2021 Second Quarter Results 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

- Tate Sullivan
- Brian Russo
- Roger Liddell

Operator: Greetings and welcome to the Chesapeake Utilities Corporation's Second Quarter Financial Results. During the presentation all participants will be in a listen-only mode. Afterwards we'll conduct a question-and-answer session. And at that time, if you have a question, you can press the 1 followed by the 4 on your telephone. If at any time during the conference you need to reach an operator, you can press star zero. And as a reminder, this conference is being recorded Thursday, August 5, 2021. I'd now like to turn it over to Beth Cooper, Executive Vice President, Chief Financial Officer, and Assistant Secretary. Please go ahead.

Beth Cooper: Thank you and good afternoon, everyone. It is great to be with all of you today. We appreciate you joining us to review our second quarter and year-to-date performance through June 30, 2021.

Yesterday we announced our financial results, which demonstrated how we continue growing and operating effectively, serving our customers, identifying and executing on new investment projects, and keeping our employees as safe as possible in this ever-changing environment.

As shown on Slide 2, participating 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 Policy and Risk Officer. We also have other members of our management team joining us virtually.

Today's presentation can be accessed on our Web site under the Investors section and Events and Webcasts sub-section. After our prepared remarks, we will open the call up for questions.

Moving to Slide 3, I'd like to 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 2020 annual report on Form 10-K and our first and second quarter Form 10-Qs provide further information on the factors that could cause such statements to differ from our actual results.

Additionally, I'd like to mention that we've added some new disclosures in our quarterly report to highlight some of our key environmental, social and governance or ESG initiatives. While Jim typically talks about these initiatives during our earnings conference calls, as he will later on today, we wanted to provide more disclosure in our filed documents. We would welcome your feedback on our enhanced reporting.

Now, I'll turn the call over to Jeff to provide some opening remarks on the company's second quarter and year-to-date results and the key drivers of our performance. Jeff?

Jeff Householder: Thank you, Beth, and good afternoon and thank you for joining our call today. Let's start as usual with an update on COVID-19 and our continuing efforts to manage through the ongoing pandemic. When we spoke during the first quarter earnings call, the trend was positive in terms of reduced COVID-19 infections and serious illness. The vaccines, along with continued preventative measures, were proven to be remarkably effective.

The good news didn't last long as the U.S. relaxed many of its pandemic precautions and vaccine levels plateaued. We've seen an uptick in COVID-19 cases across the country, including in our core service territories. As has been widely reported in Florida, the case levels are now greater than at any time over the entire course of the pandemic, and hospitals are full.

However, Florida and all of the other states we serve remain at this point open for business. Notwithstanding the latest COVID surge, we are not to date experiencing any significant COVID related reductions in usage or margin in any of our service areas.

Our return to the office plan has long included the possibility that we would see another surge in COVID cases this fall. Over the past few months, we've been watching the Delta variant's impacts in India and in the U.K.

Even prior to the Delta variant spreading in the U.S., our remote work teams were not scheduled to return to the office until late fall after school resumed and after we had a better view of any additional surge. We've been operating effectively for well over a year with a remote administrative workforce, and there was really no need to risk returning to the office in the midst of another potential wave of cases.

Of course, Chesapeake is an essential business, providing essential energy services. Our operations field service teams remained fully deployed as they have been throughout the pandemic. We have continuously followed CDC and OSHA guidelines, establishing health and safety protocols, including wearing masks and social distancing. We continue to encourage, but not require, vaccination and are providing several incentives to assist employees as they make their choice.

I'm very proud of our team. Our employees have embraced the challenges presented by this pandemic. We have continued to find ways to serve customers and keep our growth initiatives underway, the very growth projects that ultimately drive Chesapeake's financial performance.

We had a very strong 2021 second quarter, with continued profitable growth across many of our business units, augmented by successful regulatory outcomes.

As shown on Slide 4, earnings per share from continuing operations were $0.78, an increase of $0.14 or 21.9% compared to our second quarter 2020 earnings per share of $0.64. Gross margin increased more than $10 million over the second quarter of 2020.

Our results reflect increased consumer consumption, returning close to pre-pandemic conditions. We were also able to reduce COVID-19 pandemic expenses for the second quarter. Some of the key margin drivers for the quarter included pipeline expansion projects, the Hurricane Michael regulatory settlement, organic natural gas distribution customer growth, contributions from recent acquisitions of Elkton Gas and Western Natural Gas, and increased margin from Aspire Energy.

Our unregulated segment was down slightly as we experienced the normal seasonal decline in propane volume. We also experienced reduced margins from emergency response deployments at Marlin Gas Services. That was expected as we continue to migrate Marlin toward longer-term service agreements, supporting pipeline maintenance, system purge, or blowdown capture, and RNG transport.

Year-to-date 2021 earnings per share from continuing operations was $2.75, an increase of $0.34 or 14.1%, compared to $2.41 for the first six months of 2020.

We continue to be fortunate to provide energy delivery services to communities that are experiencing significant growth. These communities appreciate and value the energy we deliver. As one measure of growth, we connected an average of 15 new customers per business day in our Delmarva natural gas territory, and over 2,500 new customers in Delaware, Maryland and Florida combined over the past six months.

We've invested more than a billion dollars over the past five years in support of regulated and non-regulated growth in the areas we serve. Our 2021 capital investment through the second quarter totaled just under $108 million, putting us on track to achieve our annual projected capital investment range of $175 million to $200 million.

As I mentioned a moment ago, these growth investments are driving our financial performance. I would point out that our net income for the first six months of 2021 was $48.3 million, which is more than our annual net income total for the full year of 2016. That is remarkable growth over less than a five-year period.

