2019 Third Quarter Earnings Call

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

Other Participants
- Tate Sullivan
- Brian Russo
- D. Roger B. Liddell

Presentation

Operator
Ladies and gentlemen, thank you for joining us, and welcome to the Chesapeake Utilities Corporation Third Quarter Earnings Conference Call. As a reminder, all participant lines are in a listen-only mode. After the speakers' presentation, there will be a question and answer session. Please be advised that today's conference is being recorded. (Operator Instructions) I would now like to turn the conference over to your speaker today, Ms. Beth Cooper. Thank you. Please go ahead, Ma'am.

Beth W. Cooper, Executive Vice President, Chief Financial Officer & Assistant Corporate Secretary
Good morning, and welcome to the Chesapeake Utilities' third quarter 2019 earnings conference call. Before we begin today, the Chesapeake team would like to recognize all active, retired and reserve members of our armed forces in the room and on the phone today. On behalf of the entire Chesapeake organization, thanks for everything you've done to serve our country proudly each and every day. There is no value we can place on the sacrifices you have made.

Now turning back to our call, we appreciate all of you taking time to listen in today. Joining me on the phone are Jeffry Householder, President and CEO; and Jim Moriarty, Executive Vice President, General Counsel and Chief Risk and Compliance Officer. We have other members of the management team in the room with us today. The call is taking place that are Energy Lane Complex in Dover, Delaware. Our presentation today will focus on our quarterly and year-to-date result through September 30, 2019. Much of our focus will be on the year-to-date performance as the weather in the third quarter generally results in earnings which are the smallest of the four quarters in the year.

As previously announced, in the third quarter we initiated a process to exit the natural gas marketing business through a series of transactions to sell the assets and contracts of PESCO, our natural gas marketing subsidiary. To date, we have closed on four transactions. As a result, we have begun to report PESCO as discontinued operations separate from our continuing operations. I would refer you to our press release and Form 10-Q for additional details on these transactions. Lastly, in addition to our performance, we will also highlight many of the opportunities we see before us.

Turning to Slide 2. Our normal disclaimers are listed related to forward-looking statements concerning the Company's future performance. Again, we refer you to our third quarter Form 10-Q and 2018 Annual Report on Form 10-K, for a list of factors that could result in our actual performance differing from the forward-looking information included in the presentation. Today's discussion will also include certain non-GAAP measures, such as gross margin and adjusted EPS, as well as highlight our performance in terms of both continuing operations and discontinued operations, in addition to the overall consolidated results. I will now turn the call over to the Jeff.

Jeffry M. Householder, President & Chief Executive Officer
Thanks, Beth, and thanks for joining our third quarter call. As Beth indicated, the third quarter is always a somewhat less robust revenue quarter in the natural gas and propane business. It is, however, a great time to prepare for winter, to complete a variety of system maintenance intervals, to accelerate a number of construction projects, and take advantage of the typically mild weather this time of the year.

We've been doing all of that. Making significant progress on several important pipeline projects, we've completed a number of pipeline replacement projects down in Florida, we've installed a number of services and meters to new customers, and we've been expanding our Marlin Gas Services business. All of that in addition to handling the sale of our gas marketing business.

We're also finally beginning to see some cold weather show up on Delmarva I'm happy reported it's cold here today, and hopefully, it will be cold for next week, as well as further into the winter. So we're well ahead of year-to-date 2018 earnings, reflects drive performance in 2019 and we fully expect to continue that through year-end.

We'll turn to Slide 3. I want to quickly highlight just a few points related to our operations initiatives, our financial results and the execution of our strategic plan. On the operational side of the business, we have a continuous improvement activity underway in our safety and operational compliance areas. We have a real commitment to that. We want to be the best-in-class in our operating areas, and we're investing significantly in safety and operational compliance. We've seen our gas distribution customer growth well above the national average both on Delmarva and in Florida. We expect that to continue for quite some time. Our customer demand is up, our pipeline replacement activities are significant and they continue to drive investments in our existing gas distribution and transmission operations. We see several more years of pipeline replacement activity, especially in our Florida operations.

We've been working very diligently over the last several months to identify what we've been calling cross business unit collaboration activities and opportunities. We've identified a number of operational synergies leading to some additional efficiencies and that has lowered our overall operating expense in 2019, and we expect that to continue going forward.

On the financial side of the business, significant gross margin growth both in this quarter and year-to-date, about a $4 million increase for the quarter, and about a $19 million year-to-date so far. Some of that is the TCJA tax benefit that we have seen hitting our bottom line on our non-regulated businesses and in our Florida regulated natural gas business. Margins are driving very significant operating income and EPS growth for the first nine months, our GAAP EPS $2.59, represents about a 9.7% growth over 2018. We increased our dividend by 9.5% in May, and we have five-year dividend growth CAGR of about 8.4%. So we are seeing continued strong performance relative to our peer group. That strong performance, among other things, has allowed us to access some very competitively-priced capital which will certainly benefit us this year and well into the future.

On the strategic side, we continue to execute on our fundamental strategy. We have found and executed on significant investment opportunities over the past decade and we're continuing to see those. I have a list here of new projects that PPC Callahan Pipeline in Florida, the Auburndale Pipeline in Florida, and several expansions in Palm Beach County that we'll talk about in some detail in a few moments. We're waiting for FERC to approve the Eastern Shore Del-Mar Energy Pathway project, which we hope to have in service over the next year or so.

