Q1 2020 Earnings Call

Company Participants

- Beth W. Cooper, Executive Vice President, Chief Financial Officer & Assistant Secretary
- Jeffry M. Householder, President & Chief Executive Officer
- James F. Moriarty, Executive Vice President, General Counsel, Corporate Secretary and Chief Policy and Risk Officer

Other Participants

- Brian Russo

Presentation

Operator

Ladies and gentlemen, thank you for standing by and welcome to the Chesapeake Utilities First Quarter 2020 Earnings Conference Call. At this time, all participants' lines are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session.

I would now like to hand the conference over to your speaker today, Beth Cooper. Thank you. Please go ahead.

Beth W. Cooper

Thank you, and good afternoon everyone. We appreciate you joining us today to review our first quarter results. With me on the call today are Jeff Householder, President and Chief Executive Officer; and Jim Moriarty, Executive Vice President, General Counsel, Corporate Secretary and Chief Risk and Compliance Officer. We also have other members of our management team joining us virtually. Today's presentation can be accessed on our website under the Investors section and Events & Webcast subsection or via our IR app. After our prepared remarks, we will be happy to take your questions.

To begin, the theme of our 2019 Annual Report is driven by energy, delivering energy. The Annual Report cover and the first page of this presentation highlight the behaviors and values that our employees exhibit every day. We designed the cover long before anyone had ever heard about a coronavirus pandemic. The words convey two distinct, but complementary messages, commitment, agility, safety, leadership, team, collaboration, service, adaptability and community speak volumes about Chesapeake's ability to meet any challenge head-on and prevail. Strategy, growth, sustainability, solutions, strength, improvement, performance and value are the attributes that have driven the Company to double in size twice over the past decade. The values and operating philosophy represented by these words are the foundation of everything we do. The COVID-19 pandemic has changed the way we conduct business day to day, but it has not changed our strategy, our ability to safely deliver energy services to our customers or our commitment to strategic growth.

Moving to slide 2, let me remind you that matters discussed in this conference call may include forward-looking statements that involve risks and uncertainties. Forward-looking statements and projections could differ materially from our actual results. The Safe Harbor for Forward-Looking Statements section of the Company's 2019 Annual Report on Form 10-K and our quarterly report on Form 10-Q for the first quarter, provide further information on the factors that could cause such statements to differ from our actual results. In our first quarter Form 10-Q, we highlight the risks and uncertainties related to the COVID-19 pandemic that could cause actual future results to differ materially from those expressed in any forward-looking statements, including, but not limited to the duration and scope of the COVID-19 pandemic and impact on the demand for our services, our ability to obtain needed materials and supplies, actions taken in response to the pandemic, including mandatory business closures and restrictions of onsite commercial interactions, the pace of recovery and the impact on economic conditions. Now, I would like to turn the call over to Jeff to provide some opening remarks on our first quarter performance, more details on our COVID-19 response and some insights on our outlook going forward. Jeff?

Jeffry M. Householder

Thank you, Beth and good afternoon, and thank all of you for joining our call for the first quarter of 2020. I'd like to first touch upon our strong performance for the quarter. The milder winter weather decreased customer consumption, but we successfully overcame that shortfall, largely due to our continuing growth initiatives. Our first quarter 2020 net income rose to $28.9 million or $1.76 per share as shown on slide 3. Growth in our natural gas distribution business both organically and from new pipeline expansions, strong contributions from Boulden Gas acquired in December of 2019 and increased retail propane margins per gallon were the primary drivers.

It's worth noting that results for the quarter do not reflect the benefit of electric rate relief for costs incurred from hurricanes Michael and Dorian. We reached a settlement with the Florida Office of Public Counsel on the recovery costs and are collecting rates on an interim basis until we receive final approval from the Florida PSC. We're reserving the full interim rate margins until we receive that final approval, which is expected during the second half of this year. Property sales of two facilities that were no longer needed also contributed to quarter one results. Beth will provide a more detailed discussion of the first quarter results later in the call.

Also, we continue to make significant capital investments to ensure future growth with a total of $41 million in spending recorded during the first quarter. We've continued to progress on our expansion projects and our timelines for placing our major projects into service, have not been impacted by the social distancing requirements imposed within our service territories. This morning, our Board of Directors expressed their continued confidence in the strong fundamentals and positive outlook for our business by declaring a new annualized dividend of $1.76 per share, double what our dividend payment was 10 years ago.