Over the next several years, we see continued growth opportunities on Delmarva and Florida and across the mid-Atlantic and Southeast. Our natural gas customer additions have been trending at a rate that is well above the national average. We're seeing growth rates of 4.5% in Delmarva and 5.1% in Florida. Our propane business continues to expand through both organic additions and selective acquisitions. We see opportunities for small-scale transmission pipelines, growth in our Marlin and CNG transport business, and a growing portfolio of renewable energy investments.

I'll add more about our continued growth initiatives and capital investment projects across our business units in just a few minutes. But let me turn the call back over to Beth for more details on our quarterly performance. Beth?

Beth Cooper: Thanks, Jeff. Turning to Slide 5. Net income from continuing operations for the second quarter was $13.8 million, compared to $10.7 million for the same quarter of last year. This represents growth in net income of $3.1 million.

Earnings per share from continuing operations for the second quarter compared to the second quarter last year grew by $0.14 to $0.78 per share, representing growth of just under 22%.

On a year-to-date basis, net income from continuing operations was $48.3 million, compared to $39.7 million for the same period last year. This represents a growth in net income of $8.6 million or approximately 22%.

EPS from continuing operations for the same period compared to the first half of 2020 grew by $0.34 to $2.75 per share, representing growth of over 14%. The EPS growth rates compared to the net income growth rates for both the quarter and year to date reflect the large issuance of stock in the latter half of 2020, ensuring we achieved our target equity range.

As shown on Slide 6, higher net income was the result of the gross margin drivers Jeff highlighted earlier, coupled with continued expense management, business efficiencies and standardizations, and collaboration across the enterprise. Specifically for the second quarter, gross margin increased 13.9% compared to the second quarter last year, while operating income grew by 25.6%.

Our strong performance for the quarter was led by the regulated energy segment as the second and third quarters are seasonally light for the unregulated energy segment as a whole.

Slides 7 and 8 highlight the key drivers of gross margin and expenses for both the quarter compared to last year, as well as year to date. For the quarter, the key margin drivers generated $0.44 per share after tax.

Higher earnings for the quarter reflect increased earnings across the business from the Hurricane Michael regulatory settlement, which was $0.13 per share in terms of a gross margin impact, or $0.07 per share after depreciation and amortization of associated regulatory assets, our pipeline expansion projects including the impact from our Callahan Intrastate Pipeline, our Delmar Energy Pathway and the Western Palm Beach County, Florida expansions added $0.09 per share.

Customer consumption returning to a more pre-pandemic conditions added about $0.08 per share. Contributions from recent acquisitions added $0.05 per share in terms of gross margins or a penny per share after the corresponding expenses. Organic growth in our natural gas distribution operations added $0.04 per share. Higher margins from Aspire added $0.03 per share. And incremental margin from the Florida Gas Reliability and Infrastructure Program added $0.02 per share.

In addition to the increase in earnings noted above, I would also like to point out that during the quarter we advanced our strategy to convert our propane fueled community gas systems to natural gas service. In connection with this program, the Delaware PSC approved the valuation methodology for systems purchased from our Sharp propane business, which transfers the assets, that replacement cost for the CGF systems, and allows for recovery in future rates. We've begun to initiate conversions along our natural gas expansion path.

We continue to see growth opportunities across our system and we're fortunate to announce several new projects within our earnings release. Jeff will discuss these strategic growth initiatives in just a few moments.

The gross margin increases I highlighted were offset by increases in operating expenses and depreciation associated with growth and a return to pre-pandemic conditions. The key operating expense drivers represented $0.25 per share, which was net of the $0.06 per share reduction in expenses attributable to incremental COVID-19 costs last year.

EPS was also impacted $0.04 per share given our opportunistic equity issuances over the past 12 months, to take advantage of our strong equity market position and to sustain our capital structure within our target range.

On Slide 8 you can see that year to date the key gross margin drivers generated $1.12 per share, with operating expenses increasing $.58 per share. Unusual items included the change in gains on asset sales of $0.07 per share last year, as well as the favorable tax impact of $0.10 per share from the CARES Act.

Our results for 2021 also reflected a positive contribution of $0.04 per share related to our regulatory deferral of COVID-19 expenses per the PSC orders, higher consumption of $0.07 per share as we migrated closer to pre-pandemic conditions, and lower COVID-19 related expenses in 2021 of $0.08 per share. Our commitment to raise additional equity in alignment with our target capital structure reduced EPS $0.15 per share year-to-date.

Moving to Slide 9, the forecast for 2021 capital expenditures remains at our previously announced guidance, as Jeff mentioned, ranging between $175 million and $200 million.

Again, the investment is concentrated with approximately 80% forecasted and new regulated energy assets, with the largest projects including Eastern Shore's Delmar Energy Pathway Project, our Delmarva natural gas distributions associated expansion in Somerset County, Maryland, our Florida Western Palm Beach County expansion, the Florida GRIP program, other natural gas distribution system expansions to meet customer demand in our service areas, natural gas and electric system infrastructure improvement activities, and the newly-announced project, the Winter Haven expansion, the beachside pipeline expansion, and the acquisition of the Escambia meter station from Florida Power and Light.

Year to date we have invested approximately $108 million in new capital investments.

We maintain a strong balance sheet with access to sufficient competitively priced capital to support the growth we have experienced and ensure we have the capital capacity to fuel our future growth. As you can see on Slide 10, as of the end of June, our total capitalization was 1.4 billion, comprised of approximately 52% stockholders' equity, which is now $742 million, 36% long-term debt at an average fixed rate of 3.61%, and $169 million in short-term debt under our revolver at an average interest rate of 1.11%.

