

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

FORM 8-K

CURRENT REPORT

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

Date of Report (Date of earliest event reported): November 7, 2019

CHESAPEAKE UTILITIES CORPORATION

(Exact name of registrant as specified in its charter)

DE  
(State or other jurisdiction of  
incorporation or organization)

001-11590  
(Commission  
File Number)

51-0064146  
(I.R.S. Employer  
Identification No.)

909 Silver Lake Boulevard, Dover, DE 19904  
(Address of principal executive offices, including Zip Code)

(302) 734-6799  
(Registrant's Telephone Number, including Area Code)

(Former name, former address and former fiscal year, if changed since last report.)

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

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

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

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

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

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

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

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

Emerging growth company

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

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**Item 2.02. Results of Operations and Financial Condition.**

On November 7, 2019, Chesapeake Utilities Corporation issued a press release announcing its financial results for the quarter and nine months ended September 30, 2019. A copy of the press release is attached as Exhibit 99.1 hereto and is incorporated by reference herein.

**Item 9.01. Financial Statements and Exhibits.**

(d) [Exhibit 99.1](#) - Press Release of Chesapeake Utilities Corporation, dated November 7, 2019.

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**SIGNATURE**

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

CHESAPEAKE UTILITIES CORPORATION

/s/ Beth W. Cooper

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Beth W. Cooper

Executive Vice President, Chief Financial Officer, and  
Assistant Corporate Secretary

Date: November 7, 2019



**FOR IMMEDIATE RELEASE**

**November 7, 2019**

**NYSE Symbol: CPK**

**CHESAPEAKE UTILITIES CORPORATION REPORTS  
THIRD QUARTER 2019 RESULTS**

- **GAAP earnings per share\* were \$0.34 for the third quarter 2019 and \$2.59 for the nine months ended September 30, 2019**
- **GAAP earnings from continuing operations increased \$0.01 per share for the third quarter 2019 and \$0.29 per share year-to-date compared to the same periods in 2018**
- **Eastern Shore and Peninsula Pipeline expansion projects generated \$2.3 million and \$10.5 million in additional gross margin\*\* during the third quarter and year-to-date**
- **December 2018 asset acquisitions of Marlin Gas Transport and OHI contributed \$1.1 million and \$5.0 million in gross margin for the third quarter and year-to-date**
- **The Company has entered into agreements to sell a majority of its natural gas marketing business**
- **In October 2019, the Company reached commercial terms on the anticipated issuance of \$70.0 million of 2.98 percent uncollateralized senior notes in December 2019**
- **Eastern Shore filed an application to include renewable natural gas, supporting safe, reliable and cleaner energy transportation**

Dover, Delaware — Chesapeake Utilities Corporation (NYSE: CPK) ("Chesapeake Utilities" or the "Company") today announced third quarter financial results. The Company's net income for the quarter ended September 30, 2019 was \$5.6 million, compared to \$5.5 million for the same quarter of 2018. Consolidated earnings per share ("EPS") for both quarters ended September 30, 2019 and 2018 was \$0.34 per share. Net income for the nine months ended September 30, 2019 was \$42.6 million, or \$2.59 per share, compared to \$38.8 million, or \$2.36 per share, for the same period in 2018.

On October 9, 2019, the Company announced its exit from the natural gas marketing business through the sale of the majority of the assets of Peninsula Energy Services Company, Inc. (PESCO), the Company's natural gas marketing subsidiary. As a result of this decision and announcement, PESCO's results for all periods presented have been separately reported as discontinued operations and its assets and liabilities have been reclassified as held for sale. Additional details on the transactions to sell PESCO's assets and contracts are included on page 8 of this press release.

The Company's income from continuing operations for the quarter ended September 30, 2019 was \$6.2 million, compared to \$6.1 million for the same quarter of 2018. EPS from continuing operations for the quarter ended September 30, 2019 increased \$0.01 to \$0.38 per share compared to the same quarter of 2018. Higher earnings for the third quarter primarily reflect increased gross margin from recently completed and ongoing pipeline expansion projects, organic growth in the natural gas distribution operations and higher retail propane margins per gallon. These increases were largely offset by an increase in operating expenses and higher interest expense associated with financing the Company's expansion projects.

For the nine months ended September 30, 2019, the Company reported income from continuing operations of \$44.0 million, or \$2.67 per share. This represents an increase of \$4.9 million or \$0.29 per share compared to the same period in 2018. Year-to-date earnings were impacted by the factors noted above, along with strong contributions from incremental margin from the acquisition of certain assets of the Marlin Gas Transport, Inc. ("Marlin Gas Transport") and R. F. OHI Fuel Oil, Inc. ("OHI") asset acquisitions, a Florida Public

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## 2-2-2-2

Service Commission ("PSC") regulatory order that enabled the Company to retain tax savings associated with lower federal tax rates resulting from the United States Tax Cuts and Jobs Act ("TCJA") in several natural gas distribution operations and continued growth in gross margin from Aspire Energy of Ohio ("Aspire Energy"). These increases were partially offset by higher interest expense. A detailed discussion of operating results begins on page 4.

"For the first nine months of 2019, we have delivered strong financial performance largely driven by new pipeline expansions, organic growth, key regulatory initiatives and contributions from the Marlin Gas Transport and Ohi acquisitions," stated Jeffrey Householder, President and Chief Executive Officer of Chesapeake Utilities Corporation. "As previously disclosed, as part of our ongoing strategic planning process, we decided to exit the natural gas marketing business and announced the sale of the PESCO assets. These actions will improve our earnings outlook, reduce the volatility of future earnings and recover our investment in the business. While the exit of any business is never easy, the same conviction, drive and determination to do what is right for the Company and our constituents guided our decision and remains at the forefront of each and every employee. I am proud of our employees who are driving the growth of the Company in so many different ways."

### Significant Items Impacting Earnings from Continuing Operations

There were no significant items impacting earnings from continuing operations during the third quarter of 2019 compared to the same period in 2018, however, results for the nine months ended September 30, 2019 and 2018 were impacted by the following significant items:

| For the Nine Months Ended September 30,<br><i>(in thousands, except per share data)</i>   | 2019       |         | 2018       |         |
|---|------------|---------|------------|---------|
|   | Net Income | EPS     | Net Income | EPS     |
| Reported (GAAP) Earnings from Continuing Operations   | \$ 43,977  | \$ 2.67 | \$ 39,118  | \$ 2.38 |
| 2018 portion of the retained tax savings for certain Florida natural gas distribution operations associated with the TCJA income tax rate reduction | (990)      | (0.06)  | —          | —       |
| Nonrecurring separation expenses associated with a former executive   | —          | —       | 1,421      | 0.09    |
| Adjusted (Non-GAAP) Earnings from Continuing Operations   | \$ 42,987  | \$ 2.61 | \$ 40,539  | \$ 2.47 |

For the nine months ended September 30, 2019, adjusted earnings from continuing operations were \$43.0 million, or \$2.61 per share, an increase of 5.7 percent compared to \$40.5 million, or \$2.47 per share, for the nine months ended September 30, 2018.

*\*Unless otherwise noted, earnings per share information is presented for continuing operations on a diluted basis.*

*\*\*This press release includes references to non-Generally Accepted Accounting Principles ("GAAP") financial measures, including gross margin, adjusted earnings and adjusted EPS from continuing operations. A "non-GAAP financial measure" is generally defined as a numerical measure of a company's historical or future performance that includes or excludes amounts, or that is subject to adjustments, so as to be different from the most directly comparable measure calculated or presented in accordance with GAAP. Our management believes certain non-GAAP financial measures, when considered together with GAAP financial measures, provide information that is useful to investors in understanding period-over-period operating results separate and apart from items that may, or could, have a disproportionately positive or negative impact on results in any particular period.*

*The Company calculates "gross margin" by deducting the cost of sales from operating revenue. Cost of sales includes the purchased fuel cost for natural gas, electricity and propane, and the cost of labor spent on direct revenue-producing activities and excludes depreciation, amortization and accretion. Other companies may calculate gross margin in a different manner. Gross margin should not be considered an alternative to operating income or net income, both of which are determined in accordance with GAAP. The*

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*Company believes that gross margin, although a non-GAAP measure, is useful and meaningful to investors as a basis for making investment decisions. It provides investors with information that demonstrates the profitability achieved by the Company under its allowed rates for regulated operations and under its competitive pricing structures for unregulated businesses. The Company's management uses gross margin in measuring its business units' performance. The Company calculates "adjusted earnings" by adjusting reported (GAAP) earnings from continuing operations to exclude the impact of certain significant non-cash items, including the impact of one-time charges, such as severance charges, and any prior year tax savings retained by our regulated businesses as a result of current year regulatory authorizations. The Company calculates "adjusted EPS" from continuing operations by dividing adjusted earnings from continuing operations by the weighted average common shares outstanding.*

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## Operating Results for the Quarters Ended September 30, 2019 and 2018

## Consolidated Results

| (in thousands)                                | Three Months Ended<br>September 30, |           | Change   | Percent Change |
|---|-------------------------------------|-----------|----------|----------------|
|   | 2019                                | 2018      |          |                |
| Gross margin                                  | \$ 67,298                           | \$ 62,387 | \$ 4,911 | 7.9%           |
| Depreciation, amortization and property taxes | 16,010                              | 14,548    | 1,462    | 10.0%          |
| Other operating expenses                      | 36,930                              | 34,960    | 1,970    | 5.6%           |
| Operating income <sup>(1)</sup>               | \$ 14,358                           | \$ 12,879 | \$ 1,479 | 11.5%          |

(1) These results exclude operating results from PESCO that are now reflected as discontinued operations.

