2021 First 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
- Michael Gaugler

Operator: Greetings, and welcome to the Chesapeake Utilities Corporation's first quarter results conference call. During the presentation, all participants will be in a listen-only mode. Afterwards, we will conduct a question-and-answer session. At that time if you have a question, please press the 1 followed by the 4 on the telephone. If at any time during the conference, you need to reach an operator, please press star 0. As a reminder, this conference is being recorded Wednesday, May 5, 2021. I would now like to turn the conference over to Beth Cooper, Executive Vice President and Chief Financial Officer. Please go ahead.

Beth Cooper: Thank you, and good afternoon, everyone. We appreciate you joining us today to review our first quarter 2021 results. We announced our financial results for the quarter yesterday. As you saw, our strong financial results indicate we continue growing and operating effectively, serving our customers, identifying and finalizing new investment projects and keeping our employees as safe as possible.

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 would 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 provides further information on the factors that could cause such statements to differ from our actual results.
Now I'll turn the call over to Jeff to provide opening remarks on the Company's first quarter 2021 performance and the key contributing drivers to our results. Jeff?

Jeff Householder: Thank you, Beth. Good afternoon and thank you all for joining our call today.

We had a very strong start to 2021 with continued profitable growth initiatives across our business units. As shown on slide 4, earnings per share from continuing operations was $1.96, an increase of $0.19 or 10.7% compared to our first quarter 2020 earnings per share of $1.77. Gross margin increased more than $17 million over the first quarter of 2020.

Our results were driven by growth across the Company. We also experienced increased consumer consumption resulting from weather that more closely resembled normal temperatures. Some of the key margin drivers included pipeline expansion projects, the Hurricane Michael regulatory settlement, organic natural gas distribution customer growth, contributions from Elkton Gas and Western Natural Gas, increased retail propane margins per gallon and increased business at Marlin Gas Services.

As our General Counsel, Jim Moriarty, is fond of saying, “We are the beneficiaries of geography”. We are fortunate to provide energy delivery services to communities that are experiencing significant growth. That growth has resulted in significant residential and small commercial construction activity. We are also fortunate to serve communities that appreciate and value the energy we deliver. Jim will highlight a couple of recent successful legislative initiatives that support continued expansion of our systems in Florida. In all of our service areas, the demand for natural gas, propane and electricity has never been higher. We continue to see customer additions at a rate that is more than twice the national average. In the past year, our utility distribution customer count increased by 7.4%. Growth opportunities to serve new customers was the primary driver of our capital investment in the first quarter. We have projected capital investment for 2021 at approximately $200M and we are on track to achieve that target. Our first quarter capital investment totaled just under $49 million.

Earlier today, our Board of Directors approved an annualized dividend payment of $1.92 per share, a $0.16 per share or 9.1% dividend increase. The $0.16 per share increase in the annualized dividend closely aligns our five-year earnings growth rate of 9.4% through December 31, 2020, with our five-year dividend growth rate of 9.5%, as shown on Slide 5, including this most recent increase. The Board’s decision to raise the dividend reflects the Company’s on-going commitment to dividend growth that is supported by earnings growth, while maintaining a payout ratio that enables a healthy reinvestment of earnings for growth and ensures liquidity to fund operations. Chesapeake Utilities has paid dividends to its shareholders without interruption for 60 years and has increased its annualized dividend every year since 2004.

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 further discussion of our first quarter results.

Beth Cooper: Thanks, Jeff. Turning to slide 6, net income from continuing operations for the quarter was $34.5 million compared to $29.0 million for the same quarter of last year. This represents a growth in net income of $5.5 million, or approximately 19%. As I am sure you all recall, during the fourth quarter of 2019, we exited the natural gas marketing business and recognized gains on the sales associated with that exit. There were some minor lingering impacts associated with the sales of this business both in 2020 and 2021. As a result, I will focus our discussion today largely on continuing operations. EPS from continuing operations for the first quarter compared to the first quarter last year, grew by $0.19 to $1.96 per share from $1.77, representing growth of just under 11%. Growth initiatives and customer consumption drove the growth rate in net income by 19% while the EPS growth rate of 11% is a result of the significant amount of equity we successfully issued in the third and fourth quarters of 2020 via the ATM and our other various stock plans.

Higher income was the result of increased performance across the enterprise, as Jeff mentioned earlier, coupled with continued expense management, business efficiencies and standardization and collaboration across the Company.