While the first quarter was strong, we certainly find ourselves operating today in extraordinary times. Our thoughts are with all of those that have lost someone to this virus and we salute the heroic efforts of the many people that have been on the front lines battling this pandemic. It would have been hard to imagine a little over two months ago that today we would have 30 million people unemployed in this country, states trying to restart their economies without triggering a second wave of the virus and models projecting COVID-19 lingering for many more months, if not years. It's a tough decision trying to weigh the economic hardship against potential health risk. We've been part of the continuing solution here at Chesapeake. Our energy delivery services are essential businesses that customers and communities depend on.

We have not experienced the steep revenue decrease and resulting business and employee impacts faced by many companies. Our challenge is to implement and maintain a plan that enables us to keep our people safe and our energy delivery systems operational while at the same time helping our communities to support those who have been less fortunate. We have a long history of responding to natural disasters. When you operate utility systems in Florida, planning and executing a recovery response is second nature. That certainly helped in this situation. The pandemic response is different in many ways, from a hurricane but the fundamental principles of staying calm, focusing on safety, working the plan, communicating expansively and finding solutions to whatever comes up are much the same.

Turning to slide 4, we started actively tracking the spread of the coronavirus in early February. The team pulled our pandemic response plan, which was originally developed in 2007 for the H5N1 influenza pandemic and we began updating the plan specifics based on what we were seeing in Asia and Europe. Shortly after our 2019 year-end earnings call, the first US case of COVID-19 was confirmed in California. We immediately stood up our pandemic task force, cancelled all large events, suspended all non-essential travel, again expanding our VPN capacity to support remote work, placed orders for additional PPE and a hundred other things. We were also one of the first utilities in the country to stop non-pay disconnects and waive late fees.

Our pandemic response plan includes two primary objectives. First and foremost, ensure the Company takes rational, measured, - and if necessary- escalating actions designed for the protection and safety of employees, customers and the communities we serve. Second, the plan is designed to maintain our ability to provide uninterrupted delivery of the energy services in each of our businesses. I think we have executed quite well on those objectives.

To date, we have had zero confirmed employee cases of COVID-19. From the initial activation of our plan, we have actively identified and tracked potential COVID-19 employee exposure relied on temperature testing and utilized their contact tracing process. We believe the steps we've taken to promote social distancing, enhanced the use of PPE for field employees and the increased level of facility cleaning have contributed to our success.

Our operations units followed CDC, OSHE and industry best practices for PPE, again social distancing and pre-screening job sites prior to entering a building. Our transmission and distribution systems are operating with control rooms, compressor stations and other critical functions fully staffed. We've been able to safely continue our pipeline construction projects, our Marlin CNG and Sharp propane trucks continued to deliver fuel to customers. The Eight Flags CHP is generating electricity with a social distance and staggered shift control center. Our business development team continues to pursue opportunities and our corporate support teams quickly adapted to home offices, virtual meetings and network share points. It's not exactly business as usual, but we are running the business and we're running it effectively.

In some ways, our current situation is working better than our traditional office environment. Internal employee communications have significantly increased. I'm hosting a weekly all hands employee call providing those pandemic response and business updates. We'll follow those calls with an immediate employee survey and management responds quickly to suggestions and concerns. Not surprisingly our safety focus, while always strong, has been enhanced to a new level that we are determined to continue. We have increased our cyber security efforts recognizing that there are new threats and potential vulnerabilities as we change our work conditions. We're also finding out that some of the things we were doing before the pandemic really aren't that mission critical. We were already evaluating our operating processes looking for greater standardization and simplicity. The shift to remote work and the need to ensure safe conditions in an evolving environment have significantly accelerated our process improvement effort across the Company.

In all of this, we've learned a great deal. We've learned that we can effectively run this Company with hundreds of employees working and collaborating remotely. We're figuring out how to stay connected and productive. We have also reaffirmed a few things about the people that work for Chesapeake that they are capable of moving quickly, thinking on their feet, driving to execute a plan regardless of how tough the situation. I've always been impressed that Chesapeake Utilities is a Company is full of people that do things, and will not just talk about doing. I think it's a very essence of who we are as a Company. So what's next? Our strategy is simple. Keep people safe and do what has been working until we have much greater certainty about how this is going to play out. We will not put at risk our people or our central mission of delivering essential energy services. We will take a cautious, measured approach to changing our existing operating conditions.

Several task force groups are working to finalize a phased return to the office plan. I would not expect that to occur to any significant extent before the end of the year. I don't see that timing having any negative impact on our ability to continue to effectively operate this business. Now, let me ask Jim Moriarty to update you on the governmental and regulatory fronts, particularly as it relates to COVID-19.

