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October 30, 1995

Blanca S. Bayo, Director
Division of Records & Reporting
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

HAND DELIVERY

951285-GU

Re: Petition by Chesapeake Utilities Corporation for Approval to Issue Common Stock and Unsecured Debt and to Exceed Limitation Placed on Short-Term Borrowings in 1996

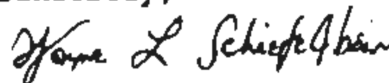
Dear Ms. Bayo:

Enclosed on behalf of Chesapeake Utilities Corporation are an original and five copies of the above referenced petition.

Please open a docket for processing this petition.

Please acknowledge receipt of the foregoing by stamping the enclosed extra copy of this letter and returning same to my attention. Thank you for your assistance.

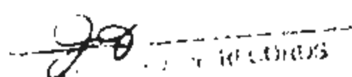
Sincerely,



Wayne L. Schiefelbein

WLS/ldv
Enclosures

cc:w/o encl.: Robert V. Elias, Esq. — Hand Delivery
Beth Salak — Hand Delivery



DOCUMENT NUMBER-DATE
10617 OCT 30 95
FPSC-RECORDS/REPORTING

BEFORE THE FLORIDA PUBLIC SERVICE COMM

MANUAL
SIGNED

In re: Petition by Chesapeake Utilities)
Corporation for Approval to Issue Common)
Stock and Unsecured Debt and to Exceed)
Limitation Placed on Short-Term Borrowings)
in 1996)

PETITION BY CHESAPEAKE UTILITIES CORPORATION FOR APPROVAL TO ISSUE COMMON STOCK AND UNSECURED DEBT AND TO EXCEED LIMITATION PLACED ON SHORT-TERM BORROWINGS IN 1996

Chesapeake Utilities Corporation (Chesapeake, the Company or Petitioner) respectfully files this Petition, pursuant to Section 366.04 (1), Florida Statutes, seeking authority to issue up to 2,981,870 shares of Chesapeake common stock and $40,000,000 in unsecured debt and to exceed the limitation placed on short-term borrowings by Section 366.04, Florida Statutes, so as to issue short-term obligations in an amount not to exceed $25,000,000.

1. Name and principal business offices of Petitioner:

(a) Chesapeake Utilities Corporation
P.O. Box 615
909 Silver Lake Boulevard
Dover, Delaware 19904

(b) Chesapeake Utilities Corporation
Florida Division
P.O. Box 960
1015 6th Street N.W.
Winter Haven, Florida 33881

and

(c) Chesapeake Utilities Corporation
Florida Division
1514 Alexander Street, Suite 107
Plant City, Florida 33566

DOCUMENT NUMBER-DATE
10617 OCT 30 ☐
FPSC-RECORDS/REPORTING

2. Incorporated:

Chesapeake Utilities Corporation - Incorporated under the Laws of the State of Delaware on November 12, 1947 and qualified to do business in Florida, Maryland, and Pennsylvania.

3. Person authorized to receive notices and communications in this respect:

Wayne L. Schiefelbein
Gatlin, Woods & Carlson
1709-D Mahan Drive
Tallahassee, Florida 32308
(904) 877-7191

Attorneys for Chesapeake Utilities Corporation

4. The names and addresses of the principal officers of the Petitioner are as follows:

Officers:

John W. Jardine, Jr.	Chairman of the Board P.O. Box 615 Dover, DE 19903
Ralph J. Adkins	President and Chief Executive Officer P.O. Box 615 Dover, DE 19903
John R. Schimkaitis	Senior Vice President, Assistant Treasurer, and Chief Financial Officer P.O. Box 615 Dover, DE 19903
Philip S. Barefoot	Senior Vice President P.O. Box 615 Dover, DE 19903
William C. Boyles	Treasurer and Assistant Secretary P.O. Box 615 Dover, DE 19903
Wayne L. Hart	Corporate Secretary P.O. Box 615 Dover, DE 19903

5. General description, territory served and map of territory:

Chesapeake distributes natural gas to approximately 32,300 residential, commercial and industrial customers in southern Delaware, on Maryland's Eastern Shore, and Central Florida. These activities are conducted through three utility divisions, consisting of one division in Delaware, one division in Maryland, and one division in Florida.

Delaware and Maryland. The Delaware and Maryland divisions serve approximately 24,300 customers, of which approximately 24,200 are residential and commercial customers purchasing gas primarily for heating purposes. Residential and commercial customers account for approximately 67 percent of the volume delivered by the divisions, and 79 percent of the divisions' revenue, on an annual basis. The divisions' industrial customers purchase gas, primarily on an interruptible basis, for a variety of manufacturing, agricultural and other uses. Most of Chesapeake's customer growth in these divisions comes from new residential construction utilizing gas heating equipment.

Florida. Chesapeake's Florida division, located in the area between Tampa and Orlando, consists of the former Central Florida Gas Company, acquired in December 1985, and the Plant City Natural Gas Company, acquired in January 1988. The Florida division, headquartered in Winter Haven, distributes natural gas to approximately 8,000 residential and commercial and 83 industrial customers in Polk, Osceola, and Hillsborough Counties.

Approximately 34 of the division's industrial customers, which are engaged primarily in the citrus and phosphate industries and purchase and transport gas on a firm and interruptible basis, account for approximately 82% of the volume delivered by the Florida division, and 67% of the division's natural gas sales and transportation revenue, on an annual basis. The map of the territories served, submitted in Docket No. 931112-GU, is incorporated by reference.

6. Facilities owned or operated by Petitioner:

Chesapeake, as generally described in paragraph (5) above, has filed with the Securities and Exchange Commission, the Annual Report (Form 10-K) pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934, Commission file number 0-593 which contains the information requested. A copy is omitted from this petition as allowed by Rule 25-8.010, Florida Administrative Code. The Florida division of Chesapeake Utilities Corporation owns and/or operates office and operations buildings as well as 454 miles of mains (and related equipment) supplying natural gas in its Central Florida service areas.

7. Capital Stock and Funded Debt:

Chesapeake has authority by provisions contained in its Certificate of Incorporation, as amended, to issue common stock as follows:

(a) Common stock having par value of $.4867.

(b) Amount authorized: 12,000,000 shares.

(c) Amount outstanding: 3,718,389 shares.

(d) Amount held in Treasury: 1,025 shares.

(e) Amount pledged by petitioner: None.

(f) Amount owned by affiliated corporations: None.

(g) Amount held in any fund: None.

The funded indebtedness by class and series are as follows:

(a)1 Variable rate (73.32% of prime rate) First Mortgage Sinking Fund Bonds, Series G, due January 1, 1998, issued on December 31, 1985, and secured by the Original Indenture dated December 1, 1959 between Chesapeake and Maryland National Bank in the principal amount of $2,500,000.

An obligation under the Tax-Exempt Loan Agreement between Chesapeake and the Polk County Industrial Development Authority has been evidenced by the First Mortgage Sinking Fund Bonds, Series G, which has been assigned to secure the Tax-Exempt Bonds (Industrial Development Revenue Bonds, Series 1985, $2,500,000).

The Bonds bear interest payable quarterly with provisions for payment of interest only prior to April 1, 1988. Thereafter, principal shall be payable, in addition to interest on the unpaid balance, over ten (10) years at the rate of $250,000 per annum. There is remaining a total of $562,500 on this issue.

(a)2 8.25% Convertible Debentures due March 1, 2014 are convertible prior to maturity, unless previously redeemed, into shares of common stock of Chesapeake at a conversion price of $17.01 per share. Interest on the Debentures is

payable on the first day of March and September, commencing September 1, 1989. The Debentures are redeemable at 100% of the principal amount plus accrued interest (i) on March 1 in any year, commencing in 1991, at the option of the holder and (ii) at any time within 60 days after a request on behalf of a deceased holder. At Chesapeake's option, beginning March 1, 1990, the Debentures may be redeemed in whole or in part at redemption prices declining from 107.25%, plus accrued interest. No sinking fund will be established to redeem the Debentures. There is remaining a total of $4,207,000 on this issue.

(a)3 9.37% First Mortgage Sinking Fund Bonds, Series I, due December 15, 2004, issued on December 15, 1989, and secured by the Original Indenture dated as of December 1, 1959 between Chesapeake and Maryland National Bank in the principal amount of $8,200,000 bearing interest payable semi-annually with provisions for payment of interest only prior to December 15, 1991; thereafter, principal shall be payable, in addition to interest on the unpaid balance, on or before the fifteenth days of December and June in each year (a) commencing on December 15, 1991, and ending on December 15, 1999, the sum of $260,000 and (b) commencing on June 15, 2000, and ending on June 15, 2004, the sum of $378,000. There is remaining a total of $6,120,000 on this issue.

(a)4 7.97% Unsecured Senior Notes due February 1, 2008, and issued on February 9, 1993 in the principal amount of $10,000,000 bearing interest payable semi-annually with provisions for payment of interest only prior to February 1, 1999; thereafter, principal shall be payable, in addition to interest on the unpaid balance, over ten (10) years at the rate of $1,000,000 per annum. There is remaining a total of $10,000,000 on this issue.

(a)5 6.91% Unsecured Senior Notes due October 1, 2010, and issued on October 2, 1995 in the principal amount of $10,000,000 bearing interest payable quarterly with provisions for payment of interest only prior to October 1, 2000; thereafter, principal shall be payable, in addition to interest on the unpaid balance, over eleven (11) years at the rate of $909,091 per annum. There is remaining a total of $10,000,000 on this issue.

(a)6 12.00% Mortgage of Skipjack, Inc., a wholly owned subsidiary of Chesapeake Service Company which, in turn, is a wholly owned subsidiary of Chesapeake, due February 1, 1998, and issued on September 5, 1986 in the principal amount of $110,000. Interest and principal are payable in twelve (12) equal consecutive annual installments of $17,758 commencing on February 1, 1987. There is remaining a total of $39,988 on this issue.

(a)7 As of October 31, 1995, the Company had four $8,000,000 unsecured bank lines of credit. As of October 27, 1995, there was $4,000,000 outstanding on these lines of credit.

(b) The amounts authorized are set forth above.

(c) The amounts presently outstanding are set forth above.

(d) Amount held as reacquired securities: None.

(e) Amount pledged by petitioner: None.

(f) Amount owned by affiliated corporations: None.

(g) Amount in Sinking Fund or other funds: None.

8. Proposed transactions:

Chesapeake proposes to issue up to 981,870 new shares of its common stock for the purpose of administering Chesapeake's Retirement Savings Plan, Performance Incentive Plan, Automatic Dividend Reinvestment and Stock Purchase Plan, Restricted Stock Award Agreements and conversion of the Company's Convertible Debentures. The share breakdown for each specific purpose is as follows:

Number of Shares	Purpose
100,000	Reserved for issuance pursuant to the Company's Retirement Savings Plan.
200,000	Reserved for issuance under the terms of the Company's Performance Incentive Plan.
369,287	Reserved for issuance pursuant to the Company's Automatic Dividend Reinvestment and Stock Purchase Plan.
65,258	Reserved for issuance under the terms of existing Restricted Stock Award Agreement by and between the Company and John R. Harlow.

247,325	Reserved for issuance under the terms of the Company's outstanding 8 1/4% Convertible Debentures.