Gross margin increased 17.1% compared to the first quarter last year while operating income grew because of these impacts by 22.5%. As Slide 7 also highlights, the growth in operating income was fairly split between the two segments, regulated energy and unregulated energy, for the quarter. The key drivers of gross margin and expenses for quarter one compared to quarter one of last year are highlighted on Slide 8. Gross margin, net of specific expense attributes, grew $0.65 per share after tax.

Higher earnings for the quarter reflect increased earnings across the business from first, customer consumption, as Jeff mentioned primarily weather focused, was $0.26 per share. Pipeline expansion projects was another $0.11 per share. Higher retail propane margins per gallon increased margin by $0.06 per share. Organic growth in our natural gas distribution operations added $0.04 per share.

Contributions from recent acquisitions, including Elkton Gas and Western Natural Gas, added $0.04 per share. The Hurricane Michael regulatory settlement also added $0.04 per share after associated depreciation and amortization of associated regulatory assets. And margin from Marlin increased by $0.03 per share. Lastly from our Florida GRIP Reliability and Infrastructure Program, we added $0.02 per share.

These increases were offset by the absence of property sales that occurred in the first quarter of last year, which represented $0.14 per share and the increased shares we added that I just referred to another $0.12 per share given our opportunistic equity issuances over the past 12 months to take advantage of our strong equity market position. Finally depreciation, payroll and facilities expenses basically drove our earnings per share down by $0.20 per share because of the growth in our business.

I would like to spend a few minutes highlighting our capital spending thus far in 2021. As you can see though first on Slide 9, the forecast for 2021 capital expenditures remains at our previously-announced guidance of $175 million to $200 million. Again, the investment is concentrated with approximately 80% budgeted in new regulated energy assets. Year-to-date, as Jeff mentioned, we've invested just under $49 million in new capital investments.

So, what are some of the key 2021 projects? They include our Delmarva Natural Gas Distribution expansion into Somerset County, Eastern Shore's Del-Mar Energy Pathway project, which is well under way, Florida's Western Palm Beach County Florida expansion, our Florida GRIP program and other natural gas distribution and transmission system projects.

In addition we have expenditures for natural gas and electric system infrastructure improvement activities, Marlin Gas Services, expansion of their CNG transport and also their expansion into RNG and LNG and technology systems in support of our business transformation and other strategic initiatives and investments.

To support the growth we have experienced and ensure we have the capital capacity to fuel our future growth, we maintain a strong balance sheet with access to sufficient competitively-priced capital. As you can see on Slide 10, as of the end of March total capitalization was $1.4 billion, comprised of approximately 52% stockholders' equity, which is now $726 million. We had 37% in long-term debt at an average fixed rate of 3.62% and $156 million in short-term debt under our revolver at an average interest rate of 1.2%.

Our recent equity issuance moved us further along within our target equity to total capitalization range. We continue to utilize our traditional equity plans this year to issue stock and increase equity beyond our earnings retained and reinvested in the business. Chesapeake Utilities' current market capitalization is approximately $2 billion.

I would now like to turn the call back to Jeff to talk about our future prospects for growth and our recent extension of guidance and conviction to investment, earnings and dividend growth. Jeff?

Jeff Householder: Thanks, Beth. As Beth noted, our capital capacity and the strength of our balance sheet continues to support growth. We're very comfortable that our previously updated capital guidance remains on target. Slide 11 is a reminder from earlier earnings calls of the key strategic initiatives that focus our project development and transaction interest. As I noted a moment ago, we continue to experience significant demand for the energy services provided by our existing business units.

Let me highlight a few of our major initiatives on Slide 12. A significant portion of projected capital investment is devoted to expanding our existing core businesses. We also have several relatively small-scale transmission pipeline projects under development that will potentially increase investment in this area. Our propane business continues to grow and we will keep looking for acquisition opportunities in the Mid-Atlantic and Southeast. And we see growth at Marlin Gas Services and in the rapidly developing renewable natural gas market that I'll discuss in greater detail in a few moments.

Our latest margin table showing key projects and initiatives is shown on Slide 13, including pipeline expansion, CNG and RNG transportation, acquisitions and regulatory initiatives.