And then we have good news on the pipeline opportunities out in our Ohio, distribution areas. The Marlin and Ohl Propane acquisitions are continuing to contribute significantly. And we have also very good news on the Hurricane Michael rate recovery or cost recovery. The Public Service Commission approved a settlement agreement that we executed with the Office of Public Counsel to essentially set the structure of the recovery, not the dollar amount but the structure of the recovery, that will allow us to begin charging interim rates and seeing revenues flow back into that electric system to pay for the Hurricane Michael costs. We will over the course, I believe over the next probably five or six-months, we'll settle on the final dollar amount for Hurricane recovery. But it's great news that we have the structure in place and the those interim rates will begin in January.

We've also undertaken a recent FERC filing to establish a pipeline fuel quality standards for our Eastern Shore system. It's our intent to bring a -- hopefully, a significant amount of renewable natural gas into that system over the next several years. There are several projects on Delmarva, including one very substantial one to try to cleanup some of the chicken waste that is both polluting the bay, but also offers an opportunity for significant methane injection into our pipeline. So we hope to pursue that, and see that those R&G molecules begin to come into our pipeline here over the next couple of years.

A number of new projects are very close to finalization, some of them are not particularly secret, we've been talking about our interested in a CHP project on Amelia Island. The second CHP project, we hope that we are close to getting that project to the point where we can contract it and move forward with it. And obviously, as Beth indicated, we've recently exited the natural gas marketing business.

Turning to Slide 4, let me just make a couple of comments about that. As part of our ongoing strategic planning process, we took a hard look at our Peninsula Energy Services business. There were three fundamental issues that ultimately drove our decision in making the exit of that business. First and foremost, I didn't think that the business was aligned for our long-term growth strategy. It just wasn't making the kind of contribution that I thought, we needed for the effort that we were putting into running that business.

It also exceeded our risk tolerance. It was significantly volatile, and frankly, would have required some very significant additional investments to ensure that the business continued to be profitable both in terms of human resources and system resources. So we decided to exit the business. We identified a number of parties with interest in the business and we have substantially concluded the sale.
Exiting this business improves our earnings outlook - period. In reduces the volatility of future earnings, and we are happy to report that the sales price that we have received for the assets of this business on the contracts, fully recovers our PESCO investment. We ended-up selling the business to actually four separate entities, and you'll see that under the sale of assets Section on Page 4.

By year-end, we believe we'll receive a total of approximately $15 million. We estimate a pre-tax gain ranging somewhere between $5 million to $7 million depending on how the contract assignments go, and the dollar amounts that we ultimately achieve for those for those sales contracts and we're now accounting, as Beth indicated, PESCO as a discontinued operation. Let me turn this back over to Beth, and she will, as always, provide some detail and color on our results.

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

Thanks, Jeff. As Jeff mentioned, we are very pleased with the speed with which we executed the sale of PESCO, and the gain that we will ultimately recognize in the fourth quarter. As you can see on Slide 5, for the quarter and year-to-date, our gross margin growth has driven strong operating income growth. While our other operating expenses grew, the pace of their growth slowed to 5.6% for the quarter, and more importantly, to 2.5% on a year-to-date basis. Gross margin grew 7.9% and 8.8% for the third quarter and year-to-date driving operating income growth of 11.5% and 16.2% for the same period, respectively. Higher interest costs associated with increased short-term borrowings and increased short-term interest costs, and the cost of long-term debt were offset by the gross margin growth in both periods.

EPS from continuing operations for the third quarter grew by a $0.01 per share or 2.7%, GAAP consolidated EPS was flat for the quarter. On a year-to-date basis, EPS from continuing operations grew by $0.29 per share or 12.2%, GAAP consolidated EPS increased by $0.23 for the same period or 9.7%, as mentioned earlier. We use the Slide -- on Slide 6, to highlight the growth projects and other strategic initiatives that are underway or recently completed, as well as their margin contributions. Beginning with this quarter, we've actually color-coded and sorted these projects and initiatives by expansions, acquisitions, and regulatory initiatives.

For 2019, we expect margin growth of $22.3 million, which includes $18.3 million generated during the nine month period. The $22.3 million estimate increased $1.3 million, since our previous disclosures in the second quarter. The three largest contributors to the year-to-date $18.3 million increase, includes $10.5 million from pipeline expansion, $5 million from the Marlin and Ohl acquisitions, with Marlin generating $4.4 million of the $5 million increase, and $2.4 million from regulatory initiatives largely from the TCJA impact, that our Florida natural gas distribution operations were able to retain.

For 2020, we anticipate $9.4 million in incremental gross margin as projects are completed or partially put in service next year. We expect to add new projects and initiatives to this table including the limited electric proceeding that we have filed, which will add to the margin growth trajectory in 2020 and beyond. As you can see, the table does not include new projects under development. Once projects have been approved we include them in our forecast of margin for 2020 and beyond, depending on the actual in-service date. The most recent addition to this table is the Auburndale natural gas expansion, which is now in service and we added 113,000 of incremental margin for the quarter and year-to-date, and which will generate annual margin next year of approximately $700,000.

