312	—	258,452
Total	$63,307	$61,046	$59,999	$61,562	$61,601	$23,931	$331,446

(a) Includes charges recoverable through a natural gas cost recovery mechanism, subject to review by the FPSC.

(b) Represents projected capital expenditures through 2027 for which applicable internal approvals (and also, if required, regulatory approvals) have been received. The above estimates are subject to continuing review and adjustment and actual capital expenditures may vary significantly from estimates.

XI. RELATED PARTY TRANSACTIONS

FPL purchases and sells natural gas to meet the Company's gas supply requirements under a Gas Purchase and Sale Agreement. All costs associated with services provided by FPL were direct billed to the Company. All costs associated with natural gas purchase and sale activities are recoverable through the natural gas cost recovery mechanism. At December 31, 2022 and 2021, the net sale amounts under the Gas Purchase and Sale Agreement were $3.7 million and $1.8 million, respectively, reflected in Operating revenues, and the net purchase amounts were $30.3 million and $17.0 million, respectively, reflected in Cost of natural gas.

At December 31, 2022 and 2021, the Company had $7.2 million and $2.7 million, respectively, in payables which was primarily due to FPL related to corporate support provided by the affiliated entity and amounts relating to purchases of natural gas as discussed above. At December 31, 2022, the Company also had $2.6 million in payables due to NextEra Energy relating to federal income tax payments made on behalf of the Company and $0.5 million in payables due to NextEra Energy relating to state income taxes. At December 31, 2021, the Company also had $3.2 million in payables due to NextEra Energy relating to federal income tax payments made on behalf of the Company and $0.4 million in payables due to NextEra Energy relating to state income taxes.

XII. SUBSEQUENT EVENTS

On September 26, 2023, FPL entered into a definitive agreement to sell Pivotal Utility to Chesapeake Utilities Corporation for $923 million in cash, including the settlement of the loan agreement with FPL (See Note 5 – Debt) and subject to working capital and other adjustments. Expected to be completed over the next several months, the sale is conditioned upon satisfaction of the Hart-Scott-Rodino review and customary closing conditions.

Management has evaluated the impact of events occurring after December 31, 2022, up to February 17, 2023, the date FPL's consolidated GAAP financial statements were issued. The Company's financial statements include all necessary adjustments resulting from such evaluation. Management has evaluated the impact of events requiring disclosure in the financial statements through October 31, 2023, the date the Company's financial statements were available to be issued. Other than those described above, no events have occurred after December 31, 2022 that require disclosure in the financial statements.

Pivotal Utility Holdings, Inc. (d/b/a Florida City Gas)
Financial Statements as of and for the
Three and Nine Months Ended September 30, 2023 and 2022
(Unaudited)

BALANCE SHEETS
Pivotal Utility Holdings, Inc. (d/b/a Florida City Gas)
At September 30, 2023 and December 31, 2022
(Unaudited)

Assets	September 30, 2023	December 31, 2022
	(in thousands)	
Current Assets:		
Cash	**$ 24,306**	$ 5,796
Receivables —		
Customer accounts receivable	**7,694**	9,343
Unbilled and deferred clause revenues	**6,079**	6,776
Due from affiliates	**187**	142
Other accounts receivable	**395**	140
Accumulated provision for uncollectible accounts	**(451)**	(610)
Materials and supplies	**1,324**	14
Natural gas for sale	**1,373**	582
Prepaid expenses	**1,006**	1,585
Regulatory assets, current	**2,833**	8,080
Other current assets	**436**	—
Total current assets	**45,182**	31,848
Property, Plant, and Equipment:		
In service	**663,047**	577,240
Less: Accumulated depreciation	**179,367**	172,519
Plant in service, net of depreciation	**483,680**	404,721
Construction work in progress	**18,183**	72,377
Total property, plant, and equipment	**501,863**	477,098
Deferred Charges and Other Assets:		
Regulatory assets, deferred	**3,636**	4,339
Prepaid pension asset	**4,869**	3,750
Right-of-use asset	**43,828**	7,432
Prepaid software service costs	**9,551**	9,822
Deferred software implementation costs	**4,812**	4,779
Miscellaneous deferred debits	**4,427**	3,754
Deferred rate case expenses	**1,136**	1,737
Other deferred charges and assets	**15**	17
Total deferred charges and other assets	**72,274**	35,630
Total Assets	**$ 619,319**	$ 544,576

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

BALANCE SHEETS
Pivotal Utility Holdings, Inc. (d/b/a Florida City Gas)
At September 30, 2023 and December 31, 2022
(Unaudited)

Liabilities and Stockholder's Equity	September 30, 2023	December 31, 2022
	(in thousands)	
Current Liabilities:		
Due to affiliates	**$ 3,317**	$ 7,234
Accounts payable	**5,937**	20,132
Customer deposits	**5,149**	4,391
Accrued taxes —		
Accrued income taxes	**5,285**	3,104
Other accrued taxes	**4,243**	977
Accrued compensation	**1,959**	2,434
Current portion of long-term debt	**19,538**	25,150
Regulatory liabilities, current	**3,083**	3,011
Construction accruals	**2,274**	3,725
Other current liabilities	**3,684**	2,123
Total current liabilities	**54,469**	72,281
Long-Term Debt	**136,763**	176,150
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes, net	**38,814**	34,597
Accrued removal costs	**33,605**	39,770
Other regulatory liabilities	**18,512**	19,087
Long-term lease obligation	**42,547**	6,867
Other noncurrent liabilities	**341**	117
Total deferred credits and other liabilities	**133,819**	100,438
Total Liabilities	**325,051**	348,869
Stockholder's Equity:		
Total Stockholder's Equity	**294,268**	195,707
Total Liabilities and Stockholder's Equity	**$ 619,319**	$ 544,576

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

STATEMENTS OF INCOME
Pivotal Utility Holdings, Inc. (d/b/a Florida City Gas)
For the Three Months Ended September 30, 2023 and 2022
(Unaudited)

	2023	2022
	(in thousands)	
Operating Revenues	**$31,151**	$28,308
Operating Expenses:		
Cost of natural gas	**5,320**	7,575
Other operations and maintenance	**9,955**	8,394
Depreciation and amortization	**3,665**	4,505
Taxes other than income taxes	**2,928**	2,599
Total operating expenses	**21,868**	23,073
Operating Income	**9,283**	5,235
Other Income and (Expense):		
Interest expense	**(2,182)**	(1,568)
Other income (expense), net	**153**	6
Total other income and (expense)	**(2,029)**	(1,562)
Earnings Before Income Taxes	**7,254**	3,673
Income taxes	**1,717**	791
Net income	**$ 5,537**	$ 2,882

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

STATEMENTS OF INCOME
Pivotal Utility Holdings, Inc. (d/b/a Florida City Gas)
For the Nine Months Ended September 30, 2023 and 2022
(Unaudited)

	2023	2022
	(in thousands)	
Operating Revenues	**$98,078**	$88,735
Operating Expenses:		
Cost of natural gas	**23,856**	25,215
Other operations and maintenance	**28,604**	24,535
Depreciation and amortization	**6,020**	13,419
Taxes other than income taxes	**9,089**	8,308
Total operating expenses	**67,569**	71,477
Operating Income	**30,509**	17,258
Other Income and (Expense):		
Interest expense	**(6,533)**	(4,935)
Other income (expense), net	**376**	8
Total other income and (expense)	**(6,157)**	(4,927)
Earnings Before Income Taxes	**24,352**	12,331
Income taxes	**5,791**	2,746
Net income	**$18,561**	$ 9,585