Key projects are expected to generate approximately $60 million and $67 million in gross margin for the years 2021 and 2022, respectively. Pipeline expansions are expected to generate $6.7 million in incremental margin in 2021.The Hurricane Michael proceeding settlement will again generate $11 million in gross margin in 2021. It remains at that level in 2022.

We're particularly pleased with the full integration of margin estimates of $5.8 million and $6.1 million for 2021 and 2022, respectively, from the acquisitions of Elkton Gas and Western Natural Gas. In total, the incremental margin growth from these key projects and initiatives represents approximately $14.1 million for 2021 and $7.5 million for 2022.

As a reminder, we only include definitive projects in this table once they reach maturity and do not include organic margin growth from our traditional distribution customer additions, rate adjustments in our unregulated businesses, et cetera.

Accordingly the RNG transportation margin, for example, will be adjusted as new projects are definitive and announced. I realize that we've included a $1 million placeholder for RNG transportation on the slide for a couple of quarters and have not yet disclosed the extent of anticipated RNG production-related investments.These projects take considerable time to develop, especially related to securing full project financing. That reminds me of the early days of solar and wind project financing.

However, there is positive movement on RNG project financing as interest increases among both financial and strategic participants. And we're hopeful that more details of the projects we're involved in can be made public over the next several weeks.

As a final note, the Auburndale Pipeline, $679,000, and Boulden acquisition $3.9 million, became fully in service in 2020. So these ongoing mature projects have been removed from this table.

Over the past several quarters, we've outlined a number of renewable natural gas initiatives. To begin, Slide 14 outlines the types of projects and ownership structures that we are actively assessing. Let me provide an update on our progress for several of these initiatives.

We continue to work with CleanBay Renewables on two utility scale poultry waste, RNG and organic fertilizer production facilities on the Delmarva Peninsula. We previously described our existing agreement with CleanBay to own the gas processing equipment at the Westover Maryland facility with an option to convert the equipment investment to equity of its old plant.

Last month our Board Investment Committee authorized management to negotiate economic and governance terms with CleanBay with Chesapeake's equity participation in the project. We hope to finalize an agreement with CleanBay and other equity providers over the coming weeks and ensure that the anticipated project in-service date of Q4 2023 remains viable.

In addition to the Westover RNG facility, we're in discussions with CleanBay and other potential investors on a second Delmarva RNG facility, which is under development in Sussex County, Delaware. Similar to the Westover plant, the Sussex facility will produce RNG at a utility scale along with organic fertilizer. The property for the Sussex plant has been acquired and most land use permits have been approved. Upon completion, the Westover and Sussex plants will be among the largest RNG facilities in the country.

As you may recall, we have several additional investments either under contract or in final negotiations associated with the Westover plant. The Marlin Gas transport agreement is in place, an interconnect agreement with our Eastern Shore Natural Gas transmission pipeline has been finalized and the interconnect is scheduled for construction in conjunction with the in-service date of the Westover plant.

Our Delmarva distribution business has finalized an agreement for off-take of the blue gas RNG from Westover to purchase non-fracked, non-fossil RNG molecules for distributions to our - distribution, excuse me, to our customers.

In addition to purchasing RNG from Westover's production, our Delmarva distribution operations will provide conventional gas supply service to Westover to support drying the organic fertilizer produced by the plant. It's a lot of fertilizer and a lot of natural gas. Westover will likely become our largest Maryland gas distribution customer.

The Eastern Shore Natural Gas Del-Mar Energy Pathway Expansion Project currently under construction and our related distribution system expansion will bring our pipelines to within 1.5 mile of the Westover plant and we will extend the distribution system to provide service. We anticipate providing similar Marlin and conventional gas distribution services to the CleanBay Sussex site.

Chesapeake is exploring opportunities to develop renewable electric micro-grids at both the Westover and Sussex RNG sites. We're working with a third party to potentially develop solar photovoltaic generation systems to serve the electric needs of the RNG facilities. Property suitable for solar PV installation is owned respectively by the third-party in close proximity to the Westover site and similarly by Chesapeake close to the Sussex site.

Chesapeake has engaged Southern Company Energy Services and Southern's PowerSecure Company to assist in preliminary design and engineering of the solar PV systems, battery storage, protection protocols for the plants and related facilities to support in renewable electric micro-grid at each facility.

