

# A LETTER FROM OUR president

**We continued to execute our long-term, disciplined growth strategy. Our annual capital investment of approximately \$283 million and annual gross margin growth of \$36.6 million were both record results. We had solid year-over-year growth in our natural gas and propane gas distribution operations. Our gas transmission businesses on the Delmarva Peninsula and in Florida completed two of the largest pipeline expansion projects in the Company's history. Chesapeake Utilities' 2018 adjusted earnings per share (EPS) increased 14.5%. We have consistently delivered long-term annual shareholder returns of 15%, and more recently as high as 25%, while at the same time being true to our unwavering commitment to the safe operation of our systems.**

This is my first letter to you as President and CEO of Chesapeake Utilities Corporation. I am pleased to report that 2018 was another record-setting year. Over the past decade, Chesapeake Utilities' growth and financial results have made us a top quartile performer among comparable energy companies in the U.S. One of the principal reasons for that success is our employees. We remain focused on attracting, developing and retaining the talent and experience required to maintain our culture and manage an ever-expanding and geographically diverse portfolio of assets.

## LEADERSHIP TRANSITION

Our Board of Directors has long held the view that succession planning is a critical component to sustaining and increasing shareholder value. One of the basic tenets of our strategy is to ensure we have the bench strength to promote internal candidates to fill key positions.

Last year, Mike McMasters, our CEO for the past eight years, retired. As many of you know, Mike was a 38-year Chesapeake Utilities employee. We are fortunate to have a number of employees whose careers, like Mike's, span the time when Chesapeake Utilities transformed itself from a small Delmarva

distribution and interstate transmission pipeline to a multistate energy delivery company. Mike took over from John Schimkaitis not long after the acquisition of Florida Public Utilities Company. He led the Company over an unprecedented period of growth, where we added over \$1 billion in gross plant. I was fortunate to work with Mike and the Chesapeake Utilities' team to drive that growth as President of the Company's Florida operations since 2010.

When Mike announced his retirement, our Board, with the assistance of a leading search firm, implemented the next steps of its executive succession plan. It's a testament to the strength and capabilities of our team that there were several well-qualified internal candidates to consider. I'm honored and humbled to have been chosen to lead this dynamic organization through our next period of growth. The Board's decision to appoint an internal successor is a strong endorsement of our successful strategic growth plan, which has consistently produced superior shareholder returns. I certainly appreciate the opportunity of assuming the leadership of a company in such great financial shape. All of us at Chesapeake Utilities look forward to writing the next chapter in our Company's growth story.

## A CULTURE OF SAFETY AND COMPLIANCE

Over the past several years, we have received many accolades for our financial performance. However, the awards I am most proud of recognize our efforts to improve service reliability and sustain employee, customer and community safety. Chesapeake Utilities' operating units frequently receive national safety commendations. Most recently, in 2018, our Eastern Shore Natural Gas and Aspire Energy units were recognized for safety achievements by the American Gas Association.

Fostering a culture of operational safety and reliability requires a commitment from the top and throughout the organization of both intent and resources. Our intentions are clear. Safety is the most important facet of our business. Over the past five years, we have invested almost \$250 million in pipeline integrity projects and improving our gas and electric transmission and distribution systems. As part of these upgrades, we have replaced almost 300 miles of natural gas pipeline, thousands of gas service lines and installed over 2,000 storm hardened electric poles. We've added personnel in key safety and compliance positions across the Company. New technologies have been deployed to better monitor our facilities and track maintenance requirements. This year, we will break ground on a new state-of-the-art safety training facility in Dover, DE.

## ENGAGED WORKFORCE

Someone recently said to me that Chesapeake Utilities' combination of strategic focus, engaged employees and innovative approach to the market was the "secret sauce" responsible for our success. I think that's a good way to describe our Company. It is rare in my experience to find a group of employees as committed to customer and community service as those I work alongside at Chesapeake Utilities. Time after time, I have watched our people work to put customer interests first. Our employees actively look for creative solutions. They are not hesitant to try an innovative approach. Whether it's providing propane AutoGas to customer fleets, building a combined heat and power plant that delivers low cost steam to a paper mill or a new tariff service to a power generator, our employees consistently find a way to deliver for our customers. Our employees' concern for customers translates into a broader interest in the communities we serve. Later in this report you will see only a sampling of our extensive engagement in charitable and community service activities.

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Jeff Householder,  
President and Chief Executive Officer

## PRIORITIES FOR 2019

Our business strategy for 2019 is consistent with the successful strategy we have executed for the past several years. There are many opportunities to expand and grow within our existing, core distribution and transmission businesses. Our regulated units will continue to develop and pursue innovative regulatory solutions for investment cost recovery. We will selectively, and with our customary discipline, seek to develop projects and acquire businesses that complement our existing portfolio, provide rapid earnings accretion and generate target returns. As always, we will continue to invest in safe, reliable and efficient operations. Several of our operational objectives for 2019 are listed below:

- Complete the Hurricane Michael cost recovery filing with the Florida Public Service Commission.
- Complete the final phase of the ESNG 2017 System Expansion Project and work to secure Federal Energy Regulatory Commission (FERC) approval for the Del-Mar Energy Pathway Project.
- Fully integrate the Marlin Gas Services acquisition; expand marketing efforts across the South and Mid-Atlantic.
- Deploy state infrastructure grants awarded to Chesapeake Utilities to expand our natural gas distribution systems further into Cecil and Somerset Counties in Maryland and Sussex County in Delaware.
- Continue to grow Peninsula Pipeline Company's intrastate transmission pipeline business in Florida; complete three expansion projects in western Palm Beach County.