James F. Moriarty

Thank you, Jeff and good afternoon everyone. Turning to slide 5, each of the states where we operate has closed non-essential businesses and schools and issued stay at home orders. We have worked closely with state governments and our industry associates (Technical Difficulty)

Operator

Okay, Beth?

Jeffrey M. Householder

Did we lose Jim?

Operator

Okay, Beth? Okay. There you go. Yes, we did lose one of the speakers.

Beth W. Cooper

Okay. I can. I'll pick up from there. And then -- okay. So, Jim was actually -- had referred to slide 5 and he was starting to talk a little bit about the governmental and regulatory actions. So in each of the states where we operate, the states have essentially closed nonessential businesses and schools and issued stay at home orders. We have worked closely with state governments and our industry associations, to ensure that our energy delivery businesses are designated as essential and that our critical employees are exempt from the stay at home orders. Nevertheless, we have worked hard to carefully implement the stay at home remote work orders when possible. Approximately 80% of our non-field services personnel are now working from home. I'm now going to turn the call back over to Jim.

James F. Moriarty

Thank you, Beth. We are also closely monitoring all guidance from the Centers for Disease Control, OSHA and numerous policy, regulatory, and health agencies in the individual states in which we operate. We actively participate in discussions with our elected representatives on the Federal, State and local levels.

Slide 5 provides a summary of our operations by state along with the latest guidance from those states on their planning and the legislation and executive orders on COVID-19 related restrictions and reopening. The effort in some states to reopen businesses and relax stay at home orders has begun. Most states appear to be following a three-phase reopening process beginning with certain retail stores and restaurants. Some are including gyms, hair salons, golf courses and beaches opening in some limited capacity in Phase 1. None of the states have re-opened schools or are allowing large gatherings. A few are letting their stay at home orders continue and others are letting them expire.

I have not yet seen any state issue a date when a Phase 2 opening of other businesses and a termination of most stay at home orders may begin. Every state is continuing to require social distancing and limited large gatherings, most require face coverings in public. We serve states that are reopening, Florida, Ohio, Pennsylvania and Virginia, are all taking Phase 1 steps. Delaware and Maryland are planning, but have not yet announced Phase 1 reopening dates as of this morning. As the process for reopening the economy continues to unfold, state by state or region by region, we will continue to do what we have always done, evaluate the facts and do what is best for our employees, our customers and the communities that we serve.

As on slide 6, on the regulatory side in this unprecedented period, we continue to monitor daily, the federal, state and local actions that could impact our business. As you can see it on slide 6, The Maryland Public Service Commission has authorized the establishment of regulatory asset accounting for incremental cost that are incurred in the provision of utility services used to maintain the health, safety, and welfare of Maryland customers during the COVID-19 pandemic. The order allows for a deferral of costs incurred starting on March 16th of 2020. We are encouraged by this development and are looking at the potential extension of this regulatory asset accounting to the other states in which we operate, as well as to the FERC if appropriate. Our interstate transmission unit Eastern Shore Natural Gas has not experienced any material impact to date as a result of COVID-19 and the various statewide restrictions. As a result, we have not filed a recovery mechanism with FERC at this time. We will continue to monitor the effect on ESNG closely. We are also part of a working group and have been participating in formal discussions with the PSC staff in Florida on addressing COVID-19 cost. We are also participating in key industry association meetings where we collectively discuss potential future legislation at both the Federal and State levels that could provide additional relief. Now back to you, Jeff.

Jeffrey M. Householder

Thanks, Jim. Slide 7 discusses the key business factors associated with COVID-19. We saw lower margins in March attributable to COVID-19, but we offset the reduced margins with lower expenses. So far during the second quarter, it appears that commercial industrial margins are somewhat lower than normal. However, the residential margins have been higher in part due to colder weather, but perhaps also driven by more usage by customers who have been at home rather than at commercial or industrial locations.

We are capturing COVID-19 related expenses such as personal protective equipment, the cost of sanitizing high use workplaces, the incremental pay we implemented for our employees that are on the front line, et cetera. On the flip side, we're seeing decreases in other expenses such as travel, meals, conferences and interest. There has been no meaningful impact on our supply chain other than the PPE items everyone is trying to acquire. The effects on our pension expenses have not yet been significant in part because we began de-risking our frozen Chesapeake pension plan during the fourth quarter of 2019. We have not delayed funding of our pension plans as allowed for in the 2020 CARES Act. On the capital investment side, work is progressing largely as planned on the projects budgeted in our 2020 capital spending plan. We have not experienced any material delays to date and do not anticipate any at the present time. As a result, we remain comfortable with our previous capital guidance for 2020.