Chesapeake also intends to issue $15,000,000 in unsecured debt for general corporate purposes including, but not limited to, working capital, retirement of short-term debt, retirement of long-term debt and capital improvements. In addition, Chesapeake intends to continue its historically aggressive acquisition program. For this purpose, Chesapeake is projecting financing needs for possible acquisitions of up to 2,000,000 shares of common stock and up to $25,000,000 in unsecured debt. Due to the nature of typical cash for stock acquisitions, the $25,000,000 in unsecured debt may be initially issued through a bridge loan in the form of notes held by banks or some similar form of short-term obligations. For this reason, Chesapeake seeks FPSC approval to exceed the limitation placed on short-term borrowings by Section 366.04, Florida Statutes, so as to issue short-term obligations in an amount not to exceed $25,000,000. The bridge financing would subsequently be refinanced as unsecured long-term debt with an estimated rate of interest of up to 200 basis points above U.S. Treasury rates (or extrapolated U.S. Treasury rates) with equivalent average life.

9. <u>Purpose for which Securities are to be issued:</u>

(a) Chesapeake's Retirement Savings Plan ("RSP") was implemented on February 1, 1977. As of September 30, 1995, the RSP had 217 Chesapeake employee participants and a total market valuation of $5,872,187. A true and correct copy of the RSP has been

previously filed with the FPSC as Exhibit E of the Petition for Approval of Issuance and Sale of Securities by Chesapeake Utilities Corporation, Docket No. 931112-GU, dated November 17, 1993, and is hereby incorporated by reference. Pursuant to the RSP, all employer matching contributions made on behalf of the participants are invested in common stock of Chesapeake; currently, 160,662 shares are held pursuant to the RSP. In administering the RSP, the RSP's Trustee has the flexibility of purchasing shares of Chesapeake common stock on the open market, using Treasury stock or issuing new common stock. The gradual issuance of new common stock enables Chesapeake to balance the composition of its capital between common stock and long-term debt. On June 23, 1992, the Delaware Public Service Commission issued Order No. 3425 approving the issuance of up to 100,000 new shares of Chesapeake common stock for the purpose of administering Chesapeake's RSP. Please note that this Order by the Delaware Public Service Commission is "open-ended" in the sense that there is no time limit by which the approved securities need to be issued. A copy of the Order has been previously filed with the FPSC in Exhibit J of the Petition for Approval of Issuance and Sale of Securities by Chesapeake Utilities Corporation, Docket No. 931112-GU, dated November 17, 1993, and is hereby incorporated by reference. As of the date of this filing, none of the 100,000 authorized shares have been issued. The FPSC approved the issuance and sale of these securities during 1995 by Order No. PSC-94-1619-FOF-GU, issued on

December 29, 1994. Chesapeake now seeks FPSC approval to issue up to 100,000 new shares of Chesapeake common stock for the purpose of administering Chesapeake's Retirement Savings Plan during 1996.

(b) On May 19, 1992, the common stock shareholders of Chesapeake voted in favor of adopting the Chesapeake Utilities Corporation Performance Incentive Plan ("PIP"). A true and correct copy of the PIP has been previously filed with the FPSC as Exhibit F of the Petition for Approval of Issuance and Sale of Securities by Chesapeake Utilities Corporation, Docket No. 931112-GU, dated November 17, 1993, and is hereby incorporated by reference. The purposes of the PIP are (1) to further the long-term growth and earnings of the Company by providing incentives and rewards to those executive officers and other key employees of the Company and its subsidiaries who are in positions in which they can contribute significantly to the achievement of that growth; (2) to encourage those employees to obtain proprietary interests in the Company and to remain as employees of the Company; and (3) to assist the Company in recruiting able management personnel. To accomplish these objectives, the PIP authorizes the grant of nonqualified stock options, performance shares of the Company's common stock and stock appreciation rights, or any combination thereof. The PIP provides that over a ten year period beginning in 1992, any one or more types of awards for up to a total of 200,000 shares of Chesapeake's common stock may be granted. On June 23, 1992, the Delaware Public Service Commission issued

Order No. 3425 approving the issuance of up to 200,000 new shares of Chesapeake common stock for the purpose of administering Chesapeake's PIP. Please note that this Order by the Delaware Public Service Commission is "open-ended" in the sense that there is no time limit by which the approved securities need to be issued. A copy of this Order has been previously filed with the FPSC in Exhibit J of the Petition for Approval of Issuance and Sale of Securities by Chesapeake Utilities Corporation, Docket No. 931112-GU, dated November 17, 1993, and is hereby incorporated by reference. As of the date of this filing, none of the 200,000 authorized shares have been issued. The FPSC approved the issuance and sale of these securities during 1995 by Order No. PSC-94-1619-FOF-GU, issued on December 29, 1994. Chesapeake now seeks FPSC approval to issue up to 200,000 new shares of Chesapeake common stock for the purpose of administering Chesapeake's Performance Incentive Plan during 1996.

(c) Chesapeake's Automatic Dividend Reinvestment and Stock Purchase Plan ("DRP") was implemented on April 27, 1989. As of September 30, 1995, the DRP had 817 stockholder participants. A true and correct copy of the DRP as filed on Registration Statement Form S 3 with the Securities and Exchange Commission has been previously filed with the FPSC as Exhibit G of the Petition for Approval of Issuance and Sale of Securities by Chesapeake Utilities Corporation, Docket No. 931112-GU, dated November 17, 1993, and is hereby incorporated by reference. The DRP was

developed in response to stockholder interest. Many other publicly owned corporations have a dividend reinvestment plan in place, and Chesapeake believed that by implementing the DRP, the Corporation would become more attractive to existing and future stockholders. The DRP Administrator currently has the flexibility of purchasing shares of Chesapeake common stock on the open market, using Treasury stock or issuing new common stock. The gradual issuance of new common stock enables Chesapeake to balance the composition of its capital between common stock and long-term debt. On May 23, 1989, the Delaware Public Service Commission issued Order No. 3071 approving the issuance of up to 200,000 new shares of Chesapeake common stock for the purpose of administering Chesapeake's DRP. Please note that this Order by the Delaware Public Service Commission is "open-ended" in the sense that there is no time limit by which the approved securities need to be issued. A copy of this Order has been previously filed with the FPSC in Exhibit J of the Petition for Approval of Issuance and Sale of Securities by Chesapeake Utilities Corporation, Docket No. 931112-GU, dated November 17, 1993, and is hereby incorporated by reference. Pursuant to this Order, Chesapeake has issued 130,713 new shares of common stock as of October 31, 1995. Thus, there remains to be issued 69,287 shares as authorized by the Delaware Public Service Commission. The FPSC approved the issuance and sale of these securities during 1995 by Order No. PSC-94-1619-FOF-GU, issued on December 29, 1994. Concurrent with this petition,

Chesapeake intends to file an application with the Delaware Public Service Commission requesting approval to issue an additional 300,000 shares of common stock for the purpose of administering Chesapeake's DRP. In addition, on or about December 1, 1995, Chesapeake intends to file another Registration Statement Form S-3 with the Securities and Exchange Commission relating to the additional 300,000 shares of common stock. Chesapeake now seeks FPSC approval to issue up to 369,287 new shares of Chesapeake common stock for the purpose of administering Chesapeake's Automatic Dividend Reinvestment and Stock Purchase Plan during 1996.

(d) On June 3, 1991, Chesapeake acquired United Systems, Inc. ("USI") for 13,489 shares of newly issued common stock. USI is a computer software development, marketing and training firm with its principal place of business located in Atlanta, Georgia. Over the past four years, 134,742 new shares of Chesapeake common stock were issued to satisfy obligations of the Restricted Stock Award Agreements ("Agreements") associated with the acquisition of USI. True and correct copies of the Agreements has been previously filed with the FPSC as Exhibit H of the Petition for Approval of Issuance and Sale of Securities by Chesapeake Utilities Corporation, Docket No. 931112-GU, dated November 17, 1993, and are hereby incorporated by reference. Under the Agreements, newly issued common stock of Chesapeake will be awarded to certain USI executives should the future financial performance of USI meet certain base levels. It is difficult to

determine the exact number of shares of stock required to satisfy these Agreements due to the uncertainty of projecting future earnings. As mentioned above, and based on USI's performance over the past four years, Chesapeake previously issued 134,742 new shares of common stock in order to satisfy the Agreements. These shares, as well as an additional 65,258 shares, have been approved for issuance by the Delaware Public Service Commission under Order Nos. 3256, 3425 and 3681, dated April 16, 1991, June 23, 1992 and October 5, 1993, respectively. Please note that these Orders by the Delaware Public Service Commission are "open-ended" in the sense that there is no time limit by which the approved securities need to be issued. Copies of these Orders have been previously filed with the FPSC in Exhibit J of the Petition for Approval of Issuance and Sale of Securities by Chesapeake Utilities Corporation, Docket No. 931112-GU, dated November 17, 1993, and are hereby incorporated by reference. Of the total 200,000 shares of common stock previously authorized by the Delaware Public Service Commission, 134,742 shares have been issued as of October 31, 1995. Thus, there remains to be issued 65,258 shares as authorized by the Delaware Public Service Commission. The FPSC approved the issuance and sale of these securities during 1995 by Order No. PSC-94-1619-FOF-GU, issued on December 29, 1994. Chesapeake now seeks FPSC approval to issue up to 65,258 new shares of Chesapeake common stock for the purpose of satisfying the future obligations of the Restricted Stock Award Agreements during 1996.

(e) On April 4, 1989, Chesapeake issued $5,000,000 in 8.25% Convertible Debentures as part of a public offering. As of October 31, 1995, $4,207,000 remained outstanding with a conversion price of $17.01 per share. Hence, the maximum number of shares of common stock that could be issued upon conversion is 247,325. A true and correct copy of the Registration Statement on Form S-2 dated February 16, 1989, as filed with the Securities and Exchange Commission, has been previously filed with the FPSC as Exhibit I of the Petition for Approval of Issuance and Sale of Securities by Chesapeake Utilities Corporation, Docket No. 931112-GU, dated November 17, 1993, and is hereby incorporated by reference. The Debentures have a conversion premium greater than the offering price of the common stock issue, no mandatory sinking fund, and became callable after one year at a premium equal to the interest rate less 1%, declining 1/2% per year thereafter. There is an optional bondholder redemption feature which allows any debentureholder to present any Debenture for redemption, at par, on the anniversary date of the issue, subject to annual limitations of $10,000 per debentureholder and $200,000 in the aggregate. These optional redemption rights began on April 1, 1991. In addition, subject to the annual limitations of $10,000 per debentureholder and $200,000 in the aggregate, Chesapeake will redeem the Debentures of deceased debentureholders within 60 days of notification. Such redemption of estate Debentures shall be made prior to other Debentures. On February 14, 1989, the Delaware Public Service Commission issued

Order No. 3040 approving the issuance of $5,000,000 in Convertible Debentures and, inherently, their potential conversion into Chesapeake common stock. Please note that this Order by the Delaware Public Service Commission is "open-ended" in the sense that there is no time limit by which the approved securities need to be issued. A copy of this Order has been previously filed with the FPSC in Exhibit J of the Petition for Approval of Issuance and Sale of Securities by Chesapeake Utilities Corporation, Docket No. 931112-GU, dated November 17, 1993, and is hereby incorporated by reference. As of the date of this filing, a cumulative $5,000 of the Convertible Debentures had been converted. The FPSC approved the issuance and sale of these securities during 1995 by Order No. PSC-94-1619-FOF-GU, issued on December 29, 1994. Chesapeake now seeks FPSC approval to issue up to 247,325 new shares of Chesapeake common stock for the purpose of honoring conversion rights pursuant to the Company's Convertible Debentures during 1996.