We had a great year in 2018. Over the past several years, we have established a strong foundation that will support future growth. Chesapeake Utilities is well positioned to continue to build on that foundation and deliver exceptional service to our customers and industry leading results for our shareholders.

Sincerely,



Jeffrey M. Householder  
President and Chief Executive Officer

- Expand our propane AutoGas business with particular focus on Maryland, Virginia and Florida.
- Invest \$15 million in gas pipeline replacement and system modernization.
- Continue developing and investing in our high-performing team to support our culture and ongoing succession planning throughout the Company.

In addition to the above operational objectives, we have established several financial objectives in support of increasing shareholder value:

- In 2018, for the first time, provided guidance on our five-year capital spending plan with a total investment range of \$600 million to \$1 billion through 2022; then, based in part on our strong investment performance in 2018, updated the range to \$750 million to \$1 billion.
- Deploy \$168 million capital budget.
- Generate an EPS compound growth rate in the range of 7.75% - 9.5% through 2022.
- Target an 11.0% consolidated Return on Equity or higher.
- Sustain dividend growth supported by earnings growth while generating a Dividend Payout Ratio of approximately 45%.
- Migrate our capital structure back in line with our target equity to total capitalization ratio of 50% to 60%.

# ACHIEVEMENTS IN 2018

## We executed on several strategic initiatives in 2018.

### **Eastern Shore Natural Gas (ESNG) 2017 Expansion**

The largest single construction project in Chesapeake Utilities' history was substantially completed and placed in-service in 2018. The \$117 million transmission system expansion increased Delmarva delivery capacity by 26% and will help meet the growing energy requirements of southern Delaware and the Eastern Shore of Maryland.

### **ESNG Reliability Projects**

In response to the winter peak days experienced in 2014 and 2015, ESNG initiated several projects to improve overall system operational reliability. During the 2018/2019 winter, ESNG set a new daily delivery record in excess of 250,000 dekatherms. Our record deliveries validate both our continued growth in system demand as well as the enhanced operational reliability.

### **ESNG Rate Proceeding**

To recover the cost of the system expansion and reliability projects, we completed a FERC rate proceeding that contributed \$9.5 million in margin in 2018.

### **Peninsula Pipeline Company (PPC) Expansion**

PPC, our intrastate transmission business in Florida, constructed a \$36 million pipeline to serve industrial customers and two gas utilities in Escambia County, FL. PPC also completed a \$9 million project to replace an aging, undersized lateral serving the FPU New Smyrna Beach distribution system.

### **Sharp Energy Acquisition**

Our propane business continued to grow. We completed the acquisition of the R.F. Ohl Company, a retail propane business in the Pocono Mountain region in Pennsylvania. Along with the Chipola Gas acquisition in Florida, completed at the end of 2017, we added 4,500 propane customers.

### **Sharp Energy AutoGas**

The AutoGas business keeps growing. In 2018, we delivered more than 2 million gallons of propane for vehicle fuel.

### **Marlin Gas Services Acquisition**

Late in 2018, we acquired Marlin Gas Services, an unregulated compressed natural gas (CNG) transport and delivery company. Marlin provides temporary CNG fuel service to support emergency and planned maintenance pipeline outages and hold gas distribution systems until permanent pipeline service can be established while also offering a variety of specialty services such as transporting renewable landfill gas for pipeline injection. Marlin is a business we know well; we have been a customer for years. With the addition of Chesapeake Utilities' capital and administrative support, we expect significant growth from Marlin in 2019.

### **Delmarva Natural Gas (DNG) Expansion**

Our Delmarva distribution utilities continue to grow, adding over 3,000 customers in 2018. The conversion of the underground propane system in and around Ocean City, MD, that Chesapeake Utilities acquired in 2013, is progressing on schedule. We have converted over 7,600 accounts to date. Two state grants awarded to DNG will enable us to install over 10 miles of new mains to serve new customers in Kent and Sussex Counties, DE.

### **Hurricane Michael**

One of our greatest, and at the same time most heartbreaking, accomplishments in 2018 was the response and restoration of electric service after Hurricane Michael. We describe in greater detail later in this report the tremendous work under very difficult conditions performed by our employees in partnership with local and state officials and many third-party electric workers, tree crews and others. They often say the most rewarding experiences come out of periods of great difficulty. The unwavering commitment and care of everyone involved in our restoration effort underscores that principle.