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

STATEMENTS OF CHANGES IN EQUITY
Pivotal Utility Holdings, Inc. (d/b/a Florida City Gas)
For the Three Months Ended September 30, 2023
(Unaudited)

(in thousands)	Number of Common Shares	Paid-in Capital	Retained Earnings	Total
Balance, June 30, 2023	12,807	$256,081	$32,650	$288,731
Net Income	—	—	5,537	5,537
Balance, September 30, 2023	12,807	$256,081	$38,187	$294,268

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

STATEMENTS OF CHANGES IN EQUITY
Pivotal Utility Holdings, Inc. (d/b/a Florida City Gas)
For the Nine Months Ended September 30, 2023
(Unaudited)

(in thousands)	Number of Common Shares	Paid-in Capital	Retained Earnings	Total
Balance, December 31, 2022	12,807	$176,081	$19,626	$195,707
Contributions from Parent	—	80,000	—	80,000
Net Income	—	—	18,561	18,561
Balance, September 30, 2023	12,807	$256,081	$38,187	$294,268

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

STATEMENTS OF CHANGES IN EQUITY
Pivotal Utility Holdings, Inc. (d/b/a Florida City Gas)
For the Three Months Ended September 30, 2022
(Unaudited)

(in thousands)	Number of Common Shares	Paid-in Capital	Retained Earnings	Total
Balance, June 30, 2022	12,807	$176,081	$13,592	$189,673
Net Income	—	—	2,882	2,882
Balance, September 30, 2022	12,807	$176,081	$16,474	$192,555

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

STATEMENTS OF CHANGES IN EQUITY
Pivotal Utility Holdings, Inc. (d/b/a Florida City Gas)
For the Nine Months Ended September 30, 2022
(Unaudited)

(in thousands)	Number of Common Shares	Paid-in Capital	Retained Earnings	Total
Balance, December 31, 2021	12,807	$151,381	$ 6,889	$158,270
Contributions from Parent	—	24,700	—	24,700
Net Income	—	—	9,585	9,585
Balance, September 30, 2022	12,807	$176,081	$16,474	$192,555

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

STATEMENTS OF CASH FLOWS
Pivotal Utility Holdings, Inc. (d/b/a Florida City Gas)
For the Nine Months Ended September 30, 2023 and 2022
(Unaudited)

	2023	2022
	(in thousands)	
Operating Activities:		
Net income	**$ 18,561**	$ 9,585
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**6,020**	13,419
Other amortization	**490**	699
Changes in deferred income taxes	**3,599**	596
Cost recovery clauses and franchise fees	**6,349**	(197)
Recoverable storm-related costs	**—**	1
Changes in operating assets and liabilities		
Current assets	**(1,309)**	(1,586)
Noncurrent assets	**(329)**	(1,895)
Current liabilities	**3,147**	2,084
Noncurrent liabilities	**249**	(24)
Net cash provided by operating activities	**36,777**	22,682
Investing Activities:		
Capital expenditures	**(52,354)**	(41,051)
Other	**(10)**	55
Net cash used in investing activities	**(52,364)**	(40,996)
Financing Activities:		
Issuances of related party debt	**35,000**	16,000
Other	**(903)**	(405)
Net cash provided by financing activities	**34,097**	15,595
Net change in cash	**18,510**	(2,719)
Cash at the Beginning of the Period	**5,796**	7,067
Cash at the End of the Period	**$ 24,306**	$ 4,348
Supplemental Disclosure of Cash Flow Information		
Cash paid during the period for interest	**$ 6,400**	$ 4,806
Cash paid during the period for state income taxes	**10**	29
Supplemental Disclosure of Non-cash Investing and Financing Activities		
Non-cash contribution for capital structure rebalancing	**$ 80,000**	$ 24,700
Accrued but not paid for capital expenditures	**5,174**	8,616

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

I. ORGANIZATION AND BUSINESS

Pivotal Utility Holdings, Inc. (Pivotal Utility) d/b/a Florida City Gas (the Company) engages in the sale and distribution of natural gas to approximately 120 thousand customers in Florida's Miami-Dade, Brevard, St. Lucie and Indian River counties. Pivotal Utility is a wholly owned subsidiary of Florida Power & Light Company (FPL), and FPL is a wholly owned subsidiary of NextEra Energy, Inc. (NextEra Energy).

On September 26, 2023, FPL entered into a definitive agreement to sell Florida City Gas to Chesapeake Utilities Corporation for $923 million in cash, including the settlement of the loan agreement with FPL (See Note 5 – Debt) and subject to working capital and other adjustments. Expected to be completed over the next several months, the sale is conditioned upon satisfaction of the Hart-Scott-Rodino review and customary closing conditions.

II. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - The interim financial statements included herein are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles in the United States of America (GAAP). The accompanying financial statements should be read in conjunction with the December 31, 2022 statements. The results of operations for an interim period generally will not give a true indication of results for the year.

Net income and comprehensive income are the same for the three month and nine month periods ended September 30, 2023 and 2022.

Use of Estimates - The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Regulatory Accounting - As a public utility operating in Florida, the Company is subject to rate regulation by the Florida Public Service Commission (FPSC). Its rates are designed to recover the cost of providing service to its customers including a reasonable rate of return on invested capital. As a result of this cost-based regulation, the Company follows the accounting guidance that allows regulators to create assets and impose liabilities that would not be recorded by non-rate regulated entities. Regulatory assets and liabilities represent probable future revenues that will be recovered from or refunded to customers through the ratemaking process.

Cost recovery clauses, which are designed to permit full recovery of certain costs and provide a return on certain assets allowed to be recovered through various clauses, including purchased gas and the Company's Safety, Access, and Facility Enhancement (SAFE) program. Revenues from cost recovery clauses are recorded when billed; the Company achieves matching of costs and related revenues by deferring the net under-recovery or over-recovery. Any under-recovered costs or over-recovered revenues are collected from or returned to customers in subsequent periods.

See Note 3 - Regulatory Matters for additional information.

Revenue Recognition - The Company records revenues when goods or services are provided to customers. Those revenues are based on rates approved by the FPSC. The Company has a rate structure that includes a volumetric rate design that allows the opportunity to recover certain costs based on gas usage. Revenues from sales and transportation services are recognized in the same period in which the related volumes are delivered to customers. Revenues from residential and certain commercial and industrial customers are recognized based on scheduled meter readings. Additionally, unbilled revenues are recognized for estimated deliveries of natural gas not yet billed to these customers, from the last bill date to the end of the accounting period. For other commercial and industrial customers, revenues are based on actual deliveries to the end of the period. The Company has a diversified base of customers. No single customer or industry comprises 10% or more of revenues. For all periods presented, uncollectible accounts averaged less than 1% of revenues.

Property, Plant and Equipment – Property, plant and equipment (PP&E) consists primarily of gas assets. PP&E is recorded at cost and depreciated on a straight-line average remaining life basis. Accumulated depreciation consists of the cost of units of utility property retired less estimated net salvage value. Maintenance and repairs of property as well as replacements and renewals of items determined to be less than units of utility property are charged to Other operations and maintenance expenses.

Construction work in progress includes construction materials, progress payments on major equipment contracts, third-party engineering costs and other costs directly associated with the construction of various projects. Upon completion of the projects, these costs are transferred to utility plant in service.

See Note 4 – Property, Plant and Equipment for additional information.

Cost of Natural Gas - The Company charges its customers for natural gas consumed using a natural gas cost recovery mechanism set by the FPSC, under which all prudently incurred natural gas costs are passed through to customers without markup, subject to regulatory review. The Company defers or accrues the difference between the actual cost of natural gas and the amount of commodity revenue earned in a given period such that no operating income is recognized related to these costs. The deferred or accrued amount is either billed or refunded to customers prospectively through adjustments to the commodity rate. Deferred and accrued natural gas costs are included in the balance sheets as regulatory assets and regulatory liabilities, respectively.