Operating income during the third quarter of 2019 increased by \$1.5 million, or 11.5 percent, compared to the same period in 2018. The increase in operating income was driven by gross margin growth of \$4.9 million, or 7.9 percent, primarily in the Company's natural gas transmission and distribution operations. These increases were partially offset by higher operating expenses associated with growth.

## Regulated Energy Segment

| (in thousands)                                | Three Months Ended<br>September 30, |           | Change   | Percent Change |
|---|-------------------------------------|-----------|----------|----------------|
|   | 2019                                | 2018      |          |                |
| Gross margin                                  | \$ 54,961                           | \$ 51,269 | \$ 3,692 | 7.2%           |
| Depreciation, amortization and property taxes | 13,076                              | 12,085    | 991      | 8.2%           |
| Other operating expenses                      | 24,345                              | 23,269    | 1,076    | 4.6%           |
| Operating income                              | \$ 17,540                           | \$ 15,915 | \$ 1,625 | 10.2%          |

Operating income for the Regulated Energy segment for the three months ended September 30, 2019 was \$17.5 million, a 10.2 percent increase over the same period in 2018. The growth in operating income resulted primarily from increased gross margin of \$3.7 million partially offset by \$1.0 million in higher depreciation, amortization and property taxes, and \$1.1 million in higher other operating expenses associated with growth.

The key components of the increase in gross margin are shown below:

| (in thousands)   |                 |
|--|-----------------|
| Eastern Shore Natural Gas Company ("Eastern Shore") and Peninsula Pipeline Company ("Peninsula Pipeline") service expansions (including related Florida natural gas distribution operation expansions) | \$ 2,312        |
| Natural gas distribution growth (excluding service expansions)   | 791             |
| Sandpiper Energy, Inc.'s ("Sandpiper") margin primarily from natural gas conversions   | 224             |
| Increased margin primarily from the storm recovery surcharge for Florida electric distribution operations  | 169             |
| TCJA impact from the 2019 retained tax savings for certain Florida natural gas operations  | 109             |
| Florida GRIP <sup>(1)</sup>  | (144)           |
| Other variances  | 231             |
| <b>Quarter-over-quarter increase in gross margin</b>   | <b>\$ 3,692</b> |

(1) In the third quarter of 2019, the Company recorded a reduction in depreciation expense totaling \$0.8 million retroactive to January 1, 2019, as a result of a Florida PSC approved depreciation study that lowered annual depreciation rates. The Company also recorded

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\$0.4 million in lower GRIP margin due to a concurrent reduction in surcharge collected from customers as a result of the reduced depreciation rates during the third quarter of 2019.

The major components of the increase in other operating expenses are as follows:

(in thousands)

|  |           |              |
|--|-----------|--------------|
| Insurance expense - both insured and self-insured components     | \$        | 718          |
| Payroll, benefits and other employee-related expenses            |           | 345          |
| Other variances  |           | 13           |
| <b>Quarter-over-quarter increase in other operating expenses</b> | <b>\$</b> | <b>1,076</b> |

**Unregulated Energy Segment**

| (in thousands)                                | Three Months Ended<br>September 30, |            | Change   | Percent Change |
|---|-------------------------------------|------------|----------|----------------|
|   | 2019                                | 2018       |          |                |
| Gross margin                                  | \$ 12,418                           | \$ 11,202  | \$ 1,216 | 10.9%          |
| Depreciation, amortization and property taxes | 2,901                               | 2,425      | 476      | 19.6%          |
| Other operating expenses                      | 12,685                              | 11,867     | 818      | 6.9%           |
| Operating loss <sup>(1)</sup>                 | \$ (3,168)                          | \$ (3,090) | \$ (78)  | 2.5%           |

(1) These results exclude operating results from PESCO that are now reflected as discontinued operations.

Operating loss for the Unregulated Energy segment remained largely unchanged for the three months ended September 30, 2019 compared to 2018, as higher gross margin was offset by higher expenses to support growth. Due to the seasonality of the Company's business, results for interim periods are not necessarily indicative of results for the entire fiscal year. Revenue and earnings are typically greater during the first and fourth quarters, when consumption of energy is highest due to colder temperatures. The third quarter has historically contributed the smallest amount of a full year's results.

The major components of the increase in gross margin are shown below:

(in thousands)

|   |           |              |
|---|-----------|--------------|
| Marlin Gas Services (assets acquired in December 2018)  | \$        | 993          |
| <u>Propane Operations</u>   |           |              |
| Increased retail propane margins per gallon driven by favorable market conditions and supply management |           | 470          |
| Ohl acquisition (assets acquired in December 2018)  |           | 95           |
| <u>Aspire Energy</u>  |           |              |
| Higher gas supply costs   |           | (233)        |
| Other variances   |           | (109)        |
| <b>Quarter-over-quarter increase in gross margin</b>  | <b>\$</b> | <b>1,216</b> |

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The major components of the increase in other operating expenses are as follows:

(in thousands)

|  |           |            |
|--|-----------|------------|
| Operating expenses for Marlin Gas Services and Ohl (Assets acquired in December 2018) including costs to expand the future growth prospects for the businesses | \$        | 746        |
| Insurance expense - both insured and self-insured components   |           | 179        |
| Other variances  |           | (107)      |
| <b>Quarter-over-quarter increase in other operating expenses</b>   | <b>\$</b> | <b>818</b> |

### Operating Results for the Nine Months Ended September 30, 2019 and 2018

#### Consolidated Results

| (in thousands)                                | Nine Months Ended September 30, |                  | Change           | Percent Change |
|---|---------------------------------|------------------|------------------|----------------|
|   | 2019                            | 2018             |                  |                |
| Gross margin                                  | \$ 236,203                      | \$ 217,165       | \$ 19,038        | 8.8%           |
| Depreciation, amortization and property taxes | 47,337                          | 41,694           | 5,643            | 13.5%          |
| Other operating expenses                      | 112,222                         | 109,503          | 2,719            | 2.5%           |
| Operating income <sup>(1)</sup>               | <u>\$ 76,644</u>                | <u>\$ 65,968</u> | <u>\$ 10,676</u> | <u>16.2%</u>   |

(1) These results exclude operating results from PESCO that are now reflected as discontinued operations.

Operating income for the nine months ended September 30, 2019 increased by \$10.7 million, or 16.2 percent, compared to the same period in 2018. The increase in operating income reflects continued growth across the Company, generated by organic growth within existing businesses, recent expansion investments, regulatory initiatives and rate/pricing mechanisms, the successful integration of the Ohl acquisition, higher retail propane margins per gallon and the strong performance of Marlin Gas Services. The impact of warmer weather on 2019 results was offset by the positive impact of the absence of a one-time non-recurring severance charge recorded in 2018.

#### Regulated Energy Segment

| (in thousands)                                | Nine Months Ended September 30, |                  | Change          | Percent Change |
|---|---------------------------------|------------------|-----------------|----------------|
|   | 2019                            | 2018             |                 |                |
| Gross margin                                  | \$ 177,149                      | \$ 162,926       | \$ 14,223       | 8.7%           |
| Depreciation, amortization and property taxes | 38,694                          | 34,402           | 4,292           | 12.5%          |
| Other operating expenses                      | 73,145                          | 71,594           | 1,551           | 2.2%           |
| Operating income                              | <u>\$ 65,310</u>                | <u>\$ 56,930</u> | <u>\$ 8,380</u> | <u>14.7%</u>   |

Operating income for the Regulated Energy segment for the nine months ended September 30, 2019 was \$65.3 million, an increase of \$8.4 million or 14.7 percent, compared to the same period in 2018. The increase in operating income resulted from \$14.2 million in additional gross margin, offset by \$4.3 million in higher depreciation, amortization and property taxes and a \$1.5 million increase in other operating expenses. On February 25, 2019, the Florida PSC issued a final order regarding the treatment of the TCJA, allowing us to retain the savings associated with lower federal tax rates for certain of our natural gas distribution operations. As a result, \$1.3 million in reserves for customer refunds, recorded in 2018, were reversed in the first quarter

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of 2019. Excluding the impact of the reversal, gross margin and operating income for the nine months ended September 30, 2019 increased by \$12.9 million and \$7.1 million, or 7.9 percent and 12.4 percent, respectively.