In our press release, we also introduced a new pipeline expansion project in Ohio, known as the Guernsey Project. Jeff will discuss this project further in the presentation again. We will add this project to the major projects and initiatives table in the fourth quarter press release when we introduced the 2021 margin impact. We currently operate in two primary regions where there are opportunities to bring natural gas to growing areas and communities. We continue to generate above average customer growth as shown on Slide 7. Approximating just under 4% in both Delmarva and Florida. This organic growth, coupled with our focus on converting and modernizing our Sandpiper and Florida distribution systems, has resulted in increased margin of $4.7 million on a year-to-date basis, representing 25% of Chesapeake's consolidated year-to-date margin growth.

Moving to Slide 8. On a year-to-date basis, the Unregulated Energy segment has several key margin drivers and these are the margins growth drivers and not all of the impacts in the segments, but those drivers added $7 million of incremental gross margin. These drivers were led by Marlin, our Propane operations, and Aspire. With Marlin's gross margin contribution alone representing 4.4 million, or 23% of Chesapeake year-to-date gross margin growth. I'm now going to turn the call back over to Jeff to touch a little bit more on our recent regulatory initiatives.

Jeffry M. Householder, President & Chief Executive Officer

Thanks, Beth. As you all know, our regulatory initiatives are a significant component in our overall strategic plan. We've been quite successful over the years and I'm happy to report several additional successes.

In addition to the non-regulated tax benefit that we talked about a second ago, the Public Service Commission approved retention of a portion of our TCJA tax savings for the Company's Florida regulated natural gas operations. We ended up with a pickup of $1.3 million on reversal of 2018 tax reserves and $2.4 million, as an incremental annual benefit beginning in 2019. So far, we've seen about $1.1 million in the first nine months of 2019.

One of the reasons, we were successful I believe is probably we are one of the only, if not the only, regulated natural gas utility in the country to actually retain a portion of these tax benefits as we focused our attention on using some of these dollars – a significant amount of these dollars -- on our safety and operational compliance activities.

We've not only recovered costs that are critical to the operations of our system, but we've seen a nice pop in the equity returns in both the Florida Public Utilities and Central Florida Gas systems in Florida. We also received a storm recovery surcharge of about $2.3 million to be recovered as it indicates here from April 2019 to March 2021. That is not for Hurricane Michael, the big one down there in our electric system, these were for Hurricanes Irma and Matthew, that came through our natural gas distribution system on Amelia Island a few years back. We have not yet filed for recovery of the $1 million or so, that we spent on preparing for Hurricane Dorian, the other thing when it came through. There are a couple of recent filings with the PSC that are worth mentioning. One of them is the Hurricane Michael recovery that I mentioned in passing a moment ago. We have, as I indicated, the structure of our recovery and the interim rates already approved, and we believe that we will get final approval on the final recovery amount here, over the next few months. And also, I indicated that we have filed Eastern Shore or Eastern Shore has a filing to accommodate renewable natural gas, which we believe ultimately is a pretty important element of our total gas supply going forward. Beth?

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

Sure. Thanks, Jeff. So, turning to Slide 11. As we mentioned earlier, we recorded GAAP earnings per share from continuing ops of $2.67 per share for the nine months ended September 30th, 2019. We recorded, in conjunction with that, it was a result of our gross margin growth which has been identified on Slide 11, and that added $1.03 per share in terms of earnings.

On the cost side, we saw expected increases and expenses to support our growth of $0.44 per share, at a much slower pace as discussed previously. Interest expense related to growth and fully funding Hurricane Michael restoration costs increased $0.22 per share. Finally, our results on a year-to-date basis have been strong, despite warmer than normal temperatures year-to-date in 2019, compared to last year. As a result, our earnings potential was negatively impacted by $0.20 per share, due to lower consumption. Earnings per share growth averaged 7.9% and 9.6% for the past five and ten years ended December 31st, respectively, based upon adjusted EPS. This is actually shown on Slide 12.

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2019 results are strong on a year-to-date basis and the outlook, as Jeff commented earlier, remains very positive for the year as a whole, whether viewed on a consolidated basis with PESCO's gain included or on a continuing operations basis. Beyond 2019, our outlook for earnings growth remains consistent with the previous guidance through 2022. As we continue to move to the end of the year and into 2020, we will update this guidance further as new projects are finalized. Our team's relentless focus on finding new expansion projects and developing organic growth in our territories, combined with regulatory ingenuity and cost efficiencies, will continue to drive increased earnings.

Slide 13, shows our performance quadrant, which is a slide that we consistently show in our presentations. Similar to prior periods, Chesapeake stands out amongst the wide range of gas and combined gas and electric peer companies. With CapEx to total capitalization at 25.1%, and ROE at 11.6%, for the three years ended June 30th, 2019. Given the capital investments we have made and the returns we have achieved on those investments, this performance continues to sustain us in the top right hand quadrant of high investment, high-return. We also show that Chesapeake's performance is not only above the peer median performance, but the 75th percentile in each of the key financial metrics we monitor for the most recent three-year period, compared to our traditional gas company peers. Then we put that in a box on the right - you'll see again our CapEx and ROE that I just mentioned, our EPS growth over the three-years of 10.1%, dividend growth of 9.9% and total shareholder return approximating 15%.