Finally, to ensure that we have more than adequate liquidity to continue to fund our growth, we have secured additional short-term debt capacity and are in the process of renewing several long-term debt shelf facilities. I want our investors to rest assured that our balance sheet remains strong and we have more than adequate financing available to support our strategic growth plan. In total, we will have access to more than $0.5 million -- $0.5 billion in the event we need it, and Beth will provide more details on our guidance and financing in a few minutes. We continue to execute on our strategic initiatives.

Turning to slide 8, we highlight the significant growth initiatives that will drive our capital investment and returns. We have a broad and deep series of strategic growth initiatives that our team has developed, which position us for continued success. Growth will come from the completion of current and new expansion projects, organic growth, integration and cultivation of Marlin and our recent propane acquisition as well as completing new acquisitions such as Elkton Gas. We also see the opportunities for new transmission and combined heat and power plants as well as renewable natural gas and liquefied natural gas, transportation and processing projects. Over the last 15 years, the level and impact of our past capital investments have fostered the earnings, dividend growth and shareholder returns that have consistently set us apart. Work has continued on our large expansion projects since the pandemic began.

As highlighted on slide 9, we continue to affirm our 5-year capital expenditure guidance of $750 million to $1 billion through 2022. From the beginning of 2018 to date, we've invested $523 million. Assuming no major delays, we could reach the lower end of the capital expenditure guidance range in 2021.

In recognition of our team's success in 2019 and a strong outlook for new projects and growth going forward, at the end of February, we increased our earnings guidance to a higher range of $4.70 to $4.90 per share in 2022 as shown on slide 10. After considering the COVID-19 impact to date and our current projections, as well as a myriad of other factors, including potential regulatory relief, growth projects underway and continued collaboration across the enterprise to achieve efficiencies and standardized processes, we reaffirmed this guidance. The Company has historically achieved an average earnings growth rate at or above 7.75% to 9.5% and we continue to view the Company's long-term growth prospects as comparable to historic growth. Now, I'll turn the call back to Beth to review our financial results.

Beth W. Cooper

Thanks, Jeff. Turning to slide 11, net income for the first quarter was $28.9 million or $1.76 per share. As we reported in our earnings release yesterday, this was a significant accomplishment in the face of temperatures that were 20% and 17% warmer on the Delmarva Peninsula and in Ohio, respectively, as compared to the first quarter of 2019, Florida's temperatures although less weather-sensitive, because of the larger mix of commercial and industrial customers, we're still 7% warmer than normal. In addition, as Jeff mentioned, there was no regulatory relief from hurricanes Michael and Dorian included in our first quarter results. We have fully reserved the interim rate relief, which began in January, pending approval of the final rates. We were able to achieve strong performance for the quarter despite these factors, as a result of many other positive accomplishments, including increased gross margin from ongoing pipeline expansion projects, incremental margins associated with the Boulden acquisition from December of last year, organic growth in the natural gas distribution operations, higher propane retail margins per gallon and gains from two office and operations facility sales. Detailed discussions of our results for the quarter are provided in our press release and Form 10-Q, both of which were filed yesterday.

The key variances in net income and earnings per share for the first quarters of 2020 and 2019 are highlighted on slides 12 and 13. We continue to report earnings on a continuing and discontinued basis. The focus of these reconciliations are on a continuing operations basis. Earnings from continuing operations for the first quarter of 2020 were $1.77 per share compared to first quarter 2019 earnings per share of $1.75 per share. Adjustments for unusual items reduced first quarter 2020 earnings by $0.09 per share compared to first quarter 2019 as the impact of warmer weather during the first quarter and the absence of certain 2018 tax savings in Florida that were recorded in 2019 were only partially offset by the gains on two property sales during the quarter.

The two properties were no longer needed given the opening of our Energy Lane facility and the completion of the conversion of Sandpiper's Ocean City propane system to natural gas, which I'll talk about in just a few minutes. The largest key growth drivers increased gross margin in the first quarter of 2020 by $4.6 million over 2019 and contributed $0.21 per share to earnings per share.