(f) Chesapeake seeks FPSC approval to issue up to $15,000,000 in unsecured long-term debt with an estimated rate of interest of up to 200 basis points above U.S. Treasury rates (or extrapolated U.S. Treasury rates) with equivalent average life. Proceeds from this debt issuance would be used for general corporate purposes including, but not limited to, working capital, retirement of short term debt, retirement of long-term debt and capital improvements. The FPSC approved the issuance and sale of

$15,000,000 of these securities during 1995 by Order No. PSC-94-1619-FOF-GU, issued on December 29, 1994.

(g) Chesapeake seeks FPSC approval to issue up to 2,000,000 shares of common stock and $25,000,000 in unsecured long-term debt with an estimated rate of interest of up to 200 basis points above U.S. Treasury rates (or extrapolated U.S. Treasury rates) with equivalent average life. This stock and debt would be used to finance Chesapeake's ongoing acquisition program of related businesses. Chesapeake intends to continue to search for growth opportunities through acquisitions which fit its long-range plan to achieve the proper mix of business activities. Financing of acquisitions will depend upon the nature and extent of potential acquisitions as well as current market and economic conditions. The FPSC cumulatively approved the issuance and sale of these securities during 1995 Order No. PSC-94-1619-FOF-GU, issued on December 29, 1994.

Lawful object and purpose:

The common stock and long-term debt issued will be used for the purpose of administering Chesapeake's Retirement Savings Plan, Performance Incentive Plan, Automatic Dividend Reinvestment and Stock Purchase Plan, Restricted Stock Award Agreements, conversion of the Company's Convertible Debentures, financing of the Company's acquisition program and for other corporate purposes including, but not limited to, working capital, retirement of short term debt, retirement of long-term debt and capital improvements. This is for a lawful object within the

corporate purposes of Chesapeake and compatible with the public interest and is reasonably necessary or appropriate for such purposes.

11. Counsel:

The legality of the common stock and debt issuances will be passed upon by William A. Denman, Esquire, Schmittinger & Rodriguez, 414 South State Street, P.O. Box 497, Dover, Delaware 19903, who will rely on Wayne L. Schiefelbein, Esquire, Gatlin, Woods & Carlson, Attorneys at Law, 1709-D Mahan Drive, Tallahassee, Florida 32308, as to matters of Florida law.

12. Other Regulatory Agencies:

Under 26 Del. C Section 215 of the Delaware statutes, Chesapeake is regulated by the Delaware Public Service Commission and, therefore, must file a Prefiling Notice, a Notice, and an Application to obtain approval of the Delaware Commission before issuing new securities which mature more than one (1) year from the date of issuance. In addition, a Notice must be filed if Chesapeake intends to incur short-term indebtedness which exceeds ten percent of the Company's total capitalization.

All necessary applications or registration statements have been or will be made as required and will be made a part of the final consummation report to the FPSC as required by Rule 25-8.009, Florida Administrative Code.

The address of the Delaware Commission is as follows:

Delaware Public Service Commission
P.O. Box 457
Dover, Delaware 19901
Attention: Bruce H. Burcat, Executive Director

13. Control or ownership:

Petitioner is not owned by any other company nor is Petitioner a member of any holding company system.

14. Exhibits:

The following exhibits submitted with Petitioner's Petition in Docket No. 931112-GU are incorporated in the instant Petition by reference:

Exhibit D:	Map of Territory Served.
Exhibit E:	Chesapeake Utilities Corporation's Retirement Savings Plan.
Exhibit F:	Chesapeake Utilities Corporation's Performance Incentive Plan.
Exhibit G:	Chesapeake Utilities Corporation's Automatic Dividend Reinvestment and Stock Purchase Plan as filed with the Securities and Exchange Commission on Registration Statement Form S-3 dated August 28, 1992.
Exhibit H:	Restricted Stock Award Agreements by and between the Company and Warren S. Aldrich and John R. Harlow.
Exhibit I:	Chesapeake Utilities Corporation's Public Offering of Common Stock and Convertible Debentures as filed with the Securities and Exchange Commission on Registration Statement Form S-2 dated February 16, 1989.
Exhibit J:	Orders of the Delaware Public Service Commission Authorizing the Issuance of Common Stock.

Filed herewith:

Exhibit A:	Chesapeake Utilities Corporation's Restated Articles of Incorporation with Amendments to date.
Exhibit B:	Exhibit B consists of the following attachments:
	B(1) Chesapeake Utilities Corporation

Annual Report on Form 10-K for the year ended December 31, 1994.

B(2) Chesapeake Utilities Corporation Quarterly Report on Form 10-Q for the quarter ended June 30, 1995.

Exhibit C: Sources and Uses of Funds Statement and Construction Budget.

15. Constitutionality of Statute:

The statutory requirement of FPSC approval of the issuance and sale of securities by a public utility, under Section 366.04 (1), Florida Statutes, as applied to Chesapeake, a Delaware corporation engaged in interstate commerce, is unconstitutional, in that it creates an unreasonable burden on interstate commerce. Support for this position is set out in Chesapeake's petition for declaratory statement disclaiming jurisdiction, as filed in FPSC Docket No. 930705-GU.

By FPSC Order No. PSC-93-1548-FOF-GU, issued on October 21, 1993 the FPSC denied the petition for declaratory statement, while approving the alternative petition for approval of the issuance of up to 100,000 new shares of common stock for the purpose of administering a Retirement Savings Plan. The FPSC found that "the facial constitutionality of a statute cannot be decided in an administrative proceeding," and that since the stock issuance was approved, "the question of constitutionality appears to be academic at this time."

Chesapeake continues to maintain that the assertion of jurisdiction by the FPSC over its securities unconstitutionally burdens interstate commerce, particularly where the Public Service Commission of the State of Delaware has approved their

issuance and sale, and/or where the securities do not create a lien or encumbrance on assets of Chesapeake's public utility operations in the State of Florida.

Florida law provides for severe penalties for any willful violation of a statute administered by the FPSC or any of its rules or orders. Secs. 350.127 (1) and 366.095, Florida Statutes.

Accordingly, Chesapeake believes it must submit to FPSC jurisdiction over its securities if it is to avoid assessment of such penalties and to otherwise remain in good standing before the FPSC. It therefore files the instant application, under protest, and without waiver of its position regarding the unconstitutionality of the statute.

PRAYER FOR RELIEF

Based on the foregoing, Chesapeake Utilities Corporation requests that the FPSC issue an Order approving the proposed issuances of 2,981,870 shares of common stock, $40,000,000 of unsecured debt and to exceed the limitation placed on short-term borrowings by Section 366.04, Florida Statutes, so as to issue up to $25,000,000 in short-term obligations.

Respectfully submitted,

Date: October 30, 1995

Wayne L. Schiefelbein
Gatlin, Woods & Carlson
1709-D Mahan Drive
Tallahassee, FL 32308
(904) 877-7191

Attorneys for
Chesapeake Utilities Corporation

Date: October 27, 1995

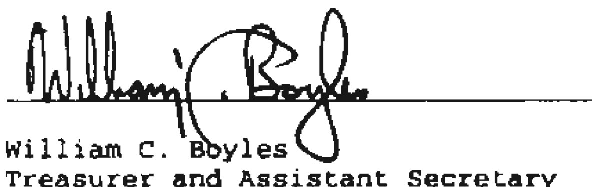
By: ____________
William C. Boyles
Treasurer & Assistant Secretary

STATE OF DELAWARE *

*

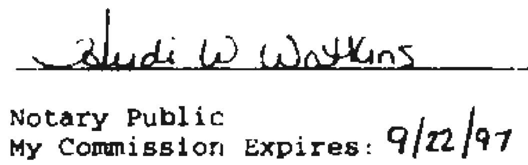
COUNTY OF KENT * SS

BE IT REMEMBERED that on this 27th day of October, 1995, personally appeared before me, a Notary Public for the State of Delaware, William C. Boyles, who being by me duly sworn, did depose and say that he is a Treasurer and Assistant Secretary of Chesapeake Utilities Corporation, a Delaware corporation, and that insofar as the application of Chesapeake Utilities Corporation states facts, and insofar as those facts are within his personal knowledge, they are true; and insofar as those facts that are not within his personal knowledge, he believes them to be true, and that the exhibits accompanying this application and attached hereto are true and correct copies of the originals of the aforesaid exhibits, and that he has executed this application on behalf of the Company and pursuant to the authorization of its Board of Directors.



William C. Boyles
Treasurer and Assistant Secretary

SWORN TO AND SUBSCRIBED before me the day and year first above written.



Notary Public
My Commission Expires: 9/22/97

EXHIBIT A

**Chesapeake Utilities Corporation's
Restated Articles of Incorporation
with Amendments to date**

(certified copy submitted with original petition)

State of Delaware

Office of the Secretary of State

I, EDWARD J. FREEL, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY THE ATTACHED IS A TRUE AND CORRECT COPY OF THE RESTATED CERTIFICATE OF "CHESAPEAKE UTILITIES CORPORATION", FILED IN THIS OFFICE ON THE TWENTY-SECOND DAY OF MAY, A.D. 1995, AT 9 O'CLOCK A.M.

A CERTIFIED COPY OF THIS CERTIFICATE HAS BEEN FORWARDED TO THE NEW CASTLE COUNTY RECORDER OF DEEDS FOR RECORDING.

Edward J. Freel, Secretary of State

0417629 8100

950112508

AUTHENTICATION: 7517458

DATE: 05-25-95

STATE OF DELAWARE
SECRETARY OF STATE
DIVISION OF CORPORATIONS
FILED 09:00 AM 05/22/1995
[illegible]12508 - 417629

RESTATED CERTIFICATE OF INCORPORATION

OF

CHESAPEAKE UTILITIES CORPORATION

Chesapeake Utilities Corporation, a corporation organized and existing under the laws of the State of Delaware, hereby certifies as follows:

1. The name of the Corporation is CHESAPEAKE UTILITIES CORPORATION. The date of filing the Corporation's original Certificate of Incorporation with the Secretary of State of the State of Delaware was November 12, 1947.

2. This restated Certificate of Incorporation restates and integrates and further amends the Certificate of Incorporation of this Corporation.

3. The text of the Certificate of Incorporation of the Corporation as amended or supplemented heretofore and herewith is hereby restated to read as herein set forth in full:

FIRST: The name of the Corporation is CHESAPEAKE UTILITIES CORPORATION.

SECOND: The address of its registered office in the State of Delaware is 1013 Centre Road, in the City of Wilmington, County of New Castle, 19805. The name of its registered agent at such address is Corporation Services Company.

THIRD: The nature of the business, or objects or purposes to be transacted, promoted or carried on are:

To produce, transmit, distribute and sell natural and manufactured gas; to construct, maintain and operate works for the supply and distribution of electricity for electric lights, heat or power; to supply and distribute water; to transport and store oil; and to produce and distribute steam, heat and power; in each case to or for all persons and places, public and private, where it may be desired, and to carry on all activities and businesses that are usually or may be conveniently carried on by a company in such business or that are incidental to such business; and

To supply in any manner light, heat, steam, energy or power to the public; to explore, impound, develop, acquire and transport natural resources incident to the above-stated businesses; and to supply, maintain and service equipment and systems incident to the above-stated businesses; and

In general, to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of the State of Delaware.

The objects and purposes specified in the foregoing clauses shall, except where otherwise expressed, not be limited or restricted by reference to each other but shall be regarded as separate, independent businesses and purposes.

FOURTH: The total number of shares of all classes of stock which the Corporation shall have authority to issue

is Fourteen Million (14,000,000) shares, divided into Twelve Million (12,000,000) shares of Common Stock of the par value of forty-eight and two-thirds cents ($.48 2/3) per share, amounting in the aggregate to Five Million Eight Hundred Forty Thousand Dollars ($5,840,000.00), and Two Million shares of Preferred Stock, in series, of the par value $0.01 per share, amounting in the aggregate to Twenty Thousand Dollars ($20,000).

