Shelby: Good afternoon, and welcome again to Day 2 of the RBC Energy, Power and Infrastructure Conference. I'm Shelby Tucker, US Power and Utility Analyst for RBC.

Joining us for this fireside chat is Chesapeake Utilities. With us today is Jeff Householder, President and CEO of the company; Jim Moriarty EVP, General Counsel, Corporate Secretary, Chief Risk and Compliance Officer; and Tom Mahn, VP and Treasurer of the company.

So gentlemen, first of all, thanks for joining me this afternoon, and welcome to the RBC Conference.

Jeff: Thank you.

Shelby: What I'd like to do is go into a number of questions about the company. As some of you on the line may know already, Jeff was on our gas utility conference panel, now less than a half an hour ago, and we had some very interesting insights there. But I probably want to follow through on some of the activities that we're seeing in the gas LDCs, but specifically how it ties in with your system.

Before I get into that, I should remind the audience that if you do have any questions, there should be a spot on your box on your new screen in which you can submit a question and we will be sure to get to it, to your question.

So one of the things that we talked about was the renewable natural gas and hydrogen. And what was interesting about the comment that you made in our discussion was the role that you're playing in bringing renewable natural gas to the market, which is a slightly different role than some of these other gas LDCs are looking to do. For the benefit of those who did not listen to the panel, would you mind just going through, again, that distinction that you brought to the discussion?

Jeff: Sure. And again, not to besmirching anything that anybody else is doing in the renewable natural gas markets, I think there's room for a lot of different plays here in. In our case, it's less about the renewable natural gas that's produced from these facilities than it is to take advantage and to provide assistance, frankly, in the service territories where we operate our distribution facilities, primarily on Delmarva and in Florida, to try to address some of the environmental issues that the large agribusinesses operating in those states are finding themselves in.

And Delmarva is a good example of that. The poultry industry is huge there, a multibillion-dollar industry, some very large players, thousands and thousands of employees. It's a very large part of the economy and we need to make sure that it's healthy and that it continues.

And so, one of the issues that they face is the continuing problem of what to do with the poultry waste. And one of the ways that we are trying to address that, working with a couple of developers that are at work on the peninsula now, is to build large, what I will describe as utility scale anaerobic digestion facilities that will produce renewable natural gas.

They don't produce enough of it to displace significant amounts of the gas that we need in our distribution systems. And because of the economics of constructing these very large facilities, most of the green attributes, if not all of them, are aimed at the California LCFS market and will end up in a truck or a vehicle in California. We will take the physical gas into our distribution systems and we'll have non-fracking and non-fossil, locally produced energy for our systems at a very competitive price.

For us, it's part of what we see as an obligation to try to address the fundamental environmental issue for the poultry industries. But we think we play a very substantial role in addressing that issue. And more importantly, I think, or as importantly in our view, is that there are opportunities for us to make investments at very nice returns in these facilities. And it's not just the investment in the production facility itself. Its investments in things that surround or associated with those production facilities and business units that we currently operate.

And so, for example, we're going to provide conventional natural gas supply to the facility that's actually producing renewable natural gas. And that conventional gas supply will be used to dry the many, many tons of fertilizer, organic fertilizer, that these facilities are producing, which I think is as important environmentally as the renewable natural gas is. We also have opportunities to, as I said, take that renewable natural gas into our systems where it requires investments in transmission interconnects. It requires investments on our distribution system to distribute the gas.

We're going to see opportunities to build solar photovoltaic systems to provide electricity directly to these RNG production facilities and significantly lower the overall carbon intensity score for the RNG that's produced in those facilities. We will use our Marlin compressed natural gas business to actually transport the renewable natural gas from these facilities into the interconnect points on our transmission system. So there's a significant number of investment opportunities beyond just the investment that we potentially make in the anaerobic digestion and in the fertilizer production facility.