Income and Other Taxes - The Company uses the liability method of accounting for deferred income taxes and provides deferred income taxes for all income tax temporary differences. Taxes that are collected from customers on behalf of governmental agencies to be remitted to these agencies are presented on the balance sheet.

The Company recognizes tax positions that are “more likely than not” of being sustained upon examination by the appropriate taxing authorities. See Note 9 - Unrecognized Tax Benefits for additional information.

Receivables and Provision for Uncollectible Accounts - The Company’s receivables consist primarily of natural gas sales and transportation services billed to residential, commercial, industrial, and other customers. Customers are billed monthly and payment is due within 30 days. For the majority of receivables, a provision for uncollectible accounts is established based on historical collection experience and other factors. For the remaining receivables, if the Company is aware of a specific customer’s inability to pay, a provision for uncollectible accounts is recorded to reduce the receivable balance to the amount the Company reasonably expects to collect. If circumstances change, the estimate of the recoverability of accounts receivable could change as well. Circumstances that could affect this estimate include, but are not limited to, customer credit issues, customer deposits, and general economic conditions. Customers’ accounts are written off once they are deemed to be uncollectible.

The Company applies the current expected credit loss (CECL) model, to account for credit Losses for certain financial assets, including customer receivables. The CECL model requires an entity to consider current conditions and reasonable and supportable forecasts in addition to historical information when developing an allowance for credit losses. The Company books the estimate of lifetime credit losses in the month revenue is recognized or in the month losses on previously recognized revenues are identified. As of September 30, 2023 and December 31, 2022, the Company has a provision for uncollectible customer accounts of approximately $0.5 million and $0.6 million, respectively.

Materials and Supplies - Generally, materials and supplies are charged to inventory when purchased and then expensed or capitalized to plant, as appropriate, at weighted average cost when installed.

Natural Gas for Sale - The Company’s natural gas inventories are carried at cost on a weighted average cost of gas basis.

Internal-Use Software - The Company defers qualifying implementation costs incurred to develop or obtain internal use software associated with cloud computing and hosting arrangements. As of September 30, 2023 and December 31, 2022, the Company has recognized approximately $4.8 million for both periods in Deferred software implementation costs. The costs are included in depreciation and amortization over the 20-year term of the arrangement. As of September 30, 2023 and December 31, 2022, the Company has approximately $0.7 million for both periods of current Prepaid expenses, and $9.6 million and $9.8 million, respectively, of Prepaid software service costs relating to perpetual licensing fees which is being amortized to Other operations and maintenance expenses over the 20 year life of the arrangement.

Fair Value of Financial Instruments - The carrying amount of financial instruments, including receivables, accounts payable, due to affiliates, other current assets and liabilities and accrued interest, approximates fair value due to the short maturity of these instruments.

III. REGULATORY MATTERS

Base Rates

In March 2018, the FPSC issued an order approving a stipulation and settlement between the Company and several intervenors in the Company's base rate proceeding that, after including the impact of the tax reform legislation, approved an $11.5 million increase in annual base rate revenues, effective June 1, 2018. The stipulation and settlement also approved the Company to recover the construction costs related to a liquefied natural gas storage facility through an increase in rates to become effective when the facility is placed in service. The storage facility will improve reliability and capacity at the southern section of the Company's system. Under the terms of the settlement, the Company's allowed regulatory Return on Equity (ROE) was 10.19%, with a range of 9.19% to 11.19%. However, if the Company's earned regulatory ROE falls below 9.19%, the Company could seek retail rate relief. If the earned regulatory ROE rises above 11.19%, any party withstanding, other than the Company, could seek a review of the Company's retail base rates. The Company agreed not to file a new base rate case with an effective date prior to June 1, 2022.

On May 31, 2022, the Company filed a general base rate increase with the FPSC (2022 base rate case) based on a projected 2023 Test Year. On June 9, 2023, the FPSC issued an order approving a single total base revenue increase of $23.3 million (which included an incremental increase of $14.1 million, a previously approved increase of $3.8 million for a liquefied natural gas facility, and $5.3 million to transfer the Safety, Access, and Facility Enhancement (SAFE) investments from clause to base), with new rates becoming effective as of May 1, 2023. The FPSC approved an allowed regulatory ROE of 9.5% with a range of 8.5% to 10.5%, and an equity ratio of 59.6%. The Commission also approved the Company's proposed reserve surplus amortization mechanism (RSAM) with a $25 million reserve amount, continuation and expansion of the capital SAFE program, implementation of an automated metering infrastructure pilot, and continuation of the storm damage reserve with a target reserve of $800,000. On June 23, 2023, the Office of Public Counsel (OPC) filed a motion for reconsideration of the FPSC's approval of RSAM, which was denied on September 12, 2023. On July 7, 2023, OPC filed a notice of appeal with the Florida Supreme Court, which is pending.

Regulatory Assets and Liabilities

The Company is subject to accounting requirements for the effects of rate regulation. Regulatory assets represent probable future revenues associated with certain costs that are expected to be recovered from customers through the ratemaking process. Regulatory liabilities represent probable future reductions in revenues associated with amounts that are expected to be credited to customers through the ratemaking process.

Regulatory assets and liabilities reflected in the balance sheets relate to:

	September 30, 2023	December 31, 2022
	(in thousands)	
Regulatory Assets:		
Current:		
Regulatory infrastructure programs	$ 342	$ 487
Natural gas costs	—	6,522
Energy conservation program	—	158
Competitive rate adjustment	943	913
Underrecovered SAFE/Franchise Costs	1,548	—
Total	$ 2,833	$ 8,080
Noncurrent:		
Regulatory infrastructure programs	830	1,106
Deferred customer conversion costs	2,361	2,671
Recoverable pension and retiree welfare benefit costs	—	20
Deferred piping	291	272
Unamortized Loss on Reacquired Debt	154	270
Total	$ 3,636	$ 4,339
Regulatory Liabilities:		
Current:		
Natural gas costs	$ 1,114	—
Overrecovered Employee conservation program costs	338	—
Overrecovered SAFE/Franchise Costs	—	146
Unbilled Revenue	1,631	2,865
Total	$ 3,083	$ 3,011
Noncurrent:		
Deferred income tax credits(*)	$ 18,263	$ 18,882
Asset removal costs	33,605	39,770
Storm Damage Reserve	249	205
Total	$ 52,117	$ 58,857

(*) Includes excess deferred income tax liabilities resulting from the Tax Cuts and Jobs Act that was signed into law on December 22, 2017 and became effective January 1, 2018 (Tax Reform Legislation).

In the event that the Company's operations are no longer subject to the accounting rules applicable for rate regulation, the Company would be required to write off to income the existing regulatory assets and liabilities unless regulators specify an alternative means of recovery or refund. In addition, the Company would be required to determine if any impairment to other assets, including plant, exists and write down the assets, if impaired, to their fair values. All regulatory assets and liabilities are to be reflected in rates.

Cost Recovery Clauses

Cost recovery clauses are designed to permit full recovery of certain costs and provide a return on certain assets allowed to be recovered through these clauses. Generally, these clause charges are calculated annually based on estimated costs and estimated customer usage for the following year, plus or minus true-up adjustments to reflect the estimated over or under recovery of costs for the current and prior periods. The Company's regulatory assets and liabilities related to cost recovery clauses represent the under and over recovery balances and the regulatory infrastructure program costs, which are recovered through specific rate riders on a dollar-for-dollar basis. The rate riders that authorize the recovery of regulatory infrastructure program costs include both a recovery of cost and a return on investment during the recovery period.