The express terms and provisions of the shares classified and designated as the Preferred Shares, par value $0.01, are as follows:

(1) Authority to Issue in Series. The Board of Directors is authorized, subject to limitations prescribed by the General Corporation Law of the State of Delaware, to provide for the issuance of the Preferred Shares in series, and by filing a certificate pursuant to the General Corporation Law of the State of Delaware, to establish from time to time the number of shares to be included in such series, and to fix the designations, powers, preferences and relative, participating or other special rights of the shares of each such series, and the qualifications, limitations or restrictions thereof;

(2) Terms. The authority of the Board of Directors with respect to each series of Preferred Shares shall include, but not be limited to, determination of the following:

(a) the number of shares constituting that series and the distinctive designation of that series and the stated value thereof, if any, if different from the par value thereof;

(b) The dividends, if any, payable on the shares of that series, whether dividends shall be cumulative, and, if so, from which date or dates, and the preference, if any, or relation which such dividends shall bear to the dividends payable on any shares of stock of any other class or any other series of any class;

(c) Whether that series shall have voting rights or power, in addition to the voting rights provided by law, and, if so, the terms of such voting rights;

(d) Whether or not that series shall have conversion or exchange privileges, and, if so, the terms and conditions of such conversion, including provision for adjustment of the conversion rate in such events as the Board of Directors shall determine;

(e) Whether or not the shares of that series shall be redeemable, and, if so, the terms and conditions of such redemption, including the date upon or date after which they shall be redeemable, and the amount per share payable in case of redemption, which amount may vary under different conditions and at different redemption dates;

(f) Whether that series shall have a sinking fund for the redemption or purchase of shares of that series, and, if so, the terms and amount of such sinking fund;

(g) The rights of the shares of that series in the event of voluntary or involuntary liquidation, dissolution or winding up of the Corporation, and the relative rights of priority, if any, of payment of the shares of that series;

(h) The limitations and restrictions, if any, to be effective while any shares of such series are outstanding upon the payment of dividends or the making of other distributions on, and upon the purchase, redemption or other acquisition by the Corporation of, the Common Stock or shares of stock of any other class or any other series of this class;

(i) The conditions or restrictions, if any, upon the creation of indebtedness of the Corporation or upon the issue of any additional stock, including additional shares of such series or of any other series of this class or of any other class; and

(j) Any other voting powers, designations, preferences, and relative, participating optional or other special rights, or qualifications, limitations or restrictions thereof, of the shares of such series;

in each case, to the full extent now or hereafter permitted by the laws of the State of Delaware.

FIFTH: In furtherance, and not in limitation of the powers conferred by statute, the Board of Directors is expressly authorized to make, alter, amend and rescind the Bylaws of this Corporation subject to the right of the stockholders to alter, amend or rescind the same.

SIXTH: Whenever a compromise or arrangement is proposed between this Corporation and its creditors or any class of them and/or between this Corporation and its stockholders or any class of them, any court of equitable jurisdiction within the State of Delaware may, on the application in a summary way of this Corporation or of any creditor or stockholder thereof or on the application of any receiver or receivers appointed for this Corporation under the provisions of Section 291 of Title 8 of the Delaware Code or on the application of trustees in dissolution or of any receiver or receivers appointed for this Corporation under the provisions of Section 279 of Title 8 of the Delaware Code order a meeting of the creditors or class of creditors, and/or of the stockholders or class of stockholders of this Corporation, as the case may be, to be summoned in such manner as the said court directs. If a majority in number representing three-fourths in value of the creditors or class of creditors, and/or of the stockholders or class of stockholders of this Corporation, as the case may be, agree to

any compromise or arrangement and to any reorganization of this Corporation as consequence of such compromise or arrangement, the said compromise or arrangement and the said reorganization shall, if sanctioned by the court to which the said application has been made, be binding on all the creditors or class of creditors, and/or on all the stockholders or class of stockholders, of th's Corporation, as the case may be, and also on this Corporation.

SEVENTH: Meetings of stockholders may be held without the State of Delaware, if the Bylaws so provide. The books of the Corporation may be kept (subject to any provision contained in the statutes) outside of the State of Delaware at such place or places as may be from time to time designated by the Board of Directors or in the Bylaws of the Corporation.

EIGHTH: The number of directors which shall constitute the whole Board of Directors of the Corporation shall be nine (9). The Board shall be divided into three classes, Class I, Class II and Class III. The number of directors in each class shall be the whole number contained in the quotient arrived at by dividing the number of directors by three and if a fraction is also contained in such quotient, and if such fraction is one-third (1/3) the extra director shall be a member of Class III and if the fraction is two-thirds (2/3) one of the directors shall be a member of Class III and the other shall be a member of Class II. Each director shall serve for a term ending on the third annual

meeting following the annual meeting at which such director was elected. The foregoing notwithstanding, each director shall serve until such director's successor shall have been duly elected and qualified, unless such director shall resign, become disqualified, disabled or shall otherwise be removed.

At each annual election, the directors chosen to succeed those whose terms then expire shall be identified as being of the same class as the directors they succeed. If for any reason the number of directors in the various classes shall not conform with the formula set forth in the preceding paragraph, the Board of Directors may redesignate any director into a different class in order that the balance of directors in such classes shall conform thereto.

The Board of Directors, at its first meeting after each annual meeting of stockholders, shall choose such officers with such titles and duties as shall be stated in the Bylaws of the Corporation, who shall hold office until their successors are chosen and qualify in their stead.

Five (5) directors shall constitute a quorum for the transaction of business, and if at any meeting of the Board of Directors there shall be less than a quorum of five (5), a majority of those present may adjourn the meeting from time to time. Every act or decision done or made by a majority of the directors present at a meeting duly held at which a quorum is present shall be regarded as the act of the Board of Directors

unless a greater number be required by law or by the Certificate of Incorporation.

No director of the Corporation shall be removed from office as a director by vote or other action of stockholders or otherwise unless the director to be removed is physically or mentally disabled or incapacitated to such an extent that such director is unable to perform the duties of a director, or unless the director has been convicted of a felony by a court of competent jurisdiction and such conviction is no longer subject to direct appeal, or unless the director to be removed has been adjudged to be liable for misconduct in the performance of such director's duty to the Corporation by a court of competent jurisdiction and such adjudication is no longer subject to direct appeal.

NINTH: In the event that it is proposed that this Corporation enter into a merger or consolidation with any other corporation and such other corporation or its affiliates singly or in the aggregate own or control directly or indirectly five percent (5%) or more of the outstanding shares of the Common Stock of this Corporation, or that this Corporation sell substantially all of its assets or business, the affirmative vote of the holders of not less than seventy-five percent (75%) of the total voting power of all outstanding shares of stock of this Corporation shall be required for the approval of any such proposal; provided, however, that the foregoing shall not apply to any such

merger, consolidation or sale of assets or business which was approved by resolution of the Board of Directors of this Corporation prior to the acquisition of the ownership or control of five percent (5%) of the outstanding shares of this Corporation by such other corporation or its affiliates, nor shall it apply to any such merger, consolidation or sale of assets or business between this Corporation and another corporation fifty percent (50%) or more of the stock of which is owned by this Corporation. For the purposes hereof an "affiliate" is any person (including a corporation, partnership, trust, estate or individual) who directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, the person specified; and "control" means the possession, directly or indirectly, of the power to direct or cause the direction of management and policies of a person, whether through the ownership of voting securities, by contract, or otherwise.

TENTH: No action required to be taken or which may be taken at any annual or special meeting of shareholders of the Corporation may be taken without a meeting and the power of stockholders to consent in writing to the taking of any action is specifically denied.

ELEVENTH: A director of the Corporation shall not be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except for liability (i) for any breach of the

director's duty of loyalty to the Corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the Delaware General Corporation Law, or (iv) for any transaction from which the director derived any improper personal benefit. If the Delaware General Corporation Law is amended after approval by the stockholders of this article to authorize corporate action further eliminating or limiting the personal liability of directors, then the liability of a director of the Corporation shall be eliminated or limited to the fullest extent permitted by the Delaware General Corporation Law, as so amended.

Any repeal or modification of the foregoing paragraph by the stockholders of the Corporation shall not adversely affect any right or protection of a director of the Corporation existing at the time of such repeal or modification.

TWELFTH: The provisions set forth in Articles EIGHTH, NINTH, TENTH, and here in Article TWELFTH, may not be repealed or amended in any respect unless such repeal or amendment is approved by the affirmative vote of the holders of not less than seventy-five percent (75%) of the total voting power of all outstanding shares of stock of this Corporation. Except as expressly provided in the preceding sentence, the Corporation reserves the right to amend, alter, change or repeal any provision contained in this Certificate

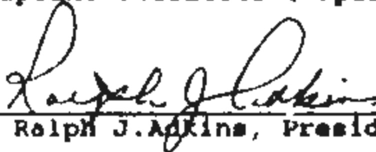
of Incorporation, in the manner now or hereafter prescribed by statute, and all rights conferred upon stockholders herein are granted subject to this reservation.

4. This Restated Certificate of Incorporation was duly adopted in accordance with Sections 242 and 245 of the General Corporation Law of the State of Delaware.

5. That the capital of said Corporation will not be reduced under or by reason of any amendment in this restated Certificate of Incorporation.

IN WITNESS WHEREOF, said CHESAPEAKE UTILITIES CORPORATION has caused its corporate seal to be hereunto affixed and this Restated Certificate of Incorporation to be signed by Ralph J. Adkins, its President, and attested by William C. Boyles, its Assistant Secretary, this 16th day of May, 1995.

Chesapeake Utilities Corporation



By ______________________
Ralph J. Adkins, President

(Corporate Seal)

Attest:

By ______________________
William C. Boyles, Assitant Secretary

EXHIBIT B

B(1) Chesapeake Utilities Corporation Annual Report on Form 10-K for the year ended December 31, 1994

B(2) Chesapeake Utilities Corporation Quarterly Report on Form 10-Q for the quarter ended June 30, 1995

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 31, 1994 **Commission File Number 0-593**

CHESAPEAKE UTILITIES CORPORATION
(Exact name of registrant as specified in its charter)

State of Delaware (State or other jurisdiction of incorporation or organization)	**51-0064146** (I.R.S. Employer Identification No.)
861 Silver Lake Boulevard, Dover, Delaware (Address of principal executive offices)	**19904** (Zip Code)

Registrant's telephone number, including area code: 302-734-6754

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

Title of each class	Name of each exchange on which registered
Common Stock—par value per share $.4867	New York Stock Exchange, Inc.

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

8.25% Convertible Debentures Due 2014
(Title of class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendments to this Form 10-K. [X]

As of March 30, 1995, 3,680,675 shares of common stock were outstanding. The aggregate market value of the common shares held by non-affiliates of Chesapeake Utilities Corporation, based on the last trade price on March 27, 1995, as reported by the New York Stock Exchange, was approximately $46,468,522.

DOCUMENTS INCORPORATED BY REFERENCE

Documents	Part of Form 10-K
Definitive Proxy Statement dated April 13, 1995	Part III

CHESAPEAKE UTILITIES CORPORATION
FORM 10-K

Year Ended December 31, 1994

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PART I

Item 1. Business

(a) General Development of Business

Chesapeake Utilities Corporation ("Chesapeake" or "the Company") is a diversified utility company engaged in natural gas distribution and transmission, propane distribution and information technology services.