The key components of the increase in gross margin are shown below:

(in thousands)

|   |           |               |
|---|-----------|---------------|
| Eastern Shore and Peninsula Pipeline service expansions (including related Florida natural gas distribution operation expansions) | \$        | 10,452        |
| Natural gas distribution - customer growth (excluding service expansions)   |           | 3,446         |
| 2018 retained tax savings for certain Florida natural gas distribution operations   |           | 1,321         |
| TCJA impact from the 2019 retained tax savings for certain Florida natural gas operations   |           | 1,117         |
| Sandpiper's margin primarily from natural gas conversions   |           | 837           |
| Florida GRIP <sup>(1)</sup>   |           | 391           |
| Decreased customer consumption - primarily due to warmer weather  |           | (3,248)       |
| Other variances   |           | (93)          |
| <b>Period-over-period increase in gross margin</b>  | <b>\$</b> | <b>14,223</b> |

(1) In the third quarter of 2019, the Company recorded a reduction in depreciation expense totaling \$0.8 million retroactive to January 1, 2019, as a result of a Florida PSC approved depreciation study that lowered annual depreciation rates. The Company also recorded \$0.4 million in lower GRIP margin due to a concurrent reduction in surcharge collected from customers as a result of the reduced depreciation rates during the third quarter of 2019.

The major components of the increase in other operating expenses are as follows:

(in thousands)

|  |           |              |
|--|-----------|--------------|
| Payroll, benefits and other employee-related expenses                                    | \$        | 2,299        |
| Insurance expense - both insured and self-insured components                             |           | 975          |
| Vehicle expenses due to additional fleet to support growth                               |           | 168          |
| Facilities and maintenance costs due to the consolidation of facilities                  |           | (1,194)      |
| Outside services and regulatory costs due to lower consulting fees and timing of expense |           | (1,062)      |
| Other variances  |           | 365          |
| <b>Period-over-period increase in other operating expenses</b>                           | <b>\$</b> | <b>1,551</b> |

### Unregulated Energy Segment

|   | Nine Months Ended September 30, |           | Change   | Percent Change |
|---|---------------------------------|-----------|----------|----------------|
|   | 2019                            | 2018      |          |                |
| (in thousands)                                |                                 |           |          |                |
| Gross margin                                  | \$ 59,340                       | \$ 54,636 | \$ 4,704 | 8.6%           |
| Depreciation, amortization and property taxes | 8,543                           | 7,182     | 1,361    | 19.0%          |
| Other operating expenses                      | 39,481                          | 36,935    | 2,546    | 6.9%           |
| Operating income <sup>(1)</sup>               | \$ 11,316                       | \$ 10,519 | \$ 797   | 7.6%           |

(1) These results exclude operating results from PESCO that are now reflected as discontinued operations.

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Operating income for the Unregulated Energy segment increased by \$0.8 million for the nine months ended September 30, 2019, compared to the same period in 2018. The increase in operating income was driven by \$4.7 million in additional gross margin, partially offset by \$1.4 million in higher depreciation, amortization and property taxes and \$2.5 million in higher other operating expenses.

The major components of the \$4.7 million increase in gross margin are shown below:

*(in thousands)*

|   |           |                     |
|---|-----------|---------------------|
| Marlin Gas Services (acquired assets of Marlin Gas Transport in December 2018)                          | \$        | 4,353               |
| <u>Propane Operations</u>   |           |                     |
| Increased retail propane margins per gallon driven by favorable market conditions and supply management |           | 1,689               |
| Ohl acquisition (assets acquired in December 2018)  |           | 683                 |
| Decrease in customer consumption due primarily to the absence of the 2018 Bomb Cyclone                  |           | (1,559)             |
| Decrease in wholesale propane margins due primarily to the absence of the 2018 Bomb Cyclone             |           | (785)               |
| <u>Aspire Energy</u>  |           |                     |
| Rate increases  |           | 858                 |
| Customer consumption growth   |           | 296                 |
| Higher gas supply costs   |           | (429)               |
| Other variances   |           | (402)               |
| <b>Period-over-period increase in gross margin</b>  | <b>\$</b> | <b><u>4,704</u></b> |

The major components of the increase in other operating expenses are as follows:

*(in thousands)*

|   |           |                     |
|---|-----------|---------------------|
| Operating expenses for Marlin Gas Services and Ohl (Asset acquisitions in December 2018) including costs to expand the future growth prospects for the businesses | \$        | 2,435               |
| Insurance expense - both insured and self-insured components  |           | 244                 |
| Facilities and maintenance costs primarily due to lower level of tank refurbishments for propane operations   |           | (380)               |
| Other variances   |           | 247                 |
| <b>Period-over-period increase in other operating expenses</b>  | <b>\$</b> | <b><u>2,546</u></b> |

#### **Discontinued Operations - Natural Gas Marketing Business**

On October 9, 2019, the Company announced that it was exiting the natural gas marketing business with the sale of a majority of the assets of PESCO, the Company's natural gas marketing subsidiary. To date, the Company has executed the following three separate transactions to sell PESCO's assets and contracts:

- PESCO's Florida retail operations were sold to Gas South LLC. The initial closing for the transaction was completed in November 2019 with subsequent closings expected in December 2019 and January 2020.
- PESCO's other non-Florida retail operations and contracts were sold to United Energy Trading, LLC in October 2019.

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- PESCO's Mid-Atlantic wholesale contracts and Chesapeake Utilities' Delaware division, Maryland division and Sandpiper Energy Asset Management agreements were sold to NJR Energy Services Company in October 2019.

In addition to these transactions, the Company is actively marketing PESCO's producer services portfolio and is targeting a sale by the end of 2019. The Company expects to recognize a pre-tax gain ranging from \$5.0 million to \$7.0 million in connection with the closing of the three transactions during the fourth quarter of 2019. The expected gain on the sale of the assets will be included as a component of discontinued operations in the fourth quarter of 2019.

As a result of the sales agreements, the Company began to report PESCO as discontinued operations during the third quarter and has excluded PESCO's performance from continuing operations and segment results for all periods presented. The assets and liabilities of PESCO presented have also been classified as assets and liabilities held for sale for all periods shown.

#### **Forward-Looking Statements**

Matters included in this release may include forward-looking statements that involve risks and uncertainties. Actual results may differ materially from those in the forward-looking statements. Please refer to the Safe Harbor for Forward-Looking Statements in the Company's 2018 Annual Report on Form 10-K for further information on the risks and uncertainties related to the Company's forward-looking statements.

#### **Conference Call**

Chesapeake Utilities will host a conference call on Friday, November 8, 2019 at 10:30 a.m. Eastern Time to discuss the Company's financial results for the three and nine months ended September 30, 2019. To participate in this call, dial 855.801.6270 and reference Chesapeake Utilities' 2019 Third Quarter Results Conference Call. To access the replay recording of this call, the accompanying transcript, and other pertinent quarterly information, use the link [CPK - Conference Call Audio Replay](#), or visit the Investors/Events and Presentations section of Company's website at [www.chpk.com](http://www.chpk.com).

#### **About Chesapeake Utilities Corporation**

Chesapeake Utilities is a diversified energy company engaged in natural gas distribution and transmission; electricity generation and distribution; propane gas distribution; and other businesses. Information about Chesapeake Utilities and its family of businesses is available at <http://www.chpk.com> or through its Investor Relations (IR) App.

*Please note that Chesapeake Utilities Corporation is not affiliated with Chesapeake Energy, an oil and natural gas exploration company headquartered in Oklahoma City, Oklahoma.*

For more information, contact:

Beth W. Cooper  
Executive Vice President, Chief Financial Officer and Assistant Corporate Secretary  
302.734.6799

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**Financial Summary**  
(in thousands, except per share data)

|  | Three Months Ended<br>September 30, |                  | Nine Months Ended<br>September 30, |                   |
|--|-------------------------------------|------------------|------------------------------------|-------------------|
|  | 2019                                | 2018             | 2019                               | 2018              |
| <b>Gross Margin</b>  |                                     |                  |                                    |                   |
| Regulated Energy segment                                     | \$ 54,961                           | \$ 51,269        | \$ 177,149                         | \$ 162,926        |
| Unregulated Energy segment                                   | 12,418                              | 11,202           | 59,340                             | 54,636            |
| Other businesses and eliminations                            | (81)                                | (84)             | (286)                              | (397)             |
| <b>Total Gross Margin</b>                                    | <b>\$ 67,298</b>                    | <b>\$ 62,387</b> | <b>\$ 236,203</b>                  | <b>\$ 217,165</b> |
| <b>Operating Income</b>                                      |                                     |                  |                                    |                   |
| Regulated Energy segment                                     | \$ 17,540                           | \$ 15,915        | \$ 65,310                          | \$ 56,930         |
| Unregulated Energy segment                                   | (3,168)                             | (3,090)          | 11,316                             | 10,519            |
| Other businesses and eliminations                            | (14)                                | 54               | 18                                 | (1,481)           |
| <b>Total Operating Income</b>                                | <b>14,358</b>                       | <b>12,879</b>    | <b>76,644</b>                      | <b>65,968</b>     |
| Other expense, net   | (350)                               | (4)              | (729)                              | (168)             |
| Interest Charges   | 5,403                               | 4,357            | 16,583                             | 11,764            |
| <b>Income from Continuing Operations Before Income Taxes</b> | <b>8,605</b>                        | <b>8,518</b>     | <b>59,332</b>                      | <b>54,036</b>     |
| Income Taxes on Continuing Operations                        | 2,360                               | 2,428            | 15,355                             | 14,918            |
| <b>Income from Continuing Operations</b>                     | <b>6,245</b>                        | <b>6,090</b>     | <b>43,977</b>                      | <b>39,118</b>     |
| Loss from Discontinued Operations                            | (624)                               | (552)            | (1,388)                            | (339)             |
| <b>Net Income</b>  | <b>\$ 5,621</b>                     | <b>\$ 5,538</b>  | <b>\$ 42,589</b>                   | <b>\$ 38,779</b>  |
| <b>Basic Earnings Per Share of Common Stock</b>              |                                     |                  |                                    |                   |
| Earnings from Continuing Operations                          | \$ 0.38                             | \$ 0.37          | \$ 2.68                            | \$ 2.39           |
| Earnings from Discontinued Operations                        | (0.04)                              | (0.03)           | (0.08)                             | (0.02)            |
| <b>Basic Earnings Per Share of Common Stock</b>              | <b>\$ 0.34</b>                      | <b>\$ 0.34</b>   | <b>\$ 2.60</b>                     | <b>\$ 2.37</b>    |
| <b>Diluted Earnings Per Share of Common Stock</b>            |                                     |                  |                                    |                   |
| Earnings from Continuing Operations                          | \$ 0.38                             | \$ 0.37          | \$ 2.67                            | \$ 2.38           |
| Earnings from Discontinued Operations                        | (0.04)                              | (0.03)           | (0.08)                             | (0.02)            |
| <b>Diluted Earnings Per Share of Common Stock</b>            | <b>\$ 0.34</b>                      | <b>\$ 0.34</b>   | <b>\$ 2.59</b>                     | <b>\$ 2.36</b>    |