Our short-term bank facility matures in September 2021, so we're in the process of renewing and expanding the facility in the coming weeks. Our recent equity issuance moved us further within our target equity to total capitalization range, and we have continued to utilize our traditional equity plans this year to issue $9.1 million of stock and increase equity beyond our earnings retained and reinvested in the business.

Chesapeake Utilities' market capitalization has exceeded 2.2 billion this week as we hit some new all-time high stock prices. Our focus though remains on increasing shareholder value by making strategic investments that drive our earnings, while further increasing the sustainability of our local communities.

I'll now turn the call back to Jeff to talk about our future prospects for growth and our expectations in regards to future performance, including as it relates to our earnings and capital guidance. Jeff, back to you.

Jeff Householder: Thanks. As Beth noted, our capital capacity and the strength of our balance sheet continues to support growth. We are very comfortable that our previously updated capital guidance remains on target.

Slide 11 highlights what we call our five platforms for growth, which focuses our internal efforts around optimizing earnings from our historic assets, as well as our external focus on additional project development and acquisitions.

As I noted a moment ago, we continue to experience significant demand for the energy services provided by our existing business units. Slide 12 highlights a few of the major initiatives underway.

A significant portion of our projected capital investment is devoted to expanding our existing core businesses and capturing the growth in our service territories. As I previously noted, we also have several relatively small-scale pipeline projects under development that will likely increase our gas transmission investment. Our propane business continues to grow. We'll keep looking for acquisition opportunities in the mid-Atlantic and Southeast. And we see growth at Marlin Gas Services both organically and through acquisitions, along with increasing investment opportunities in the renewable natural gas market.

When these major initiatives become viable projects, we capture them in our margin table. Our latest margin table highlighting key projects and initiatives is shown on Slide 13, including pipeline expansions, CNG and RNG transportation, acquisitions, and regulatory initiatives.

On a year-to-date basis, our total margin increases over $27 million, of which $15.4 million is reflected in this table. As we frequently remind you, this total does not include organic growth or growth in unregulated energy businesses outside of acquisitions. It also does not include projects under development that have not mature to the point where we're prepared to discuss capital or margin projections.

The key projects we have included in Slide 13 are expected to generate approximately $60.8 million and $69.5 million in gross margin for the years 2021 and 2022, respectively. Pipeline expansions are expected to generate $11 million in incremental margin in 2022 compared to 2020. New projects in Florida include the Winter Haven expansion and the beachside pipeline extension. As we've said before, we are a beneficiary of our geography. As populations grow and consumer demand for natural gas remains high.

We are particularly pleased with the full integration and margin estimates of $5.8 million and $6.4 million for 2021 and 2022, respectively, from the acquisitions of Elkton Gas and Western Natural Gas. We also expect a $1 million dollar margin gain from the recent acquisition of the Escambia meter station in the Florida Panhandle, near our existing Peninsula Pipeline project that serves the Pensacola area.

On the regulatory front, we also made significant advances during the quarter or shortly thereafter. In July, our settlement with the Florida Office of Public Council for Recovery of COVID-19 expenses was finalized and ultimately approved by the Florida Public Service Commission.

Under the settlement, we will establish a $2.1 million regulatory asset, which will be amortized over two years beginning January 1, 2022, and recovered through our existing purchase gas adjustment and swing service recovery mechanisms for our natural gas operations and through the fuel and purchase power cost recovery clause in our electric division.

There'll be an increase in margin that offsets the amortization associated with the regulatory asset.

We've also reached an agreement with the Maryland PSC staff and the Maryland Office of the People's Council related to Elkton Gas' first-generation plastic pipeline replacement program. Under this program, we are accelerating the replacement of the pipe and recovering the cost in the form of a fixed charge rider through a proposed five-year surcharge.

In terms of RNG transportation, I realize that we have included a million dollar placeholder for RNG on the slide for 2022 and have not yet disclosed the extent of anticipated RNG-related investments or the particular details of the projects we have disclosed. These projects take considerable time to develop, especially related to securing full project financing for developers. And we will provide additional information as we complete contracting agreements and as projects under development began construction and get closer to completion.

I do believe our $1 million margin estimate for 2022 from renewal projects remains an appropriate projection given the development stage of several Marlin RNG transport initiatives, the opportunity to provide RNG sourced compressed natural gas at our Savannah fueling station, the scheduled completion of our gathering system pipeline to interconnect the landfill RNG project in Ohio, the installation currently underway of facilities to support hydrogen blending at our Eight Flags CHP facility on Amelia Island, and other projects under development.

Slide 14 shows the investment of $153 million in recent and planned pipeline expansion projects through 2023. Gross margin contribution is estimated to be $23.9 million when these projects are fully in service.

Peninsula Pipeline, our intrastate gas transmission company is underway with the Winter Haven expansion project highlighted on Slide 15. The $3.5 million pipeline project will add 6800 dekatherms per day of firm service in the Winter Haven, Florida area. Once completed in the first quarter of 2022, the project will generate $400,000 of incremental annual margin. The pipeline will support a manufacturing facility and provide additional supply for growth in our Central Florida gas distribution operation.

Turning to Slide 16, the Beachside Pipeline Extension will provide 10,176 dekatherms of firm service per day in Indian River County, Florida, in support of NextEra's subsidiary, Florida City Gas' expansion to serve coastal areas in the vicinity of Vero Beach. Peninsula Pipeline will construct approximately 11.3 miles of transmission pipeline feeding the Florida City Gas distribution expansion. The company expects this expansion to generate $2.5 million of additional gross margin in 2023 and beyond.

Finally, on Slide 17, as Beth mentioned earlier, the Escambia meter station interconnected with Florida gas transmission provides up to 530,000 dekatherms a day of firm service to a pipeline serving a Florida Power and Light power plant, which is converting from coal to natural gas, in Pensacola, Florida. By 2022 this asset will generate the $1 million in annual margin mentioned earlier.

