# 2020 Fourth Quarter & Annual Results Earnings Call

## Company Participants

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

## Other Participants

- Tate Sullivan
- Brian Russo
- Michael Gaugler
- Roger Liddell

Operator: Greetings, and welcome to the Chesapeake Utilities Corp. Fourth Quarter and Annual 2020 Financial Results. During the presentation, all participants will be in a listen-only mode. Afterwards, we'll conduct a question-and-answer session.

At that time, if you have a question, you may press 1-4 on your telephone. If at any time during the conference, you need to reach an operator, please press Star 0. As a reminder, this conference is being recorded, Thursday, February 25th, 2021.

I would now like to turn the conference over to Beth Cooper, Executive Vice President and Chief Financial Officer. Please go ahead.

Beth Cooper: Thank you, and good afternoon, everyone. We appreciate you joining us today to review our fourth quarter and annual 2020 results. We at Chesapeake Utilities continue to operate effectively in this new normal, serving our customers and keeping employees as safe as possible, as we await the full availability of the COVID-19 vaccination in the coming months.

As shown on Slide 2, participating with me on the call today are Jeff Householder, President and Chief Executive Officer; and Jim Moriarty, Executive Vice President, General Counsel, Corporate Secretary and Chief Risk and Compliance Officer. We also have other members of our management team joining us virtually.

Today's presentation can be accessed on our website under the Investors section and Events and Webcast subsection. After our prepared remarks, we will open the call up for questions. Our objective today is to provide insight into our fourth quarter and annual 2020 results, review the estimated impact of COVID-19 on our business in 2020, as well as update you on our progress on key strategic initiatives and our outlook for the future in regards to new opportunities.

Moving to Slide 3, I would like to remind you that matters discussed in this conference call may include forward-looking statements that involve risks and uncertainties. Forward-looking statements and projections could differ materially from our actual results. The safe harbor for forward-looking statements section of the company's 2020 annual report on Form 10-K, provides further information on the factors that could cause such statements to differ from our actual results.

Now I'll turn the call over to Jeff to provide opening remarks on the company's 2020 performance, and the key contributing drivers to our results. Jeff?

Jeff Householder: Good afternoon, and thank you for joining our year-end 2020 earnings call. We had a very strong year in 2020. As shown on Slide 4, earnings growth from continuing operations increased 13.2%, resulting in our 14th year in a row of record earnings. We also achieved a consolidated return on equity above 11%, which is something we've done each year since 2005.

Our consistent earnings track record is a significant accomplishment, and represents top quartile performance among our peer group over an extended period. I'll note that we achieved these financial results in a year where our total capital investments once again approached $200 million, representing 18% of total capitalization.

This has been an extraordinary year. It's a testament to the dedication of our employee team that we were able to identify safety and operating procedures that enabled us to continue throughout the year, uninterrupted delivery of the essential energy services Chesapeake provides.

One of the significant concerns I had as the pandemic intensified, was the potential loss of momentum in the completion of our capital growth projects. That didn't happen. Our team is able to find ways to safely keep projects on schedule. And our investments in 2020 will deliver strong margin and earnings growth for years to come.

Our stock also proved to be resilient during the pandemic-related market downturn. We maintained significant value relative to the losses in the broader utility market. For the end of the year, subsequent to our inclusion in the S&P 600 SmallCap Index, and reflecting our strong, consistent financial performance, the Chesapeake stock price increased above pre-COVID-19 levels.

A key part of our total shareholder return is our strong dividend. Chesapeake Board followed our long-standing practice of closely correlating annualized dividend growth to our earnings growth, and declared an annualized dividend of $1.76 per share, an 8.6% increase, and the 17th consecutive year of increased dividends. We've now doubled our annualized dividend per share over the past 10 years.

At the same time, we've been able to reinvest a significant portion of our earnings back into the business to propel future earnings through additional capital investments. As shown on Slide 5, at year-end, the Chesapeake Utilities' total shareholder return exceeded 15%, the top level of performance among all gas utilities for the year.

While our total shareholder return was strong for 2020, I believe it is equally important to consider the longer-term value creation as well. Including 2020, our total shareholder return compound annual growth rate over one, three, five, 10 and 20-year historic periods, has exceeded 13% for each period, representing long-term upper quartile performance compared to our peer group. In fact, we are at the 100th percentile among our peers for those periods.

Slide 6 highlights the significant growth experienced by the company over the past decade. We've doubled our market capitalization twice over the past 10 years, and 2020 was another step down the path to continue growing our business. We ended the year with Chesapeake Utilities' market capitalization at $1.9 billion, more than doubling from 2015.

Net income for 2020 was 71.5 million, or $4.28 per share compared to 65.2 million and $3.96 per share for 2019. Shown on Slide 7, the company's net income from continuing operations for 2020 was $70.6 million or $4.21 diluted earnings per share. This represents an increase of 9.5 million or $0.49 a share above 2019 results.

We had significant margin growth in 2020, totaling over $25 million. Our margin results would have been even higher, but they were partially offset by 4.3 million lower gross margins due to a decline in customer consumption, driven primarily by weather and the unfavorable net impact of the COVID-19 pandemic.

A significant margin impact resulted from our policy to provide assistance to customers during the pandemic and stop non-paid service disconnects. We now have received authorization in each of our regulated jurisdictions, to create regulatory assets to defer COVID-19-related net expenses.