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## Financial Summary Highlights

Key variances in continuing operations, between the three months ended September 30, 2018 and 2019, included:

| <i>(in thousands, except per share data)</i>   | <b>Pre-tax<br/>Income</b> | <b>Net<br/>Income</b> | <b>Earnings<br/>Per Share</b> |
|--|---------------------------|-----------------------|-------------------------------|
| <b>Third Quarter of 2018 Reported Results from Continuing Operations</b>   | <b>\$ 8,518</b>           | <b>\$ 6,090</b>       | <b>\$ 0.37</b>                |
| <b>Increased (Decreased) Gross Margins:</b>  |                           |                       |                               |
| Eastern Shore and Peninsula Pipeline service expansions (including related Florida natural gas distribution operation expansions)* | 2,312                     | 1,678                 | 0.10                          |
| Margin contribution from Marlin Gas Services and Ohl*  | 1,088                     | 790                   | 0.05                          |
| Natural gas distribution growth (excluding service expansions)   | 791                       | 574                   | 0.04                          |
| Increased retail propane margins per gallon  | 470                       | 341                   | 0.02                          |
| Sandpiper's margin from natural gas conversions  | 224                       | 162                   | 0.01                          |
| Increased margin primarily from the storm recovery surcharge for Florida electric distribution operations                          | 169                       | 122                   | 0.01                          |
| TCJA impact from the 2019 retained tax savings for certain Florida natural gas operations*   | 109                       | 79                    | 0.01                          |
| Aspire Energy higher gas supply costs  | (233)                     | (169)                 | (0.01)                        |
| Florida GRIP* (1)  | (144)                     | (104)                 | (0.01)                        |
|  | <u>4,786</u>              | <u>3,473</u>          | <u>0.22</u>                   |
| <b>(Increased) Decreased Operating Expenses (Excluding Cost of Sales):</b>   |                           |                       |                               |
| Depreciation, amortization and property tax costs due to growth investments  | (1,152)                   | (836)                 | (0.05)                        |
| Operating expenses for Marlin Gas Services and Ohl including costs to expand the future growth prospects for the businesses        | (1,055)                   | (766)                 | (0.05)                        |
| Insurance - both insured and self-insured components   | (790)                     | (573)                 | (0.03)                        |
| Payroll, benefits and other employee-related expenses  | (392)                     | (285)                 | (0.02)                        |
|  | <u>(3,389)</u>            | <u>(2,460)</u>        | <u>(0.15)</u>                 |
| Change in effective tax rate   | —                         | 23                    | —                             |
| Interest charges   | (1,046)                   | (759)                 | (0.05)                        |
| Net other changes  | (264)                     | (122)                 | (0.01)                        |
|  | <u>(1,310)</u>            | <u>(858)</u>          | <u>(0.06)</u>                 |
| <b>Third Quarter of 2019 Reported Results from Continuing Operations</b>   | <b>\$ 8,605</b>           | <b>\$ 6,245</b>       | <b>\$ 0.38</b>                |

\*See the Major Projects and Initiatives table later in this press release.

(1) In the third quarter of 2019, the Company recorded a reduction in depreciation expense totaling \$0.8 million retroactive to January 1, 2019, as a result of a Florida PSC approved depreciation study that lowered annual depreciation rates. The Company also recorded \$0.4 million in lower GRIP margin due to a concurrent reduction in surcharge collected from customers as a result of the reduced depreciation rates during the third quarter of 2019.

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Key variances in continuing operations, between the nine months ended September 30, 2018 and 2019, included:

| <i>(in thousands, except per share data)</i>  | <b>Pre-tax<br/>Income</b> | <b>Net<br/>Income</b> | <b>Earnings<br/>Per Share</b> |
|---|---------------------------|-----------------------|-------------------------------|
| <b>Nine Months Ended September 30, 2018 Reported Results from Continuing Operations</b>   | <b>\$ 54,036</b>          | <b>\$ 39,118</b>      | <b>\$ 2.38</b>                |
| <b>Adjusting for Unusual Items:</b>   |                           |                       |                               |
| Decreased customer consumption - primarily due to warmer weather  | (4,511)                   | (3,344)               | (0.20)                        |
| Nonrecurring separation expenses associated with a former executive   | 1,548                     | 1,421                 | 0.09                          |
| 2018 retained tax savings for certain Florida natural gas operations*   | 1,321                     | 990                   | 0.06                          |
|   | <u>(1,642)</u>            | <u>(933)</u>          | <u>(0.05)</u>                 |
| <b>Increased (Decreased) Gross Margins:</b>   |                           |                       |                               |
| Eastern Shore and Peninsula Pipeline service expansions (including new service in Northwest Florida for related Florida natural gas distribution operations)* | 10,452                    | 7,747                 | 0.47                          |
| Margin contribution from Marlin Gas Services and Ohl*   | 5,036                     | 3,733                 | 0.23                          |
| Natural gas distribution growth (excluding service expansions)  | 3,446                     | 2,554                 | 0.16                          |
| Increased retail propane margins per gallon   | 1,689                     | 1,252                 | 0.08                          |
| TCJA impact from the 2019 retained tax savings for certain Florida natural gas operations*  | 1,117                     | 828                   | 0.05                          |
| Aspire Energy rate increases  | 858                       | 636                   | 0.04                          |
| Sandpiper's margin from natural gas conversions   | 837                       | 621                   | 0.04                          |
| Florida GRIP* <sup>(1)</sup>  | 391                       | 290                   | 0.02                          |
| Absence of Bomb Cyclone impact on wholesale propane margins   | (785)                     | (582)                 | (0.04)                        |
| Aspire Energy higher gas supply costs   | (429)                     | (318)                 | (0.02)                        |
|   | <u>22,612</u>             | <u>16,761</u>         | <u>1.03</u>                   |
| <b>(Increased) Decreased Other Operating Expenses (Excluding Cost of Sales):</b>  |                           |                       |                               |
| Depreciation, amortization and property tax costs due to new capital investments  | (4,711)                   | (3,492)               | (0.21)                        |
| Operating expenses for Marlin Gas Services and Ohl including costs to expand the future growth prospects for the businesses                                   | (3,367)                   | (2,496)               | (0.15)                        |
| Payroll, benefits and other employee-related expenses   | (2,471)                   | (1,832)               | (0.11)                        |
| Insurance - both insured and self-insured components  | (1,223)                   | (907)                 | (0.06)                        |
| Vehicle expenses due to additional fleet to support growth  | (331)                     | (246)                 | (0.01)                        |
| Facilities and maintenance costs due to consolidation of facilities and lower levels of tank refurbishments   | 1,425                     | 1,056                 | 0.06                          |
| Outside services and regulatory costs due to lower consulting costs, absence of Eastern Shore rate case and the timing of expenses                            | 865                       | 641                   | 0.04                          |
|   | <u>(9,813)</u>            | <u>(7,276)</u>        | <u>(0.44)</u>                 |
| Change in effective tax rate  | —                         | 556                   | 0.03                          |
| Interest Charges  | (4,819)                   | (3,572)               | (0.22)                        |
| Net other changes   | (1,042)                   | (677)                 | (0.06)                        |
|   | <u>(5,861)</u>            | <u>(3,693)</u>        | <u>(0.25)</u>                 |
| <b>Nine Months Ended September 30, 2019 Reported Results from Continuing Operations</b>   | <b>\$ 59,332</b>          | <b>\$ 43,977</b>      | <b>\$ 2.67</b>                |

\*See the Major Projects and Initiatives table later in this press release.

(1) In the third quarter of 2019, the Company recorded a reduction in depreciation expense totaling \$0.8 million retroactive to January 1, 2019, as a result of a Florida PSC approved depreciation study that lowered annual depreciation rates. The Company also recorded \$0.4 million in lower GRIP margin due to a concurrent reduction in surcharge collected from customers as a result of the reduced depreciation rates during the third quarter of 2019.