These three projects, while perhaps relatively small in the context of our total business, are indicative of our continuing business development focus, our responsiveness to customers' needs for service, and our ability to find and develop projects for continued growth even during a global pandemic where so much of the development planning and communication is done remotely.

Over the past several quarters, we've outlined a number of renewable natural gas initiatives that we're pursuing. Three of these projects are highlighted on Slide 18. Our Aspire Energy Noble Road landfill pipeline project will construct a 17-1/2 mile pipeline to transport renewable natural gas from a Fortistar developed RNG processing facility at the Rumpke Waste & Recycling landfill in Eastern Ohio. Aspire Energy will acquire the RNG and transport it to distributors for end-use customers.

The pipeline is under construction and scheduled for in-service later this year. Once flowing, the RNG volume will represent nearly 10% of Aspire Energy's total gas volumes.

On the Delmarva Peninsula, Bioenergy Devco and CleanBay Renewables are both undertaking projects that will produce renewable natural gas from different feedstocks of poultry waste. Both facilities will produce pipeline quality RNG for transportation by Marlin Gas Services to Eastern Shore natural gas. The gas commodity will ultimately be distributed the CPK's natural gas utility customers. The projects are under development and the timing of RNG availability is dependent on the construction schedule of each project.

In Savannah, Georgia, we're working with Southern Company Gas under their CNG tariff to construct a CNG filling station at the Port of Savannah. The station is designed to serve CNG truck fleets, port vehicles, and serve as a logistics center for filling our Marlin CNG tankers. We're working to secure renewable natural gas sources for the station that will enable us to offer an RNG premium fueling option.

CNG vehicles produce lower emissions than gasoline and diesel vehicles, reducing carbon dioxide emissions by up to 30% and nitrogen oxide emissions by 75% to 95%. The station is scheduled to go in service later this year.

We also commenced another exciting project in June as we began the conversion of the Bay Forest propane community gas system on the Delmarva Peninsula to natural gas. Bay Forest, the residential development of 800 homes will be the largest single development CGS conversion to date. Of course, our Sandpiper conversion of over 10,000 propane customers to natural gas in Ocean City, Maryland and the surrounding areas was somewhat more expensive.

And I know it's a little painful for our propane folks to see these CGS conversions, but they're part of a long-term Chesapeake strategy dating back well over a decade. We saw the significant development that was occurring toward the Delmarva beach areas and wanted to ensure that gas was part of those developments. Our underground propane systems have held over 10,000 customers on gas waiting until we reach the beach with natural gas. Other propane companies in the area have additional CGS customers that may be interested in converting as well.

It will take us several years to complete these conversions, and that will allow us to appropriately plan for additional propane system growth both on Delmarva and in other states to replace the customers converted to natural gas. We've been successful in consummating acquisitions that are immediately accretive, as well as standing up a new start-up propane operations in high-growth markets.

As a last note, we continue to pursue several opportunities to consider introducing a hydrogen blend into our pipeline systems. I mentioned in our prior conference call that we were supporting a hydrogen research project proposed to the Department of Energy by Solar Turbines. We've offered our Eight Flags CHP turbine on Amelia Island as a test site. The equipment required to burn up to a 4% hydrogen mix of Eight Flags, has been purchased, and we're working with Solar Turbine technical staff on the installation and testing.

We've identified a source of non-renewable hydrogen for test purposes, and the plan is to move to green hydrogen produced from renewable electricity when we're fully operational. Our existing large gauge steel cylinder Marlin tankers are able to be retrofitted to transport hydrogen, and work on three tankers is underway. We plan to begin initial hydrogen testing at Eight Flags over the next few months.

We're also working with several of our existing industrial customers to identify opportunities for hydrogen blends at their facilities. We're at the beginning stages of gaining a full understanding of the attributes of hydrogen, particularly in the areas of safety, operations impact, measurement, availability, and the effects on downstream customer equipment. Preliminary testing is promising. And as we learn more about this opportunity, we'll share at the appropriate time.

Let me now turn the call over to Jim Moriarty to discuss some of our more recent regulatory initiatives and our sustainability strategy and commitment to ESG as part of our corporate culture. Jim?

Jim Moriarty: Thank you, Jeff, and good afternoon, everyone. It's great to be with you today.

I would like to begin by providing an update on legislative actions that we've been working on. As shown on Slide 19, the energy pre-emption bill in Florida that promotes consumer choice and the unrestricted availability of natural gas as an affordable, reliable and resilient energy resource was signed by the governor in late June. We, along with many others in the state, worked diligently to advance this new law.

Similar legislation has also been adopted in the State of Ohio, another one of our service territories.

In addition, we are excited about a bill that we authored and sponsored in the State of Florida. This renewable energy bill cleared both chambers and was signed by the governor in late June. This new law defines biogas and renewable natural gas and promotes their use in transportation, electric generation and injection into gas distribution systems. The law also authorizes the PSC to approve cost recovery for RNG contracts that may exceed market rates under certain conditions.

With these new laws, Florida and Ohio joined 17 other states which have firmly ensured that natural gas remains the clean, affordable, reliable and resilient energy resource that is readily available to meet the demands of our residential, commercial and industrial customers.

I am proud of our government affairs team for driving and supporting such important legislation within these states, first and foremost, to ensure that natural gas is available to meet customer demand and also to provide a mechanism for renewable natural gas to be a viable port part of energy portfolios throughout the states.

Slides 20 and 21 list some of our recent regulatory initiatives where we have proactively worked with our various public service commissions to secure recovery of key investments in our business while further supporting the delivery of safe, reliable and affordable energy to our customers.