Slide 14, reflects our updated CapEx forecast for 2019, which is approximately $170 million to $185 million, including approximately 75% for projects in our Regulated Energy segment and associated with natural gas distribution, transmission and electric distribution projects. As we are approaching year-end, the actual amount of capital expenditures will largely depend upon the timing of approval or several of our projects, as well as finalization of several new projects that we are aggressively pursuing.

Turning to Slide 15. At the end of 2017, we established a five-year capital forecast that supported our earnings per share guidance of 7 ¾ % to 9.5%. We estimated that we would expend between $750 million to $1 billion in capital expenditures from 2018 to 2022. This five-year capital expenditure guidance aligns with our historical investment levels. Given our 2018 actual spending and current forecasted range for

2019, we're on track to meet this range of capital expenditures given the opportunities we see before us. Notwithstanding this, we recently updated our five-year plan for strategic growth initiatives, capital spending and earnings targets. Our disciplined approach to strategic investments has led to above average earnings per share growth and return on equity over the past five years.

We expect to continue that trend going forward, and we'll be providing updated earnings and capital guidance that could exceed the current five-year guidance no later than our annual 2019 earnings release. Our strategic planning process involves our businesses, working collaboratively to identify future growth opportunities across the Company, the Strategic plan serves as a roadmap for the future. Growth is a priority, make no mistake about that. But with equal attention paid to safety, the communities we serve, environmental stewardship, employee engagement and cost efficiency.

Slide 16, shows our capital structure for the last five fiscal years and as of September 30th. As you can see, our equity to total capitalization represented approximately 45% excluding Hurricane Michael, which was not in our initial capital financing plans. Equity to total capitalization represented 47% at the end of September. We continue to monitor our capital structure and financing plans for debt and equity, in conjunction with the timing of our capital spending and in-service date for growth projects.

We expect to continue to migrate back closer to our target structure over time, considering market conditions, plan project, regulatory initiatives and other key considerations. One recent step we undertook in regards to this migration and part of our financing plan, relates to the $60 million of intermediate term debt associated with Hurricane Michael, which is due in early 2020. Recently, we reached commercial terms with several financial institutions associated with the issuance of $70 million of 2.98%, uncollateralized senior notes in December of this year. These notes are expected to mature in December 2034, and represent our lowest price senior notes in history, and also demonstrate the overall financial strength of the Company. These notes refinance not only the $60 million of intermediate term debt, but also $10 million of short-term borrowing.

Now, I'm going to turn the call back over to Jeff, to discuss several of our larger capital projects.

Jeffry M. Householder, President & Chief Executive Officer

Thanks. As Beth indicated, we've been quite successful in identifying and executing on capital projects and putting capital dollars to work. We continue to see that going forward. The list that you see on Page 17 or on Slide 17, is just a snapshot of some of our transmission projects both on Eastern Shore and in our Florida operating areas. You've heard us speak for the last couple of years about the 2017 Eastern Shore expansion. That project is fully in service. We're seeing significant margins result and Northwest Florida expansion that went into a service to the middle of 2018.

This year, we're seeing fully annualized margins on that project, and are actually looking to continue to expand our opportunities over in the Panhandle of Florida to serve additional customers of that type. In Western Palm Beach County, again a number of projects that are providing services into the Western part of the county. Callahan Pipeline and Nassau County under construction. The Del-Mar Energy Pathway us waiting on the FERC, as is -- as are so many other pipelines in the country with we believe that we have some hope, that we will get the authorization to begin construction on that pipeline fairly soon and put it into service by Q4 2021. A couple of other projects, Auburndale in Florida and the Guernsey Power Station, we believe we'll be able to see that project in construction and completed in 2021, so a good list of projects that we have underway.

If you turn the page to Slide 18, just a snapshot or two of the Del-Mar Energy Pathway Project that I just mentioned. We got an estimated project cost of about $37 million and looking for an in-service date beginning in the fourth quarter of 2021, contingent on getting the FERC authorization. Ultimately, looking at a little bit more than $5 million a year in margin provides some real opportunities for us to expand service not only in Eastern Sussex County in Delaware, but down in the Somerset County in Maryland. There are a variety of large anchor customers there and we'll continue to grow our distribution systems off of this transmission system.

On Slide 19, in Palm Beach, we have four Peninsula Pipeline Transmission projects in the Western Palm Beach area, all of them to serve FPU’s distribution and the significant amount of home building and commercial construction that's underway in this part of the County. These four projects total about $30 million in total capital and an additional, which are not shown here, an additional probably $10 to $15 million in Florida Public Utilities capital over the next several years as we begin to serve the customers that will come onto these systems. Annual margin when all of this is in-service at -- about $5.2 million, and we have -- I should say, we have all of these segments in-service right now, either connected to upstream pipelines on a permanent basis or we’re feeding them by Marlin CNG trailers. So we've been able to accelerate the in-service date by number of months and achieve fairly significant margin increases as a result of that.