Shelby: So I actually, I want to pick up on that last point you made because what's fascinating about your opportunity is, because are not a pure play, a gas LDC, but you do have other businesses that tie in with the operational chain, could you maybe elaborate on what type of opportunities you see, both revenue opportunities but also investment opportunities that could come out of this trend, beyond just having an investment in the facility. Because it does seem as though there's a lot of moving parts to your opportunities.

Jeff: Yeah, there are. And again, as I mentioned, I think there are conventional gas supplies that get moved to these facilities. The one that we're looking at in Maryland right now will likely end up being the largest industrial customer we serve in Maryland. Again, these are large scale, multiple hundreds of millions of dollars of facilities, and so they're producing tons and tons and tons of organic fertilizer. And we have an opportunity to help them dry that fertilizer, which is a significant amount of gas.

We also have, as I mentioned, the Marlin opportunity to haul the gas, the solar photovoltaic opportunities to build electric generation around those plants. We're looking at combined heat and power, similar to the CHP plant that we have on Amelia Island to produce additional electricity, potentially using renewable natural gas for those facilities.

Now there are even opportunities down the road to look at hydrogen production off of the renewable energy that's produced by these facilities. So I think there's a wide scope of potential investments there. And it's not just on the Delmarva, although we're seeing significant potential investments over the next several years there.

We see some more opportunities in Florida. And in Georgia, we're building right now the largest compressed natural gas refueling facility on the East Coast of the United States, right outside the port of Savannah. Several thousand large transport trucks driving past that facility every day, the port vehicles, and it's an obvious place for us to bring renewable natural gas to fuel those vehicles.

And so, I think those are the kinds of activities that we're looking for where we can find an investment opportunity and one thing that we bring to the table, several other possibilities that our existing business units are involved in.

Shelby: Got it. I guess in some ways I'm trying to get a feel for, I won't say the multiplier effect, but more of the – these other opportunities, do they add materially to the additional investment or are these just smaller adds that…?

Jeff: We provided some sort of general capital investment amount with respect to what we might be doing or what we are trying to do in Delmarva, and I'll just sort of parse that a little bit here for you. One of the investments that's potential in the anaerobic digestion facilities themselves could be in the $30 to $40 million range.

That's a small part of a large facility, of a large investment, but the other investments that surround that could be another $25 million or so.

And so I think, depending on what our interest is in investing in the RNG facility or the production facility itself, and where that evolves. I mean we're going at this fairly cautiously and fairly conservatively, like we typically do with these investments. Not getting ahead of ourselves and making sure that we understand the risk involved and understand clearly the governance practices that will be in place as we begin to operate these facilities or as they're operated.

And so, a little bit different investment for us. We will not have a controlling investment in these facilities, in the production facilities, but we will control the operational activities that I just talked about that surround the facility itself. And so, it's a little bit of a different view of the world, but I think it's an appropriate step forward to dip our toe in the renewable natural gas and agricultural waste cleanup business.

And again, it's one that is highly linked and highly related to many, many, many of the business units that we currently operate. And frankly, looking at the margin generation from all of those potential investments that surround the production facility, we get pretty comfortable. Because it's a mix of regulated and non-regulated investments that are surrounding that production facility we get pretty comfortable that we can manage the risk appropriately.

Shelby: Got it. And if I think through – so most of this investment opportunity seems to be centered more around Delmarva. For Florida, I'm not as familiar of your customer base, but my guess is may not be as many opportunities there to support that type of undertaking. Is that, is that correct or are there businesses there that need the same service?

Jeff: There are definitely opportunities in Florida. I would agree with you that they're probably not as concentrated in one industry, like the poultry industry that we see on the Delmarva Peninsula. And so, it's a little bit different play, I think in Florida. And our distribution systems and our smaller intrastate transmission systems are scattered across the state from Pensacola all the way down to south of West Palm Beach. And so, we kind of cut a pretty good path across the state. So we're engaging with a number of agricultural interests in that state that are not all poultry. And we'll see where that goes.