As shown on Slide 20, our Florida Public Utilities business unit continues to invest in our Florida Gas Reliability Infrastructure Program, or GRIP. We have upgraded 333 miles of pipeline at a cost of $178 million. We expect to complete this program by no later than the end of 2023.

The FPU Hurricane Michael settlement allows for recovery of the investment we made to restore our electric distribution system in the Florida Panhandle. The settlement provides for gross margin return on investment of $11 million in 2021 and 2022. Our Eastern Shore natural gas interstate transmission unit has authority from the Federal Energy Regulatory Commission to recover capital costs associated with mandated highway or railroad relocation projects. Gross margin is expected to be $1.2 million in 2021 and $2 million in 2022 associated with these relocation projects.

Moving to Slide 21, the company and the Maryland PSC agreed to a stride program settlement to accelerate our planned pipeline replacement program for Elkton natural gas, a regulated natural gas utility servicing Cecil County in Maryland. This five-year acceleration enables us to complete this replacement faster while earning an appropriate return on the investment required.

Finally, one of our most recent regulatory initiatives relates to the Florida PSC approval for our Florida utilities to establish a regulatory asset of $2.1 million. The amount includes COVID-19 related incremental expenses for bad debts, personal protective equipment and business information services to enable remote work. The company's regulated business units will recover the regulatory assets over a two-year period beginning in 2022.

As shown on Slide 22, Chesapeake Utilities continues to build on our bedrock commitment to ESG, a focus on environmental stewardship, dedication to social justice, and sound governance principles. Our recognition as a top workplace for the ninth consecutive year in the areas we serve, as well as our recognition in the top workplace inaugural awards, speaks volumes about our diverse and inclusive culture, one which continues to promote the growth and development of our employees and the active engagement in our communities.

Strong corporate governance has been essential to creating long-term value and safeguarding our commitments to all stakeholders. Our board and its committees have adopted guidelines and other policies that have provided a framework for ongoing effective governance. Active and informed engagement, which is embedded in our people, beginning with our Board of Directors and extending throughout the company, could not be more important as we continue together to chart the road ahead.

Strong corporate governance also includes listening to our stockholders and monitoring the vote results annually. Based on this year's results, over 90% of the shares voted were in favor of the proposals presented. This demonstrates our stockholder support of the performance of the company and our future strategy.

Turning to Slide 23, our responsibility to operate in a safe and environmentally friendly manner furthers our stewardship and facilitates sustainable practices across our organization. Our team, with guidance from the Board of Directors, evaluates key risks and mitigating factors that are identified as part of our vibrant Enterprise Risk Management program. Embedded within our ERM program are ESG-related focus areas and emerging risks.

In early June, we announced that three of our regulated gas businesses were recognized by the American Gas Association for their ongoing commitment to safety. Chesapeake Utilities, Florida Public Utilities Company, and Eastern Shore Natural Gas each were presented with an Industry Leader Accident Prevention Award for working safely in 2020. Each company achieved a total incident rate below the industry average.

These recognitions further demonstrate our unwavering commitment to safety each and every day. We are committed to providing a safe workplace for our employees and to making safety a priority in our interactions with each other, our customers and the communities we serve. The achievement of superior safety performance is an important strategic initiative both in the short term and long term.

Safety is not only our top priority and our first strategic objective, it is at the center of who we are. Our Safety Town facility in Dover, Delaware and our second plant Safety Town facility in Florida provide both hands-on and classroom training for our operations colleagues.

We are also diligently working on our inaugural Corporate Responsibility and Sustainability Report, which will be made available later this year. There, we will be providing additional information and insights on our longstanding ESG stewardship.

We are committed to providing a work environment that values diversity and background, experiences and skill sets of our employees as highlighted on Slide 23. Our equity, diversity and inclusion council supports all of our employees embracing and sharing their diverse experiences and backgrounds to help propel our mission to improve the communities we serve and to make us a better company.

The EDI Council is central to who we are and who we want to be and will further enhance the collaboration around our workplace culture that is the engine driving our business. Our five employee resource groups, or ERGs, that are fostered by the EDI Council, have made remarkable strides and valuable contributions in just a short amount of time. We are excited about the creation of other ERGs.

Our EDI Wise Webinars are opportunities for our diverse employee base to share knowledge, insights and talents across our larger employee community. The talent, skills and ideas that the ERGs have brought to the forefront have been inspiring and provide channels for our employees to know that they are valued and supported by their company.

Finally, as part of Chesapeake's commitment to building a brighter future, we were honored to award 12 scholarships to the children of our employees. One of the questions our scholarship winners answered was how to make the world a better place as we embrace diversity in all that we do. Their responses were a testament to the inspiring nature of our next generation.

Community service is key to Chesapeake Utilities' culture and identity as we work hard every day to provide clean, plentiful, affordable and resilient energy delivery services so that no one is left behind. This service is reflected too in our ongoing efforts to reduce greenhouse gas emissions, including completion of our pipeline replacement program and improved detection technology at our compressor stations.

We are also working with our suppliers and contractors to encourage their environmental efforts. We are excited about the RNG and sustainability projects underway by our diverse and engaged teams to reduce the carbon footprint of the communities we serve, as well as our conservation programs that promote high-efficiency appliances and technical assistance for large volume customers to identify emission reduction opportunities.

Our commitment remains steadfast to take the steps necessary to deliver energy where and when it is needed, while conducting - continuing to advance our environmental stewardship.

I appreciate being with you all today and will now turn the call back to Jeff for some closing comments. Jeff?

Jeff Householder: Thanks, Jim. You know, we tend, for good reason, to emphasize earnings per share on these goals. But I want to take a moment to focus on return on equity as another key measure of our overall financial performance. ROE is an important performance metric for us. Slide 24 charts our historical return on equity results.