Chesapeake's three natural gas distribution divisions ser : more than 32,300 residential, commercial and industrial customers in southern Delaware, Maryland's Eastern Shore and Central Florida. The natural gas transmission subsidiary operates a 271-mile interstate pipeline system that transports gas from various points in Pennsylvania to the Company's Delaware and Maryland distribution divisions, as well as to other utilities and industrial customers in Delaware and the Eastern Shore of Maryland. The Company's propane segment serves approximately 22,600 customers in southern Delaware and the Eastern Shore of Maryland and Virginia. The information technology services segment provides software products and services to a wide variety of customers and clients.

(b) Financial Information About Industry Segments

	For the Years Ended December 31		
	1994	1993	1992
Operating Revenues, Unaffiliated Customers			
Natural gas distribution	$ 49,523,743	$ 44,286,243	$41,[illegible],029
Natural gas transmission	22,191,896	20,094,343	13,968,258
Propane distribution	20,684,150	16,908,289	16,489,173
Information technology services and other	6,172,508	4,583,757	3,568,248
Total operating revenues, unaffiliated customers	$ 98,572,297	$ 85,872,632	$75,934,708
Intersegment Revenue			
Natural gas distribution	$ 55,888	$ 52,577	$ [illegible]4,481
Natural gas transmission	17,303,529	17,345,800	[illegible],496
Propane distribution	85,552	48,248	2,118
Information technology services and other	2,277,361	2,311,498	[illegible] 992
Total intersegment revenue	$ 19,722,330	$ 19,758,123	$17,172,987
Operating Income Before Income Taxes			
Natural gas distribution	$ 4,696,659	$ 4,114,683	$ 4,[illegible]
Natural gas transmission	3,018,212	3,091,843	[illegible]
Propane distribution	2,287,688	1,588,383	[illegible]
Information technology services and other	174,033	156,910	[illegible]
Total	10,176,592	8,951,819	[illegible]
Less: Eliminations	(419,883)	(651,439)	[illegible]
Total operating income before income taxes	$ 9,756,709	$ 8,300,380	$ [illegible]
Identifiable Assets			
Natural gas distribution	$ 68,528,774	$ 59,404,795	$46,550,482
Natural gas transmission	17,792,415	18,212,489	17,[illegible],175
Propane distribution	16,949,431	18,244,020	20,417,580
Information technology services and other	4,999,997	5,126,797	4,984,067
Total identifiable assets	$108,270,617	$100,988,101	$89,[illegible]

(c) **Narrative Description of Business**

The Company is engaged in four primary business activities: natural gas transmission; natural gas distribution; propane distribution; and information technology services. In addition to the four primary groups, Chesapeake has four subsidiaries engaged in other service related businesses. During 1994 and 1992 no individual customer accounted for 10% or more of revenues. The Company had one customer, Texaco Refining and Marketing, with revenues equal to or greater than 10% of total revenue in 1993. This industrial interruptible customer of the Company's natural gas transmission subsidiary accounted for approximately $9,600,000 or 11.2% of total consolidated revenue and 25.7% of the transmission subsidiary's total revenue.

(i) (a) Natural Gas Transmission

Eastern Shore Natural Gas Company ("Eastern Shore"), the Company's wholly owned transmission subsidiary, operates an interstate pipeline that delivers gas to five utility and thirteen industrial customers in Delaware and the Eastern Shore of Maryland. Eastern Shore is the sole source of gas supply for Chesapeake's Maryland and Delaware divisions and for two unaffiliated distribution entities. Eastern Shore has not elected to be an "open access" pipeline which would only provide transportation services. However, Eastern Shore has authority from the Federal Energy Regulatory Commission ("FERC") to provide firm transportation to two of its customers for gas they own and deliver to Eastern Shore for redelivery.

Operating income before income taxes attributable to natural gas transmission has varied from between $2.7 to $3.1 million from 1992 to 1994, with the high occurring in 1993. These fluctuations have resulted primarily from variations in volumes and margins on Eastern Shore's interruptible sales to industrial customers that have the capability of switching to oil for their fuel requirements. Rates charged to these customers are determined through negotiation and thus are flexible. When lower oil prices prevail Eastern Shore normally reduces the price it charges to its interruptible customers, thereby reducing the profit margin on such sales. In addition, certain customers switch from natural gas to oil, reducing volumes sold.

Natural Gas Supply

General. Eastern Shore has firm contracts with three major interstate pipelines, Transcontinental Pipe Line Corporation ("Transco"), Columbia Gas Transmission Corporation ("Columbia") and Columbia Gulf Transmission Corporation ("Gulf"), all of which are "open-access" pipelines.

Eastern Shore's contracts with Transco include (a) firm transportation capacity of 22,900 MCF per day, which expires in 2005, (b) firm transportation capacity of 500 MCF per day for December through February, which expires in 2006, (c) three firm storage services providing a peak day entitlement of 7,046 MCF and a total capacity of 288,730 MCF and (d) two interruptible storage services with a total capacity of 427,182 MCF.

Eastern Shore's contracts with Columbia include: (a) firm transportation capacity of 1,481 MCF per day, which expires in 2003 and (b) firm storage service providing a peak day entitlement of 10,525 MCF per day and a total capacity of 509,954 MCF.

Eastern Shore's contract with Gulf is for firm transportation of 1,510 MCF per day, which also expires in 2003.

Eastern Shore currently has contracts for the purchase of firm natural gas supplies with six reputable suppliers. These six contracts provide a maximum daily entitlement of 18,572 MCF and the supplies are transported by both Transco and Columbia under Eastern Shore's firm transportation agreements. The gas purchase contracts have various expiration dates.

Adequacy of Gas Supply. Eastern Shore's firm obligations to its customers, including Chesapeake's Delaware and Maryland utility divisions, are 40,237 MCF for peak days and 9,200,565 MCF on an annual basis. Eastern Shore's maximum daily firm transportation capacity on the Transco and Columbia

systems is 42,452 MCF per day. Currently, Eastern Shore's firm daily peak supply is 36,643 MCF and its total annual firm supply is 7,054,332 MCF. This is equivalent to 91% of Eastern Shore's firm daily demand and 77% of its annual firm demand being satisfied by firm supply sources. To meet the difference between firm supply and firm demand, Eastern Shore obtains gas supply on the "spot market" from various other suppliers which is transported by Transco or Columbia and sold to Eastern Shore's customers as required. The Company believes that Eastern Shore's available firm, interruptible and "spot market" supply is ample to meet the anticipated needs of Eastern Shore's customers.

There was no curtailment of firm gas supply to Eastern Shore in 1994, nor does Eastern Shore anticipate any such curtailment during 1995.

Competition

Competition with Alternative Fuels. Historically, the Company's natural gas operations have successfully competed with other forms of energy such as electricity, oil, and propane. The principal consideration in the competition between the Company and suppliers of other sources of energy is price and, to a lesser extent, accessibility. All of the Company's divisions have the capability of adjusting their interruptible rates to compete with alternative fuels.

The Company has several large volume industrial customers that have the capacity to use fuel oil as an alternative to natural gas. When oil prices decline, some of Chesapeake's natural gas distribution and transmission interruptible customers convert to oil to satisfy their fuel requirements. Lower levels in interruptible sales occur when oil prices remain depressed relative to the price of natural gas. However, oil prices as well as the prices of other fuels are subject to change at any time for a variety of reasons. Therefore, there is always uncertainty in the continuing competition among natural gas and other fuels. In order to address this uncertainty, the Company uses flexible pricing arrangements on both the supply and sales side of its business to maximize sales volumes.

To a lesser extent than price, availability of equipment and operational efficiency are also factors in competition among fuels, primarily in residential and commercial settings. Heating, water heating, and other domestic or commercial equipment is generally designed for a particular energy source, and especially with respect to heating equipment, the high cost of conversion is a disincentive for individuals and businesses to change their energy source.

Competition within the Natural Gas Industry. FERC Order 636 enables all natural gas suppliers to compete for customers on equal footing. Under this "open access" environment, interstate pipeline companies have unbundled the traditional components of their service --gas gathering, transportation and storage. If they choose to be a merchant of gas, they must form a separate marketing operation independent of their pipeline operations. Hence, gas markets have developed as a viable option for many companies because they are providing expertise in gas purchasing along with collective purchasing capabilities which, when combined, may reduce end-user cost.

Eastern Shore has not elected to be an "open access" pipeline and is permitted to transport gas for only two of its existing customers. Thus, most of Eastern Shore's customers, including Chesapeake's Maryland and Delaware utility divisions, and, in turn, customers of these divisions, do not have the capability of directly contracting for alternative sources of gas supply and have Eastern Shore transport the gas to them.

Rates and Regulation

General. Eastern Shore is subject to regulation by the FERC as an interstate pipeline and the Delaware Public Service Commission ("Commission") as a supplier of gas to industrial customers in the state of Delaware. The FERC regulates the provision of service, terms and conditions of service, and the rates and fees Eastern Shore can charge its transportation and sale for resale customers. In addition, the

FERC regulates the rates Eastern Shore is charged for transportation and transmission line purchases provided by Transco and Columbia. Eastern Shore's direct sales rates to industrial customers are currently not regulated. The rates for such sales are established by contracts negotiated between Eastern Shore and each industrial customer.

On February 11, 1992, the Commission issued an Order that declared Eastern Shore to be a "public utility" under Delaware law subject to the Commission's jurisdiction in connection with Eastern Shore's direct retail sales of natural gas to end-users in the State of Delaware. The Order also initiated proceeding to consider the extent to which public utility regulatory supervision should be imposed upon the direct sales of Eastern Shore within the State of Delaware. On May 14, 1994 the Company filed with the commission a proposal for a limited level of regulation. On October 4, 1994, the Commission issued an Order essentially agreeing with a level of regulation limited to the following: accepting and considering complaints from customers, requiring Eastern Shore to file the annual and other periodic reports and requiring Eastern Shore to pay the annual public utility tax. In the opinion of management, the Order will not have a material effect on Eastern Shore's financial position or results of operations.

The rates for Eastern Shore's "sale for resale" customers, (i.e., sales to its utility customers) are subject to a purchased gas adjustment clause. Eastern Shore's firm industrial contracts generally include tracking provisions that permit automatic adjustment for the full amount of increases or decreases in Eastern Shore's suppliers' firm rates.

Rate Proceedings. On August 31, 1992, Eastern Shore filed with the FERC to restate its Base Tariff Rates in compliance with Section 154.303(e) of the FERC's regulations for sales and transportation to its jurisdictional customers, including the Company's Delaware and Maryland divisions. On March 26, 1993 Eastern Shore filed a stipulation and agreement with FERC, which was subsequently approved on May 24, 1993 by letter. The final settlement did not materially affect the consolidated financial position of the Company because the resulting FERC order allowed current billing rates to stay in effect.

FERC PGA. On May 19, 1994, the FERC issued an Order directing Eastern Shore to refund, with interest, what the FERC characterized as overcharges from November 1, 1992 to the current billing month. The May 19, 1994 Order also directed Eastern Shore to file a report showing how the refund was calculated and revised tariff language clarifying the purchased gas adjustment provisions its tariff.

Eastern Shore filed a request for rehearing of the Order on June 20, 1994 based on what Eastern Shore believes is the FERC's erroneous interpretation of Eastern Shore's tariff. It is Eastern Shore's position that the FERC's Order essentially requires a retroactive change to the FERC approved PGA procedures which Eastern Shore has consistently applied over the last six years. Such retroactive application is a violation of Sections 4 and 5 of the Natural Gas Act.