In 2015, the FPSC approved the Company's SAFE Program, under which costs incurred for replacing aging pipes are recovered through a rate rider with annual adjustments and true-ups. Under the program, the Company is authorized to spend approximately $105 million over a 10-year period on infrastructure relocation and enhancement projects. On June 9, 2023, the FPSC approved (i) the continuation of the SAFE Program beyond its 2025 expiration date and inclusion of approximately 150 miles of additional mains and services that are located in rear property easements and eligible for replacement under the SAFE program and (ii) the expansion of the SAFE Program to include the capital investments necessary for the expedited replacement of approximately 160 miles of orange pipe installed before 1990 that has been studied by the United States Department of Transportation Pipeline and Hazardous Materials Safety Administration and shown through industry research to exhibit premature failure in the form of cracking. To implement the approved continuation and expansion of the SAFE Program, on August 31, 2023, the Company filed a petition with the FPSC seeking approval to spend approximately $206 million over a 10-year period for these additional SAFE and orange pipe projects, which petition remains pending before the FPSC.

In 2012, the Company developed a project that makes use of the Area Extension Program (AEP) provided for in its tariff. Under the AEP, the Company is authorized to recover the costs to extend service to a single point or multiple points in a geographical area when the cost of the facilities exceeds the maximum allowable investment under its tariff and the margin from the investment. The AEP charge is initially set at a rate sufficient to recover the investment in ten years from the date the project is placed in service. The Company reassesses the amount of additional revenue required to recover the unamortized excess cost of the facilities and re-calculated the AEP charge multiple times during the ten-year recovery period.

IV. PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment is stated at original cost less any regulatory disallowances and impairments. Original cost includes: materials; labor; minor items of property; appropriate administrative and general costs; payroll-related costs such as taxes, pensions, and other benefits. The cost of replacements of property, exclusive of minor items of property, is capitalized. The cost of maintenance, repairs, and replacement of minor items of property is charged to other operations and maintenance expenses as incurred or performed.

Depreciation

Depreciation of the original cost of utility plant in service is provided using composite straight-line rates, which approximated 2.9% and 2.5% for the three and nine months ended September 30, 2023 and September 30, 2022, respectively. Depreciation studies are conducted periodically to update the composite rate that is approved by the FPSC. As part of the 2022 base rate case, the FPSC approved new depreciation rates which became effective January 1, 2023. When property subject to composite depreciation is retired or otherwise disposed of in the normal course of business, its original cost, together with the cost of removal, less salvage, is charged to accumulated depreciation. As such, gains or losses are not recognized, as they are ultimately refunded to, or recovered from, customers through future rate adjustments. Minor items of property included in the original cost of the asset are retired when the related property unit is retired.

The FPSC approved the RSAM as part of the 2022 base rate case. The RSAM is recorded as either an increase or decrease to Accrued removal costs which is reflected on the Company’s balance sheets and a corresponding increase or decrease to Depreciation and amortization expense. The Company filed a forecast earnings surveillance report for 2023 with the FPSC on May 1, 2023 which contained a regulatory ROE of 10.0% intended to be earned based on the best information the Company had at that time. This forecast establishes a targeted regulatory ROE. In order to earn the targeted regulatory ROE in each reporting period subject to the conditions of the effective rate agreement, RSAM is calculated using a trailing thirteen-month average of retail rate base and capital structure in conjunction with the trailing twelve months regulatory retail base net operating income, which primarily includes the retail base portion of base and other revenues, net of operations and maintenance expenses, depreciation and amortization, interest and tax expenses. In general, the net impact of these income statement line items is adjusted, in part, by RSAM or its reversal to earn the targeted regulatory ROE. For the three and nine months ended September 30, 2023, the Company recorded decreases to Asset removal costs and Depreciation expense of $1.3 million and $7.6 million, respectively, as a result of the RSAM. See Note 3—Regulatory Matters for additional information.

Acquisition Adjustment

Until July 2018, the Company was held by Southern Company Gas, a wholly owned, direct subsidiary of Southern Company. Upon Southern Company Gas’ acquisition of Pivotal Utility in 2004, a $21.7 million intangible was recorded for the difference between the cost of acquiring the Company and the original cost. The FPSC approved a 30-year amortization period for this intangible asset included in Plant in service, net of depreciation. For the three and nine months ended September 30, 2023 and 2022, the Company recorded amortization expense of $0.2 million and $0.5 million, respectively, for both periods.

V. DEBT

Loan Agreement with FPL

The Company entered into a loan agreement with FPL for the purpose of funding the Company’s ongoing cash and working capital requirements. The loan agreement is available from January l, 2019 through January 1, 2069, (the Availability Period). The agreement allows for a maximum of $150 million of short-term loans and $300 million of long-term loans to be outstanding at one time through the Availability Period. Each short-term Loan will not exceed a 365 day term. Long-terms loans will have a term between 1 year and 50 years, not to exceed the Availability Period. The interest rates for the loans will be variable and equal to FPL’s weighted average debt rate.

At September 30, 2023 and December 31, 2022, amounts outstanding were as follows:

	September 30, 2023		December 31, 2022	
	Weighted-average interest rate	Outstanding	Weighted-average interest rate	Outstanding
		(in thousands)		
Long-term loans	3.89%	$ 136,763	3.53%	$ 176,150
Short-term loans	3.47%	19,538	1.13%	25,150
Total		$ 156,301		$ 201,300

VI. LEASES

The Company has two finance leases regarding transport service agreements. Lease payments under the associated agreements are fixed and convey exclusive use of the assets during the arrangement. The remaining lease term is 30 years.

At September 30, 2023 and December 31, 2022, the Company reflected a Right-of-use asset in connection with the leases of $43.8 million and $7.4 million, and a corresponding lease liability (including current and long-term obligations) of $43.8 million and $7.4 million, respectively. The lease liability using a weighted-average incremental borrowing rate at September 30, 2023 was 4.56%.

Lease amortization and accretion of the lease liability is included in depreciation and amortization expense and interest expense in the Company's statements of operations. The Company recorded a lease amortization and interest expense of $0.7 million and $1.9 million, and $0.2 million and $0.6 million for the three and nine months ended September 30, 2023 and 2022, respectively.

The following table presents fixed lease payments and a reconciliation of the undiscounted cash flows to finance lease liabilities (including current and long-term obligations) as of September 30, 2023:

	(in thousands)
Remainder of 2023	$ 813
2024	3,254
2025	3,254
2026	3,254
2027	3,254
2028	3,254
Thereafter	57,428
Total	74,511
Less present value discount	(30,683)
Total finance lease liabilities	$ 43,828

VII. RETIREMENT BENEFITS

The Company's employees participate in NextEra Energy's qualified noncontributory defined benefit pension plan. NextEra Energy uses multiemployer accounting and allocates net pension benefit income or expense to its subsidiaries based on the pensionable earnings of the subsidiaries' employees. The calculation includes several components of cost, offset by the expected return on plan assets. For the three and nine months ended September 30, 2023 and 2022, NextEra Energy allocated approximately $0.4 million and $1.1 million, and $0.3 million and $1.0 million, respectively, of net pension benefit income to the Company.