We've exceeded 11% ROE for the past 15 years. We consistently exceed our authorized regulated return limits. We've been prudently managing our regulated businesses to optimize returns, but our non-regulated businesses are major contributors to the higher than regulated returns we've produced over a long period of time. Our strategy of adding selected non-regulated assets capable of producing returns above those of our foundational regulated businesses has consistently benefited our shareholders.

As you can see on Slides 25 and 26, we continue to reaffirm our five-year capital guidance for the period 2021 to 2025 of $750 million to $1 billion. I'm excited that our latest strategic plan update gives us a high degree of confidence that we have significant investment opportunities ahead of us. We also continue to support our 2025 EPS guidance range of $6.05 to $6.25 per share, representing an average EPS growth of approximately 10% from our initiation of guidance at the end of 2017.

Natural gas remains a key component of the country's long-term energy strategy. We believe that the markets we serve value the energy services we deliver, whether that's natural gas, propane or electricity. Our customers have spoken wildly in this regard. At the same time, we have opportunities given our business mix, expertise and strategic approach to capitalize on new renewable energy opportunities that provide the bridge from the here and now to a more sustainable future.

We're committed to our growth strategy, focused on delivering top quartile performance, including shareholder return, which by the way has exceeded 16% compound annual growth for each period, 1, 3, 5, 10 and 20 years, through July 31, 2021.

Our investment proposition is based upon our commitment to performance we outlined on Slide 27. Our strategy, our employee engagement initiatives, our financial objectives, and our disciplined operating philosophy are all in support of sustaining a level of performance achieved by a few in our industry.

I want to thank all of our dedicated Chesapeake Utilities employees. Our team takes great pride in our success and the work we do every day to deliver clean, reliable and safe energy to our customers. Thank you for joining us this evening. We will be happy to address any questions you may have.

Operator: And if you'd like to register for a question, you can press the 1 followed by the 4 on your telephone. And you'll hear a three-tone prompt to acknowledge your request. If your question gets answered and you'd like to withdraw, you can press 1 3. Again, that is 1 4 to queue up. One moment for the first question please. The first question is from the line of Tate Sullivan from Maxim Group. Please go ahead.

Tate Sullivan: Hi. Thank you. Good afternoon. Jeff, I thought I'd start with the Florida or the new detail on the Florida related projects. And I think the dynamics of projects and providing customers is a bit different than Delmarva. I mean, can you - I mean, how - and some of the projects seem to be serving other service territories as well. Can you just give a broad overview on how it's different? And it seems like there's some urgency to add capacity in Florida too, is one I take with.

Jeff Householder: Well, I'll tell you, it's a little bit of both, right? We have, for a number of years, as you well know, have been expanding our transmission network on Delmarva through Eastern Shore Natural Gas projects, and we continue that today as we move down into Somerset County in Maryland and other places on the peninsula.

We have been duplicating that kind of activity in Florida for a number of years with our Peninsula Pipeline intrastate transmission business. And so those two pipelines are providing transmission transportation service to, primarily, to distribution companies that are serving end-use customers, although certainly both of those systems provide direct service to a variety of industrial customers along the way.

And so we're seeing the same kinds of things happen on both Delmarva and in Florida where there is significant growth, significant demand, substantial homebuilding activity, followed by the usual commercial infill, a variety of industrial customers in both Delmarva and Florida. And we are building pipelines, both transmission and distribution, to serve those customers.

So I don't know if it sounded like we were focusing on the transmission business more in Florida than we were on Delmarva. We just happened to have, you know, two or three new projects in Florida and are continuing to look for additional opportunities on Delmarva.

But I would say both of the areas are ripe for growth. We're seeing, as I mentioned, many, many, many housing starts in both service territories that we and other gas utilities, frankly, are providing service to, and our transmission expansions are providing service to those distribution facilities in large measure, that are providing services to the end-use customers.

Tate Sullivan: Yes. I mean, the growth continued in both service territories. And I also will follow up on Escambia meter station to just --I mean, what - can you give us a slight more background on why would Power & Light want to get - sell one of their distribution systems within their territory, I think? Or how did that happen…

Jeff Householder: It's an interconnect point on Florida gas transmission that actually is providing service into an FP&L pipeline that's delivering gas to the (Crisp) power facility, which was coal and is now converting over to primarily natural gas service. It was part of a negotiated agreement between us and FP&L, that we hope at some point in the future, we haven't nailed this down yet, but we hope that at some point in the future will provide an opportunity for us to have access to additional quantities in that area.

So it's step one of what may be a multistep process to expand our opportunities to deliver more gas in the Pensacola area. So we'll see if that happens. It has not been finalized at this point.

Tate Sullivan: Okay. And last for me, you mentioned I think earlier in your remarks 15 new customers a day in Delmarva. And is that about the same in Florida or maybe you don't have that handy?

Jeff Householder: Maybe just a hair less than that, although I think our percentage growth rate is just a fraction more than what we saw on Delmarva, but we've really been growing significantly on the Delmarva Peninsula. It's just amazing to see the homebuilding activity on the peninsula over the last year and a half or so.

So, yes, we have, I think more net customers now in Delmarva, fractionally more than we do in Florida. But the growth rates are relatively similar, both of them, you know, in the 4% or 5% per year range.

Tate Sullivan: Okay. Thank you. Oops, excuse me.

Beth Cooper: And I would just add - I'm sorry, I was just going to add to what Jeff. You know, in our press release we actually include some of that margin information on the customer growth. And so you can see in there that the trend that we're running is very similar to what we've been doing for several years now and a little bit higher in some cases, slightly higher.