On June 21, 1994, in compliance with the FERC's May 19, 1994 Order, Eastern Shore filed (1) revised tariff sheets clarifying its PGA methodology and (2) two alternative refund calculations based of the FERC's Order. The two alternatives were filed due to what Eastern Shore believes to be an inconsistency or contradiction with respect to the FERC's language in its Order.

On July 18, 1994 the FERC issued an "Order Granting a Rehearing Solely for the Purpose of Further Consideration". This Order was issued only to afford the FERC additional time for consideration of the issues raised in Eastern Shore's request for rehearing.

As of this filing date, the FERC has not approved either of the alternative refund calculations submitted by Eastern Shore on June 21, 1994, nor has it made a final determination as to Eastern Shore's request for rehearing. Accordingly, Eastern Shore accrued $412,000 in the second quarter of 1994, relating to prior periods. Eastern Shore has also accrued an amount each month in 1994 to insure full refunding of the potential refund. The total amount accrued on December 31, 1994 is $1,283,000.

(i) (b) Natural Gas Distribution

Chesapeake distributes natural gas to approximately 32,300 residential, commercial and industrial customers in southern Delaware, the Salisbury and Cambridge, Maryland areas on Maryland's Eastern Shore, and Central Florida. These activities are conducted through three utility divisions, consisting of one division in Delaware, one division in Maryland, and one division in Florida. In 1993, the Company started brokering natural gas in the state of Florida under the name of Peninsula Energy Services Company ("PESCO").

Delaware and Maryland. The Delaware and Maryland divisions serve approximately 24,2[illegible] customers, of which approximately 24,200 are residential and commercial customers purchasing gas primarily for heating purposes. Residential and commercial customers account for approximately [illegible] of the volume delivered by the divisions, and 79% of the divisions' revenue, on an annual basis. The divisions' industrial customers purchase gas, primarily on an interruptible basis, for a variety of manufacturing, agricultural and other uses. Most of Chesapeake's customer growth in these divisions comes from new residential construction utilizing gas heating equipment.

Florida. The Florida division distributes natural gas to approximately 8,000 residential and commercial and 83 industrial customers in Polk, Osceola and Hillsborough Counties. Currently 34 [illegible] the division's industrial customers, which are engaged primarily in the citrus and phosphate industries and electric cogeneration, and purchase and transport gas on a firm and interruptible basis, account for approximately 82% of the volume delivered by the Florida division, and 67% of the division's natural gas sales and transportation revenues, on an annual basis. In November 1993, the Company's Florida division began providing natural gas brokering services to compete in the open access environment. Currently, fourteen customers receive brokering service which generated margin of $63,000 in 1994.

Natural Gas Supply

Delaware and Maryland. Chesapeake's Delaware and Maryland utility divisions receive all of their gas supply requirements from Eastern Shore. The divisions purchase most of this gas under contracts with Eastern Shore which extend through November 1, 2000. The contracts provide for the purchase of 15,629 firm MCF daily (up to a maximum of 5,704,585 MCF annually). The divisions have additional firm supplies available under contract with Eastern Shore for peak demand periods occurring during the winter heating season. These contracts, which are renewable on a year-to-year basis, provide for the purchase of up to 450 MCF daily (up to a maximum of 13,500 MCF annually) of peaking service. In addition, the divisions have contracted with Eastern Shore for firm and interruptible storage capacity. On days when gas volumes available to the divisions from Eastern Shore are greater than their requirements, gas is injected into storage and is then available for withdrawal to meet heavier winter loads. These storage contracts also permit the utility divisions to purchase lower cost gas during the off peak summer season. Effective November 1, 1993, the storage capacity under contract with Eastern Shore totaled 829,532 MCF, with a firm peak daily withdrawal entitlement of 14,605 MCF. On those days when requirements exceed these contract pipeline supplies, the divisions have propane air injection facilities for peak shaving.

Eastern Shore has no authority to transport natural gas purchased from a third party [illegible] the Delaware and Maryland divisions, however, while Chesapeake's divisions have no direct access to [illegible] priced "spot market" gas, they benefit from Eastern Shore's ability to obtain "spot market" gas and the resulting reductions in Eastern Shore's rates.

Florida. The Florida division receives transportation service from Florida Gas Transmission Company ("FGT"), a major interstate pipeline. Chesapeake has contracts with FGT for (a) daily firm transportation capacity of 20,523 dekatherms in May through September, 27,105 dekatherms in October, and 26,919 dekatherms in October through April under FGT's firm transportation service (FTS-1) rate schedule; (b) daily firm transportation capacity of 5,100 dekatherms in May through October, and [illegible]

dekatherms in November through April under FGT's firm transportation service (FTS-2) rate schedule; (c) preferred interruptible transportation service up to 2,300,000 dekatherms annually under FGT's preferred transportation service (PTS-1) rate schedule; and (d) daily interruptible transportation capacity of 20,000 dekatherms under FGT's interruptible transportation services (ITS-1) rate schedule. The firm transportation contract (FTS-1) expires on August 1, 2000 with the Company retaining a unilateral right to extend the term for an additional ten years. After the expiration of the primary or secondary term, Chesapeake has the right to first refuse to match the terms of any competing bids for the capacity. The firm transportation contract (FTS-2) expires on March 1, 2015. The preferred interruptible contract expires on the earlier of (a) the effective date of FGT's first rate case which includes costs for phase III expansion, or (b) August 1, 1995 and or (c) August 1 of any subsequent year, provided that FGT or Chesapeake gives to the other at least one hundred eighty (180) days written notice prior to such August 1. The interruptible transportation contract is effective until August 1, 2010 and month to month thereafter unless cancelled by either party with thirty days notice.

The Florida division currently receives its gas supply from various suppliers. Some supply is bought on the spot market and some is bought under the terms of two firm supply contacts with MG National Gas Corp. and Hadson Gas Systems, Inc.

Having restructured its arrangements with FGT, Chesapeake believes it is well positioned to meet the continuing needs of its customers with secure and cost effective gas supplies.

Adequacy of Gas Supply. The Company believes that Eastern Shore's available firm and interruptible supply is ample to meet the anticipated needs of the Company's Delaware and Maryland natural gas distribution divisions. Availability of gas supply to the Florida division is also expected to be adequate under existing arrangements. Moreover, additional supply sources have become available as a result of FGT becoming an "open access" pipeline.

Competition within the Natural Gas Industry. Historically, Chesapeake's Florida division has been supplied solely by FGT. In 1990, FGT became an "open access" pipeline. The Florida division's large industrial customers now have the option of remaining with the Florida division for gas supply or obtaining alternative supplies from FGT, gas marketers or other suppliers. These conditions have increased competition between Chesapeake's Florida division, FGT, gas marketers and other natural gas providers for industrial customers in Central Florida. Starting in early 1993, in recognition of the opportunities created by FERC Order 636, Chesapeake's Florida division began contacting all of the Florida division's large industrial customers and other large users of natural gas throughout the state of Florida about changes in the natural gas industry. As a result, the Company has entered into agreements with a number of these large users of natural gas to supply them with brokering and regulatory support services.

Rates and Regulation

General. Chesapeake's natural gas distribution operations are subject to regulation by the Delaware, Maryland, and Florida Public Service Commissions with respect to various aspects of the Company's business, including the rates for sales to all of their customers in each jurisdiction. All of Chesapeake's firm distribution rates are subject to purchased gas adjustment clauses, which match revenues with gas costs and normally allow eventual full recovery of gas costs. Adjustments under these clauses require periodic filings and hearings with the relevant regulatory authority, but do not require a general rate proceeding. Rates on interruptible sales by the Florida division are also subject to purchased gas adjustment clauses.

Management monitors the rate of return in each jurisdiction in order to ensure the timely filing of rate adjustment applications.

Rate Proceedings

Maryland. During 1994, the Company filed a petition with and received approval from the Maryland Public Service Commission to consolidate, for rate and accounting purposes, its two distribution divisions located in Salisbury and Cambridge, Maryland.

Florida. On December 10, 1993, the Florida Public Service Commission issued an order reducing the Florida divisions allowed return on equity from 12% to 11%, in response to lower interest rates. On August 5, 1994, the Florida division filed Modified Minimum Filing Requirements which are required every 4 years by Florida Public Service Commission regulations. As of December 31, 1994, no decision had been rendered by the Florida Public Service Commission on the Division's MMFR's. However, as a result of the order received by the Division regarding its 1994 potential overearnings, any change in the Division's authorized return on equity that results from the PSC's decision on the MMFR's will not become effective until January 1, 1996. On February 6, 1995, the Florida Public Service Commission approved the Florida division's proposal to cap its 1994 and 1995 earnings at 12%. The order also allows the division to offset any 1994 excess earnings against anticipated increases in major expense areas in 1995 and permits the division to resume recovery of its annual acc ual to the environmental clean-up reserve.

(i) (c) Propane Distribution

Chesapeake's propane distribution group consists of Sharp Energy, Inc. ("Sharp Energy"), a wholly owned subsidiary of Chesapeake, and its wholly owned subsidiaries, Sharpgas, Inc. ("Sharpgas") and Sharpoil, Inc. ("Sharpoil").

Sharpgas purchases, stores and distributes propane to approximately 22,600 customers on the Delmarva Peninsula. The propane distribution business is affected by many factors such as seasonality, the absence of price regulation and competition among local providers.

Propane is a form of liquefied petroleum gas which is typically extracted from natural gas or separated during the crude oil refining process. Although propane is gaseous at normal pressures, it is easily compressed into liquid form for storage and transportation. Propane is a clean-burning fuel, gaining increased recognition for its environmental superiority, safety, efficiency, transportability and ease of use relative to alternative forms of energy.

Propane is sold primarily in suburban and rural areas which are not served by natural gas pipelines. Demand is typically much higher in the winter months and is significantly affected by seasonal variations, particularly the relative severity of winter temperatures, because of its use in residential and commercial heating.

The Company purchases propane primarily from five suppliers, including major domestic oil companies and independent producers of gas liquids and oil. Supplies of propane from these and other sources are readily available for purchase by the Company. Supply contracts generally include minimum (not subject to take-or-pay) and maximum purchase provisions.

The Company uses trucks and railroad cars to transport propane from refineries, natural gas processing plants or pipeline terminals to the Company's bulk storage facilities. From these facilities, propane is delivered by "bobtail" trucks owned and operated by the Company to tanks located at the customer's premises, or in portable cylinders. Most of the tanks and cylinders are owned by the Company and are utilized by the customer free of charge.

Sharpgas competes with several other propane distributors in its service territories, primarily on the basis of service and price, emphasizing reliability of service and responsiveness. Competition is generally local because distributors located in close proximity to customers incur lower costs of providing service.

Propane competes with electricity and fuel oil as an energy source. Propane is typically comparable in price to fuel oil and generally less expensive than electricity based on equivalent BTU value. Because natural gas historically has been less expensive than propane, propane is generally not distributed in geographic areas serviced by natural gas pipeline or distribution systems.

The Company's propane distribution activities are not subject to any federal or state pricing regulation. Transport operations are subject to regulations concerning the transportation of hazardous materials promulgated under the Federal Motor Carrier Safety Act, which is administered by the United States Department of Transportation and enforced by the various states in which such operations take place. Propane distribution operations are also subject to state safety regulations relating to "hook-up" and placement of propane tanks.

The Company's propane operations are subject to all operating hazards normally incident to the handling, storage and transportation of combustible liquids, such as the risk of personal injury and property damage caused by fire. The Company carries general liability insurance in the amount of $35,000,000 per occurrence, but there is no assurance that such insurance will be adequate.