On Delmarva, we continue to work with the Bioenergy DevCo Company as they also move forward on development of a poultry waste RNG facility in Sussex County, Delaware. The County Commission has recently approved the Bioenergy DevCo conditional land use permit.

Chesapeake will own and operate the gas processing equipment at the plant site. We've ordered the processor from (AirLockie), retained an EPC contractor and are in the process of finalizing design on various other components. Our investment in the project is estimated at approximately $12 million, with in-service anticipated in late 2022.

Construction of our Savannah public compressed natural gas vehicle fueling and Marlin staging facility continues to proceed on schedule for an October 2021 in-service. The station will be the largest CNG fueling facility on the East Coast with capacity to fuel approximately 185 semi-trucks per day.

We've recently held a meeting with representatives of several Georgia-based trucking firms where interest in CNG was high and interest in the potential of providing renewable CNG at the facility was even higher. We're working with several RNG marketers along with exploring opportunities to develop regional CNG production to serve the Savannah station.

Speaking of Marlin, we're just wrapping up an eight month deployment to serve the City of Miami transit bus fleet. At peak we were fueling 160 CNG buses a day before the permanent pipeline and CNG fueling facilities were put in place. Marlin CNG Service enabled early delivery of the buses and an earlier than anticipated significant reduction in diesel emissions.

Marlin has also taken delivery of its new ANSI four stage compressor unit. The compressor enables Marlin to offer a methane capture service to pipelines and utilities that need to remove a pipeline segment from service to provide maintenance or system integrity work.

Rather than releasing the methane to the atmosphere, Marlin can receive the gas at almost any line pressure, compress it to CNG pressures and transfer it to a tanker. The gas can then be reintroduced at another point on the pipeline system.

Marlin has also taken delivery of its first four LNG tankers. The increased capacity of LNG transport provides an expanded array of services to customers requiring larger gas quantities.

And finally we're continuing our fleet conversion at Marlin on diesel fuel to compressed natural gas. Eight new CNG tractor cabs will be delivered in July.

As a last note before I turn the call to Jim Moriarty, we continue to pursue several opportunities to consider introducing hydrogen blends into our pipeline systems. I mentioned in our fourth quarter 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 and we're also working with several of our existing industrial customers to identify opportunities for hydrogen blends at their facilities.

We're just at the beginning stages of gaining a better understanding of hydrogen use from a safety, operations impact, measurement, availability and the effects on downstream customer equipment.

Let me turn the call over to Jim Moriarty to further discuss our sustainability strategy and commitment to environmental, social and governance as part of our corporate culture.

James Moriarty: Thank you, Jeff. Good afternoon, everyone. It is great to be with you today. I would like to begin by providing an update on certain legislative actions in Florida. As shown on Slide 15, the energy preemption bill is key legislation that maintains consumer choice and ensures the ongoing availability and use of natural gas as an affordable, reliable and resilient energy resource. Natural gas will be available to meet increasing customer demand.

In addition we sponsored a renewable energy bill, which has cleared both chambers of the Florida Legislature and is before the governor for signature. This bill defines biogas and renewable natural gas. It supports RNG's use in transportation, electric generation and injection into gas distribution systems.

The bill also authorizes the PSC to approve cost recovery for RNG contracts that exceed market rates under certain conditions. When signed by the governor, Florida will join a dozen other states that have endorsed the vibrant role of natural gas in meeting the growing energy needs of this Nation.

We are proud of our governmental affairs team for driving and supporting such important legislation within the State of Florida to ensure natural gas is available to meet customer demand first and foremost and to provide a mechanism for renewable natural gas to be a viable part of the natural gas portfolio throughout the State.

We are also at various stages in regards to working on similar legislation in our other jurisdictions, and we'll keep you apprised of future activities.

As shown on Slide 16, 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 of 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 before them. This demonstrates our stockholders' continuing strong support of the performance of the Company and our future strategy.

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

Turning to Slide 17, in regards to safety, we are committed to providing a safe workplace for 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 the long-term.

Safety is not only our top priority and our first strategic objective, it is at the center of who we are. One of our latest accomplishments in this regard is the completion of our safety town facility in Dover, Delaware, to provide both hands-on and classroom training for our operations technicians.

We are also diligently working on our inaugural Corporate Responsibility and Sustainability Report, which will be made available during 2021. There we will be providing additional information and insights on our long-standing ESG stewardship.