In 2020, we deferred a total of $1.9 million in distribution utility expenses. The after-tax impact of COVID-19 in 2020 was approximately $1 million or $0.06 per share. We're continuing to review the various cost impacts associated with COVID, and we'll adjust as necessary these estimates in the future.

Our growth strategy is fairly straightforward. We manage our regulated businesses to provide stable, predictable earnings, or a foundation, as we like to say internally, over the long term, and continually seek opportunities to expand our footprint.

We look for non-regulated investments that can augment these utility results, and which meet three fundamental criteria; investments that are, one, related to our core energy businesses; two, meet our higher than utility return targets; and three, exhibit risk profiles consistent with our existing non-regulated businesses.

We seek to provide total shareholder return in the upper quartile of our peers in both short and long-term performance, the product of earnings and dividend growth, driven by capital projects that can achieve an adequate return on investment on our prescribed targets.

On Slide 8, we've identified the primary drivers of growth that we have been constantly pursuing, and we had significant noteworthy activity in almost all of these areas in 2020.

Slide 9 outlines some of our key business accomplishments last year, and let me highlight a few of those accomplishments. We continue to make progress on our business transformation initiatives. At the beginning of 2019, with a market capitalization of approximately 1.3 billion, we set an aggressive internal goal to double the size of our company in five years. That may seem ambitious, but we had already achieved that level of growth twice over the previous 10 years.

To do it again, we need to make sure our organizational structure, our processes, our employee skills, diversity, technology, were able to keep pace with our growth objectives. We've taken significant actions toward this goal, simplifying our organization and business unit management structure, and achieving greater process standardization across our units.

I don't think you can underestimate the impact of COVID-19 on our business. The pandemic has been a tragic and painful experience across the planet. However, responding to the challenges has forced us to identify and address weaknesses in our safety practices, our processes, our technology, our training, and organizational structure.

COVID-19 has significantly accelerated our business transformation process, and introduced several new elements such as remote work, facility design into our planning. While we're strengthening our operational and business practices, we know that it's important to hold on to the culture and traditions that are at the core of our success, and have made this company a special place for all of us to work.

Chesapeake Utilities was once again recognized as a top workplace in Delaware and Florida, and earned the inaugural 2021 Top Workplaces USA award for midsized companies. We appreciate this national recognition awarded by a third-party based on feedback and survey results from our employees.

We saw solid earnings contributions from all of our business units last year. Our results reflect increased earnings from the Hurricane Michael regulatory settlement, new pipeline expansion projects, the acquisitions of Boulden and Western Natural propane operations, and the Elkton Gas natural gas distribution system.

Organic growth in our natural gas distribution operations, continued pipeline replacement, increased margin from Marlin Gas Services, higher retail propane margins, increased rates for Aspire Energy. We also had gains on two property sales that helped to offset some of the pandemic cost increases.

As I mentioned earlier, we continued our strong record of investment growth in 2020. Capital expenditures totaled $196 million. We advanced multiple pipeline expansion projects. Most notably, the Callahan Pipeline in Florida went into service early and under-budget, producing $30.9 million in incremental margin in 2020.

Customers in our service territories continue to prefer natural gas as their energy of choice, and our regulated natural gas customer growth in both Florida and the Delmarva Peninsula, as a result, continues to be more than twice the national average.

We also completed the acquisitions of the two propane companies I mentioned earlier, Boulden propane in Delaware and Western Natural Gas in Florida, and the Elkton Natural Gas system in Maryland. The integrations of these acquisitions were completed seamlessly, and they all contributed to our bottom line in 2020.

We worked hard last year to rebalance our capital structure and achieve our 50% equity target. We obtained $89.7 million of new equity from our ATM program and various stock plans, which was certainly helpful when Chesapeake Utilities joined the S&P 600 SmallCap Index in September. We also retained $42.4 million of earnings in 2020, increasing stockholders' equity to $697.1 million, and achieving the 50% of total capitalization.

I'll turn the call back to Beth to discuss our 2020 results in more detail. Beth?

Beth Cooper: Thanks, Jeff. Turning to Slide 10. Net income for the quarter was $22.4 million compared to the same quarter of last year. As I'm sure you all recall, during the fourth quarter of 2019, we exited the natural gas marketing business, and recognized gains on the sales associated with that exit. As a result, I will focus our discussion today largely on continuing operations, although our consolidated earnings, both for the quarter and annually in 2020 were strong, despite the absence of any onetime gain.

In terms of continuing operations for the quarter, our income from continuing operations grew by $4.5 million or 27%. EPS for the fourth quarter compared to the fourth quarter last year grew by $0.20 to $1.24 per share from $1.04, representing growth of 19% because of the equity issued in the fourth quarter of 2020.

Net income for 2020 for the year was $71.5 million or $4.26 per share, compared to $65.2 million or $3.96 per share for 2019. The company's net income from continuing operations for 2020 was 70.6 million or $4.21 per share.

This represents an increase of $9.5 million or $0.49 per share above 2019 results of $3.72 or 13.2% growth. Higher income was the result of increased performance across the enterprise, as Jeff highlighted earlier, coupled with expense management.

Chesapeake Utilities is committed to gross margin growth through new project development and efficient operations, as shown on Slide 11. For 2020, gross margin increased 7.7%, while operating - other operating expenses were up less than half of that growth at 2.7%. Keep in mind, the 7.7% increase in gross margin is inclusive of $4.3 million of milder weather that we experienced, and $5.3 million of lower margin associated with COVID-19.