In 1991, the Company decided to discontinue its entire fuel oils and motor fuels delivery business. During 1992, the Company consummated the sale of substantially all of the assets of Sharpoil. Chesapeake originally acquired Sharpoil's assets in December 1988, when it purchased certain propane and oil assets of Kellam Energy, Inc. Sharpoil was formed at that time to conduct a small oil products distribution business in Virginia and Maryland which served approximately 2,500 customers. The decision to dispose of Sharpoil resulted in a charge to fourth quarter 1991 earnings of $500,000 and includes the write-off of goodwill and other intangible assets, estimated losses on the sale of all of its oil products distribution assets and an estimated loss anticipated in 1992 with respect to operating the remaining business through the date of sale (the actual loss was $426,500). See Note B to the Company's Consolidated Financial Statements.

(c) (d) Information Technology Services

Chesapeake's information technology services segment is comprised of two wholly owned subsidiaries of the Company: Capital Data Systems, Inc. ("CDS") and United Systems, Inc. ("USI").

CDS is an information technology provider offering software products and services primarily to the telecommunications companies and Chesapeake's subsidiaries. Application software solutions include customer information, management information, billing and financial systems. To a broader market, CDS offers outsourcing/facilities management, network design and management, disaster recovery, contract programming and consulting services.

USI is an Atlanta-based company that primarily provides support for users of PROGRESS®, a fourth generation computer language and Relational Database Management System. USI offers consulting, training, software development "tools" and customer software development for their client base, which includes many large domestic and international corporations. The Information Technology businesses face significant competition from a number of larger competitors having substantially greater resources available to them than the Company. In addition, changes in the Information Technology business is occurring rapidly, which could adversely impact the markets for the Company's products and services.

(c) (e) Other Lines of Business

In addition to the four business segments previously mentioned, the Company is involved in other businesses under the umbrella of Chesapeake Service Company ("Chesapeake Service"), a wholly owned subsidiary of the Company. In addition to CDS, the group contains Currin and Associates, Inc. ("C&A"), Skipjack, Inc. ("Skipjack"), and Chesapeake Investment Company ("Chesapeake Investment"), all three of which are wholly owned subsidiaries of Chesapeake Service. Skipjack owns and leases to affiliates an office building in Dover, Delaware. Chesapeake Investment is a Delaware affiliated investment company.

In 1994, based on declining revenue and business projections, the Company disposed of its investment in C&A, a rate and regulatory consulting subsidiary acquired in 1988. Revenue declined from

a high of $593,000 in 1992 to a low of $52,000 for 1994. The disposition has resulted in a $260,000 after tax loss recorded to Other Income and Deductions. The loss resulted from the write-off of goodwill and the disposition of other assets.

(ii) Seasonal Nature of Business

Revenues from the Company's residential and commercial natural gas sales and from its propane distribution activities are affected by seasonal variations, since the majority of these sales are to customers using the fuels for heating purposes. Revenues from these customers are accordingly affected by the mildness or severity of the heating season.

(iii) Capital Budget

The Company's current capital budget for 1995 contemplates expenditures totalling approximately $16.6 million. The total includes approximately $11.7 million for Chesapeake's natural gas distribution divisions, consisting mainly of extensions to and replacements of the distribution facilities and related equipment; $1.7 million for natural gas transmission operations, providing principally for improvements and enhancements to its measuring and regulating stations; $1.7 million for propane distribution, principally for the purchase of storage facilities, additional tanks and transportation equipment; $452,000 for computer hardware, software and related equipment required for expansion of the Company's information technology services activities; and $1.0 million for building construction and improvements in Chesapeake's Skipjack subsidiary, along with miscellaneous equipment for the administrative group. These capital requirements are expected to be financed by cash flow provided by the Company's operating activities and short-term borrowing.

(iv) **Environmental**

(iv) (a) Dover Gas Light Site

In 1984, the State of Delaware notified the Company that a parcel of land it purchased in 1949 from Dover Gas Light Company, a predecessor gas company, contains hazardous substances. The State also asserted that the Company is responsible for any clean-up and prospective environmental monitoring of the site. The Delaware Department of Natural Resources and Environmental Control ("DNREC") investigated the site and surroundings, finding coal tar residue and some ground-water contamination.

In October 1989, the Environmental Protection Agency Region III ("EPA") listed the Dover Site on the National Priorities List under the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA" or "Superfund"). Under CERCLA, the State of Delaware and the Company are potentially responsible parties ("PRP") for clean-up of the site. In July 1990, the Company entered into an agreement with EPA and DNREC to perform a Remedial Investigation/ Feasibility Study under the supervision of EPA and DNREC to study the site and surroundings to determine any environmental impacts. Pursuant to the agreement the Company agreed to pay for the study and 80% of EPA's oversight cost while DNREC is paying for all of its own oversight costs as the lead agency plus 20% of EPA's oversight costs. The Company submitted its reports on the Remedial Investigation ("RI") and Feasibility Study ("FS") to EPA and DNREC on January 25, 1993 and February 15, 1993, respectively. The Company received extensive comments from EPA and DNREC on the RI and FS reports. The Company submitted to the EPA and DNREC its revised RI and FS on May 14, 1993 and June 25, 1993, respectively. In the FS Report, Chesapeake proposed a remedy which involved capping the site and monitoring ground-water quality in the surrounding area. Chesapeake's consultant estimated that it would cost approximately $700,000 to execute this plan of remediation.

After further discussions with the regulatory authorities, Chesapeake agreed to undertake an additional phase study, the Ground Water Evaluation Study—Phase III, which focused on delineating

the area of maximum ground-water impact from the site. The results of that study were submitted to EPA and DNREC in September 1993. On February 1, 1994, EPA issued its proposed plan of action (the "Plan"). The Plan adopted many findings of the Phase III Study, acknowledging that the Dover Site has impacted ground-water only in a limited area.

The Plan presented and discussed a number of remedial alternatives, including the remedial strategy proposed by the Company in the FS. The EPA Plan proposed a more extensive remediation strategy that involves removal of contaminated soils from the site and drilling a series of twenty (20) wells. EPA estimated that execution of its Plan would cost $4.9 million. The Plan was submitted by the EPA for public comment. The 30-day public comment period ended on April 4, 1994. During this period, the EPA received public comments, including those submitted by the Company.

The EPA issued the site Record of Decision ("ROD") dated August 16, 1994. The remedial action selected by the EPA in the ROD differed significantly from the Plan. The EPA selected a remediation addressing the ground-water contamination with a combination of hydraulic containment and natural attenuation. Remediation selected for the soil at the site is to meet stringent cleanup standards for the first two feet of soil and less stringent standards for the soil below two feet. These selected levels of remediation were not alternatives listed in the Plan, but utilized elements proposed. In addition, the ROD incorporated many of the public comments that were received. The ROD estimates the costs of selected remediation of ground-water and soil at $2.7 million and $3.3 million, respectively. The remediation selected in the ROD is substantially more limited than had been suggested in the Plan. In the ROD, the EPA indicated that its previous $4.9 million estimate was incorrect.

On November 18, 1994, EPA issued a "Special Notice Letter" (the "Letter") to Chesapeake and three other PRPs. The Letter included, *inter alia*, (1) a demand for payment by the PRPs of EPA's past costs (currently estimated to be approximately $300,000) and future costs incurred overseeing site work; (2) notice of EPA's commencement of a 60 day moratorium on certain EPA response activities at the site; (3) a request by EPA that Chesapeake and the other PRPs submit a "good faith proposal" to conduct or finance the work identified in the ROD; and (4) proposed consent orders by which Chesapeake and other parties may agree to perform the good faith proposal.

In January 1995, Chesapeake submitted to the EPA a good faith proposal to perform a substantial portion of the work set forth in the ROD, which was subsequently rejected. It is unknown whether other PRPs will submit good faith proposals, what such proposals might include, and whether EPA would accept such proposals. Under CERCLA, the EPA may reject any of the proposals, and seek an administrative or court order to require any or all of the PRPs to implement the work. EPA may also do the work itself and seek recovery of its costs in court.

The Company and the EPA are each attempting to secure voluntary performance of part of the remediation by other parties. These parties include the State of Delaware, which is the owner of the property and was identified in the ROD as a PRP, and a business identified in the ROD as a PRP for having contributed to ground-water contamination. On March 6, 1995, in order to protect its interests, the Company filed suit in federal court for a determination that the State of Delaware is a liable party and for recovery from the State of costs of complying with the ROD. The Company is also considering suit against other PRPs. In addition, EPA has stated that it will take steps to secure prompt commencement of the remedial design phase needed to implement the ROD. The Company therefore anticipates further negotiations to resolve these matters among the parties and with the government. Management is evaluating the ROD to determine the most economic approach to implementation of the remedies selected in the ROD.

In the third quarter of 1994, the Company increased its accrued liability recorded with respect to the Dover Site to $6.0 million from $700,000. This amount reflects the EPA's present estimate, as stated in the ROD, for remediation of the site according to the ROD. Future developments in the matters discussed above would be accompanied by appropriate reductions to the liability recorded as they occur. The Company also increased the corresponding regulatory asset to $6.0 million. If the Company incurs expenses of that amount in connection with undertaking the remedies selected in the ROD, management's belief is that the Company will be equitably entitled to contribution from other responsible parties for the greater part of these expenses. Management also believes that any amounts not so contributed will be recoverable in the Company's rates.

As of December 31, 1994, the Company has incurred approximately $3,099,000 in costs relating to environmental testing and remedial action studies. In 1990, the Company entered into settlement agreements with a number of insurance companies resulting in proceeds to fund actual environmental costs incurred over a five to seven year period beginning in 1990. On February 23, 1993, the Delaware Public Service Commission, consistent with prior base rate proceedings, authorized the Company to amortize an additional $749,971 in environmental expenses for ratemaking purposes over a seven year period. At December 31, 1994 the unamortized balance is approximately $554,000. Of the $3,099,000 in costs reported above, approximately $227,000 has not yet been recovered through insurance proceeds or received ratemaking treatment. It is management's opinion that these costs incurred will be recoverable in rates.

(iv) (b) Salisbury Town Gas Light Site

In cooperation with the Maryland Department of the Environment ("MDE"), the Company has completed an assessment of the Salisbury manufactured gas plant site. The assessment determined that there was localized contamination of ground-water. A remedial design report was submitted to MDE in November 1990 and included a proposal to monitor, pump and treat any contaminated ground-water on-site. The Company has proposed to MDE to proceed with these activities over a maximum period of five years, after which time any residual environmental impacts from the site will be reevaluated. The remedial design was approved by MDE by a letter dated July 20, 1992, subject to certain conditions stated in that letter. The Company responded by a letter dated August 6, 1992, objecting to certain conditions imposed by MDE; however, none of these issues is expected to delay implementation of the remedial design. In January 1993, after discussions between the Company and MDE, the monitoring portion of the remedial design was revised. MDE has approved additional revisions to the remedial action workplan, resulting in a substantial reduction in the overall cost of this project. The Company continues discussions with the MDE on the final stage of remediation addressing the ground-water contamination.