We are committed to providing a work environment that values diversity in background, experiences, and skill sets of all our employees as highlighted on Slide 18. In continuing our bedrock commitment to equity, diversity and inclusion, our Equity, Diversity and Inclusion, or EDI, Council, supports all our employees, embracing and sharing their diverse experiences and backgrounds with the mission to help 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. The EDI Council was extremely busy in 2020, fostering the rollout of five employee resource groups throughout the Company as shown on Slide 18. We are excited about what these teams have done in just a short amount of time and look forward to their increasing role as well as the creation of other ERGs.
The talent, skills and ideas that these groups have brought to the forefront have been inspiring and provide channels for our employees to feel inclusive and supported by the Company.

We work hard every day to also ensure that the communities we serve continue receiving the value and benefits of clean, plentiful, affordable and resilient energy delivery services, so that no one is left behind.

We continue to undertake various internal actions 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 also excited about the projects underway by our diverse and engaged teams to reduce the carbon footprint of the communities we serve, including 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 continuing to advance our environmental stewardship.

Our announced projects in RNG are just the beginning. They are a very clear example of the lowering of the carbon footprint and also ensuring we do our best to ensure a more sustainable future for our local communities.

I appreciate being with you all today. And we'll now turn the call back to Jeff for some closing comments.

Jeff Householder: Thanks, Jim. While we're beginning fiscal year 2021 with very positive financial performance, as indicated by our earnings per share growth, capital investment, key projects and initiatives and our dividend growth, as you can see on Slides 19 and 20, we're affirming our five year capital guidance for the period of 2021 to 2025 at $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. That confidence in our growth opportunities has enabled us to extend and expand our capital guidance.

Our 2025 EPS guidance range of $6.05 to $6.25 per share represents an average EPS growth of approximately 10% from our initiation of guidance at the end of 2017.

We believe natural gas is a key component to the country's long-term energy strategy. We also believe that the markets we serve value the energy services we deliver, whether natural gas or propane or electricity. Our customers have spoken loudly 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 advance us toward a more sustainable future.

We're committed to our growth strategy, focused on delivering top quartile performance, including shareholder return, which has exceeded 16% compound annual growth for each period, 1, 3, 5, 10 and 20 years through April 30, 2021.

Our investment proposition is based upon a commitment to superior performance and we outlined that on Slide 21. Our foundation, our financial objectives and targets as well as the initiatives and strategies we pursue are in support of achieving this level of performance.

In closing I want to take a moment to thank all of our dedicated Chesapeake Utilities' employees. We take great pride in the work done on the front lines and our ongoing commitment to identifying and delivering innovative solutions for the delivery of clean, reliable and safe energy to our customers.

Thank you. And we can now address any questions you may have.

Operator: Thank you. If you would like to register a question, please press the 1 followed by the 4 on your telephone. You will hear a three tone prompt to acknowledge your request. If your question has been answered and you would like to withdraw your registration, please press the 1 followed by the 3. One moment please for the first question, which comes from the line of Tate Sullivan with Maxim Group. Please go ahead.

Tate Sullivan: Hi. Thank you. Starting on CleanBay, please, you mentioned the option to convert to an equity participation. Beth, is this type of equity investment something new in the history of Chesapeake or you've done that type of equity participation in other unregulated projects before?

Beth Cooper: Thank you, and good afternoon, Tate. No. This would be something new from Chesapeake's standpoint. It is not something that we have historically done in the past.

Tate Sullivan: Okay. Thank you. And Jeff you mentioned, is that a potential or is that already in place or it was just approved by the Board to convert that to equity?

Jeff Householder: Well, what we got, Tate, was approval to basically pursue a negotiation with CleanBay to see if we can structure economic and governance terms that would enable us to feel comfortable making an equity infusion into the project.

We have the ability to do the gas processor. The equity that we're looking at would be of a similar, you know, size as what we assumed we would put into the processing unit.

Tate Sullivan: Okay. Thank you. And sticking with unregulated energy, I mean, the operating margin -- I know I can look at it on the gross margin side as well -- was down just slightly year-over-year. And you noted some impacts from capital investments in the sector. Was that partly the LNG tankers or would you call out something else with that margin, please?

Beth Cooper: Would you mind, Tate, just repeating your question? Because when you look at the margin in the unregulated businesses for the quarter, we're actually up, both from an operating income as well as the margin. So, would you mind just repeating your question there?