If you exclude the COVID-19 impact, our operating income growth would have been, on a consolidated basis, 12.2% versus reported 6.1%, for our Regulated Energy segment, 11.3% versus reported of 6.4%, and for our Unregulated Energy segment, 12.1% versus 3.6%.

In terms of expense growth, I mentioned our laser focus on managing expenses in the midst of the pandemic, and in support of our continued collaboration across the company. Excluding the incremental expenses associated with new acquisitions, where there was also a corresponding margin growth, our other operating expense growth was 1.3% on a consolidated basis, 1.6% for our Regulated Energy segment, and 0.8% for our Unregulated Energy segment.

All of this remaining increase is attributable to higher insurance costs. Overall, our effective cost management helped to offset unfavorable expense impacts of COVID-19 and keep our operating costs flat, taking into consideration the acquisitions and the insurance.

Finally, depreciation, amortization and property tax increased 14.5 million, associated with our continued property expansions and new investment related to our growth initiatives. We show the key drivers of gross margin and expenses for 2020 compared to 2019 on Slide 12, and this is a new presentation for us.

And what you can see is that excluding weather and the negative impacts of COVID-19, gross margin increased $34.9 million or $1.52 per share. However, there are some offsetting impacts of expenses associated with the acquisition and also associated with Hurricane Michael.

Higher earnings for 2020 reflect increased earnings from the Hurricane Michael regulatory settlement reached with the Florida PSC, and that's $0.23 per share after associated depreciation and amortization of regulatory assets. Pipeline expansion projects added $0.35 per share.

Contributions from the acquisitions of Boulden, Elkton, and Western Natural Gas, added $0.09 per share net of their incremental expenses. Organic growth in the natural gas distribution operations added $0.15 per share. Marlin had increased margin that added an additional $0.08 per share.

Our propane distribution operations generated higher retail propane margins that contributed $0.08 per share. Rate increases for Aspire added $0.06, and we had incremental margin from our Florida GRIP program that included $0.05 per share.

And lastly, margins from some of Eastern Shore's capital improvements and nonservice expansion projects, also added $0.05 per share. These increases were offset by lower gross margin again, due to a decline in customer consumption driven primarily by weather, $0.19 per share, and the net unfavorable impact of the COVID-19 pandemic or $0.06 per share.

The estimated consolidated net impact that COVID had on our earnings, reflects the establishment of regulatory assets in the fourth quarter associated with the net incremental expense incurred by our natural gas and electric distribution businesses to continue to provide our essential services, as well as the tax benefits that resulted from implementing the CARES Act.

Slide 13 is a table we highlighted in our third quarter press release, and are including again for the fourth quarter. Given the various components and the magnitude of the settlement on our results for the year, we thought it would be useful to lay out the details.

The settlement agreement allowed FPU to, first, refund the over-collection of interim rates through the fuel charge. Second, record regulatory assets for storm costs in the amount of $45.8 million, including interest, which will be amortized over six years.

Third, recover those storm costs through a surcharge for a total of $7.7 million annually. And finally, collect an annual increase in revenue of $3.3 million to recover capital costs associated with new plants and a regulatory asset for the cost of removal and undepreciated plants.

The new base rates and storm surcharge were effective November 1, 2020. On an annual basis, the settlement contributed $3.8 million in net income after tax or $0.23 per share, as I mentioned previously.

I'd like to spend a few moments highlighting our capital spending in 2020 and our initial forecast for 2021. As you can see on Slide 14, spending in 2020 totaled $196 million, within the guidance that we provided for the year. We continue to invest in growth projects and opportunities in the normal course, as we work within the guidelines of COVID-19 safety requirements.

Our regulated distribution and transmission businesses represented 75% of new capital additions in 2020. The initial forecast for 2021 capital expenditures remains at similar levels, ranging between 175 million and $200 million. Again, the investment is concentrated with about 80% budgeted in new regulated energy assets. For the five years ended December 31st, 2020, capital expenditures totaled $1 billion.

In terms of guidance through 2022 of 750 million to $1 billion, we are expecting to invest over 850 million by the end of 2021, exceeding our lower end estimate of $750 million, and already reaching 85% of the $1 billion higher end of the range. Jeff will touch on our expanded guidance through 2025 in just a few minutes.

Slide 15 represents recent pipeline investments completed in 2020, or scheduled for completion in 2021. These projects in tandem with the associated distribution system expansions, are one of the largest drivers of our capital spending in 2020 and projected 2021.

These pipeline expansions represent $116 million and span our footprint, including in Florida, Ohio, and on Delmarva. Incremental gross margin is estimated to be $21.7 million once these projects are fully in service by the fourth quarter of 2021.

Further pipeline expansions will continue to be a growth driver, as we undertake economically viable expansions that enable our distribution systems to continue to capitalize on the increasing demand for new natural gas services to residential and commercial customers.

Our latest projects and initiatives table is shown on Slide 16, and I think you all are pretty familiar with this. And it shows our pipeline expansion, CNG and RNG transportation acquisitions, and regulatory initiatives. Key projects are expected to generate approximately $66 million and $73 million for the years 2021 and 2022, respectively. Pipeline expansions are expected to generate $7 million in incremental margin in 2021, shy by $1 million of the incremental $8 million added in 2020.