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**Recently Completed and Ongoing Major Projects and Initiatives**

The Company constantly pursues and develops additional projects and initiatives to serve existing and new customers, and to further grow its businesses and earnings, with the intention to increase shareholder value. The following represent the major projects/initiatives recently completed and currently underway. In the future, the Company will add new projects and initiatives to this table once negotiations are substantially final and the associated earnings can be estimated.

| Project/Initiative  | Gross Margin for the Period |          |                   |           |              |              |           |
|---|-----------------------------|----------|-------------------|-----------|--------------|--------------|-----------|
|   | Three Months Ended          |          | Nine Months Ended |           | Year Ended   | Estimate for |           |
|   | September 30,               |          | September 30,     |           | December 31, | Fiscal       |           |
| <i>in thousands</i>   | 2019                        | 2018     | 2019              | 2018      | 2018         | 2019         | 2020      |
| <b>Expansions:</b>  |                             |          |                   |           |              |              |           |
| 2017 Eastern Shore System Expansion - including interim services                  | \$ 3,671                    | \$ 2,409 | \$ 12,116         | \$ 5,527  | \$ 9,103     | \$ 16,209    | \$ 15,799 |
| Northwest Florida Expansion (including related natural gas distribution services) | 1,592                       | 1,589    | 4,881             | 2,741     | 4,350        | 6,500        | 6,500     |
| Western Palm Beach County, Florida Expansion                                      | 745                         | —        | 1,068             | —         | 54           | 2,254        | 5,047     |
| Del-Mar Energy Pathway - including interim services                               | 189                         | —        | 542               | —         | —            | 725          | 3,039     |
| Auburndale  | 113                         | —        | 113               | —         | —            | 283          | 679       |
| Callahan Intrastate Pipeline  | —                           | —        | —                 | —         | —            | —            | 3,219     |
| Total Expansions  | 6,310                       | 3,998    | 18,720            | 8,268     | 13,507       | 25,971       | 34,283    |
| <b>Acquisitions:</b>  |                             |          |                   |           |              |              |           |
| Marlin Gas Services   | 993                         | —        | 4,353             | —         | 110          | 5,500        | 6,400     |
| Ohl Propane Acquisition   | 95                          | —        | 683               | —         | —            | 1,200        | 1,236     |
| Total Acquisitions  | 1,088                       | —        | 5,036             | —         | 110          | 6,700        | 7,636     |
| <b>Regulatory Initiatives</b>   |                             |          |                   |           |              |              |           |
| Florida GRIP <sup>(1) (2)</sup>   | 3,145                       | 3,289    | 10,050            | 9,659     | 13,323       | 13,587       | 14,854    |
| Tax benefit retained by certain Florida entities <sup>(3)</sup>                   | 109                         | —        | 2,438             | —         | —            | 2,980        | 1,879     |
| Total Regulatory Initiatives  | 3,254                       | 3,289    | 12,488            | 9,659     | 13,323       | 16,567       | 16,733    |
| Total   | \$ 10,652                   | \$ 7,287 | \$ 36,244         | \$ 17,927 | \$ 26,940    | \$ 49,238    | \$ 58,652 |

(1) All periods shown have been adjusted to reflect the lower customer rates as a result of the TCJA. Lower customer rates are offset by the corresponding decrease in federal income tax expense and have no negative impact on net income.

(2) In the third quarter of 2019, the Company recorded a reduction in depreciation expense totaling \$0.8 million retroactive to January 1, 2019, as a result of a Florida PSC approved depreciation study that lowered annual depreciation rates. The Company also recorded \$0.4 million in lower GRIP margin due to a concurrent reduction in surcharge collected from customers as a result of the reduced depreciation rates during the third quarter of 2019.

(3) The amount disclosed for the nine months ended September 30, 2019 includes tax savings of \$1.3 million for the year ended December 31, 2018. The tax savings were recorded in the first quarter of 2019 due to an order by the Florida PSC allowing reversal of a TCJA refund reserve, recorded in 2018, which increased gross margin for the nine months ended by that amount.

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## **Detailed Discussion of Major Projects and Initiatives**

### **Expansions**

#### **2017 Eastern Shore System Expansion**

Eastern Shore has completed the construction of a system expansion project that increased its capacity by 26 percent. The project generated \$1.3 million and \$6.6 million in incremental gross margin during the three and nine months ended September 30, 2019, respectively, compared to the same periods in 2018. The project is expected to produce gross margin of approximately \$16.2 million in 2019; \$15.8 million annually from 2020 through 2022 and \$13.2 million annually thereafter based on current customer capacity commitments.

#### **Northwest Florida Expansion**

In May 2018, Peninsula Pipeline completed construction of transmission lines, and our Florida natural gas division completed construction of lateral distribution lines, to serve customers in Northwest Florida. The project generated incremental gross margin of \$2.1 million for the nine months ended September 30, 2019, compared to the same periods in 2018. The estimated annual gross margin from this project is \$6.5 million for 2019 and beyond, with the opportunity for additional margin as the remaining capacity is sold.

#### **Western Palm Beach County, Florida Expansion**

Peninsula Pipeline is constructing four transmission lines to bring additional natural gas to the Company's distribution system in West Palm Beach, Florida. The first phase of this project was placed into service in December 2018 and generated \$0.7 million and \$1.1 million in additional gross margin for the three and nine months ended September 30, 2019, respectively. The Company expects to complete the remainder of the project in phases through early 2020, and estimates that it will generate gross margin of \$2.3 million in 2019, \$5.0 million in 2020 and \$5.2 million annually thereafter.

#### **Del-Mar Energy Pathway**

In September 2018, Eastern Shore filed for FERC authorization to construct the Del-Mar Energy Pathway project to provide an additional 14,300 dekatherms per day of capacity to four customers. The project will provide additional natural gas transmission pipeline infrastructure in eastern Sussex County, Delaware, and it will represent the first extension of Eastern Shore's pipeline system into Somerset County, Maryland. Interim services in advance of this project generated \$0.2 million and \$0.5 million for the three and nine months ended September 30, 2019, respectively. The estimated annual gross margin from this project is approximately \$0.7 million in 2019, \$3.0 million in 2020, \$4.1 million in 2021 and \$5.1 million annually thereafter. Eastern Shore anticipates that this project will be fully in-service by the beginning of the fourth quarter of 2021, contingent upon FERC issuing authorization for the project in the fourth quarter of 2019.

#### **Auburndale**

In August 2019, the Florida PSC approved Peninsula Pipeline's Transportation Service Agreement with the Florida Division of Chesapeake Utilities. Peninsula Pipeline will purchase existing pipeline owned by the Florida Division of Chesapeake Utilities and Calpine and construct pipeline facilities in Polk County, Florida, increasing both delivery capacity and introducing a secondary source of natural gas for the Company's distribution system. Peninsula Pipeline generated gross margin of \$0.1 million in the three and nine months ended September 30, 2019 from this project. This project is expected to generate \$0.3 million in 2019 and \$0.7 million annually thereafter.

#### **Callahan Intrastate Pipeline**

In May 2018, Peninsula Pipeline announced a plan to construct a jointly owned intrastate transmission pipeline in Nassau County, Florida with Seacoast Gas Transmission. The 26-mile pipeline, having an initial capacity of 148,000 dekatherms per day, will serve growing demand in both Nassau and Duval counties, Florida. The project is expected to be placed in-service during the third quarter of 2020 and is expected to generate gross margin of \$3.2 million in 2020 and \$6.4 million annually thereafter.

#### **Guernsey Power Station**

In December 2017, Guernsey Power Station, LLC, ("Guernsey Power Station") and a Chesapeake Utilities affiliate, Aspire Energy Express, LLC, ("Aspire Energy Express") entered into a precedent firm transportation capacity agreement whereby Guernsey Power Station will construct a power generation facility and Aspire Energy Express will provide natural gas transportation service to this facility. Aspire Energy Express will construct gas transmission facilities connecting to a third party natural gas supplier to provide the firm transportation service to the power generation facility. The Aspire Energy Express facilities are expected to be placed in service during the first quarter of 2021. This project is expected to produce gross margin of approximately \$1.4 million annually once placed into service in 2021.

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## **Acquisitions**

### **Marlin Gas Services**

In December 2018, the Company acquired certain operating assets of Marlin Gas Transport, a supplier of mobile compressed natural gas distribution and pipeline solutions, and created Marlin Gas Services, a new subsidiary which offers compressed natural gas solutions to supply interruption scenarios and provides other unique applications where pipeline supplies are unavailable or inadequate to meet customer requirements. Marlin Gas Services generated \$1.0 million and \$4.4 million of gross margin for the three and nine months ended September 30, 2019, respectively. The Company estimates that Marlin Gas Services will generate gross margin of approximately \$5.5 million in 2019 and \$6.4 million in 2020, and we expect gross margin to continue to grow beyond 2020 as Marlin Gas Services continues to actively expand the territories it serves as well as leverages its patented technology to potentially serve liquefied natural gas transportation needs.