Turning to slide 13, the key contributors to the increase in gross margin are shown on the top of the slide. Boulden, our most recent propane acquisition, contributed $1.9 million in gross margin during the quarter. Higher margins realized on retail propane sales, growth in our natural gas distribution customer base in Florida and Delmarva and contributions for expansion projects were also key contributors to margin growth during the quarter. Margin from Marlin was down for the quarter compared to the same quarter last year due to several large scale pipeline integrity jobs with existing customers provided during the first quarter of last year. We continue to expect Marlin to achieve our previously stated margin guidance for 2020 reflecting significant growth over 2019. The increase in gross margin was partially offset by higher depreciation, amortization and property tax expenses of $1.3 million or $0.06 per share. Higher insurance costs, operating expenses from the Boulden acquisition and higher facilities maintenance and outside services, partially offset by lower payroll and benefit costs resulted in higher operating expenses of $0.03 per share.

Our guidance for 2020 capital spending continues to be in the range of $185 million to $215 million as shown on slide 14. Spending during the first quarter of 2020 totaled $41.2 million, which was in line with our expectations for the quarter and not impacted by COVID-19. So far during the second quarter, we have not experienced any impact on our expected investment due to the pandemic. The majority of our capital has been and will continue to be invested in our regulated businesses. Spending to support growth in our unregulated businesses will remain fairly stable excluding the potential impact of acquisitions or the expansion of Marlin into new areas such as RNG, renewable natural gas or LNG. We continue to vet various opportunities even in the current environment, and again, we'll provide updates on our spending throughout the year. Slide 15 highlights the Company's commitment to maintaining a strong balance sheet, which should facilitate access to adequate, competitively-priced capital to fund our growth initiatives. At the end of March 2020, our equity to permanent capitalization was approximately 58% and equity to total capitalization including short-term borrowings was 45%.

As of March 31, 2020, our short-term debt including the current portion of long-term debt was approximately $270 million and we had approximately $117 million available under existing short-term lines of credit and our syndicated revolver facility. In order to ensure access to additional debt capital and given the uncertainty regarding the length and depth of the impacts of the COVID-19 pandemic, we obtained commitments for an additional $95 million of short-term debt capacity with four existing lenders. We are in the process of renewing two of our long-term shelf agreements for a $150 million each for a total availability of $300 million of long-term debt capital. In total, this gives us up to approximately $500 million in available credit. In July and August of this year, we will refinance $90 million of short-term debt with new long-term debt priced competitively at an average rate of 2.98%. We also maintain an effective shelf registration statement for the issuance of shares under our dividend reinvestment and direct stock purchase plan, and may consider issuing additional shares under this plan as market conditions warrant in addition to issuing equity under our various registration statements for our compensatory and retirement savings plans. Chesapeake seeks to align permanent financing with the in-service dates of capital projects. We target a ratio of equity to total capitalization, including short-term borrowings of 50% or higher. Since year-end, the Company's equity to total capitalization has increased from 43% to 45%.

Turning to slide 16, we believe that one of the keys to our success is our ability to deploy significant amounts of capital while maintaining attractive returns on investment. As this chart shows, Chesapeake's return on equity has historically been well above our peer group median and 75th percentile, consistently averaging 11.8% to 12% over the one, three, five and 10-year periods ended December 31, 2019. We consistently rank near the top-end of our peer group in return on equity and have achieved this while investing a higher proportion of capital as a percent of total capitalization compared to our peers. Our updated list of major projects and initiatives recently completed and underway is provided on slide 17. I know many of you are familiar with this table. The major projects and initiatives shown here are expected to increase gross margin by $14.3 million during 2020. The Elkton Gas acquisition and a final decision or settlement on hurricanes Michael and Dorian will further increase that number. These same projects and initiatives that are shown here are expected to further increase margin by $7.4 million in 2021 and that excludes again Elkton, hurricanes Michael and Dorian relief, which will have effects for the full year. The margin increases for both years reflect new project and initiative growth only and do not include the substantial continued growth in margin, we expect from existing customers and previously completed projects that do not add incremental margin in 2020.

For 2020 also, several pipeline expansion projects, including the completion of the West Palm Beach expansions, the Del-Mar Energy Pathway, the Auburndale Pipeline and the Callahan Pipeline are expected to produce $8.5 million in additional margin versus 2019. Marlin is expected to produce $1 million in incremental margin this year, while the Boulden propane acquisition is expected to add $3.5 million in incremental margins. Finally, our Florida Gas Reliability and Infrastructure Program is expected to add $1.3 million in additional margin during the year.