The Hurricane Michael proceedings settlement accounted for $11 million in incremental margin in 2020, and remains at that level for 2021 and 2022. We particularly note the margin estimate of $10.5 million for 2022 from the recent acquisitions of Boulden, Elkton, and Western Natural Gas, approximately double the 2020 gross margin contribution.

In total, the incremental margin growth from these projects and initiatives, represents approximately 27 million for 2020, $16 million for 2021, and $7 million for 2022. As a reminder, we only include definitive projects in this table once they reach maturity, and do not include organic margin growth from distribution, customer additions, rate adjustments in our unregulated businesses, et cetera. Accordingly, the RNG transportation margin, for example, will be adjusted as new projects are definitive and announced.

To support the growth we've experienced and ensure we have the capital capacity to fuel our future growth, we maintain a strong balance sheet with access to sufficient, competitively priced capital. As you can see on Slide 17, as of the end of the year, total capitalization was $1.4 billion, comprised of 50% stockholders' equity, 36% long-term debt at fixed rate, and 14% short-term debt, including outstanding borrowings under our revolver, and the current portion of long-term debt.

During 2020, we added a net incremental $204 million of permanent capital, including in our stockholders' equity and long-term debt. Our recent equity issuance moved us to our target equity to total capitalization range beginning at 50%. We continue to utilize our traditional equity plans in 2020 to issue stock and increase equity beyond our earnings retained and reinvested in the business.

We successfully utilized our first ATM program and various stock plans to raise just under $90 million in new equity gross proceeds and issued $90 million in new long-term debt at an average rate of 2.98%. We also restructured and enhanced our short-term debt facilities to provide additional capacity, while also streamlining the administration of this funding source. We will continue to add capacity that supports our strategic growth plans, and look forward to updating you on our progress.

I would now like to turn the call back to Jeff to talk about our future prospects for growth and our corresponding extension of guidance. Jeff?

Jeff Householder: Thanks, Beth. At the end of 2020, we completed our latest annual strategic plan update. I've been telling our employees that this is a fantastic time to be in the energy delivery business and to be part of Chesapeake Utilities. There's certainly no denying that we are in extraordinary times, with the energy industry transitioning to a lower carbon world.

We face many challenges raised by opponents to fossil fuels. Those challenges will require that we respond effectively, finding ways to meaningfully reduce our carbon footprint. At the same time, we need to meet customer demands for cleaner energy, and continue to contribute to the economic well-being of the communities we serve.

We believe that far from limiting our growth potential, these challenges present significant opportunities for investment and expansion. On Slide 18, we've highlighted our key strategic platforms for growth. These are the principal areas of investment focus that will drive our growth over the next few years.

First is, we want to optimize the earnings growth in our existing businesses through organic growth, regulatory initiatives, and increased opportunities for collaboration and efficiency across our operating units. Our recent strategic plan update identified hundreds of millions of dollars of investment opportunities within our existing units. These opportunities represent organic growth without significant acquisitions.

Second, we continue to see opportunities for interstate and intrastate pipeline projects across Delmarva, Florida, Ohio, and other states. Many of these pipelines will increase capacity to meet the growing demand for natural gas, as our distribution systems continue to expand. Our service areas have experienced tremendous growth during the pandemic.

Third, we think further growth in our propane gas business is likely, primarily through acquisitions in the Mid-Atlantic and Southeast, along with the expansion of our propane AutoGas business. And fourth, we continue to expand Marlin Gas Services' core CNG offerings to a larger market area. In addition, we're aggressively pursuing RNG transport opportunities across the US. And recently, we added several LNG tankers to our CNG fleet to increase our transport capacity capabilities.

And Marlin offers a unique opportunity to pursue RNG transport agreements and, at the same time, help us identify potential renewable investment opportunities.

Our fifth platform for growth is renewable energy investment, which we discuss on Slide 19. Over the past year, we've announced our participation in several renewable energy projects. Each of these projects is advancing, and we're actively working to finalize the scope and extent of our investment and participation levels.

Let me update you on our progress and describe some of our emerging projects. On the Delmarva Peninsula, we're working with Bioenergy Devco and CleanBay renewables on several poultry waste-to-energy R&D projects. The two projects that are furthest along are the Bioenergy Devco Georgetown Delaware facility, and Clean Bay's Westover Maryland project.

As the developers complete final design and financing, brand use permitting activities before construction begins, we have various agreements in place at the respective plants for gas processing, fuel off-take, Marlin transport, pipeline construction to take away RNG and deliver thermal gas for organic fertilizer production, the development of solar photovoltaic systems to provide renewable power to one of the sites, potential construction of a renewable gas CHP at one site, and other potential investment opportunities. Most of the Chesapeake investment opportunities included in that list are currently either under contract, or we have an LOI in place and are negotiating final terms.

In Florida, we're working with Solar Turbines to investigate the opportunity to utilize a blend of RNG and hydrogen to operate our Eight Flags combined heat and power plant on Amelia Island. In fact, yesterday, we executed a letter of support with Solar Turbines to participate in our hydrogen research and development project. Our goal is to utilize a significant percentage of hydrogen to fuel that turbine within the next few years.