VIII. CONTINGENCIES

General Litigation Matters

The Company is subject to certain claims and legal actions arising in the ordinary course of business. One such claim is a personal injury claim alleged to have occurred on July 6, 2016, in Miami-Dade County, Florida. The plaintiff claimed multiple fractures and traumatic brain injury arising from an accident on bicycle path with a gas cap belonging to the Company. However, the Company was not added as a defendant until October 2020, after other named defendants settled or were dismissed from the case. At the time the claim was filed against the Company, the Company did not believe it was probable that any amounts would be paid out in relation to the claim. As a result of the Company's discovery efforts conducted through the third quarter of 2023, including depositions, production of documents, examinations, and expert reviews, the Company ultimately determined that a payout on plaintiff's claim was probable and it was in the Company's best interest to settle and resolve the case. The matter was settled in October 2023 for $850,000. FCG reflected a loss of $100,000 and $850,000 in Other operations and maintenance expenses for the three and nine months ended September 30, 2023 associated with this matter. The ultimate outcome of all other matters and such pending or potential litigation against the Company cannot be determined at this time; however, for current proceedings not specifically reported herein, management does not anticipate that the ultimate liabilities, if any, arising from such current proceedings would have a material effect on the Company's financial statements.

IX. INCOME TAXES

NextEra Energy will file a consolidated income tax return and various combined and separate state tax returns on behalf of the Company. Under the tax sharing agreement between NextEra Energy and certain of its subsidiaries, the income tax provision at each applicable subsidiary reflects the use of the "separate return method," except that tax benefits that could not be used on a separate return basis, but are used on the consolidated tax return, are recorded by the subsidiary that generated the tax benefits. Any remaining consolidated income tax benefits or expenses are recorded at the corporate level. Included in Regulatory Assets, Deferred and Other Regulatory Liabilities on the Company's balance sheet is the revenue equivalent of the difference in deferred income taxes computed under accounting rules, as compared to regulatory accounting rules. The components of income taxes are as follows:

	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
	(thousands)		*(thousands)*	
Federal:				
Current	$ 721	$ 688	$ 1,849	$ 1,839
Deferred	579	(105)	2,577	191
Total Federal	1,300	583	4,426	2,030
State:				
Current	$ 150	$ 106	$ 343	$ 310
Deferred	267	102	1,022	406
Total State	417	208	1,365	716
Total income tax expense	$ 1,717	$ 791	$ 5,791	$ 2,746

The tax effects of temporary differences between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases, which give rise to assets and liabilities are as follows:

	September 30, 2023	December 31, 2022
	(thousands)	
Deferred tax liabilities:		
Property-related	$ 41,756	$ 37,940
Employee benefit obligations	1,234	955
Leases	11,108	1,883
Other	1,072	1,188
Total	$ 55,170	$ 41,966
Deferred tax assets:		
Employee benefit obligations	$ 1	$ —
Leases	11,108	1,883
Tax Reform Legislation	4,629	4,786
Other	618	700
Total	16,356	7,369
Accumulated deferred income taxes, net	$ 38,814	$ 34,597

Effective Tax Rate

A reconciliation of the federal statutory income tax rate to the effective income tax rate is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Federal statutory rate	21.0%	21.0%	21.0%	21.0%
State income tax, net of federal deduction	4.5	4.5	4.4	4.6
Amortization of deferred regulatory credit	(2.3)	(4.8)	(1.9)	(3.9)
Other, net	0.5	0.9	0.3	0.6
Effective income tax rate	23.7%	21.6%	23.8%	22.3%

Unrecognized Tax Benefits

The Company has no unrecognized tax benefits for any year presented. The Company classifies interest on tax uncertainties as interest expense; however, the Company had no accrued interest or penalties for unrecognized tax benefits for any year presented. The tax years 2019 through 2022 (Federal and State) remain subject to examination by the Company's major tax jurisdictions.

X. COMMITMENTS

Pipeline charges and storage capacity include charges recoverable through a natural gas cost recovery mechanism, or alternatively, billed to marketers of natural gas.

The Company has also made commitments in connection with a portion of their projected capital expenditures. Capital expenditures include, among other things, the cost for construction or acquisition of additional facilities and equipment to meet customer demand, as well as capital improvements to and maintenance to existing facilities.

Contractual obligations and estimated expenditures at September 30, 2023 were as follows:

	Remainder of 2023	2024	2025	2026	2027	2028	Thereafter	Total
				(in thousands)				
Pipeline charges and storage capacity[a]	$ 3,207	$10,449	$ 9,654	$ 9,289	$ 9,289	$9,075	$14,855	$ 65,818
Capital expenditures[b]	32,062	60,597	50,345	53,783	53,867	—	—	250,654
Total	$ 35,269	$71,046	$59,999	$63,072	$63,156	$9,075	$14,855	$316,472

(a) Includes charges recoverable through a natural gas cost recovery mechanism, subject to review by the FPSC. Excludes natural gas transportation agreements accounted for as finance leases. See Note 6 - Leases for further information.

(b) Represents projected capital expenditures through 2027 for which applicable internal approvals (and also, if required, regulatory approvals) have been received. The above estimates are subject to continuing review and adjustment and actual capital expenditures may vary significantly from estimates.

XI. RELATED PARTY TRANSACTIONS

FPL purchases and sells natural gas to meet the Company's gas supply requirements under a Gas Purchase and Sale Agreement. All costs associated with services provided by FPL were direct billed to the Company. All costs associated with natural gas purchase and sale activities are recoverable through the natural gas cost recovery mechanism. For the three and nine months ended September 30, 2023 and 2022, the net sale amounts under the Gas Purchase and Sale Agreement were $1.1 million and $2.1 million, and $1.8 million and $3.2 million, respectively, reflected in Operating revenues, and the net purchase amounts were $2.6 million and $11.1 million, and $7.1 million and $22.6 million, respectively, reflected in Cost of natural gas.

At September 30, 2023 and December 31, 2022, the Company had $3.3 million and $7.2 million, respectively, in payables which was primarily due to FPL related to corporate support provided by the affiliated entity and amounts relating to purchases of natural gas as discussed above. At September 30, 2023, the Company also had $4.5 million in payables due to NextEra Energy relating to federal income tax payments made on behalf of the Company and $0.8 million in payables due to NextEra Energy relating to state income taxes. At December 31, 2022, the Company also had $2.6 million in payables due to NextEra Energy relating to federal income tax payments made on behalf of the Company and $0.5 million in payables due to NextEra Energy relating to state income taxes.

XII. SUBSEQUENT EVENTS

On October 25, 2023, the Company received a letter from a large industrial customer alleging lost production due to a third-party strike of a Company gas main, which occurred on September 14, 2023, resulting in the interruption of the customer's gas service. The customer alleges a total financial impact of $860,705 due to the loss of production and has requested the Company investigate the incident. The Company is in the early stages of investigating the customer's allegations, but anticipates that claims could be made against the Company in connection with the incident. Although the Company cannot predict the outcome with certainty, based on the investigation conducted to date, the Company currently estimates that a loss of $250,000 will be incurred based on the alleged damages in connection with the incident. As a result, the Company recorded a loss of $250,000 to Other operations and maintenance expense for the three and nine months ended September 30, 2023.

Management has evaluated the impact of events requiring adjustments and disclosure in the financial statements through October 31, 2023, the date the Company's financial statements were available to be issued. Other than those described above, no events have occurred after September 30, 2023 that require adjustments or disclosure in the financial statements.

UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

The unaudited pro forma condensed combined financial information of Chesapeake Utilities Corporation ("Chesapeake Utilities", or the "Company") consists of a condensed combined balance sheet at September 30, 2023, and condensed combined statements of income for the nine months ended September 30, 2023 and the year ended December 31, 2022, all of which reflect the Company's anticipated acquisition of Pivotal Utility Holdings, Inc. doing business as Florida City Gas ("FCG"). The unaudited pro forma condensed combined financial statements included herein have been derived from the following historical financial statements:

- the audited financial statements of Chesapeake Utilities as of and for the year ended December 31, 2022;
- the unaudited interim financial statements of Chesapeake Utilities as of and for the nine months ended September 30, 2023;
- the audited financial statements of FCG as of and for the year ended December 31, 2022; and
- the unaudited interim financial statements of FCG as of and for the nine months ended September 30, 2023.