Turning to slide 18, as I talked about previously, and as Jeff and Jim have talked about previously as well, our propane distribution operations complement our natural gas distribution operations and allow us to provide clean, reliable and lower cost energy solutions even when they are not located on or near natural gas distribution mains. They also create opportunities to convert customers on a large scale basis once we expand service into areas adjacent to our current natural gas service areas. The 2013 acquisition of several piped propane systems in Worcester County, Maryland by Sandpiper Energy and their subsequent conversions are perfect examples of this. We've been working for the past several years to convert approximately 11,000 customers from propane to our regulated natural gas utility.

Last week, DNG completed the conversions in Ocean City. Our Sharp Energy propane business removed three 30,000 gallon propane storage tanks that were fueling the underground system, tanks, which I am sure, Sharp will put to good use. We're down to about 420 conversions to fully complete the project. It's been a great effort by all involved. A recent survey of customers indicated 97% were happy with the way their conversion was handled. That speaks volumes to the professionalism of all our people who've been involved in this great effort.

We've been developing community gas systems where we effectively create many propane distribution systems served by large central tanks for a number of years. We currently serve over 10,000 customers via Chesapeake community gas system. The expansion of these underground propane systems remain a key initiative for us. Much like the former community gas systems that Sandpiper converted, these systems are a perfect solution in those portions of our service territory that do not currently have natural gas service. In August 2019, we filed with the Delaware Public Service Commission for approval of regulatory accounting and valuation methodologies to allow for the conversion of these systems to natural gas. We discussed our process with the PSC on slide 19. As we expand our distribution system, we will be able to add these community gas systems to our natural gas distribution network and our filing provides the mechanism for accomplishing this. We reached a settlement agreement with the involved parties just last month and expect PSC approval of this agreement during the second quarter of 2020. On December 5, 2019, Chesapeake Utilities and South Jersey Industries entered into an agreement under which Chesapeake will acquire Elkton Gas Company for approximately $15 million. As shown on slide 20, the transaction is expected to close by the end of the third quarter 2020 after recently -- us recently just receiving approval from the Maryland Public Service Commission. The acquisition will unite two adjoining franchise areas in Cecil County. Elkton Gas will continue to operate out of its existing office with the same local personnel and will provide localized customer service and operations to serve our combined footprint. In terms of future growth, a new 623-acre development has been proposed that would add a significant number of new industrial, commercial and residential customers. Elkton's location along Interstate 95 should provide additional growth opportunities as well as opportunities for Marlin to expand its CNG and LNG businesses. Lastly, beyond the benefits of our combined operations, given our propane footprint obtained with the Boulden acquisition, we can serve this growing market with propane in areas where natural gas is not available. I am now going to turn the call to Jim to speak about ESG stewardship. Jim?

James F. Moriarty

Thank you very much, Beth. As shown on slide 21, Chesapeake Utilities is strongly committed to sound governance principles and the highest standards of ethical conduct. This is how we work every day. These values are aligned with our established culture that engages all of our team members. ESG is embedded throughout our Company in every part of our DNA starting with our Board of Directors who guide us and extend throughout the organization.

We continue to honor our responsibility to operate in a safe and environmentally and friendly manner that furthers our stewardship and facilitate sustainable practices. Towards that end, we have a cross-functional team that is focused on advancing our current ESG platform refining our metrics and goals and ensuring successful communications of the Company's ESG strategy.

On slide 22, we highlight just a few of our many ESG accomplishments and accolades that demonstrate our commitment and focus to conduct business with environmental responsibility and always with safety at top of mind, support the betterment of our communities and the customers we serve and engage, encourage and promote our diverse and high performing team to continue to contribute in meaningful ways. We are strongly committed to operating in an ecologically positive manner while ensuring that the communities we serve continue receiving the value and benefits of clean and affordable energy delivery services.

Our businesses strive to identify solutions for more efficient energy use, generate savings for our customers, and reduce carbon emissions within our business operations and the communities we serve. As Jeff pointed out in the president's letter in our annual report, we have been able to extend our systems to previously unserved and underserved areas, which has accelerated the conversion of thousands of coal, oil, kerosene and wood burning appliances to clean and affordable natural gas. We also actively support the use of high efficiency appliances through rebate programs. On the electric side, our distribution utility purchases power from one of the most efficient combined heat and power plants in the United States, and from a wholesale supplier that operates the largest renewable energy fleet in Florida. And back on Delmarva, Sharp Energy, our propane distribution business is one of the largest auto gas suppliers in the Northeast, displacing diesel fuel by providing a cleaner, safer fuel for school buses and fleet vehicles.