On Slide 20, the Callahan Pipeline, which is a joint Peninsula Pipeline project with the Amira affiliate Seacoast Pipeline is about a $65 million project. So, we've split the ownership 50/50 so, PPC’s ownership is about $32.5 million. This is a 26 mile pipeline, 16 inch PPC is building the pipeline and will operate the pipeline once it's in-service next year. We have about 15 miles in the ground as I said, we've been fairly busy accelerating our construction activity -- in the third quarter. So, we're well underway on this pipeline. We're actually a month or two ahead of schedule and I always hesitate to say that, because you never know what happens, especially with the weather, but this pipeline is being constructed well in advance of our schedule, and we believe that we can hold to that barrowing in Hurricanes or anything else that might go through there.

The Guernsey Power Station that we indicate on Slide 21, is a project out in Ohio. The Guernsey Power folks have obtained financing in Q3 of 2019. We are working on the engineering design and the construction of interconnect facilities between the Tallgrass, Rex Pipeline and our facilities in Ohio. And we hoped again to have this pipeline in-service by late 2021.

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

Now -- thank you, Jeff. Now, we'd like to turn the call over to Jim, to just touch a little bit on what we're doing in the area of sustainability and ESG. Jim?

James F. Moriarty, Executive Vice President, General Counsel, Corporate Secretary and Chief Policy and Risk Officer

Thank you, Beth and Jeff, and good morning, to all on the phone. Our ESG journey continues as we celebrate our 160th anniversary as an energy solution provider. We are very proud of the contributions that our team has made over that time, to provide safe and reliable energy services and solutions to our employees, customers and the communities we serve. It is these contributions that have continued to progress ESG, and that are now embedded in our culture and our DNA. A comprehensive effort continues where talented and our diverse team of employees, are highlighting ESG at Chesapeake Utilities.

We look forward to our many efforts across the organization, such as our pipeline replacement, CNG, RNG and CHP, which contribute to methane emission reductions. Sustainable practices that make sense for our stakeholders is not only prudent, but it is also the right thing for us to do. In addition, our Safety Achievement Awards continue our culture of safety and accountability. We take seriously our responsibility to ensure safety is at the center of what we do and that we do all we can to protect the well-being of each other, and our communities. We would like to thank the Company's employees and our veterans for their dedication, entrepreneurship, volunteerism and passion that they bring to work every day. And not surprisingly, the reason why we were recognized for the 8th year in a row as a Top workplace.

We thank also our Board of Directors for their leadership, and our Corporate Governance Committee, who has oversight of our ESG efforts. And in that regard, we would like to recognize the Chair of our Corporate Governance Committee, Cal Morgan, who was recently inducted into the Delaware Business Hall of Fame for his many contributions to the state of Delaware, and the various institutions to which he has devoted his time and talent. Frequently, we are reminded of moments that enrich the culture that makes Chesapeake Utilities a special Company. Just this week, our colleagues across the Company joined together with our Board Member and Chair of the Compensation Committee, Dianna Morgan, who was the honorary speaker for our Women in Energy event. This forum encourages the open exchange of ideas and shared experiences, and inspires dialog across our organization, which further promotes our culture of diversity and inclusion.

As to Corporate Governance, we are honored to have been selected again this year by the Corporate Secretary Magazine as one of the top three companies to be nominated for the Governance Team Of The Year Award. We will be joining a talented group of Industry Professionals in New York City on November 21st, for the award ceremony. We'll continue to provide updates to you on our ESG efforts, including in our annual report for year-end 2019. Thank you very much for being with us today, and as always for your continued support. And I'd like to turn this back to Jeff.

Jeffry M. Householder, President & Chief Executive Officer

Thanks, Jim. Just to briefly conclude the call, on Slide 23, we are sort of all ultra-focused on executing our strategy. Continuing to look for new development projects, we've been very successful finding those over the last several years as I indicated. We see very strong investment opportunities for us going forward. Pipeline opportunities are out there. The amount of propane opportunities that we think makes sense to us Marlin, CNG services business is growing, and we are continuing to expand that across the Southeast and Mid-Atlantic. We just see a very robust set of investment opportunities as we look to the end of this year and continuing into 2020. And now, let me turn the call back to the operator. If there are any questions, we would be delighted to answer them.

Questions and Answers

Tate Sullivan

Hi. Thank you, good morning. Jeff, if I may start on Marlin, since you just mentioned it too. And I think there were $0.05 -- it was $0.05 per share of expenses in the quarter related to Marlin expansion, maybe some of that was related to the propane expansion. Besides the associated depreciation with building new trailers, was that headcount -- additional headcount costs? Or can you talk more about that $0.05 charge, please?

Jeffry M. Householder, President & Chief Executive Officer

I can talk a little bit about it. Yes, there were a couple of headcount additions. There are also some consulting expenses associated with Marlin. As we look to expand into the RNG transport and LNG transport side of the business as well as looking to slight additional logistics areas, both on the Delmarva and potentially in another state. So yes, we've seen some increase in expenses that they are virtually all related to growing the business.

Tate Sullivan

Okay. Thank you. And next, on the Guernsey Power Station. Is this the first time you've disclosed this? Or can you remind me, did you talk about it in December 2007? And have you done this type of work for any other natural gas power plants in the Company's history?

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

So say, in that regard, this is the first time that we've come out, we were waiting for certain triggers with the counterparty to occur. And so we're in a position to announce the project now. And this isn't the first time that we've delivered natural gas. If you go back, I mean, Eastern Shore has had a history of bringing natural gas to power plants. Most recently, they did the project here to the Garrison Energy Center in Dover. But there's been other projects as well. This is our first opportunity in Florida to have that kind of project -- or I'm sorry, Ohio has set for their, Ohio. And so we're really excited about that.