The pro forma adjustments have been prepared as if the acquisition of FCG occurred on September 30, 2023 in the case of the unaudited pro forma condensed combined balance sheet and on January 1, 2022 in the case of the unaudited pro forma condensed combined statements of income for the nine months ended September 30, 2023 and for the year ended December 31, 2022. The unaudited pro forma condensed combined financial statements should be read in conjunction with the related notes, which are included herein, the financial statements and notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2022, as filed February 22, 2023, and Quarterly Report on Form 10-Q for the nine months ended September 30, 2023, as filed November 2, 2023 and the financial statements and notes of FCG attached as Exhibits 99.1 and 99.2 in the Company's Current Report on Form 8-K filed by the Company on November 9, 2023.

The unaudited pro forma condensed combined financial statements are presented for illustrative purposes only and do not necessarily reflect what the combined financial condition and results of operations would have reflected had the Acquisition occurred on the dates indicated. They also may not be useful in predicting the future financial condition and results of the operations of the combined company. The actual financial position and results of operations may differ significantly from the pro forma amounts reflected herein due to a variety of factors.

The unaudited pro forma information and adjustments, including the preliminary allocation of purchase price, are based upon preliminary estimates of fair values of assets acquired and liabilities assumed, current available information and certain assumptions that we believe are reasonable in the circumstances, as described in the notes to the unaudited pro forma condensed combined financial statements. The actual adjustments to the Company's consolidated financial statements as of the closing date of the Acquisition will depend on a number of factors, including, among others, additional information available and the net assets of FCG on the closing date of the Acquisition. As a result, the actual adjustments will differ from the pro forma adjustments, and the differences may be material.

CHESAPEAKE UTILITIES CORPORATION
UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET AT SEPTEMBER 30, 2023

Assets *(in thousands)*	CPK	FCG	Transaction Adjustments		Pro Forma Combined
Property, Plant and Equipment					
Regulated energy	$1,916,585	$ 663,047	$ (11,882)	4[a]	$2,567,750
Unregulated energy	404,924	—			404,924
Other businesses and eliminations	28,802	—			28,802
Total property, plant and equipment	2,350,311	663,047	(11,882)		3,001,476
Less: Accumulated depreciation and amortization	(503,897)	(179,367)	2,411	4[a]	(680,853)
Plus: Construction work in progress	61,843	18,183			80,026
Net property, plant and equipment	1,908,257	501,863	(9,472)		2,400,648
Current Assets					
Cash and cash equivalents	1,793	24,306	(22,306)	4[b]	3,793
Trade and other receivables	47,397	14,355	(187)	4[c]	61,565
Less: Allowance for credit losses	(2,405)	(451)			(2,856)
Trade receivables, net	44,992	13,904	(187)		58,709
Accrued revenue	15,229	—			15,229
Propane inventory, at average cost	7,001	—			7,001
Other inventory, at average cost	17,593	1,324			18,917
Natural gas for sale	—	1,373			1,373
Regulatory assets	19,111	2,833			21,944
Storage gas prepayments	5,063	—			5,063
Income taxes receivable	5,340	—			5,340
Prepaid expenses	17,179	1,006			18,185
Derivative assets, at fair value	2,328	—			2,328
Other current assets	1,837	436			2,273
Total current assets	137,466	45,182	(22,493)		160,155
Deferred Charges and Other Assets					
Goodwill	46,213		467,689	4[d]	513,034
		—	(868)	4[e]	
Other intangible assets, net	16,518	—			16,518
Investments, at fair value	11,084	—			11,084
Derivative assets, at fair value	425	—			425

Operating lease right-of-use assets	12,842	43,828	(43,828)	4[f]	12,842
Regulatory assets	91,678	3,636			95,314
Receivables and other deferred charges					
Prepaid pension asset		4,869	(4,869)	4[g]	—
Prepaid software service costs		9,551			9,551
Deferred software implementation costs		4,812			4,812
Miscellaneous deferred debits		4,427	(154)	4[h]	4,273
Deferred rate case expenses		1,136			1,136
Other receivables and other deferred charges	16,263	15			16,278
Total deferred charges and other assets	195,023	72,274	417,970		685,267
Total Assets	$2,240,746	$ 619,319	$ 386,005		$3,246,070
Capitalization and Liabilities					
Stockholders’ equity					
Preferred stock, par value $0.01 per share (authorized 2,000,000 shares)	$ —	$ —	$ —		$ —
Common stock, par value $0.4867 per share (authorized 50,000,000 shares)	8,662	—	1,824	4[i]	10,486
Additional paid-in capital	382,551	256,081	(10,725)	4[j]	700,002
			328,176	4[i]	
			(256,081)	4[k]	
Retained earnings	476,601	38,187	(38,187)	4[k]	462,669
			(18,750)	4[l]	
			4,818	4[l]	
Accumulated other comprehensive loss	(1,137)	—			(1,137)
Deferred compensation obligation	8,987	—			8,987
Treasury stock	(8,987)	—			(8,987)
Total stockholders’ equity	866,677	294,268	11,075		1,172,020
Long-term debt, net of current maturities	643,801	136,763	(4,125)	4[m]	1,189,677
			(136,763)	4[n]	
			550,000	4[i]	
Total capitalization	1,510,478	431,031	420,188		2,361,697
Current Liabilities					
Current portion of long-term debt	20,000	19,538	(19,538)	4[n]	20,001
Short-term borrowing	118,570	—	77,000	4[i]	194,702
			(868)	4[e]	
Due to affiliates	—	3,317	(3,317)	4[o]	—
Accounts payable	53,729	5,937			59,666
Customer deposits and refunds	40,228	5,149			45,377
Accrued interest	4,985	—			4,985
Dividends payable	10,500	—			10,500
Income taxes payable	—	5,285			5,285
Other accrued taxes	—	4,243			4,243
Accrued compensation	9,831	1,959			11,790
Regulatory liabilities	9,092	3,083			12,175
Derivative liabilities, at fair value	828	—			828
Construction accruals	—	2,274			2,274
Other accrued liabilities	20,647	3,684	(1,281)	4[f]	23,050
Total current liabilities	288,410	54,469	51,997		394,876
Deferred Credits and Other Liabilities					
Deferred income taxes	264,541	38,814	(38,814)	4[p]	259,723
			(4,818)	4[l]	
Accrued removal costs	—	33,605			33,605
Regulatory liabilities	145,092	18,512			163,604
Environmental liabilities	2,562	—			2,562
Other pension and benefit costs	17,133	—			17,133
Derivative liabilities, at fair value	101	—			101
Lease liabilities	11,040	42,547	(42,547)	4[f]	11,040
Other liabilities	1,389	341			1,730
Total deferred credits and other liabilities	441,858	133,819	(86,179)		489,498
Other commitments and contingencies					
Total Capitalization and Liabilities	$2,240,746	$ 619,319	$ 386,005		$3,246,070

CHESAPEAKE UTILITIES CORPORATION
UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF INCOME
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2023