### **Ohl Propane Acquisition**

In December 2018, Sharp Energy, Inc.'s ("Sharp") acquired certain propane customers and operating assets of Ohl. Located between two of Sharp's existing districts, Ohl provided propane distribution service to approximately 2,500 residential and commercial customers in Pennsylvania. The customers and assets acquired from Ohl have been assimilated into Sharp. The operations acquired from Ohl generated \$0.1 million and \$0.7 million of incremental gross margin for the three and nine months ended September 30, 2019, respectively. The Company estimates that this acquisition will generate additional gross margin of approximately \$1.2 million for Sharp in 2019, with the potential for additional growth in future years.

## **Regulatory Initiatives**

### **Florida GRIP**

Florida GRIP is a natural gas pipe replacement program approved by the Florida PSC that allows automatic recovery, through rates, of costs associated with the replacement of mains and services. Since the program's inception in August 2012, the Company has invested \$139.8 million of capital expenditures to replace 299 miles of qualifying distribution mains, including \$12.5 million of new pipes during the first nine months of 2019. GRIP generated additional gross margin of \$0.4 million for the nine months ended September 30, 2019, compared to the same period in 2018.

In the third quarter of 2019, the Company recorded a reduction in depreciation expense totaling \$0.8 million retroactive to January 1, 2019, as a result of a Florida PSC approved depreciation study that lowered annual depreciation rates. The Company also recorded \$0.4 million in lower GRIP margin due to a concurrent reduction in surcharge collected from customers as a result of the reduced depreciation rates during the third quarter of 2019.

### **Florida Tax Savings Related to TCJA**

In February 2019, the Florida PSC issued orders authorizing certain of the Company's natural gas distribution operations to retain a portion of the tax savings associated with the lower federal tax rates resulting from the TCJA. In accordance with the PSC orders, the Company recognized \$1.3 million in margin during the first quarter of 2019, reflecting the reversal of reserves recorded during 2018. The Company expects the annual savings beginning in 2019 to continue in future years, and recognized additional margin of \$0.1 million and \$1.1 million during the three and nine months ended September 30, 2019, respectively.

### **Hurricane Michael**

In October 2018, Hurricane Michael passed through Florida Public Utilities Company's ("FPU") electric distribution service territory in Northwest Florida. The hurricane caused widespread and severe damage to FPU's infrastructure resulting in 100 percent of its customers in the Northwest Florida service territory losing electrical service. FPU, after exerting extraordinary hurricane restoration efforts, restored service to those customers who were able to accept it. FPU expended more than \$65.0 million to restore service, which has been recorded as new plant and equipment, charged against FPU's accumulated depreciation or charged against FPU's storm reserve. In conjunction with the hurricane-related expenditures, the Company executed two 13-month unsecured term loans as temporary financing, each in the amount of \$30 million. The interest cost associated with these loans is the one-month LIBOR rate plus 75 points. One of the term loans was executed in December 2018; the other was executed in January 2019.

In August 2019, FPU filed a limited proceeding requesting recovery of storm-related costs associated with Hurricane Michael (capital and expenses) through a change in base rates. FPU also requested treatment and recovery of certain storm-related costs as regulatory asset for items currently not allowed to be recovered through the storm reserve as well as the recovery of capital replaced as a result of the storm. Recovery of these costs includes a component of an overall

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return on capital additions and regulatory assets. In the fourth quarter of 2019, FPU along with the Office of Public Counsel in Florida, filed a joint motion with the Florida PSC to approve an interim rate increase, subject to refund, pending the final ruling on the recovery of the restoration costs incurred. The petition was approved by the Florida PSC on November 5, 2019 and interim rate increases will be effective January 2, 2020. While there is a short-term negative impact, the storm is not expected to have a significant impact on our financial results going forward, assuming permanent recovery is granted through the regulatory process.

**Other major factors influencing gross margin**

**Weather and Consumption**

Weather was not a factor during the third quarter of 2019, compared to the same period in 2018. For the nine months ended September 30, 2019, compared to the same period in 2018, weather conditions accounted for a \$4.5 million decrease in gross margin. Lower period-over-period heating degree days ("HDD") in all of the Company's service territories and extreme conditions due to the absence of the impact of the "Bomb Cyclone" in early 2018 reduced consumption in the first nine months of 2019 compared to the same period in 2018 and impacted both Regulated and Unregulated Energy segments. In terms of normal temperatures, the Company's results for the first nine months of 2019 were negatively impacted by \$2.6 million due to warmer temperatures.

The following table summarizes HDD and cooling degree day ("CDD") variances from the 10-year average HDD/CDD ("Normal") for the three and nine months ended September 30, 2019 and 2018.

|                                | Three Months Ended |       |          | Nine Months Ended |       |          |
|--------------------------------|--------------------|-------|----------|-------------------|-------|----------|
|                                | September 30,      |       |          | September 30,     |       |          |
|                                | 2019               | 2018  | Variance | 2019              | 2018  | Variance |
| <b>Delmarva</b>                |                    |       |          |                   |       |          |
| Actual HDD                     | 7                  | 10    | (3)      | 2,576             | 2,729 | (153)    |
| 10-Year Average HDD ("Normal") | 55                 | 61    | (6)      | 2,803             | 2,846 | (43)     |
| Variance from Normal           | (48)               | (51)  |          | (227)             | (117) |          |
| <b>Florida</b>                 |                    |       |          |                   |       |          |
| Actual HDD                     | —                  | —     | —        | 379               | 507   | (128)    |
| 10-Year Average HDD ("Normal") | —                  | —     | —        | 532               | 533   | (1)      |
| Variance from Normal           | —                  | —     |          | (153)             | (26)  |          |
| <b>Ohio</b>                    |                    |       |          |                   |       |          |
| Actual HDD                     | 2                  | 55    | (53)     | 3,533             | 3,707 | (174)    |
| 10-Year Average HDD ("Normal") | 90                 | 91    | (1)      | 3,742             | 3,774 | (32)     |
| Variance from Normal           | (88)               | (36)  |          | (209)             | (67)  |          |
| <b>Florida</b>                 |                    |       |          |                   |       |          |
| Actual CDD                     | 1,620              | 1,613 | 7        | 2,840             | 2,704 | 136      |
| 10-Year Average CDD ("Normal") | 1,553              | 1,535 | 18       | 2,625             | 2,593 | 32       |
| Variance from Normal           | 67                 | 78    |          | 215               | 111   |          |

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**Natural Gas Distribution Margin Growth**

New customer growth in the Company's natural gas distribution operations generated \$0.8 million and \$3.4 million of additional margin for the three and nine months ended September 30, 2019, respectively. The details for the three and nine months ended September 30, 2019 are provided in the following table:

| <i>(in thousands)</i>     | <b>Three Months Ended<br/>September 30, 2019</b> | <b>Nine Months Ended<br/>September 30, 2019</b> |
|---------------------------|--|---|
| Customer Growth:          |  |   |
| Residential               | \$ 358   | \$ 1,450  |
| Commercial and industrial | 433  | 1,996   |
| Total Customer Growth     | <u>\$ 791</u>                                    | <u>\$ 3,446</u>                                 |

The additional margin from new customers reflects an increase of approximately 3.8 percent in the average number of residential customers served on the Delmarva Peninsula for both the three and nine months ended September 30, 2019, and approximately 4.3 percent and 3.8 percent growth in new residential customers served in Florida. Additional gross margin was also generated by growth in commercial and industrial customers in Florida.

**Capital Investment Growth and Associated Financing Plans**

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The Company's capital expenditures were \$124.2 million for the nine months ended September 30, 2019. The following table shows a range of the expected 2019 capital expenditures by segment and by business line:

| <i>(dollars in thousands)</i>                   | 2019              |                   |
|---|-------------------|-------------------|
|   | Low               | High              |
| <b>Regulated Energy:</b>                        |                   |                   |
| Natural gas distribution                        | \$ 63,000         | \$ 65,000         |
| Natural gas transmission                        | 62,000            | 64,000            |
| Electric distribution                           | 4,000             | 6,000             |
| <b>Total Regulated Energy</b>                   | <b>129,000</b>    | <b>135,000</b>    |
| <b>Unregulated Energy:</b>                      |                   |                   |
| Propane distribution                            | 12,000            | 13,000            |
| Energy transmission                             | 11,000            | 12,000            |
| Other unregulated energy                        | 8,000             | 14,000            |
| <b>Total Unregulated Energy</b>                 | <b>31,000</b>     | <b>39,000</b>     |
| <b>Other:</b>                                   |                   |                   |
| Corporate and other businesses                  | 10,000            | 11,000            |
| <b>Total Other</b>                              | <b>10,000</b>     | <b>11,000</b>     |
| <b>Total 2019 Expected Capital Expenditures</b> | <b>\$ 170,000</b> | <b>\$ 185,000</b> |

Beginning in this press release, the Company is providing a range of capital expenditures for 2019 rather than a definitive number to reflect the impact in timing of the approval of several projects. The capital expenditure projection is subject to continuous review and modification. Actual capital requirements may vary from the above estimates due to a number of factors, including changing economic conditions, customer growth in existing areas, regulation, new growth or acquisition opportunities and availability of capital. Historically, actual capital expenditures have typically lagged behind the budgeted amounts.

The Company's target ratio of equity to total capitalization, including short-term borrowings, is between 50 and 60 percent. The Company's equity to total capitalization ratio, including short term borrowings, was 45 percent as of September 30, 2019. Excluding the funds expended for Hurricane Michael restoration activities, the Company's equity to total capitalization ratio, including short-term borrowings, would have been approximately 47 percent.