So, year-to-date, you know, we've got margin incrementally from this new customer growth of about $1.7 million. So, strong customer growth continues from time to time. It will go back and forth between the growth rates in Delmarva and Florida, which is higher, but they're both running at significantly above, you know, the industry growth rate and that appears like it's going to continue into the foreseeable future.

Tate Sullivan: Okay. Thank you, Beth; thank you, Jeff.

Jeff Householder: Sure.

Operator: The next question is from the line of Brian Russo from Sidoti. Please go ahead.

Brian Russo: Good afternoon.

Beth Cooper: Good afternoon.

Brian Russo: Just on - do you sense that, you know, the constructive backdrop for natural gas in Florida and now with the legislation you just discussed, is that accelerating projects, you know, in Florida and enabled you to advance some of the projects you've announced? You know, and can we expect projects that might have been further out in your pipeline can now be accelerated with the legislative support?

Jeff Householder: There's probably a little of that, but I will tell you that in Florida, and, Jim is up in here and can help me with this in a second, but, you know, it's a very constructive business environment. The regulatory structure here is supportive of expansion and has been for many, many years throughout a number of different, you know, governors and a number of different legislators.

And so I don't know that it's accelerating anything that we wouldn't have already been able to do here. But it certainly is a nice feeling to know that you're not going to have to fight your way through, you know, a number of different local gas bands, and to, you know, make sure that we continue to provide customers the fuel choice that we think is, you know, is central to what we do and to what other energy providers are doing.

Brian Russo: Okay. And if I recall on the last conference call, you were discussing possibly investing in RNG processing facilities up in, I think, Maryland. Maybe it was with Bioenergy Devco. Any update there?

Jeff Householder: We are currently in the process of working with a number of different LNG facilities and the Bioenergy Devco facility that you mentioned happens to be in Delaware. The CleanBay Renewables facility has a project under development down in Westover Maryland. Our intention is to be engaged and actively involved in both of those projects.

We have an investment underway right now developing a gas processing facility that we are purchasing from Liquide that is scheduled to go to the Bioenergy Devco facility. And we are working with Bioenergy Devco to develop the final contractual arrangements that we will, you know, deal with, you know, how that facility has operated, and who operates it, and how all that works. And so it's one of those evolving contract and deal structure issues that I spoke of earlier.

It's interesting to see these renewable projects kind of emerge, and as people like us and others are interested in investing in them, there are a variety of different potential options that people are looking at to structure those investments. And so we're right along with others in that path.

But I think you will see us being very actively involved in what Bioenergy Devco is doing and what CleanBay Renewables is doing on the Delmarva Peninsula, as well as a number of other projects at and close to our existing service territory.

Brian Russo: Okay, great. And then the capital cost surcharge program. I believe it's 2 million margin in 2022. Does it wind down (unintelligible) 2022, or, you know, does that program extend past, you know, that year?

Beth Cooper: That is basically - what's been included there, Brian, is the annualized margin, so to speak, from the investment that's been made at that point in time. If there are additional investments that at some point in the future get added, then we would go back in for an additional rider associated with those.

Brian Russo: Okay, got it. And then just lastly on the Elkton strike. If I recall in the - with Elkton, you agreed to stay out in terms of raising rates or filing rate cases. I suppose that that's still in place, and then the Stride program is treated separately from, you know, from all other regulatory and rate matters? Is that the way to look at it?

Beth Cooper: That is the way to look at it. We have certain requirements as it relates to our various Maryland jurisdictions in regards to, you know, when we have to come back in. And so, you know, one of the things that we're looking at is, given that we have several, you know, several different entities, we may be approaching that more from a consolidated standpoint.

So that timing may change in regards to, Brian, when we go back in after consultation and working with the PSC and looking at that. But right now there is a planned timeframe for when we can go back in in regards to Elkton, but this rider was established outside of that, yes.

Brian Russo: Okay, great. And then just lastly, if I heard correctly, you mentioned that Marlin might be pursuing acquisitions. I was just curious if you could elaborate on that a little.

Jeff Householder: Probably not much. I can tell you that yes, we're pretty opportunistic looking at possibilities that come along. There have been, and we think there likely will be, some opportunities to acquire businesses or to at least look at the opportunity to acquire businesses that are similarly constructed as Marlin. And so we'll see how that goes.

I think there'll be a little bit of consolidation in that market over the next couple of years, especially as the opportunities continue to show up in the renewable natural gas transport markets and in some of the gas capture markets that I mentioned earlier, you know, ensuring that gas doesn't escape to the atmosphere when a segment of pipe needs to be taken out of service for maintenance.

So we think there are opportunities to organically grow Marlin, and we're doing that, making some substantial investments in adding equipment and facilities and personnel resources. But I think there may also be some opportunities much as we see on the program side for acquisition.

Brian Russo: All right. Thank you very much.

Beth Cooper: Thank you.

Operator: The next question is from the line of Roger Liddell with Clear Harbor Asset Management. Please go ahead.

Roger Liddell: Good afternoon, Jeff and Beth. I want to focus on Slide 24, the return on equity performance. It's quite extraordinary, to state the obvious. And so the generic issue I'm pursuing here is the durability of ROEs, such as you have put up. And what I mean by durability, I think the company has had an extraordinary ability to create to generate shared savings opportunities.

And as a sidebar comment question perhaps that uptick in ROEs starting roughly in 2010 may have been the consequence of your arrangement in Florida. And I think that that whole opportunity was created by how you structured it as a win-win and shared savings. But there's a lot that's happened politically and regulatorily over the last decade.

Is there - I would like your perspective on the political and regulatory climate, attitude, stance toward shared savings. And can you - can you tell us that you have an ability to create the same kinds of shared saving opportunities that have characterized this extraordinary period of ROE?