(in thousands, except shares and per share data)	CPK	FCG	Transaction Adjustments		Pro Forma Combined
Operating Revenues					
Regulated Energy	$ 345,822	$98,078	$ (862) (975)	4[q] 4[r]	$ 442,063
Unregulated Energy and Other	139,447	—			139,447
Total operating revenues	485,269	98,078	(1,837)		581,510
Operating Expenses					
Natural gas and electricity costs	105,692	23,856			129,548
Propane and natural gas costs	55,786	—			55,786
Operations	128,147	28,604	(369)	4[s]	156,382
Transaction-related expenses	3,899	—			3,899
Maintenance	15,487	—			15,487
Depreciation and amortization	52,096	6,020	(732) (975)	4[t] 4[r]	56,409
Other taxes	20,674	9,089			29,763
Total operating expenses	381,781	67,569	(2,076)		447,274
Operating Income	103,488	30,509	239		134,236
Other income, net	1,036	376			1,412
Interest charges, net	21,272	6,533	(862) (5,505) 26,978 3,563	4[q] 4[u] 4[v] 4[w]	51,979
Income Before Income Taxes	83,252	24,352	(23,935)		83,669
Income Taxes	21,368	5,791	(6,143)	4[x]	21,016
Net Income	$ 61,884	$18,561	$ (17,792)		$ 62,653
Weighted Average Common Shares Outstanding:					
Basic	17,783,787		3,746,828	4[y]	21,530,615
Diluted	17,847,288		3,746,828	4[y]	21,594,116
Earnings Per Share of Common Stock:					
Basic Earnings Per Share of Common Stock	$ 3.48				$ 2.91
Diluted Earnings Per Share of Common Stock	$ 3.47				$ 2.90

CHESAPEAKE UTILITIES CORPORATION
UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2022

(in thousands, except shares and per share data)	CPK	FCG	Transaction Adjustments		Pro Forma Combined
Operating Revenues					
Regulated Energy	$ 429,424	$118,491	$ (297)	4[z]	$ 547,075
			(543)	4[aa]	
Unregulated Energy	280,750	—			280,750
Other businesses and eliminations	(29,470)	—			(29,470)
Total operating revenues	680,704	118,491	(840)		798,355
Operating Expenses					
Natural gas and electricity costs	127,172	33,414			160,586
Propane and natural gas costs	133,334	—			133,334
Operations	164,505	33,868	(1,015)	4[ab]	197,358
Maintenance	18,176	—			18,176
Depreciation and amortization	68,973	17,959	(840)	4[ac]	85,549
			(543)	4[aa]	
Other taxes	25,611	10,328			35,939
Total operating expenses	537,771	95,569	(2,398)		630,942
Operating Income	142,933	22,922	1,558		167,413
Other income, net	5,051	35			5,086
Interest charges, net	24,356	6,584	(297)	4[z]	65,681
			(6,176)	4[ad]	
			35,970	4[ae]	
			5,245	4[af]	
Income Before Income Taxes	123,628	16,373	(33,183)		106,818
Income Taxes	33,832	3,636	(9,081)	4[ag]	28,387
Net Income	$ 89,796	$ 12,737	$ (24,102)		$ 78,431
Weighted Average Common Shares Outstanding:					
Basic	17,722,227		3,746,828	4[ah]	21,469,055
Diluted	17,804,294		3,746,828	4[ah]	21,551,122
Earnings Per Share of Common Stock:					
Basic Earnings Per Share of Common Stock	$ 5.07				$ 3.65
Diluted Earnings Per Share of Common Stock	$ 5.04				$ 3.64

NOTE 1. BASIS OF PRESENTATION

The unaudited pro forma condensed combined financial statements included herein have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") and Article 11 of Regulation S-X, and have been derived from the following historical financial statements:

- the audited financial statements of Chesapeake Utilities as of and for the year ended December 31, 2022;
- the unaudited interim financial statements of Chesapeake Utilities as of and for the nine months ended September 30, 2023;
- the audited financial statements of FCG as of and for the year ended December 31, 2022; and
- the unaudited interim financial statements of FCG as of and for the nine months ended September 30, 2023.

On September 26, 2023, the Company entered into a stock purchase agreement (the "Purchase Agreement") with Florida Power & Light Company ("FPL"), to acquire all of the outstanding common shares of FCG, a wholly-owned subsidiary of FPL, for approximately $923.4 million in cash, subject to customary purchase price adjustments (the "Acquisition"). The Purchase Agreement is subject to the satisfaction of customary closing conditions and certain regulatory approvals in various jurisdictions, which have been received as of the date hereof. Subject to the satisfaction or waiver of the remaining conditions and the other terms and conditions of the Purchase Agreement, the Acquisition is expected to close in the fourth quarter of 2023.

The Acquisition has been accounted for in the unaudited pro forma condensed combined financial statements as an acquisition of all of the outstanding common shares of FCG using the acquisition method of accounting for business combinations. The assets acquired and liabilities assumed have been measured at estimated fair value, which is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. The Company expects to make a 338(h)(10) tax election under the Internal Revenue Code, which recharacterizes the stock purchase as an asset purchase for federal tax purposes. The Company expects to receive a tax basis in the acquired assets equal to the purchase price, and depreciate such basis over a 15-year period.

The accompanying unaudited pro forma condensed combined financial statements are not necessarily indicative of the results that would have been achieved if the transactions reflected herein had been completed on the dates indicated or the results which may be obtained in the future. While the underlying pro forma adjustments are intended to provide a reasonable basis for presenting the significant financial effects directly attributable to the Acquisition, they are preliminary and are based on currently available financial information and certain estimates and assumptions which we believe to be reasonable. The actual adjustments to our consolidated financial statements will be determined as of and subsequent to the closing date. Therefore, it is expected that the actual adjustments will differ from the pro forma adjustments, and the differences may be material.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies followed in preparing the unaudited pro forma condensed combined financial statements are those used by Chesapeake Utilities as set forth in the audited historical financial statements and notes of the Company included in its Annual Report on Form 10-K for the year ended December 31, 2022, as filed February 22, 2023, and in the unaudited historical interim financial statements and notes of the Company included in its Quarterly Report on Form 10-Q for the nine months ended September 30, 2023. The unaudited pro forma condensed combined financial statements reflect any adjustments known at this time to conform FCG’s historical financial information to the Company’s significant accounting policies based on the Company’s review of FCG’s summary of significant accounting policies, as disclosed in the FCG historical financial statements attached as Exhibits 99.1 and 99.2 to the Company’s Current Report on Form 8-K filed on November 9, 2023 and preliminary discussions with FCG’s management. Upon completion of a more comprehensive comparison and assessment, additional differences may be identified.

NOTE 3. PURCHASE PRICE AND PRELIMINARY PURCHASE PRICE ALLOCATION

The expected purchase price for the Acquisition is as follows:

(in thousands, except offer price)	
Total shares of Chesapeake Utilities common stock issued	3,746.8
Offer price of Chesapeake Utilities common stock on November 3, 2023	$ 92.71
Equity portion of purchase price	$330,000
Issuance of long-term debt	550,000
Short-term borrowings under the existing Revolver	43,400
Total purchase price	$923,400

Preliminary Purchase Price Allocation

Under the acquisition method of accounting, the identifiable assets acquired and liabilities assumed of FCG are recorded at fair value on the acquisition date and added to those of the Company. The pro forma adjustments included herein are preliminary and based on estimates of the fair value and useful lives of the assets acquired and liabilities assumed and have been prepared to illustrate the estimated effects of the acquisition between the Company and FCG. Significant portions of FCG's operations are subject to the rate regulation by the Florida Public Service Commission. The carrying values of the assets and liabilities subject to regulatory accounting under U.S. GAAP, including property, plant and equipment, are considered to approximate the fair values.