The Company seeks to align permanent financing with the in-service dates of its capital projects. The Company may utilize more temporary short-term debt, when the financing cost is attractive, as a bridge to the permanent long-term financing. In October 2019, the Company reached commercial terms with four financial institutions with respect to the anticipated issuance of \$70.0 million of 2.98% uncollateralized senior notes. The note issuance to these institutions is subject to the negotiation and execution of a note purchase agreement and satisfaction of customary conditions included therein. The Company expects to issue the notes in December 2019, with the notes having a maturity date of December 2034. If issued, the Company anticipates using the proceeds to refinance the term notes used as temporary financing for Hurricane Michael restoration activities.

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**Chesapeake Utilities Corporation and Subsidiaries**  
**Condensed Consolidated Statements of Income (Unaudited)**  
*(in thousands, except shares and per share data)*

|  | Three Months Ended<br>September 30, |                 | Nine Months Ended<br>September 30, |                  |
|--|-------------------------------------|-----------------|------------------------------------|------------------|
|  | 2019                                | 2018            | 2019                               | 2018             |
| <b>Operating Revenues</b>                                    |                                     |                 |                                    |                  |
| Regulated Energy   | \$ 74,580                           | \$ 72,770       | \$ 251,601                         | \$ 252,667       |
| Unregulated Energy and other                                 | 18,046                              | 20,630          | 96,029                             | 103,435          |
| <b>Total Operating Revenues</b>                              | <b>92,626</b>                       | <b>93,400</b>   | <b>347,630</b>                     | <b>356,102</b>   |
| <b>Operating Expenses</b>                                    |                                     |                 |                                    |                  |
| Regulated Energy cost of sales                               | 19,619                              | 21,501          | 74,452                             | 89,741           |
| Unregulated Energy and other cost of sales                   | 5,709                               | 9,512           | 36,975                             | 49,196           |
| Operations   | 32,623                              | 31,449          | 99,596                             | 97,723           |
| Maintenance  | 3,920                               | 3,208           | 11,199                             | 10,419           |
| Gain from a settlement                                       | —                                   | —               | (130)                              | (130)            |
| Depreciation and amortization                                | 11,219                              | 10,487          | 33,612                             | 29,739           |
| Other taxes  | 5,178                               | 4,364           | 15,282                             | 13,446           |
| <b>Total operating expenses</b>                              | <b>78,268</b>                       | <b>80,521</b>   | <b>270,986</b>                     | <b>290,134</b>   |
| <b>Operating Income</b>                                      | <b>14,358</b>                       | <b>12,879</b>   | <b>76,644</b>                      | <b>65,968</b>    |
| Other expense, net   | (350)                               | (4)             | (729)                              | (168)            |
| Interest charges   | 5,403                               | 4,357           | 16,583                             | 11,764           |
| <b>Income from Continuing Operations Before Income Taxes</b> | <b>8,605</b>                        | <b>8,518</b>    | <b>59,332</b>                      | <b>54,036</b>    |
| Income Taxes on Continuing Operations                        | 2,360                               | 2,428           | 15,355                             | 14,918           |
| Income from Continuing Operations                            | 6,245                               | 6,090           | 43,977                             | 39,118           |
| Loss from Discontinued Operations, Net of Tax                | (624)                               | (552)           | (1,388)                            | (339)            |
| <b>Net Income</b>  | <b>\$ 5,621</b>                     | <b>\$ 5,538</b> | <b>\$ 42,589</b>                   | <b>\$ 38,779</b> |
| <b>Weighted Average Common Shares Outstanding:</b>           |                                     |                 |                                    |                  |
| Basic  | 16,403,776                          | 16,378,545      | 16,396,646                         | 16,366,608       |
| Diluted  | 16,453,867                          | 16,428,439      | 16,444,231                         | 16,416,255       |
| <b>Basic Earnings Per Share of Common Stock:</b>             |                                     |                 |                                    |                  |
| Earnings from Continuing Operations                          | \$ 0.38                             | \$ 0.37         | \$ 2.68                            | \$ 2.39          |
| Earnings from Discontinued Operations                        | (0.04)                              | (0.03)          | (0.08)                             | (0.02)           |
| Basic Earnings Per Share of Common Stock                     | \$ 0.34                             | \$ 0.34         | \$ 2.60                            | \$ 2.37          |
| <b>Diluted Earnings Per Share of Common Stock:</b>           |                                     |                 |                                    |                  |
| Earnings from Continuing Operations                          | \$ 0.38                             | \$ 0.37         | \$ 2.67                            | \$ 2.38          |
| Earnings from Discontinued Operations                        | (0.04)                              | (0.03)          | (0.08)                             | (0.02)           |
| Diluted Earnings Per Share of Common Stock                   | \$ 0.34                             | \$ 0.34         | \$ 2.59                            | \$ 2.36          |

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**Chesapeake Utilities Corporation and Subsidiaries**  
**Condensed Consolidated Balance Sheets (Unaudited)**

| Assets   | September 30, 2019  | December 31, 2018   |
|--|---------------------|---------------------|
| <i>(in thousands, except shares and per share data)</i>  |                     |                     |
| <b>Property, Plant and Equipment</b>   |                     |                     |
| Regulated Energy   | \$ 1,407,371        | \$ 1,297,416        |
| Unregulated Energy   | 250,826             | 236,440             |
| Other businesses and eliminations  | 30,596              | 34,585              |
| Total property, plant and equipment  | 1,688,793           | 1,568,441           |
| Less: Accumulated depreciation and amortization  | (330,479)           | (294,089)           |
| Plus: Construction work in progress  | 102,640             | 108,584             |
| Net property, plant and equipment  | 1,460,954           | 1,382,936           |
| <b>Current Assets</b>  |                     |                     |
| Cash and cash equivalents  | 4,320               | 6,089               |
| Trade and other receivables (less allowance for uncollectible accounts of \$1,350 and \$1,058, respectively) | 34,504              | 53,837              |
| Accrued revenue  | 11,538              | 22,640              |
| Propane inventory, at average cost   | 4,370               | 9,791               |
| Other inventory, at average cost   | 6,037               | 7,127               |
| Regulatory assets  | 6,633               | 4,796               |
| Storage gas prepayments  | 2,158               | 3,433               |
| Income taxes receivable  | 11,100              | 15,300              |
| Prepaid expenses   | 10,571              | 10,079              |
| Derivative assets, at fair value   | —                   | 82                  |
| Other current assets   | 2,489               | 5,682               |
| Current assets held for sale   | 21,155              | 52,681              |
| Total current assets   | 114,875             | 191,537             |
| <b>Deferred Charges and Other Assets</b>   |                     |                     |
| Goodwill   | 21,516              | 21,568              |
| Other intangible assets, net   | 3,272               | 3,850               |
| Investments, at fair value   | 8,536               | 6,711               |
| Operating lease right-of-use assets <sup>(1)</sup>   | 12,004              | —                   |
| Regulatory assets  | 77,030              | 72,422              |
| Other assets   | 8,874               | 6,985               |
| Noncurrent assets held for sale  | 7,179               | 7,662               |
| Total deferred charges and other assets  | 138,411             | 119,198             |
| <b>Total Assets</b>  | <b>\$ 1,714,240</b> | <b>\$ 1,693,671</b> |

<sup>(1)</sup> During the first quarter of 2019, the Company adopted a new lease accounting standard, resulting in additional assets and liabilities (both current and non-current portions) which total \$12.0 million at September 30, 2019.

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**Chesapeake Utilities Corporation and Subsidiaries**  
**Condensed Consolidated Balance Sheets (Unaudited)**

| <b>Capitalization and Liabilities</b>   | <b>September 30, 2019</b> | <b>December 31, 2018</b> |
|---|---------------------------|--------------------------|
| <i>(in thousands, except shares and per share data)</i>   |                           |                          |
| <b>Capitalization</b>   |                           |                          |
| Stockholders' equity  |                           |                          |
| Preferred stock, par value \$0.01 per share (authorized 2,000,000 shares), no shares issued and outstanding | \$ —                      | \$ —                     |
| Common stock, par value \$0.4867 per share (authorized 50,000,000 shares)                                   | 7,984                     | 7,971                    |
| Additional paid-in capital  | 257,436                   | 255,651                  |
| Retained earnings   | 284,694                   | 261,530                  |
| Accumulated other comprehensive loss  | (5,403)                   | (6,713)                  |
| Deferred compensation obligation  | 4,505                     | 3,854                    |
| Treasury stock  | (4,505)                   | (3,854)                  |
| Total stockholders' equity  | 544,711                   | 518,439                  |
| Long-term debt, net of current maturities   | 375,810                   | 316,020                  |
| Total capitalization  | 920,521                   | 834,459                  |
| <b>Current Liabilities</b>  |                           |                          |
| Current portion of long-term debt   | 75,600                    | 11,935                   |
| Short-term borrowing  | 224,744                   | 294,458                  |
| Accounts payable  | 53,150                    | 98,681                   |
| Customer deposits and refunds   | 29,629                    | 32,620                   |
| Accrued interest  | 4,891                     | 2,317                    |
| Dividends payable   | 6,644                     | 6,060                    |
| Accrued compensation  | 10,362                    | 13,923                   |
| Regulatory liabilities  | 5,691                     | 7,883                    |
| Derivative liabilities, at fair value   | 2,216                     | 1,604                    |
| Other accrued liabilities <sup>(1)</sup>  | 15,210                    | 10,081                   |
| Current liabilities held for sale   | 18,110                    | 48,672                   |
| Total current liabilities   | 446,247                   | 528,234                  |
| <b>Deferred Credits and Other Liabilities</b>   |                           |                          |
| Deferred income taxes   | 165,492                   | 156,820                  |
| Regulatory liabilities  | 133,966                   | 135,039                  |
| Environmental liabilities   | 6,713                     | 7,638                    |
| Other pension and benefit costs   | 27,890                    | 28,513                   |
| Operating lease - liabilities <sup>(1)</sup>  | 10,392                    | —                        |
| Deferred investment tax credits and other liabilities   | 3,019                     | 2,968                    |
| Total deferred credits and other liabilities  | 347,472                   | 330,978                  |
| <b>Total Capitalization and Liabilities</b>   | <b>\$ 1,714,240</b>       | <b>\$ 1,693,671</b>      |

<sup>(1)</sup> During the first quarter of 2019, the Company adopted a new lease accounting standard, resulting in additional assets and liabilities (both current and non-current portions) which total \$12.0 million at September 30, 2019.