It's an emerging market down there. There were a lot of people roaming around trying to sign up farmers and dairy cattle ranches and those sorts of things to get ahold of the waste supply. And I think that market will emerge over the next year or two into something that I think will be fairly interesting for us. There's also a lot of landfill activity in Florida. And so, there are quite a number of potential opportunities for the kinds of investments that we're talking about on the Delmarva.

But clearly in our backyard on the Delmarva, we have great opportunities. We serve virtually every one of the chicken facilities that are on that peninsula, either with natural gas or propane, so we have strong relationships in that industry. And obviously it sits right in the middle of our service area.

Shelby: Got it. If I think of the entire chain that you described and the different opportunities you have, are there any areas within that chain where you're missing assets where you need something to complement your existing skillsets?

Jeff: No, which is one of the beauties of this. We actually even could move into, and we've given this some thought, the gas processing facilities at these production facilities. We are not in the anaerobic digestion business, and I'm not sure we're intending to really get into that from an operational perspective. But the gas processing facilities that take the raw bio gas and actually clean it up to pipeline quality before it goes into a pipeline is something that we are familiar with. We do it in Ohio. And we certainly would be comfortable investing in that part of the overall RNG production facility.

Shelby: Got it. Just as a reminder for everybody on the line, if you do have any questions feel free to enter the question in the box that's on your screen.

Let me switch more to your bread and butter business, the gas and electric utility businesses run. One thing that I've always found to be fascinating about your company is your ability to find these smaller projects that are kind of interlinking projects, pipelines that can connect from one region to another or from some region to another. And every year you almost surprised me with a few; that one or two more that you come up with. To what extent is the system that you serve still need those type of projects?

Jeff: I think what we're seeing, as I mentioned on the panel and in a couple of other conversations today, is a significant, continued demand for gas service on the Delmarva and in Florida. And that's supported by a good solid business climate and pretty consistent regulatory environments in those areas. And so, we're continuing to see growth in our systems, both in Florida and on the Delmarva in our gas utility systems that's twice what we see on an average growth basis, customer addition basis across the country.

And so, there are many, many projects to come. We are building distribution system expansions all over the place on the Delmarva, and the same thing is true in Florida. And we thought that that might slow down and even stop during COVID-19. It did not. And if anything, it's accelerated. And certainly you see some of that on media reports these days where we're just seeing a significant amount of interest in people moving to these types of areas. And so, as long as that continues, we're going to have distribution expansion investments and we're going to have transmission investments.

I don't think you will see some of the very large transmission expansion that we've done on the Delmarva over the last five years. We don't have anything out, going in the next five years that would, that would look at putting another $200 million into Eastern Shore Natural Gas transmission. But there are some nice fundamental growth projects that I think we'll be doing on Eastern Shore that will principally serve our distribution facilities that continue to grow, especially in the Southern Delmarva.

And the same thing is true in Florida. We have a number of opportunities, I think to continue to make these relatively small scale, but meaningful, especially if you had several of them together as you mentioned, investments in transmission in Florida.

Shelby: And then obviously one of the recent additions to your Delmarva position has been the Elkton Gas acquisition. Now that you've had it for, I guess a couple of months now under your belt, any either lessons you've learned -- not even lessons -- but anything you gleaned from the asset, any investment opportunities that maybe you had not considered prior to acquiring the asset?

Jeff: I don't know that we didn't consider them, but I think we're seeing them materialize, both from a pipeline replacement and facility upgrade perspective that we had anticipated, and from a growth perspective. I mean that little area around Elkton, Maryland, along I-95 there, really is kind of booming. And so, we continue to see people building houses and commercial occupancies and some industrial development going on there. So it's turned into a nice little acquisition for us and we see growth opportunities there for quite a while, as well as in the pipeline replacement opportunities there.