Our CNG vehicle fueling station outside the port of Savannah, Georgia, is under construction. We're working on several landfill gas processing sites that would enable us to transport RNG to the site of use as a renewable vehicle fuel. CNG offers an attractive vehicle fuel choice, but the opportunity to provide renewable CNG, will support premium fuel margins, as increasingly of interest to the trucking and marine port vehicle markets.

We announced an agreement with Fortistar to construct a pipeline in Ohio, connecting a landfill RNG gas processor to our Aspire gathering system. Construction on the pipeline is scheduled to begin soon, and in-service is scheduled for later this year. We're also working on a host of other renewable investment projects, and we're not quite at the stage of public announcement.

These projects include several additional landfill gas processing facilities, additional agricultural waste RNG projects, solar generation for our electric system, and other opportunities. And I look forward to updating you as the details are finalized.

I should note that our renewable energy investment strategy is aligned with the same strategic objectives and financial discipline that we've applied to all of our investment opportunities over many years. We're looking for investments that are linked to our core businesses, aligned with our financial targets and meet our tolerance for risk. We are not simply seeking renewable investments for the sake of having a renewable investment.

Our current capital and earnings investment guidance was originally issued for the five-year period 2018 through 2022. Given our updated strategic plan and the margin growth already announced and included in our major projects table, yesterday we announced an extension of our capital and EPS guidance.

As you can see on Slide 20, we're resetting our five-year capital guidance for the period 2021 to 2025 to $750 billion. I'm excited that our latest strategic plan update gives us a high degree of confidence that we have significant investment opportunities ahead of us.

On Slide 21, we're also extending our EPS guidance for an additional three-year period through 2025. Our projected diluted earnings per share range in 2025 is $6.05 to $6.25. The 2025 guidance range represents an average EPS growth of approximately 10% from our initiation of guidance at the end of 2017.

I'd now like to turn the call over to Jim to update you on our ESG practices and plans. Jim?

Jim Moriarty: Thank you, Jeff, and good afternoon, everyone. As shown on Slide 22, Chesapeake Utilities continues to build on our bedrock commitment to ESG, a focus on environmental stewardship, dedication to social justice, and to sound governance principles. This is how we work every day.

Our recognition as a top workplace for the ninth consecutive year in the areas we serve, as well as our recognition in the top workplace inaugural USA awards, speaks volumes about our diverse and inclusive culture, one which continues to promote the growth and development and engagement of our employees and our communities.

Our vibrant and inclusive culture could not have been any more evident than in 2020 when we collectively responded to the challenges presented by the COVID-19 pandemic and to the opportunities that were presented for social justice actions. Strong corporate governance has been essential to creating long-term value and safeguarding our commitments to all stakeholders.

Our Board and its committees, have adopted guidelines and other policies that have provided a framework for ongoing effective governance. Active and informed engagement, which is critical to our people, beginning with our Board and extending throughout the company, could not be more important as we continue together to chart the road ahead.

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

In regards to safety, we are committed to providing a safe workplace for our employees and to make safety a priority in our interactions with each other, our customers, and the communities we serve. It is part of our culture and an important strategic initiative, both in the short term and the long term.

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

We are also excited about our inaugural sustainability report, which will be provided later this year, and is the next step in our long-standing ESG stewardship, highlighting the unwavering dedication and commitment of the Chesapeake team.

We are committed to providing a work environment that values diversity and background, experience, and skillsets, as highlighted on Slide 23. In continuing our bedrock commitment to equity, diversity and inclusion, our newly formed Equity, Diversity and Inclusion, or EDI Council, is instrumental to helping guide our path forward.

The vision of our EDI Council is for all employees to embrace and share their diverse experiences and backgrounds, with the mission to help improve the communities we serve and to make us a better company. The EDI Council is central to who we are and who we want to be, and will further enhance the collaboration around our workplace culture that is the engine driving our business.

The EDI Council continued to be busy in 2020, fostering the rollout of employee resource groups throughout the company. The talent, skills and ideas that these groups have brought to the forefront, have been inspiring and provide the place for our employees to be - to feel that they are supported by each other and by the company.

We work hard every day to also help ensure that the communities we serve continue receiving the value and benefits of clean, plentiful, and affordable energy delivery services so that no one is left behind. Whether it is ceasing non-pay disconnects, working with our customers to craft payment plans that enable them to bring their accounts current, or providing funds for local community aid organizations to help in the midst of the pandemic, we are doing our part. In addition, we have donated record levels to aid local organizations.

We are very excited about the projects under way by our diverse and engaged teams to reduce the carbon footprint of the communities we serve. Our commitment remains steadfast to take the steps necessary to deliver energy where and when it is needed, while continuing to advance our environmental stewardship.

Our announced projects in RNG are just the beginning. These are examples of how we are doing our part to help build a more sustainable future for the communities we serve. You will see us pursuing many more of these opportunities in the future.

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

Jeff Householder: Thanks, Jim. We believe natural gas is a key component to the country's long-term energy strategy. We also believe that the markets we serve value the energy services we deliver, whether natural gas, propane or electricity, and our customers have spoken loudly in this regard.

At the same time, we have opportunities, given our business mix, expertise, and strategic approach to capitalize on new opportunities like RNG, that provide the bridge from the here and now to a more sustainable future. We'll continue to execute our strategy, focused on delivering top quartile performance and significant shareholder return.

In closing, let me thank all of our dedicated Chesapeake Utilities employees. All of us take great pride in the work that we do, and we are committed to identifying and delivering innovative solutions for the delivery of clean, reliable, and safe energy to our customers.