On slide 23, we have highlighted just a few of the many solutions relied upon across our energy delivery businesses to reduce our community's carbon footprint. We are excited about new opportunities like those involving renewable natural gas that we are pursuing, which will further advance our environmental stewardship. I appreciate being with all of you today and turn the call back to Beth.

Beth W. Cooper

Well, once again Jim, Jeff and I would like to thank you all for joining us. I will close today's call by highlighting our outstanding track record of dividend growth. As we noted earlier and as shown on slide 24, our Board of Directors announced an 8.6%

increase in our annualized dividend yesterday. This increase reflects their confidence in our continued ability to produce growth in earnings per share that is well above the industry average.

Our five-year average dividend growth of 8.9% is among the top five in the utility industry and is in line with our five-year average growth in earnings per share of 8.5%. Superior dividend growth is a critical component of our financial strategy and our commitment to deliver industry-leading returns to our shareholders over the long term. From Jeff, Jim and myself, we thank you for your support and interest in our Company. It means more than we could ever say in this phone call.

We see numerous opportunities for continued growth in the businesses we operate today and are committed to ensuring the safety and health of our employees. While we manage the challenges of COVID-19 to ensure a continued reliability and excellent for our customers, our communities and our shareholders. We would now be happy to take any questions.

Questions and Answers

(Operator Instructions) We have our first question from Brian Russo with Sidoti. Please ask your question.

Q – Brian Russo

Hi, good afternoon.

A – Beth W. Cooper

Hi, good afternoon. How are you?

Q – Brian Russo

Good, thank you. Hope all is well on your end.

A – Beth W. Cooper

Yes.

Q – Brian Russo

Just how much year-to-date have you or in total have you reserved in interim rates due to the hurricanes?

A – Beth W. Cooper

We have not right now -- we have not Brian, actually disclosed any information. We have fully reserved what the PSC has allowed us to implement, which is the -- actually the amount that was filed for. And so we have fully reserved that at this time. Information about the full amount of our request is actually out in our filing on the PSC's website. But once we have final rates determined, certainly that information in regards to the final rate, we'll have that disclosed.

Q – Brian Russo

Got it. So from an accounting perspective, you get final approval and then you'll bookthat on the income statement in that report period?

A – Beth W. Cooper

Yes.

Q – Brian Russo

Yes. Okay. And then the Marlin first quarter 2020 versus first quarter 2019 declined in margin. Was that expected because it seems as if you're still committed to the $1 million increase in margin in 2020 over 2019?

A – Beth W. Cooper

Yes. Great question. It was expected -- last year, we had -- at that time we had just purchased Marlin and we were coming into the beginning of last year. And so we – there were several large scale emergency type projects that arose and were one time large events, and you don't always -- you can't always plan for those type of -- emergency type of events to reoccur. But what we're looking at and why we feel comfortable are with the projects that we see on the drawing board and you'll recall that the business model for Marlin has shifted a little bit to where we have a larger portion of that business with more contracts that have a recurring nature type a portion of them. So we feel confident with what we see in our pipeline, I'll use that term loosely, but in our pipeline of projects that we see and the opportunities before us, we have not come off of our guidance for the year in any way at this time.

Q – Brian Russo

Okay, great. And just curious, and with the understanding that the second quarter is a shoulder quarter for most of your companies, the $500,000 of COVID expense, right, not netted against lower other operating expenses, but what was that from? Was that like PPE and other type of response costs or was that actual like sales degradation you were starting to see?

A – Beth W. Cooper

Well, so you'll recall that we had about $400,000 of lower margin offset by $400,000 of lower costs. So the lower costs were coming from things like less travel in the latter part of March, less conferences, there were a lot of things that had to shift and be canceled and there were just various things like that. And so, those were able to offset where we started to see some margin degradation at the end of the month in terms of primarily you're going to have that in the small commercial and industrial side of the business.

Q – Brian Russo

Okay, got it. And so that might carry on into April or May or it's not on the residential side because it's a short period, but that could be extended into April, May and June for example, at kind of that rate.

A – Beth W. Cooper

It depends on -- certainly, it depends on each of the states' orders. What I would say is that -- also I wouldn't say, you commented about April and May, those can be -- those are shoulder months as you said. I think most of us can see that April has been colder than years passed. And so there is going to be load hat results from that colder weather In April, some of that will offset some of the impact on the C&I side. But you have started to see some of the state orders being lifted in certain places. So in Florida, for example, things are starting to open back up in Maryland some things are starting to happen in Delaware as well in Ohio, et cetera.