Jeffry M. Householder, President & Chief Executive Officer

And obviously, we're serving our own generation facility Eight Flags, which actually is in Florida.

Tate Sullivan

Okay. I guess, I'm just trying to -- I guess, it's different from some other companies, I mean, what they call, I mean, is it a vendor business or fuel management business is this similar to that type of business, the Guernsey Power?

Jeffry M. Householder, President & Chief Executive Officer

We're actually physically building a pipeline that will provide service from and as it indicates here from a Tallgrass Energy Partners, Rockies Express Pipeline, the interstate pipeline to the Guernsey Power station. So it looks a lot like our Peninsula Pipeline business in Florida, where we're interconnecting an upstream interstate five FERC-regulated interstate pipe, with an industrial customer or power generator in this case. We do a lot of that. it's pretty standard – pretty typical project for us.

Tate Sullivan

Okay. And then just to touch on the Hurricane Michael comments. In the press release, you noted a short-term negative recovery of the costs starting in January, Beth or what does that refer to that time? Or is that already occurred?

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

That's already occurred. That's associated with the impact that we've had. I mean, there were a few customers that have not come back on. And so when you look at it on a year-to-date basis, they're still going to have the impact that those customers being on for the early part of 2018. It is 2018, they're not necessarily on in the early part of 2019. So there's not really a lot, but there is some impact there, Tate.

Jeffry M. Householder, President & Chief Executive Officer

Most of that is on interest expense, right?

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

Well, we have the margin piece, and then you also have a little bit of the interest expense on the expense side. A good part of the interest has gone associated with the capital or the storm reserve, but there is a piece that's still left in hitting our income statement.

Tate Sullivan

Okay. Thanks. And last for me, on the CapEx side on Slide 14. Do you normally, Beth, shift to a range at this time of the year? This is the first time you've done that? And second, what is the energy transmission on regulated spending, please?

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

Sure. So this is actually the first time that we've come out and disclosed a range, but we have a lot of projects -- and in particular, as Jeff talked about, the Del-Mar Energy Pathway project, we're anticipating FERC approval and if we get that sooner than later, certainly, you'll see some of the dollars on that project be spent. There's also dollars in here associated on the energy transmission side, that's actually the Aspire business, and so the timing of some of the expenditures associated with the Guernsey project. And then just some other expansions, smaller expansions that they have, more of organic type growth some of that will depend again as we're coming through the year-end. And so we tried to be pretty tight.

The last -- the big piece that you're seeing on here is the other unregulated energy change and that relates to Marlin's business. And as Jeff talked about, there are some things that we're doing there, as we're looking to expand. We've brought Marlin's presence here on the shore on the Delmarva Peninsula. We had some other opportunities that are underway. And depending upon how far those get -- we could expand somewhere between that $8 million to that $14 million. And we'll be trying to put out some more releases and information about some of these projects as are finalized.

Tate Sullivan

Okay. Great. Thank you for all that detail. Have a good rest of the day.

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

You too. Thanks, Tate.

Operator

Your next question is from the line of Brian Russo from Sidoti & Co Your line is now open.

Brian Russo

Hey, good morning.

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

Good morning, Brian. How are you?

Brian Russo

Good. Thank you. Just to drill a little bit deeper in the CapEx range you provided versus the specific dollar amount previously, it looks like while the entire forecast to CapEx seems to be relatively consistent, at least at the midpoint of the high and low that you've just disclosed, but it looks like total regulated energy CapEx is down at the midpoint about $4.9 million, whereas total unregulated energy is up about $3.2 million. And then you just mentioned the Marlin of about $0.80 million relative to the midpoint. And I was just wondering what's changed at the Reg energy and unreg?

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

Well, I mean, it is our entire CapEx budget. So Brian, as we're actually looking at it -- you look at it every month with our business units and update our forecast. So depending upon the projects that they're working on and what they have on the horizon. One project may slow up in a given business and one project may accelerate. It's really -- I wouldn't say there's not really too much to read into those shifts because we can have general just expansion projects. And if we're slowing up in one, may be increasing in another. It's just really -- we keep refining it continually all the time.

Brian Russo

Okay, that makes sense to me. And then also, just on the project margins, you mentioned the new Guernsey Power Station. Just to clarify, did you say late 2021? So from a gross margin contribution, it's more like '22 and beyond?

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

Yes, you also have -- yes, that's correct.

Brian Russo

Okay, great. And the $5 million to $7 million PESCO gain, that's quite impressive. It seems like $0.29 in EPS will be recorded in the fourth quarter. Is that accurate?

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

The range between $5 million and $7 million, would give you a range of between $0.22 and $0.30. If you strictly take that number on an after-tax basis and use our average diluted shares for the nine-month. So I mean, that's -- you're in the ballpark there, Brian, it will just depend on -- as Jeff mentioned, we've got to close out some contracts, we given ourselves a little bit of room just to make sure for the final settlement of everything and then any associated costs as we wind down. But generally speaking, that's $0.22 to $0.30 per share.

Brian Russo

Got it. Okay. And does the PESCO pending sales, does that at all alter your intentions on equity to rebalance the cap structure in September 2020?