The final determination of the preliminary purchase price allocation will be based on the net assets acquired as of the acquisition date and will depend on a number of factors, which cannot be predicted with any certainty at this time. The preliminary purchase price allocation may change based on the receipt of more detailed information. Accordingly, this allocation is preliminary and subject to further adjustment as additional information becomes available and as additional analyses and final valuations are completed. There can be no assurance that these additional analyses and final valuations will not result in significant changes to the estimates of fair value set forth below.

The following table provides a summary of the preliminary allocation of the purchase price to the identifiable tangible and intangible assets acquired and liabilities assumed of FCG, based on FCG's balance sheet at September 30, 2023, with all excess value over consideration paid recorded as goodwill.

(in thousands)	
Total current assets	$ 22,689
Property, plant and equipment	492,391
Goodwill	467,689
Regulatory assets	3,636
Other deferred charges and other assets, including intangible assets	19,787
Total assets	1,006,192
Total current liabilities	30,334
Regulatory liabilities	52,117
Deferred credits and other liabilities	341
Total liabilities	82,792
Total purchase price	$ 923,400

NOTE 4. PRO FORMA ADJUSTMENTS AND ASSUMPTIONS

The following pro forma adjustments were based on the historical financial information and preliminary estimates and assumptions, both as described above and which are subject to change as additional information is obtained:

a Reflects property, plant and equipment with a net book value of $9.5 million related to software that is excluded from the Acquisition and being retained by FPL.

b Reflects a reduction in FCG's cash balance to the minimum cash amount of $2.0 million as defined in the Purchase Agreement.

c Reflects $0.2 million of affiliated accounts receivable at September 30, 2023 which is an asset excluded from the Acquisition and being retained by FPL.

d Represents the excess of the Company's purchase price of approximately $923.4 million over the estimated fair values of assets acquired and liabilities assumed.

e Reflects approximately $0.9 million of estimated working capital adjustments that in accordance with the Purchase Agreement are treated as an adjustment to the Acquisition purchase price.

f Reflects $43.8 million in right of use assets and lease liabilities associated with long-term transportation service agreements between FCG and PPC, a wholly owned subsidiary of the Company. Upon closing of the Acquisition, these agreements will be classified as affiliate transactions and the associated assets and liabilities will be eliminated in the Company's consolidated balance sheet.

g Reflects $4.9 million of prepaid pension expenses that are excluded from the Acquisition.

h Reflects FCG's $0.2 million unamortized loss on reacquired debt which is excluded from the Acquisition.

i Reflects the financing needs of the Acquisition and the associated transaction-related costs including: $550.0 million of new long-term debt, the issuance of 3.7 million shares of Chesapeake Utilities Corporation common stock, and $77.0 million of new short-term borrowings under the Company's Revolver.

j Represents approximately $10.7 million of fees associated with the issuance of 3.7 million shares of the Company's common stock to finance the Acquisition. The number of common shares assumed to be issued is estimated based on the Company's closing price of $92.71 on November 3, 2023, net of a 5.0% underwriting discount.

k Reflects the elimination of FCG's stockholder's equity.

l Represents $18.8 million of non-recurring direct incremental transaction-related expenses expected to be incurred and would reduce deferred income tax liabilities by $4.8 million, including but not limited to, legal, consulting, audit and financing fees. These expenses are reflected as an adjustment to retained earnings of $18.8 million, less income tax effects of $4.8 million on the unaudited pro forma condensed combined balance sheet at September 30, 2023.

m Represents approximately $4.1M of debt issuance costs that have been reflected as a reduction to the Company's issuance of long-term debt to finance the Acquisition. The Company expects to issue $550.0 million in new long-term notes at an interest rate of 6.54 percent.

n Reflects $156.3 million of affiliated debt of FCG that will be settled prior to the closing of the Acquisition.

o Reflects $3.3 million of affiliated accounts payable that will be settled prior to the closing of the Acquisition.

p As defined in the Purchase Agreement, the Company and FCG have elected to apply the provision of Section 338(h)(10) of the IRS Code, which recharacterizes the stock purchase as an asset purchase for federal tax purposes. The Company will receive a tax basis in the acquired assets equal to the purchase price and can depreciate the assets at their purchased value and record goodwill that will be amortized for tax purposes over the next 15 years. As a result, FCG's deferred tax balances will not transfer to the Company.

q Represents $0.9 million of interest expense associated with long-term transportation service agreements between FCG and PPC, a wholly owned subsidiary of the Company. Upon closing of the Acquisition, these agreements will be classified as affiliate transactions and the associated revenues and expenses will be eliminated in the Company's consolidated results.

r Represents $1.0 million of depreciation expense associated with long-term transportation service agreements between FCG and PPC, a wholly owned subsidiary of the Company. Upon closing of the Acquisition, these agreements will be classified as affiliate transactions and the associated revenues and expenses will be eliminated in the Company's consolidated results.

s Reflects $0.4 million of pension expenses related to benefit plan obligations that are excluded from the Acquisition.

t Reflects $0.7 million of depreciation expense related to software that is excluded from the Acquisition and being retained by FPL.

u Reflects $5.5 million of interest expense related to outstanding debt of FCG that will be settled prior to the closing of the Acquisition.

v Reflects a $27.0 million net increase to interest expense resulting from the Company's issuance of long-term debt to finance the Acquisition. The Company expects to issue $550.0 million in new long-term notes at an interest rate of 6.54 percent.

w Reflects a $3.6 million increase in interest expense resulting from incremental borrowings under the Company's Revolver at an interest rate of 6.17 percent. Such incremental borrowings will be used to finance the Acquisition and pay certain transaction-related expenses in connection with the closing of the Acquisition and related financing activities.

x Reflects the income tax effects of pro forma adjustments based on the Company's blended federal and state effective tax rate for the nine months ended September 30, 2023.

y Reflects the issuance of 3.7 million shares of the Company's common stock to finance the Acquisition. The number of common shares assumed to be issued is estimated based on the $92.71 closing price of the Company's common stock on November 3, 2023, net of a 5.0 percent underwriting discount.

z Represents $0.3 million of interest expense associated with long-term transportation service agreements between FCG and PPC, a wholly owned subsidiary of the Company. Upon closing of the Acquisition, these agreements will be classified as affiliate transactions and the associated revenues and expenses will be eliminated in the Company's consolidated results.

aa Represents $0.5 million of depreciation expense associated with long-term transportation service agreements between FCG and PPC, a wholly owned subsidiary of the Company. Upon closing of the Acquisition, these agreements will be classified as affiliate transactions and the associated revenues and expenses will be eliminated in the Company's consolidated results.

ab Reflects $1.0 million of pension expenses related to benefit plan obligations that are excluded from the Acquisition.

ac Reflects $0.8 million of depreciation expense related to software that is excluded from the Acquisition and being retained by FPL.

ad Reflects $6.2 million of interest expense related to outstanding debt of FCG that will be settled prior to the closing of the Acquisition.

ae Reflects a $36.0 million net increase to interest expense resulting from the Company's issuance of long-term debt to finance the Acquisition. The Company expects to issue $550.0 million in new long-term notes at an interest rate of 6.54 percent.

af Reflects a $5.2 million increase in interest expense resulting from incremental borrowings under the Company's Revolver at an interest rate of 6.17 percent. Such incremental borrowings will be used to finance the Acquisition and pay certain transaction-related expenses in connection with the closing of the Acquisition and related financing activities.

ag Reflects the income tax effects of pro forma adjustments based on the Company's blended federal and state effective tax rate for the year ended December 31, 2022.

ah Reflects the issuance of 3.7 million shares of the Company's common stock to finance the Acquisition. The number of common shares assumed to be issued is estimated based on the closing price of the Company's common stock of $92.71 on November 3, 2023, net of a 5.0 percent underwriting discount.