Jeff Householder: I'll take the first stab at that, Beth, and then jump in any minute. We are in the process, and we talked about this a little bit in some of the previous earnings calls, of looking at a business transformation across all of our units. And that involves organizational restructuring. It involves a simplification and standardization process within and among business units. It's driving us to look at the company more as one company than a collection of individual business units.

And the intention, to be perfectly blunt, and we say this internally all the time, was to allow us or enable us to double the size of the company again over the next several years, as we've done, you know, three times since the 2010 period that you just pointed out on the chart.

And so, you know, it's tricky to continue to drive earnings and returns at the same time. But we are very careful in managing our costs and we are on the hunt for additional efficiencies across the company and refining those. We are fairly deliberate in looking at technology improvements over the course of the next several years and our ability to recover the major costs in those technology improvements from our regulated entities with a series of rate filings.

We are looking at ways to continue to drive margin, as you've seen us do over the last many years. Our business development focus is pretty sharp. We do not make investments and we do not look at acquisitions that would not be accretive pretty quickly and that would ultimately damage these returns. And so we've been very disciplined in our approach to growing this business.

We're not just out there adding things because it's interesting to add things or trying to get bigger just because. We are fairly consistent, I think, year in and year out in prudently managing the assets that we have and in making sure that we add only those assets that are linked to things that we already do and that will consistently allow us to continue to hit these targets.

And so I think it's a combination of managing the assets you have, of looking for opportunities for efficiency improvements, and to not get out too far over your skis in the growth acquisitions that we're pursuing. Beth, I'm sure you have a lot to say in addition to that on ROE.

Roger Liddell: Can I butt in just for a second? I apologize. I didn't ask the question clearly. I appreciate, Jeff, what you just went through in terms of the shared savings that you've driven through technology through integrated operations scaling. But what I should have asked is shared savings for the communities that you serve and through the ability to identify reductions in costs currently being borne by resi and industrial markets through a solution delivered by Chesapeake.

There are savings enjoyed in the communities you serve, and therefore, those savings can drive a higher ROE. In fact, you have executed as promised and the benefit is in the community. Now, is that - maybe, Beth, since you're up at bat, did my clarification on my question, is that useful to you?

Beth Cooper: Sure. I think one of the things that, Roger, as you look back over our history, I think, you know, if you look at our track record in terms of rate increases, one of the things that we have been really successful at as an organization is, you know, being able to grow and not - you know, that not bearing and causing increases for our customers.

If you look in our - all of our jurisdictions across the board, there has been limited activity from a rate standpoint. And so, you know, we've been able to grow, we've been able to not burden existing customers. And so it is a little different situation that we've experienced relative to a lot of utilities that are frequently going in for rate increases to cover their invest.

So, in Delaware, I can tell you over the last, I think, 20 years, we've been in maybe once or twice in that period of time. Similarly, it's been a very long period of time in Maryland where we've been in for any regulatory action in our Maryland jurisdiction. Also in Florida, if you look at our FPU natural gas and our Central Florida gas division, again, it's been a long period of time.

So we are continuing to grow and we are managing successfully any implications to existing rate payers by ultimately keeping their rates, you know, without having to constantly increase them as we're growing. And we want to continue to do that. I think that's also, as Jim likes to say, one of the great things that we have, right? We have areas that are - have lots of opportunity to continue to expand.

So in answer to where you started, I think, Roger, you're going to see us near what we've done historically. We're going to pursue growth in Florida because there is a desire and a demand for natural gas. You're going to see us do it on Delmarva, right? We have counties that want to see natural gas and want us to expand to displace less clean fuels. And at the same time, you're going to see us pursue alternatives and options like RNG and other things that bring, you know, competitive alternative energy solutions to our markets.

And so, you know, I would answer, I think Chesapeake is in a great place. I think every year we update our strategic plan. Every year we come back, you know, and we've been able to say we support our guidance, as Jeff did today. So I think our future is bright. I think we've got a lot of opportunities before us, but you're going to see us execute on with the same discipline that we've done, you know, for the last 15-plus years as this ROE chart shows.

Jeff Householder: Yes. Roger, that's a much better question than the one I answered. I appreciate the opportunity to chat about that a little bit. And I would add a couple of things to it.

Obviously, the - just the shale gas revolution that has provided untold millions and billions of dollars, frankly, in energy savings have been passed through to customers on our systems as well as other systems around the country. And we continue to see a long runway ahead of pretty stable pricing there. And we'll continue to, again, to pass those savings along.

We're also seeing some interesting things happen on the renewable gas front. And while many of the green attributes of many of these projects are being moved into markets like California and Oregon, even Canada, looking for, you know, a vehicle home through the LCFS program, for example, in California, and the economics supporting the development of the R&D facility, are largely supported by the economics of the green attributes moving to these other markets.

The commodity itself, the actual molecules of gas, are all moving into distribution system some place. And they are, generally speaking, moving at pricing that is at or in some cases lower than what we see traditional shale gas pricing. And so it's an interesting opportunity to continue to provide low price fuel in our distribution systems that are supported by renewable gas.

Roger Liddell: Yes. Excellent. Thank you for expanding the answer. Very helpful.

Operator: And as a reminder, ladies and gentlemen, if you'd like to ask a question, you can press 1 4. It looks like there are no other questions at this time. I'll turn it back to Jeff Householder for any closing remarks.

Jeff Householder: Well, thank you. I appreciate all of you staying with us this late into the evening. As always, if you have additional follow-up questions or need additional information, feel free to contact any of us, Beth, myself, Jim, and we'd be delighted to help you. Thank you very much, and good evening.

Operator: That does conclude the conference call for today. We thank you for your participation, and you can now disconnect your lines.

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