Thanks for joining us this afternoon, and we'd be happy to address any questions you might have.

Operator: Thank you. Ladies and gentlemen on the phone lines, if you would like to register for a question, please press the 1 followed by the 4 on your telephone. You will hear a three-tone prompt to acknowledge your request. If your question has been answered and you would like to withdraw your registration, you may press 1 followed by the 3. Once again, ladies and gentlemen, you can press 1-4 for a question.

Our first phone question is from Tate Sullivan with The Maxim Group. Please go ahead. Your line is now open.

Tate Sullivan: Thank you. Good afternoon, everyone, and appreciate all the comments. And I thought I'd start with the CapEx comment on Slide 14. On electric distribution, you indicate increasing CapEx from 3 million to 9 to 13 million next year. Can you - and then I think you mentioned a solar project. Can you mention more detail what's behind that for your electric business, please?

Jeff Householder: A very large percentage of it is the required storm hardening that we are obligated to invest in in Florida. Fortunately, there's a recovery mechanism very similar to our GRIP program on the natural gas side that will enable us to recover those dollars.

But it's - that's the biggest part of it, including additional typical capital that we have for pipe for serving new customers and a couple of substation improvements that we're applying. The bulk of it, though, is storm hardening.

Tate Sullivan: Okay. Thank you. And then you also noted in a separate slide, higher rates for Aspire. Can you just remind me, are those tariff schedules for your Aspire business? Or how do you usually secure higher rates in that business?

Beth Cooper: Yes. So …

Jeff Householder: They are negotiated rates. Beth, go ahead, please.

Beth Cooper: No. Please go ahead, Jeff.

Jeff Householder: No. Take it, Beth.

Beth Cooper: We have contracts with the cooperative and also with - contracts in place with Columbia, Ohio. So, particularly with the co-op, we have opportunities to renegotiate those rates from time to time.

Tate Sullivan: Okay. And then you mentioned potential propane acquisitions. I heard the Mid-Atlantic. I think you mentioned another area. Can you give some background, what do you need to see? I know there are many smaller propane companies out there, but what do you need to see to decide to acquire propane companies? Or can you cite an example from your most recent deals? What's attractive about those deals, please?

Beth Cooper: So I can start off, and then Jeff can add. So, the acquisitions that we've done, if you take a look at them, if you go all the way back, even a couple of years ago, you saw us do a transaction that we called Ohl, and that was up in Pennsylvania. And it was a nice fold-in. It gave us a little bit more of a foundation in that market.

That's pretty similar to what also happened in the case of Boulden. Boulden had some overlap with our existing Sharp operation, but they had a real strong footprint up around the Cecil County area. And if you'll recall, Tate, one of the great benefits of doing that transaction was, it was a nice overlay with Elkton.

So, we had an opportunity to build on our growing natural gas presence. But we also had, with the Boulden acquisition, a stronger footprint, particularly up there and in other areas in Maryland, even here on the Eastern Shore, where we have a presence, but we're not necessarily the largest player. So Boulden, again, gave us that.

And then also when you look at the Western Natural Gas acquisition, again, we serve parts of Florida, but that particular acquisition gave us a real strong foothold in the Jacksonville area. So we're looking at those types of opportunities.

We're also looking at opportunities to expand in contiguous markets. We've done some startups in contiguous markets, but we would also - we're interested in acquisitions that help expand our footprint. Jeff, I don't know if there's anything else you might want to add there.

Jeff Householder: No, that covered it. Thanks.

Tate Sullivan: Okay, thank you all for those comments.

Beth Cooper: Thank you. Thanks, Tate.

Tate Sullivan: Thank you.

Operator: Thank you. And our next question is from the line of Brian Russo with Sidoti. Please go ahead. Your line is open.

Brian Russo: Hi. Good afternoon.

Beth Cooper: Hi, Brian.

Jeff Householder: Hey, Brian.

Brian Russo: Hey, Jeff, you know, we've been seeing a lot of announcements from other utilities in terms of RNG projects, both in the Mid-Atlantic and around the country. And I was just wondering, if you could just elaborate, you know, on Chesapeake Utilities' competitive advantages to sign contracts, or what's the competitive landscape like? And is that impacting returns?

Jeff Householder: I can start that, Beth. The - one of the advantages that we have is geography. And so, the two projects that I mentioned specifically, the Bioenergy Devco project and CleanBay, are deep in the middle of our service territories on the Delmarva Peninsula.

We have other projects similar in nature in other jurisdictions in Florida, some in Ohio even, that we feel pretty confident that the offtake agreements for the gas, regardless of whether they come with the green attributes or not, we may, and somebody else may market those green attributes to the California vehicle market, for example. But the offtakes for the actual production, the physical production of gas, are viable. And we believe that we obviously have a significant advantage if we're the pipeline or distributor in the area.

The other thing, I think, that gives us an interesting advantage in these projects is Marlin, as I mentioned a moment ago. Frequently, it's not economically viable to build a pipeline to connect these production facilities, the RNG production facilities, to a distribution or transmission system.

And so, Marlin gets to look at a lot of projects that also give us another look at potential investments. And so, we'll see how that plays out over the coming years, but I think we're getting a first look at many things, because people developing projects are trying to find a way to get their gas to market, and Marlin offers that opportunity.