Shelby: So we talked a little bit during the panel about M&A, which I think every panelist there agreed that the market seemed a little more expensive now, if you take the CenterPoint transaction as being the standard. But it does seem to me that there are a number of smaller gas, just LDCs that are little stranded that belong to very diverse portfolios. I don't have a good sense of whether that's the case in the territories that you serve. Can you maybe give me a sense of the landscape in both Delmarva and Florida?

Jeff: Probably not the case in Delmarva or Florida for that matter. But there are some small municipals on the Delmarva Peninsula. And then, of course, Delmarva

Power owns the facility sort of north of the canal going toward Wilmington and we have the distribution facilities pretty much south of that.

And if we look in Florida, there are a couple of regulated utilities, besides us, that still operate there. One owned by NextEra, one owned by Emera because there's us, and one other very small system. And then, 35 or so municipal systems that vary in size across the state. Tough, in both cases, to think about acquisitions in those areas. Not impossible. We've done a couple of small municipal systems, a couple of small IOUs in Florida over the years. So we'd never say never, but it's a tricky acquisition market.

There are some other, as you rightly and appropriately said, there are some other systems out there. I don't know what we're going to see over the next couple of years in terms of potential acquisitions. We saw Mountaineer coming up and going to UGI. And then obviously the CenterPoint systems came up. Those were very expensive transactions. The CenterPoint transactions were probably not at a level that we would be that interested in, frankly. But you never know. You never know what comes your way or what synergies you might find in a particular deal or what other things might drive a transaction.

Shelby: And then as I think of you, ironically I think of you as a Delmarva company and I often have to remind myself that you're in Florida, too. It does create some degree of opportunity where in essence if you want to say conceptually that it opens up the entire Atlantic Coast as an opportunity for you. Is that something that is top of mind, the geographic distance between Delmarva and Florida and how to bridge that? Or you just treat them as two very separate systems?

Jeff: Well, we – yeah, we linked them together from a management perspective and we don't distinguish geography in that way. We certainly have an interest in the East Coast of the United States, the Mid-Atlantic, and Southeast. Those are areas that that we know well. And I think we understand the politics and the customer base and all the things that would allow us to mitigate risks in those areas.

We do have interest outside of our existing territories, current territory. We've got 2,500 miles of a gathering pipeline system in Ohio, as an example. And so, we are not absolutely focused on filling in the blanks, but I think in terms of interest and focus on any sort of transaction, and frankly on any sort of substantive projects, as we're demonstrating with the facility that we're going to be operating in or around the Port of Savannah, Georgia. We're interested in sticking kind of close to that mid-Atlantic to Southeast Florida area.

Shelby: Got it. Okay. Well, one of the other points you made during our panel was that you hadn't really been in a rate case in a little while. And what's surprising about that is that virtually every utility that's spending a lot of capital and therefore increasing their rate base ends up having to go in for a rate case in order to get their rates at the right level. You've avoided that. Can you give us, give the audience a sense of how you manage your cost because I'm guessing that's probably one of the big drivers there?

Jeff: It's two things. It is cost management on one side and we've tried to do that without sacrificing quality and certainly without sacrificing safety. And we've got an excellent safety record, so we're not cutting corners on anything that's critically important.

The other thing that we've been able to do is to negotiate and receive approval from regulatory agencies, so the one in Florida is a great example of that, for recovery of our pipeline replacement programs. And so, we've spent, I don't know, 150 million bucks over the last five or six years replacing pipe in Florida and we have a mechanism that essentially allows for immediate recovery of that. And so, a significant portion of the investments that we've made in those systems in Florida, we've been able to recover those dollars very quickly without going back in for an actual rate proceeding. And to some extent, between that and the growth in the system we've been able to avoid going back in for a case.

Now we probably are due. It's been, I don't know, 11 years or something like that in Florida since we've been in, so I suspect you will see us sometime, certainly over the next couple of years. COVID kind of delayed a lot of that on that system in Florida, but we'll get past that and take another look at the scheduled cases. We've been in a little more frequently on the Delmarva, again, because we don't have those sort of immediate recovery mechanisms in place, at least to the extent that we do in Florida.