Tate Sullivan: Okay. No, I'll check my calc - I thought the operating margin was 27% down slightly from the prior year. Okay. I'll recheck that.

And then the organic customer growth -- sorry, if I missed it in the slides -- in Delmarva, excluding Elkton, did you put that in there? Can you comment on organic growth, excluding Elkton, that you've seen recently?

Beth Cooper: Sure. Sure. So the organic growth continues to be very strong on a run rate relative to quarter-over-quarter. In total it's very close to what it was for the first quarter of last year.

We did see a little bit of movement among the customer classes where in Florida we actually had a pick-up in terms of the residential margin relative to the total margin that's coming from there.

But both still very strong, still significantly double more than what the industry average is, and growth remains very strong and appears to be the same for the foreseeable future. We're not seeing any slowing in our service territories.

Tate Sullivan: Great. Okay. That's it for me. Thank you for the detail.

Beth Cooper: Thank you, Tate.

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

Brian Russo: Yes. Hi, good afternoon.

Beth Cooper: Good afternoon. How are you?

Brian Russo: Good. Thank you. So just a follow-up on the CleanBay equity investment. Is that something that you expect to be finalized, you know, in the near term and would you be able to quantify that? And if I recall correctly, you mentioned a fourth quarter 2023 kind of, you know, contribution to Chesapeake from that investment. Is that accurate?

Jeff Householder: It's accurate to the extent that we can complete the negotiations and come to some conclusion about what that looks like. And that's really what we're in the middle of right now, trying to figure out exactly what the economics and governance provisions will be and decide then if those support an actual equity infusion into the whole project as opposed to ownership of just one piece of it in the gas processing facility.

Brian Russo: Okay. Understood. And then just on the first quarter '21 unregulated drivers, you know, it looks like the propane operations were probably two-thirds of the gross margin driver, and I see you have it showing up. But is there - where is the propane customer growth within those three boxes?

And then my next question will be, what's driving the increased retail propane margins, which you guys tend to supplement every other kind of quarter as a nice driver to the unregulated margins?

Beth Cooper: So, a couple of things in terms of your questions there, Brian. So, you know, there continues to be customer growth in the propane operations. You know that we've done several different start-ups and so those start-ups continue to build out and they continue to expand over time.

For example, in Virginia, we have done several in the Pennsylvania area. And then also, you know, with what we've been able to do with the acquisition of Boulden, and that is continuing to grow. There is ongoing growth in those operations as well.

You'll see a little bit - you know, it can be somewhat difficult to breakout the consumption piece. But weather there is no - it's an art rather than a science in the propane business when you try to look at the amount that's attributable to weather. It's not as defined as what it is in the regulated business.

But there can be a little bit of the consumption piece that may be sitting in that $3.8 million. And then there can also be growth that may be netted in with those other variances. There can be some negatives and some positives. We don't tend to break that out specifically on the propane side, but there is some growth in there as well.

Brian Russo: Okay. Great. And I think you mentioned on the last quarter, you know, you had a strategy to grow the propane businesses, I think, maybe near the Western Natural Gas service territory in Florida or elsewhere. I was just curious if there was any update there?

Jeff Householder: Well we are always interested in growing the propane business in the Mid-Atlantic and Southeast. And so we're always looking for potential acquisition opportunities. But we're also interested in just organically growing the business much in the way that Beth was describing a second ago.

And so whether that is our, you know, customer growth opportunities or the auto gas opportunities, we see all of that continuing to move forward. And if we can enhance that with an acquisition here or there, then we're certainly interested in doing that.

Brian Russo: Okay. And then lastly, it seems like you have a lot of exciting RNG projects in the pipeline with existing partners like CleanBay, et cetera, or maybe even some new partnerships. Should we just assume that any incremental investment is captured in that (effects) forecast through '25?

Beth Cooper: You know, typically what we will do as we've talked about in the past is we will try to include in our estimates what we feel, you know, has a very strong probability of occurring and that's typically going to be about 80% or higher.

There is a small amount of capital that may be below that amount, but the significant amount of capital that's in that estimate relates to projects that we can see and feel pretty concretely that they're going to happen.

So, you know, the potential to undertake some of these opportunities that Jeff has talked about, it will be whether or not at the time from a probability perspective they were high enough. If they were, a portion of them could be included, but then there could be a portion, Brian, that are sitting outside of that.