So things are starting to -- so I think it's a little difficult at this time. You know, we are standing up dashboards too and we have stood up dashboards that monitor the consumption. So we can look at that. But some of the offsets are certainly, Brian, going to continue to be in the environment that we operate just like Jeff said. We're not rushing back to business as normal. So travel is not going to be at the pace that it was previous -- in previous years, right. Those types of costs are still going to be lower. So that's going to offset, some of them may happen on the margin side. And for us again, as we look at that, we still feel comfortable as we look out over the longer term with the guidance that we've provided out and I think there are so many factors we tried to lay them out on, Jeff covered them in terms of margin, expenses beyond travel, there's interest savings, there's things that are all going to factor into what the quarter comes out looking like. And then finally, whatever regulatory orders are stood up in some of the states that are currently in the process of looking at those types of things.

Q – Brian Russo

Okay, got it. And just in terms of bad debt expense, and I noticed in the Q, you've estimated credit losses of $1.42 million as of March 30th. Does that capture any of the COVID pandemic? Or -- and is some of that recovered in mechanisms in Maryland? Just trying to triangulate that disclosure in the Q.

A – Beth W. Cooper

As of the end of March, there is nothing that has been factored in regards to COVID-19. In the sense of the Maryland regulatory relief, there wasn't substantial dollars given that regulatory order for us to put in a regulatory asset. So we will look at that as we kind of get year-to-date through June. I think we will have to revisit that -- the implications of anything on the bad debt side, but that's going to need to once again take into consideration whatever regulatory orders are out there. And from our perspective, we certainly want to work with our customers and we have loads of programs and we have our sharing program that provides financial assistance. We've committed dollars to that. We have budget programs. We work with customers to spread their bills out over a period of time. So I think just rushing to, and saying, yes, there will be some bad debt exposure out of it, there has to be. But there is going to be multiple mechanisms, including whatever may come on the regulatory side, whatever may come in terms of how we're able to help customers and kind of enable them to approach some of these programs. And so I think, again, as we get through the second quarter, I think we'll be able to provide more transparency about what it looks like. And -- but we will be working with our customers, and again, we'll reevaluate at the end of that time.

Q – Brian Russo

Okay, that's great. And then just the 8.6% dividend increase announcement today that combined with the 2022 reaffirmation of the EPS guidance range, it kind of -- it's just in least that the payout is going to remain in that low 40% level. So that implies that you see a lot of growth opportunities, and you mentioned a few like CNG and Marlin. But are there other Boulden or OHL type acquisitions that you see in the pipeline?

A – Beth W. Cooper

Well, we are continuing as Jeff talked about earlier, I mean, we are continuing to look at growth opportunities, that's really been one of the most – one of the great things even during a situation that we find ourselves in that, number one, our expansion projects are still continuing, and in some cases, we're even doing a few projects ahead of when they might have been on the drawing board because of some of the states actually doing work in some of our jurisdictions. But the other part of it is, yes, we will continue to pursue new opportunities. As we've stated in the past, certainly acquisitions that makes sense, we are interested in. Similarly we've expressed interest given Marlin's capabilities beyond CNG to look at RNG and LNG. And so I think, you can expect Brian that we're continuing to look at a lot of things and we again affirmed our CapEx guidance for this year and Jeff reaffirmed our CapEx guidance through 2022. And so, we're still -- you know, our foot is still on the pedal and we're still pushing forward.

Q – Brian Russo

Great. Thank you very much.

A – Beth W. Cooper

Thank you. Have a great afternoon and evening.

Q – Brian Russo

Okay. Thank you.

Operator

(Operator Instructions) Okay. There are no questions as of the moment. Beth?

Beth W. Cooper

Thank you. Well, I'd like to close by saying just a few words. While our commitment to generating increased shareholder value remains at the forefront of our decision making, equally as important during this unprecedented time have been the decisions and actions we have taken as a Company to maintain the safety and well-being of our employees and their families to ensure delivery of the essential services our customers expect from us, and to provide financial support in these challenging times, to our local communities We've responded in this way, not because it's the right thing to do, but because we have always done so each and every day. Rest assured, we will keep doing the right thing each and every day. Thank you again for joining our call today. I know it’s late at the end of the day, and for your interest in our Company. We are proud of what our team has accomplished for our shareholders in the past and we remain committed to working hard every day to deliver superior shareholder returns in the future. Please stay safe out there and we look forward to talking with you next quarter. Thank you so much. Good night.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you so much for participating. You may now disconnect.