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

It will, certainly, with the cash flow, reduced our short-term debt, and then that will shift -- raise our equity ratio as a percent of total capitalization slightly, but it will not meaningfully impact our pursuit over the longer-term to bring our capital structure back closer to our target range. And you saw us take a step recently with our debt. I think we'll continue to look at different things there as well as we'll look at the appropriate time on the equity side. But we look at a lot of things. We look at it, as I mentioned, we'll look at market conditions, the projects that are ebbing and flowing things like Tesco, where we have proceeds coming in. We'll also look at when certain projects are going to be completed and then, placed into services as a host of things. But you'll continue to see us migrating our capital structure back there over time.

Brian Russo

Okay, very good. And then just on the Marlin outlook, it looks like you've added some CapEx for that you've incurred some expenses for growth over the past several quarters, you've increased your outlook on gross margin there. And I believe even in commentary in the queue, 2021 and beyond, you see incremental growth relative to 2020 and prior. Is -- any more details on that? Have you added more rigs or any examples of that event growth in terms of investment?

Jeffry M. Householder, President & Chief Executive Officer

We have added several additional trailers. And we've added them in a little bit different fashion than what we bought originally, which were steel tube trailers. These are composite trailers that come in the back of what looks like a semi-truck. The capability of these trailers is fairly significantly more than the steel tube trailers. And so we're not only cutting some of our expenses out for fewer terms on the trailer but we're able to and we have done several of these handle larger jobs. And so it's a progression of going from the original two trailers to the larger quantum trailers to ultimately LNG trailers, and being able to offer larger volumes per trailer, which again will reduce some of our costs, ultimately, but also it opens up a significantly larger number of jobs for us. And so we've acquired a number of those.

Brian Russo
Okay. And then just lastly, just a clarification on the Del-Mar approval process you project approval, you're still waiting for FERC. And now you're saying 4Q 2020, COD, I believe, previously, you were saying a mid-year 2020. Is that accurate?

Beth W. Cooper, Executive Vice President, Chief Financial Officer & Assistant Corporate Secretary
Yes, we are -- I think -- so what we're seeing on that side, Brian, is we're saying that we're hoping that we get certainly approval in the fourth quarter of this year. And then our expected in-service date is in the fourth quarter – fourth quarter of 2021.

Brian Russo
Fourth quarter of 2021. Okay.

Beth W. Cooper, Executive Vice President, Chief Financial Officer & Assistant Corporate Secretary
Right. But now you will note, I mean, you will note, I just would add. You will note, even though if you look at our press release today, there are interim services associated with that project that kicked in before that project is constructed. So just keep that in mind. And that's been Eastern for its long standing history. Jeff talked about the same thing in Florida. We have opportunities sometimes to implement interim services, whether it be utilization on available capacity or whether it being bringing in Marlin to help provide that kind of interim service on behalf of our pipeline.

Brian Russo
Right. Okay. So I guess, you're comfortable with the Del-Mar Energy Pathway projects' gross margin contribution, which I guess is basically is unchanged from prior disclosures?

Beth W. Cooper, Executive Vice President, Chief Financial Officer & Assistant Corporate Secretary
That is correct.

Brian Russo
Okay. Great. Thank you very much.

Beth W. Cooper, Executive Vice President, Chief Financial Officer & Assistant Corporate Secretary
Thank you. Have a great weekend.

Operator
Your next question is from the line of Roger Liddell from Clear Harbor Asset Management. Your line is now open.

D. Roger B. Liddell
Yes, good morning.

Beth W. Cooper, Executive Vice President, Chief Financial Officer & Assistant Corporate Secretary
Hi, Roger.

D. Roger B. Liddell
Good morning, Beth. I wanted to pick up on several points. The first two are quick and then two more substantive ones. The -- on the issue of energy efficiency and ESG, the E part is what's in my mind. The Guernsey plant pictured on Slide 21 appears to be an open cycle in that there's racks of heat exchangers, right next to them. I'd like to think that the initiative that you demonstrated in the Eight Flags of combined heat, extracting all the squeal from the pig is the kind of thing that maybe you could lead project designers going forward. You didn't design Guernsey, but the visual leaves me a little frustrated. You don't need to comment on that one, unless you choose to.

Jeffry M. Householder, President & Chief Executive Officer
I probably choose not to. The -- although, I know exactly what you're saying. There is an opportunity, and we actually have had some conversations about combined cycle operations here. So that certainly is still a possibility.

D. Roger B. Liddell
Yes. Thank you, Jeff. And you've never referred to, and it may represent no opportunity for the Company. But the Jacksonville electric authority and effectively putting out RFPs to dissolve itself. If that's not the right term forgive me, I don't happen to follow it that much. But is there any upside on anything that you see going on with Jack's right now?

Jeffry M. Householder, President & Chief Executive Officer
Well, obviously, we're not directly involved in that process and we moved on a couple of years ago from our purchase power agreement with JEA. There had been in effect for a number of years. And for rebid that process and ultimately ended up with executing an agreement with FP&L at a significantly lower price point. Yes, I -- I suppose it depends on -- we still have some very minor interconnects through an arrangement with FP&L, JEA and ourselves on how the power ultimately flows onto Amelia Island. So I guess, there are some potential entanglements there, but very few for us. Certainly, I don't see anything on the price of electricity side. And our operating systems are quite distinct. So I guess, potentially when a transaction of that type occurs, especially a municipal utility going to an investor-owned, there are always ancillary political issues that have a tendency to spill over regionally. So we'll be keeping an eye on all of that. But I think we're probably in pretty good shape here.