And so, you know, there is an opportunity for that range to continue to move. But there is a base level that's been factored in from the investments that we feel very strongly about.

Jeff Householder: I would add to that in the capital guidance that we provided, the $750 million to $1 billion, we were quite comfortable that we had the preponderance of that investment forecast associated with existing businesses that we currently own. And so, we were not depending especially to get to, you know, the bottom of that range. It was not heavily dependent on any of the incremental RNG facilities that we're pursuing.

Brian Russo: Okay. Understood. Thank you very much.

Beth Cooper: Thank you.

Operator: Your next question comes from the line of Michael Gaugler with Janney Montgomery Scott. Please go ahead.

Michael Gaugler: Good afternoon, everyone.

Beth Cooper: Good afternoon.

Michael Gaugler: Two questions. First, RNG on Slide 14, I see Virginia and Georgia as targeted areas for investment. Would you be using transport to your distribution? That works from those states?

Jeff Householder: Well, what we would probably be doing is transporting either by Marlin truck or by pipeline if we, you know, found it economically advantageous to build a pipeline into a nearby transmission system, potentially a distribution system.

And if we wanted to move that gas into one of our distribution facilities, we would probably do it by displacement much the same way that, you know, California collects the green attributes of RNG, you know, developed in Delaware, developed in New York or wherever and getting that green attribute into the California market. And so, I think, we can do that in that manner if we chose to.

Michael Gaugler: Okay. And then taking into account the energy preemption bill in Florida, seems like Florida is a very friendly place for pipelines these days. Should we assume that that's more of a focus for future pipeline opportunities?

Jeff Householder: Well, yes. I think you can assume that we are actively engaged in trying to expand our pipeline presence in Florida. And you're right, Michael. I mean, it is a friendly environment.

And we, you know, are looking for opportunities to build pipe down there all the time. And as you know, we found a number of those over the years, especially with our peninsula pipeline operation.

Michael Gaugler: Yes. The reason for the question is, I know you've got a lot of pipeline assets up in Delmarva, and, you know, you have put a lot of capital to work in that area through the years.

But I'm just trying to get kind of a feel for the changing landscape of things and thinking that perhaps Florida might present greener pastures at the moment than, say, the Mid-Atlantic or the Northeast.

Jeff Householder: I think that's fair to say. It's not just a, you know, favorable business environment issue. As you say, we've put a lot of money to work on the Delmarva Peninsula. And so there is an inherent, you know, demand pull on those projects without looking at significant demand increases.

You know, we're in a pretty good position relative to capacity on the pipeline on the Delmarva. And now we're continuing to grow, as Beth said and as I mentioned earlier. And certainly to the extent that anyone came in with an industrial facility or new electric generation or whatever it might be, we would be interested in pursuing that opportunity with from our transmission business.

But absent that, with the typical residential commercial growth, although it's substantial, those volumes are relatively small. We've got some growth opportunities remaining in the pipe at this point.

James Moriarty: The only thing I would add, Mike, is that we've had a very strong supporting environment in both Maryland and Delaware, and that's, you know, from the governor and others.

And the most recent example of that is our Somerset project where we expanded service into Somerset County for the first time in Maryland. And over, you know, some opposition, we got that done unanimously. And that was the communities. It was the political. It was the economic. So, we have very strong support on the Delmarva as well.

Jeff Householder: And we're not finished expanding the pipe. I mean, I think there will be significant opportunities yet to come on the Delmarva Peninsula. You know, it remains to be seen as growth continues so.

Michael Gaugler: Yes. You seem to have a lot of growth there. I see it. I appreciate your time. Thank you.

Jeff Householder: Thank you.

James Moriarty: Thank you, Michael.

Beth Cooper: Thank you, Michael.

Operator: As a reminder, to register for a question, please press the 1 followed by the 4 on your telephone keypad. There are no further questions at this time. I will now turn the call back to you. Please continue with the presentation and/or closing remarks.

Jeff Householder: Well, thanks. We appreciate all of you connecting with us this afternoon for our first quarter report. I'm sure for several of you, this was the end of a long day of these earnings calls. So, thank you very much. And as always, if there is any additional information that we can provide, please feel free to reach out to one of us. Thank you. Goodbye.

Operator: That does conclude the conference call for today. We thank you for your participation and ask that you please disconnect your line.

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