We're also seeing, as I mentioned, opportunities to do things that are - kind of surround these projects. They're associated with the projects, but they're not necessarily part of the analytic digester or even necessarily part of the gas processing facilities, things like solar photovoltaic, electric generation, that provide electricity to the production facility, and really improve the carbon intensity score, which has the effect of significantly improving the project economics because the gas - the green attributes of the gas at least are worth significantly more.

And so, those are the kinds of things that we're looking at. Many of these projects - I also mentioned this in passing probably pretty quickly, but many of these projects, including the ones in Delaware and Maryland I mentioned, have organic fertilizer production capabilities. And there's usually a thermal gas requirement for that. They're not using the RNG to produce that organic fertilizer.

And so, there's another opportunity for us to provide, not only takeaway services, offtake services, Marlin transport services, pipeline services, but also provide thermal gas back to the project to essentially drive the fertilizer. So we think there are a lot of opportunities there for us.

Brian Russo: Okay, great. Appreciate that. And then to segue into Marlin Gas Services, are you seeing incremental opportunities given the situation in Texas and in the south with the recent winter storms, and the hurricanes that we saw in the fall? Is there an increased market opportunity for Marlin gas for that? And has there been a dispatch lately?

Jeff Householder: Maybe so. I don't know that - yes, I don't know that we've seen a lot, certainly not related to the Texas situation. What we do see are significant opportunities for kind of the classic Marlin CNG delivery that are not emergency-based services, but that are opportunities for us to have a more predictable revenue stream, by executing agreements with pipelines and distribution companies that are taking facilities out of service on a routine basis for maintenance.

And so, those are the kinds of opportunities that we're looking for, rather than leaving a fleet of tanker trucks sitting in a parking lot somewhere waiting for the phone, waiting for an emergency. We're trying to establish a more regular revenue stream out of that business, and we've been making some significant progress down that path.

And so yes, there may be, from time to time, emergency services. We certainly continue to respond and we hold back some portion of our fleet to make sure that we can respond. But more and more of what we're looking for are those longer-term agreements, and where we have some predictable and understandable schedulable revenue streams.

Brian Russo: Okay, understood. And then just on your updated guidance through 2025 and the five-year CapEx relative to the earnings outlook in 2025, can you give us a sense of the mix of business and how that might evolve? It looks like roughly 80-plus percent of the 2021 CapEx is regulated. Should we assume that's kind of the profile for the five -year CapEx, and the mix will be approximately 80/20 in 2025?

Jeff Householder: Yes. And again, I wouldn't tell you it was exactly 80%. It may move around that number, but that's generally speaking, a pretty good target. Beth, I don't know if you want to comment on that.

Beth Cooper: No, I wholeheartedly agree with Jeff. I think, you know, we built our guidance based on looking at, as Jeff mentioned, our updated strategic plan. And so, it's opportunities that have a high probability of occurring, and there are opportunities that our groups are looking at and have identified. So as Jeff mentioned, it could be a little less. It could be a little bit more, but that's generally about where we've been over time.

Brian Russo: Okay, great. And then just lastly, on the gross margin Slide, I see under the regulatory initiatives, capital cost surcharge programs. And I know you discussed it in the press release. Could you just maybe discuss it again? What's driving that? And is that something that should remain as a gross margin driver going forward?

Beth Cooper: Sure, I can respond to that. So our pipeline, from time to time, will have mandatory relocation and enhancements that it needs to do based on projects that are under way. And so, it's not something, Brian, that you should say, I'm going to factor this in so much each year.

But when we have specific projects that we know that we're going to undertake, and we know what they're going to be generating in terms of incremental margins similar to like our GRIP program, we will announce those and include those in our margin table.

Brian Russo: Okay, great. And then lastly, your ability to manage operating cost at flat is quite impressive. Is there - is some of that sustainable, or is it temporary that you should see some normal cost inflation going forward?

Jeff Householder: I'll take the first pass, Beth. I mean, we have an interest in, as part of our business transformation that we mentioned earlier, looking at efficiencies across the organization. And we have - much as many smaller companies that are getting larger, we grew up with a set of siloed business units. And we're in the process of merging many of those together into similar areas of function. And as we do that, we find a variety of overlapping activities in those areas.

And I think that we will find that over time, we'll find some efficiencies there, and we can continue to effectively manage those costs. We're also deploying technology in a much different way than we were a couple of years ago. And again, those are the kinds of things that we're finding meaningful differences in the cost structure in these businesses. We're not absolutely out to drive costs down by some percentage, but as it comes along, we're harvesting it and taking advantage of that.

Brian Russo: Okay great. Thank you very much.

Beth Cooper: Thank you, Brian.

Operator: Thank you. Our next question is from Michael Gaugler with Janney Montgomery Scott. Please go ahead. Your line is open.

Michael Gaugler: Good afternoon, everyone.

Jeff Householder: Hey, Mike.

Beth Cooper: Good afternoon.

Jim Moriarty: Hey, Mike.

Michael Gaugler: In the presentation, you mentioned on Slide 18 transmission opportunities, and I know that's been a part of the thought process for a while. But I'm just wondering how you're thinking about it these days with the updated CapEx. Would these be new builds or potentially acquisitions? And what geographic regions look attractive?