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Chesapeake Utilities Corporation and Subsidiaries  
Distribution Utility Statistical Data (Unaudited)

|  | For the Three Months Ended September 30, 2019 |   |                     |                              | For the Three Months Ended September 30, 2018 |   |                     |                              |
|--|---|---|---------------------|------------------------------|---|---|---------------------|------------------------------|
|  | Delmarva NG<br>Distribution                   | Chesapeake Utilities<br>Florida NG Division | FPU NG Distribution | FPU Electric<br>Distribution | Delmarva NG<br>Distribution                   | Chesapeake Utilities<br>Florida NG Division | FPU NG Distribution | FPU Electric<br>Distribution |
| <b>Operating Revenues</b><br><i>(in thousands)</i>           |   |   |                     |                              |   |   |                     |                              |
| Residential  | \$ 7,314                                      | \$ 1,349                                    | \$ 5,671            | \$ 14,460                    | \$ 5,497                                      | \$ 1,290                                    | \$ 5,601            | \$ 13,991                    |
| Commercial   | 3,812   | 1,471                                       | 5,588               | 11,216                       | 4,961   | 1,424                                       | 5,354               | 11,245                       |
| Industrial   | 1,678   | 3,063                                       | 5,707               | 591                          | 1,722   | 3,068                                       | 4,723               | 361                          |
| Other (1)  | 456   | 827   | 942                 | (2,093)                      | 854   | 500   | 1,712               | (1,767)                      |
| <b>Total Operating Revenues</b>                              | <b>\$ 13,260</b>                              | <b>\$ 6,710</b>                             | <b>\$ 17,908</b>    | <b>\$ 24,174</b>             | <b>\$ 13,034</b>                              | <b>\$ 6,282</b>                             | <b>\$ 17,390</b>    | <b>\$ 23,830</b>             |
| <b>Volume (in Dts for natural gas and KWHs for electric)</b> |   |   |                     |                              |   |   |                     |                              |
| Residential  | 183,998                                       | 52,805                                      | 214,521             | 97,537                       | 180,396                                       | 53,051                                      | 214,213             | 96,218                       |
| Commercial   | 483,382                                       | 1,045,666                                   | 344,727             | 92,571                       | 427,173                                       | 1,158,545                                   | 337,091             | 92,416                       |
| Industrial   | 1,233,019                                     | 7,019,573                                   | 1,114,359           | 7,460                        | 1,213,527                                     | 6,511,997                                   | 1,130,299           | 3,180                        |
| Other  | 59,635  | —   | 583,267             | —                            | 26,648  | —   | 434,976             | 1,913                        |
| <b>Total</b>   | <b>1,960,034</b>                              | <b>8,118,044</b>                            | <b>2,256,874</b>    | <b>197,568</b>               | <b>1,847,744</b>                              | <b>7,723,593</b>                            | <b>2,116,579</b>    | <b>193,727</b>               |
| <b>Average Customers</b>                                     |   |   |                     |                              |   |   |                     |                              |
| Residential  | 73,454  | 17,342                                      | 57,999              | 24,624                       | 70,795  | 16,484                                      | 55,763              | 24,811                       |
| Commercial(2)  | 7,040   | 1,555                                       | 3,934               | 7,240                        | 6,907   | 1,509                                       | 3,912               | 7,507                        |
| Industrial(2)  | 168   | 17  | 2,440               | 2                            | 161   | 17  | 2,329               | 2                            |
| Other  | 18  | —   | 12                  | —                            | 5   | —   | 12                  | —                            |
| <b>Total</b>   | <b>80,680</b>                                 | <b>18,914</b>                               | <b>64,385</b>       | <b>31,866</b>                | <b>77,868</b>                                 | <b>18,010</b>                               | <b>62,016</b>       | <b>32,320</b>                |

|  | For the Nine Months Ended September 30, 2019 |   |                     |                              | For the Nine Months Ended September 30, 2018 |   |                     |                              |
|--|--|---|---------------------|------------------------------|--|---|---------------------|------------------------------|
|  | Delmarva NG<br>Distribution                  | Chesapeake Utilities<br>Florida NG Division | FPU NG Distribution | FPU Electric<br>Distribution | Delmarva NG<br>Distribution                  | Chesapeake Utilities<br>Florida NG Division | FPU NG Distribution | FPU Electric<br>Distribution |
| <b>Operating Revenues</b><br><i>(in thousands)</i>           |  |   |                     |                              |  |   |                     |                              |
| Residential  | \$ 47,729                                    | \$ 4,645                                    | \$ 23,848           | \$ 35,121                    | \$ 54,819                                    | \$ 4,510                                    | \$ 24,488           | \$ 35,338                    |
| Commercial   | 23,307                                       | 4,796                                       | 19,924              | 28,838                       | 28,655                                       | 4,669                                       | 20,489              | 28,879                       |
| Industrial   | 5,839  | 9,450                                       | 17,767              | 1,617                        | 6,015  | 7,794                                       | 16,314              | 1,131                        |
| Other (1)  | (4,013)                                      | 2,734                                       | (1,182)             | (6,560)                      | (4,498)                                      | 1,489                                       | (2,406)             | (4,415)                      |
| <b>Total Operating Revenues</b>                              | <b>\$ 72,862</b>                             | <b>\$ 21,625</b>                            | <b>\$ 60,357</b>    | <b>\$ 59,016</b>             | <b>\$ 84,991</b>                             | <b>\$ 18,462</b>                            | <b>\$ 58,885</b>    | <b>\$ 60,933</b>             |
| <b>Volume (in Dts for natural gas and KWHs for electric)</b> |  |   |                     |                              |  |   |                     |                              |
| Residential  | 2,962,532                                    | 268,993                                     | 1,036,872           | 235,406                      | 3,180,160                                    | 278,976                                     | 1,066,559           | 241,428                      |
| Commercial   | 2,810,391                                    | 3,348,307                                   | 1,275,328           | 233,940                      | 2,844,296                                    | 3,526,943                                   | 1,304,827           | 233,223                      |
| Industrial   | 3,960,447                                    | 21,419,122                                  | 3,688,370           | 18,383                       | 4,030,716                                    | 13,278,643                                  | 3,680,779           | 11,810                       |
| Other  | 138,009                                      | —   | 1,771,243           | —                            | 56,941                                       | —   | 1,419,623           | 5,716                        |
| <b>Total</b>   | <b>9,871,379</b>                             | <b>25,036,422</b>                           | <b>7,771,813</b>    | <b>487,729</b>               | <b>10,112,113</b>                            | <b>17,084,562</b>                           | <b>7,471,788</b>    | <b>492,177</b>               |
| <b>Average Customers</b>                                     |  |   |                     |                              |  |   |                     |                              |
| Residential  | 73,698                                       | 17,178                                      | 57,444              | 24,511                       | 71,022                                       | 16,366                                      | 55,541              | 24,723                       |
| Commercial(2)  | 7,090  | 1,543                                       | 3,923               | 7,233                        | 6,975  | 1,509                                       | 3,923               | 7,494                        |
| Industrial(2)  | 168  | 17  | 2,430               | 2                            | 155  | 16  | 2,289               | 2                            |
| Other  | 14   | —   | 12                  | —                            | 5  | —   | 11                  | —                            |
| <b>Total</b>   | <b>80,970</b>                                | <b>18,738</b>                               | <b>63,809</b>       | <b>31,746</b>                | <b>78,157</b>                                | <b>17,891</b>                               | <b>61,764</b>       | <b>32,219</b>                |

(1) Operating Revenues from "Other" sources include unbilled revenue, under (over) recoveries of fuel cost, conservation revenue, other miscellaneous charges, fees for billing services provided to third parties, and adjustments or changes in taxes, such as the TCJA, which are passed through to customers. This amount also includes the reserve for estimated customer refunds associated with the TCJA.

(2) Certain volumes and customers have been reclassified when compared to the prior year for consistency with current year presentation.