Shelby: Got it. Maybe a last couple of questions may focus a bit more on financial performance. As you pointed out in the panel, you have an excellent track record of growing earnings, growing the dividend. As you get larger, obviously you do get into some scale issues and it's harder to sustain that type of growth. Can you give me a sense of – so I think about your five-year growth where your dividends around 9.5%. As we think going forward, how should we - the pace of EPS and dividend growth, but also tied in with the additional investments opportunities that you see, you may not be talking about now, that could materialize over time? I realize it's a little bit beyond the five-year period maybe.

Jeff: Yeah, but I'll take a shot at some of it. Beth Cooper's not here to kick me under the table, so I'll try to respond.

Shelby: That's why I'm asking the question.

Jeff: Yeah, I know. .

Shelby: You're a free man.

Jeff: I'm going to try to channel Beth Cooper and her viewpoint. But we have issued, fairly recently, updated guidance. And as I mentioned earlier, over the next five-year period looking at something between $750 million and $1billion in additional investment. And we've also issued similar guidance on our earnings per share. We've been trying very hard, to some extent, link our dividend, annual dividend increase to our EPS percentage. And so, they're not exactly the same, but they're certainly in the ballpark and we think we can probably continue to see those kinds of levels.

We're fairly confident that we can achieve both of those things or we wouldn't have put it out as guidance, obviously. We have a very robust strategic planning process in this company. It's a never-ending look at what's over the hill a few years. And I can tell you in our core businesses, based on some of the topics that we've discussed today -- the continuation of our replacement projects; the significant growth that we're seeing from customer demand that doesn't appear to be backing off at any time over the next few years; and some of the other projects that we have in our heads to improve facilities on those distribution systems, those transmission systems; and some things we can do in our electric system, frankly in Florida -- we get pretty close to the bottom end of that range in our core businesses.

And so, we're pretty comfortable with what we've put out there. And I think the things that we talk about frequently that would augment that would be propane expansions and propane acquisitions in that mid-Atlantic and southeast area that we're always looking in. I think it would be increased opportunities that we see with our Marlin compressed natural gas business, especially surrounding some of the renewable natural gas production facilities all across the country.

We're not limiting Marlin by any stretch to our existing service territory. So we're looking at projects that range from California to the New York and down into Texas and everywhere in between that are requiring the transport of renewable natural gas from a facility, production facility to get it to a pipeline where it doesn't make economic sense to actually construct a pipeline directly from the RNG production facility.

So we think there's some real opportunities there. We think there is a lot of interest. We're seeing it now on the part of pipelines and distribution businesses to avoid the pipeline blowdowns that have been traditional in the industry when they need to take a section of pipe out of service for maintenance or repair. And so, instead of flaring that gas or venting it, everyone now is focused on collecting, recovering that gas, and then moving it someplace else so that they can reduce the overall methane emissions in the systems.

We have the facilities at Marlin that allow us to do exactly that. And so we're seeing a lot of interest in that. So I think Marlin is a growth story for us going forward over the next several years, as well as propane. And I think this whole renewable natural gas investment opportunity that we talked about a second ago is likely to result in some interesting investments for us over the next several years.

And so, getting us into that $750 to $1 billion range, we feel very comfortable that we'll be able to do that. We're already on pace this year to achieve the capital numbers that we had put out that are somewhere – Tom helped me with that – between $175 million and $200 million, I think are the numbers that we have on the screen right now.

Tom: Correct. And for the first quarter was $50 million.

Jeff: So we're getting – I think we're on track to produce the kind of numbers that we've been talking about.

Shelby: Great. Well, with that, we've actually gone a little over time. So Jeff, I really appreciate your insights. I get to see you twice in a day, and that doesn't happen very often. But more importantly, I hope to see all of you person very soon as we resume our world – our lives as they used to be. With that, just wishing you a good evening and talk to you soon.

Jeff: Thank you very much.

END