Jeff Householder: Primarily, these are new builds, and we're looking at a number of projects in Florida where we've had a long history of being able to build intrastate pipelines. We have a couple. One, I mentioned the pipeline in Ohio, and actually, there's another pipeline out there to a power plant that we'll bring in this year.

And so, we see these opportunities, Mike, for relatively small-scale pipeline projects, and I think they'll continue without too much of an issue in the jurisdictions that we just described. Continue to be some opportunities for expansion on Eastern Shore on the Delmarva Peninsula as well.

I mean we're seeing, as I mentioned in the text here, the growth rates, both in Florida and on Delmarva, that are significantly in excess the national averages of more than double. And so, we're going to have a continuing need for additional gas supply, both in Florida and in Delmarva for the next several years.

Michael Gaugler: And then just one final. On Marlin, I know in the past, you had mentioned that there was some difficulty in getting equipment in a timely manner. And I'm wondering if that's still the case, or if you're able to get all the equipment you need when you need it.

Jeff Householder: Yes. That situation has dramatically improved in some respects, but we've changed to some extent, the technology of the equipment that we're using and the suppliers that were historically providing the equipment. And so, we're seeing opportunities to bring equipment in months and months less than we were seeing when we originally acquired the business.

Michael Gaugler: All right, that's all I had. Thank you.

Beth Cooper: Thank you, Mike.

Jeff Householder: Thank you.

Jim Moriarty: Thanks, Mike.

Operator: Thank you. And our next question is from Roger Liddell with Clear Harbor Asset Management. Please go ahead. Your line is open.

Roger Liddell: Yes, good afternoon.

Jeff Householder: Hey, Roger.

Beth Cooper: Hi, Roger.

Roger Liddell: I'm focusing on your comments. They were brief regarding hydrogen issues. And given that this could be a bull work against high carbon fuel restrictions, it's enormously important, even though early in the whole planning and buildout and so forth. But I'd be interested in any specific things that you can refer to.

An example would be, in a prior call or calls, you spoke of the, I think it's more than aspiration, but the desire to have renewable gas being sufficient to power the resi sector. And that's very powerful, and there is specificity there. Now, you're fortunate enough, unlike many other service territories, to be right at shorelines and therefore offshore wind, and the possibility of powering electrolyzers with offshore wind, opens up at least an opportunity for you. How do you see yourself participating in maybe helping to shape some of that development?

Jeff Householder: Well, that's - there's a lot of questions there, Roger. Let me go back to - I'll just start at the beginning. We definitely have an interest in hydrogen. We believe that our Eight Flags gas turbine sitting on Amelia Island, offers an interesting opportunity for us to find out a little more about how hydrogen might impact both our pipeline systems and the equipment that the gas systems are actually feeding.

And so we're, as I mentioned, early in the process with going to participate with the Solar Turbines folks in an actual federal DOE project to do some research and development on hydrogen, especially related to turbine. We also believe that given the fact that we have Marlin, we have an opportunity to be able to deliver hydrogen by transport truck to that facility as well as RNG, and we have it set up so that we can isolate the gas strain to Eight Flags without impacting other customers.

And so, to make a long story short, we see it as a great test case to see what happens in a number of respects and, again, primarily, the impact on our pipe systems and the impact on our measurement equipment, the impact on the turbine blades, and all the things that we need to understand better.

And so, we're committed to going down this path on the hydrogen side. We are looking for other industrial customers who may have a similar interest and that are similarly isolated on a pipeline system, and so that we could potentially run another type of test.

So I think this is - obviously, you know, this is an emerging market, and it's going to be a while before it’s - anybody is ready to inject significant amounts of hydrogen into their distribution system, although I think that time may actually come quicker than we think.

As far as actually producing the hydrogen and ensuring that we have green hydrogen as opposed to blue or gray to put in those pipelines and feed that, and whether that comes from wind generated energy or solar, we're also quite interested in taking a look at that.

And so, some of those solar facilities that I mentioned a moment ago, potentially could form the power generation basis for some small-scale hydrogen, green hydrogen production facilities. We're not really at a point where we can talk a lot about it right now, but there are a couple of things going on in our company with other firms, where we are looking at the possibility of doing something like that. So, as time goes by here over the next few months, maybe we'll be able to say a little more about it.

But I think we're definitely engaged in looking at hydrogen. We have, as I said, a couple of opportunities, one at Eight Flags and some others that we're looking at, where we can do specific testing so that we gain a better understanding of the performance of hydrogen, both in our systems and in customer appliances and equipment. Does that help?

Roger Liddell: Very interesting. I'm sorry. I didn't mean to cut you off.

Jeff Householder: No, no, you didn't. I was just hoping that I answered your questions.

Roger Liddell: Yes, well, an important part of it, and I've got to save some for another call.

Jeff Householder: Okay.

Roger Liddell: Good. Thank you. And I'm encouraged and looking forward to hearing further developments in this avenue.

Jeff Householder: Sure.

Beth Cooper: Thank you Roger.

Jim Moriarty: Thank you, Roger.

Operator: Thank you. And at this moment, there are no further questions. I will turn the call back over to you, Mr. Householder, for any closing remarks you have at this time.

Jeff Householder: No. I appreciate everyone's participation. A lot of great questions today, and we look forward very much to talking with you next quarter. Thank you very much. Good afternoon.

Operator: Thank you. Ladies and gentlemen. That does conclude today's call. We thank you for your participation, and ask that you please disconnect your lines.