D. Roger B. Liddell
Yes, okay. Slide 18, the Del-Mar whole series of opportunities. My impression has been based on what you've done in the past, both in Delaware and coming down into Maryland is all sorts of opportunities that weren't apparent at first or were planned for disclosed as it were, but they simply occurred by virtue of your bringing the gas availability to where it wasn't, or back feeding and making robust. I'd like to think that the $37 million estimated project cost is as well, I would hope to be a fraction of what you might ultimately be doing in that area. Is it useful to sketch out what goes beyond, what opportunities are there beyond the particular program, that you've laid out and awaiting the approval on?

Jeffry M. Householder, President & Chief Executive Officer
Well, I would say that we are also hopeful, as you indicate, that we can do a variety of things, not only with additional Eastern Shore advancement down the Peninsula, but the development of our D&G distribution systems in those areas. So I would agree, there are certainly opportunities that we see in the future for continued development in these areas, both from a industrial/commercial customer perspective, but also significant residential opportunities here. And those then roll over in tomorrow and then, a variety of other things. I will tell you this, become as no surprise.

Part of our expansion activity here is doing exactly what we were trying to do 10 years ago or so, when we started our propane community gas system expansions, where we went out into these unserved areas and executed agreements with Develop rs to put propane distribution in. And we have thousands upon thousands of customers in these areas. And over time, we will begin and already have begun to convert those from natural gas -- or from propane over to natural gas. And so as you might imagine, we're looking for the next tranche of the community gas system activity. So we're looking very hard in these areas, as developers continue to build off of our existing system to get out in front of that development. I'm sure we have gas customers there. But we can get the pipeline expanded, and we can expand our distribution system. So yes, we're quite bullish on these areas.

D. Roger B. Liddell
Okay. And finally, renewable natural gas. Again, harping on the E part of ESG. This is really important. And if nothing else, involvement with, I would hope, significant scale, ultimately with RNG is at least a way of deflecting the headwind of those proposed a fossil development under any thesis. But I'm not clear what opportunities there are. I used to think of chicken operations, as being on-site power and so forth. If you're talking about there being a real system supply resource. There's got to be a lot of scale. What's the gating? How big an opportunity is the R part of your gas supply?

Jeffry M. Householder, President & Chief Executive Officer
Well, I'll give you just a couple of general examples, the potential chicken waste collection, cleanup processing, methane extraction back into our pipeline system, based on discussions that we're in the middle of with various parties. Could run to the 6,000 to 7,000 dekatherm a day range, which would not quite take care of all of our residential customers on Delmarva, but it would be close. And so you could envision, assuming we can get green gas into our system. You could envision a time in the future when a significant part of our at least our residential customer base could be burning renewable natural gas, and we see the same opportunities in Florida, with some of the landfill projects

that we are pursuing. There's a large cattle ranch down there that we're looking at. We've looked at some wastewater treatment facilities. There are a significant number of methane sources that we believe that we can capture. And frankly, that was one of the reasons we bought Marlin, is that we're sort of perfectly positioned to take that gas and inject it in the right place in our systems. So that it -- ultimately, we'll have the right pipeline quality characteristics chemically, that we can understand the BTU content issues around that source of gas that are somewhat different than the upstream pipeline source. And we can appropriately blend those two fuel types, so that we don't have any issues with customers downstream in their appliances. And so we're working very hard to figure all that out.

One of the things that we've done recently, as I mentioned earlier, is the FERC filing that begins to establish quality standards and other standards inside our Eastern Shore tariff. And we're working to do the same thing at D&G and in our Florida operational areas. So I would agree with you. We think this is a big deal. We think there are lots of opportunities here. And we see it not only, as you indicated as an ESG issue, but we see it as a potential profit issue by virtue of the fact that we own a transportation Company, Marlin, that can move that gas around pretty easily. And so one of the real stops to any RNG project is how do you get the gas from the generation point to the actual usage point. And usually, when you have to build a pipeline, that's not a attractive economic consideration. But with Marlin we can make that work fairly easily and economically. So we see lots of opportunities for Marlin here, not just on our system, but on systems across the country. And we certainly are highly focused on R&D coming into our distribution systems.

D. Roger B. Liddell
Excellent answer, and well done, and I hope you'll keep us posted on that from time to time in these calls.

Jeffry M. Householder, President & Chief Executive Officer
We will.

D. Roger B. Liddell
Thank you.

Operator
(Operator Instructions) No further questions at this time. I turn the call back over to Mr. .Jeff Householder?

Jeffry M. Householder, President & Chief Executive Officer
Well, thank you. I appreciate all of you dialing in this morning, and we look forward very much to talking with you over the next few weeks and months. And I hope you have a great holiday season, if we don't see you before. Goodbye.

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

James F. Moriarty, Executive Vice President, General Counsel, Corporate Secretary and Chief Policy and Risk Officer
Thank you.

Operator
Thank you, presenters. And ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.