The cost of remediation is estimated to be approximately $250,000 in capital costs with yearly operating expenses of approximately $125,000. Based on these estimated costs, the Company recorded both a liability and a deferred regulatory asset of $642,092 on December 31, 1994, to cover the Company's projected remediation costs for this site. The liability payout for this site is expected to be over a five year period. As of 1994, the Company has incurred approximately $1,723,000 for remedial actions and environmental studies and has charged such costs to accumulated depreciation. In a previous rate proceeding, the Company requested and received recovery for all costs incurred as of November 30, 1988, through base rates, including both a ten year amortization of these costs and rate base treatment for the unamortized balance. As of 1994, the unamortized balance was approximately $201,586 which will be fully amortized by May 31, 1999. In January 1990, the Company entered into settlement agreements with a number of insurance companies resulting in proceeds to fund actual environmental costs incurred over a three to five year period beginning in 1990. The final insurance proceeds were requested and received in 1992. Of the $1,723,000 in costs reported above, approximately $765,000 has not been recovered through insurance proceeds or received ratemaking treatment. It is management's opinion that these costs incurred and future costs incurred, if any, will be recoverable in rates.

(iv) (c) Winter Haven Coal Gas Site

The Company is currently conducting investigations of a site in Winter Haven, Florida, where the Company's predecessors manufactured coal gas earlier this century. A Contamination Assessment Report ("CAR") was submitted to the Florida Department of Environmental Protection ("FDEP") on July 11, 1990. The CAR contained the results of additional investigations of conditions at the site. These investigations confirmed limited soil and ground-water impacts to the site. By letter dated March 26, 1991, FDEP directed the Company to conduct additional investigations on-site to fully delineate the vertical and horizontal extent of soil and ground-water impacts.

Additional contamination assessment activities were conducted at the site in late 1992 and early 1993. On March 25, 1993, a Contamination Assessment Report Addendum ("CAR Addendum") was delivered to FDEP. The CAR Addendum concluded that soil and ground-water impacts have been adequately delineated as a result of the additional field work. The FDEP approved the CAR and CAR Addendum in March of 1994. The next step is a Risk Assessment ("RA") and a Feasibility Study ("FS") on the site. The RA and FS are expected to be filed with the FDEP during the first six months of 1995 at an estimated cost of $54,000. Until the RA and FS are completed and accepted as final by the FDEP, it is not possible to determine whether remedial action will be required by FDEP and, if so, the cost of such remediation.

The Company has spent approximately $595,000, as of December 31, 1994, on these investigations, and expects to recover these expenses, as well as any future expenses, through base rates. These costs have been accounted for as charges to accumulated depreciation. The Company requested and received from the Florida Public Service Commission ("FPSC") approval to amortize through base rates $359,659 of clean-up and removal costs incurred as of December 31, 1986. As of December 31, 1992, these costs were fully amortized. In January 1993, the Company received approval to recover through base rates approximately $217,000 in additional costs related to the former manufactured gas plant. This amount represents recovery of $173,000 of costs incurred from January 1987 through December 1992, as well as prospective recovery of estimated future costs which have not yet been incurred at that time. The FPSC has allowed for amortization of these costs over a three year period and provided for rate base treatment for the unamortized balance. In a separate docket before the FPSC, the Company has requested and received approval to apply a refund of 1991 overearnings of approximately $118,000 against the balance of unamortized environmental charges incurred as of December 31, 1992. As a result, these environmental charges were fully amortized as of June 1994. Of the $595,000 in costs reported above, all costs have received ratemaking treatment. It is management's opinion that future costs, if any, will be recoverable in rates.

(iv) (d) Smyrna Coal Gas Site

On August 29, 1989 and August 4, 1993, representatives of DNREC conducted sampling on property owned by the Company in Smyrna, Delaware. This property is believed to be the location of a former manufactured gas plant. Analysis of the samples taken by DNREC shows a limited area of soil contamination.

On November 2, 1993, DNREC advised the Company that it would require a remediation of the soil contamination under the state's Hazardous Substance Cleanup Act and submitted a draft Consent Decree to the Company for its review. The Company met with DNREC personnel in December 1993 to discuss the scope of any remediation of the site and, on January 3, 1994, submitted a proposed workplan, together with comments on the draft Consent Decree. Initial comments from DNREC on the Work Plan were received on March 2, 1994, appropriate revisions were prepared and the Work plan was resubmitted. Several additional sets of comments on the Work Plan were received from DNREC and the final Work Plan was submitted on September 27, 1994. DNREC has approved the Work Plan and the Consent Decree. Remediation based on the Work Plan, is scheduled to begin in 1995, at a cost of approximately $75,000. It is management's opinion that future costs, if any, will be recoverable in rates.

(e) *Employees*

The Company has 320 employees including 144 natural gas distribution employees, 18 natural gas transmission employees, 92 propane distribution employees and 38 information technology services employees. The remaining 28 employees are considered general and administrative and include officers of the Company and treasury, accounting, marketing, human resources and other administrative personnel.

Item 2. Properties

(a) General

The Company rents office space for its corporate headquarters located in Dover, Delaware. The Company owns office and operations buildings in Salisbury, Cambridge, and Princess Anne, Maryland; Dover, Seaford, Laurel and Georgetown, Delaware; and Winter Haven, Florida, and rents office space in Plant City, Florida; Chincoteague and Belle Haven, Virginia, Raleigh and Cary, North Carolina; Easton and Pocomoke, Maryland, and Atlanta, Georgia. In general, the properties of the Company are adequate for the uses for which they are employed. Capacity and utilization of the Company's facilities can vary significantly due to the seasonal nature of the natural gas and propane distribution businesses.

(b) Natural Gas Distribution

Chesapeake owns over 482 miles of natural gas distribution mains (together with related service lines, meters and regulators) located in its Delaware and Maryland service areas, and 454 miles of such mains (and related equipment) in its Central Florida service areas. Chesapeake also owns facilities in Delaware and Maryland for propane-air injection during periods of peak demand.

Nearly all of the properties constituting Chesapeake's distribution system are encumbered pursuant to Chesapeake's First Mortgage Bonds.

(c) Natural Gas Transmission

Eastern Shore owns approximately 271 miles of transmission lines extending from Parkesburg, Pennsylvania to Salisbury, Maryland. Eastern Shore also owns two compressor stations located in Daleville, Pennsylvania and Bridgeville, Delaware. The Daleville station is utilized to increase Columbia supply pressures to match Transco supply pressures, and to increase Eastern Shore's pressures in order to serve growing demands from Chesapeake's Delaware division. The Bridgeville station is being used to provide increased pressures required to meet the demands on the system.

(d) Propane Distribution

Sharpgas owns bulk propane storage facilities with an aggregate capacity of 1,230,000 gallons at 26 plant facilities in Delaware, Maryland, and Virginia, located on real estate it either owns or leases.

Item 3. Legal Proceedings

Environmental disclosures are set forth in Part I, Item 1(c)(iv) of this 10-K, under "Environmental."

The Company and its subsidiaries are involved in certain legal actions and claims arising in the normal course of business. The Company is also involved in certain legal and administrative proceedings before various governmental agencies concerning rates. In the opinion of management, the ultimate disposition of these proceedings will not have a material effect on the consolidated financial position of the Company.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Item 10. Executive Officers of the Registrant

Information pertaining to the Executive Officers of the Company is as follows.

Ralph J. Adkins (age 52) (present term expires May 16, 1995). Mr. Adkins is President and Chief Executive Officer of Chesapeake. He has served as President and Chief Executive Officer since November 8, 1990. Prior to holding his present position, Mr. Adkins served as President and Chief Operating Officer, Executive Vice President, Senior Vice President, Vice President and Treasurer of Chesapeake. Mr. Adkins is also Chairman, President and Chief Executive Officer of Chesapeake Service Company, and Chairman and Chief Executive Officer of Sharp Energy, Inc. and Eastern Shore Natural Gas Company, all wholly owned subsidiaries of Chesapeake. He has been a director of Chesapeake since 1989.

John R. Schimkaitis (age 47) (present term expires May 16, 1995). Mr. Schimkaitis is Senior Vice President, Assistant Treasurer and Chief Financial Officer of Chesapeake. He previously served as Vice President, Treasurer and Chief Financial Officer from 1987 to 1992 and has served as Assistant Secretary from 1986 to 1992. From 1983 to 1986 Mr. Schimkaitis was Vice President of Cooper & Rutter, Inc., a consulting firm providing financial services to the utility and cable industries.

Jeremy D. West (age 45) (present term expires May 16, 1995). Mr. West is the President of Sharp Energy, Inc. and Vice President of Chesapeake. He joined Sharp Energy in 1990 as President and in May 1992 was elected Vice President of Chesapeake. Mr. West was Vice President of Marketing from March 1987 to March 1989, and President from March 1989 to June 1990, of Columbia Propane Corporation, a subsidiary of Columbia Gas System. Previously, Mr. West was with Suburban Propane Gas Corp. as Regional Manager from September 1985 to March 1987.

Jack E. Reinhard (age 47) (present term expires May 16, 1995). Mr. Reinhard joined Chesapeake in 1988 as Superintendent of Division Operations, and in 1990 was promoted to General Manager of Natural Gas Operations. In May 1992, he was elected Vice President of Chesapeake. Mr. Reinhard was previously employed by Southern Union Gas Company, a division of Southern Union Corporation.

Kenneth H. Dean (age 55) (present term expires May 16, 1995). Mr. Dean joined Chesapeake in May 1994 as Senior Vice President of Corporate Development and Planning. He was previously employed for 11 years with Stone and Webster Management Consultants, most recently as Senior Vice President. Prior to that, Mr. Dean served as Executive Vice President of Mobile (Alabama) Gas Service Corporation.

Philip S. Barefoot (age 47) (present term expires May 16, 1995). Mr. Barefoot joined Chesapeake as Division Manager of Florida Operation in July 1988. In May 1994 he was elected Senior Vice President of Natural Gas Operations, as well as President of Eastern Shore Natural Gas Company. Prior to joining Chesapeake, he was employed with Peoples Natural Gas Company where he held the positions of Division Sales Manager, Division Manager and Vice President of Florence Operations.

PART II

Item 5. Market for the Registrant's Common Stock and Related Security Holder Matters

(a) Common Stock Dividends and Price Ranges:

The following table sets forth sale price and dividend information for each calendar quarter during the years December 31, 1994 and 1993

Quarter Ended	High	Low	Close	Dividends Declared Per Share
1994				
March 31	$15.250	$13.625	$13.875	$0.2200
June 30	14.500	13.250	14.000	0.2200
September 30	1[illegible].750	13.000	13.625	0.2200
December 31	1[illegible].750	12.[illegible]75	12.750	0.2200
1993				
March 31	$15.125	$13.000	$14.000	$0.2150
June 30	15.000	13.625	13.750	0.2150
September 30	17.500	13.500	17.500	0.2150
December 31	17.375	14.875	15.375	0.2150

The common stock of the Company trades on the New York Stock Exchange under the symbol "CPK"

(b) Approximate number of holders of common stock as of December 31, 1994:

Title of Class	Number of Shareholders of Record
Common stock, par value $.4867	1,721

(c) Dividends:

During the years ended December 31, 1994 and 1993, cash dividends have been declared each quarter, in the amounts set forth in the table above

Indentures to the long-term debt of the Company and its subsidiaries contain a restriction that the Company cannot, until the retirement of its Series I Bonds, pay any dividends after December 31, 1988 which exceed the sum of $2,135,188 plus consolidated net income recognized on or after January 1, 1989. As of December 31, 1994, the amounts available for future dividends permitted by the Series I covenant are $5,669,300

Item 6. Selected Financial Data

	For the Years Ended December 31,				
	1994	1993	1992	1991	1990
	(Dollars in Thousands Except Stock Data)				
Operating					
Operating revenues	$ 98,572	$ 85,873	$ 75,935	$ 69,828	$ 81,256
Operating income	$ 7,227	$ 6,311	$ 5,770	$ 5,865	$ 6,019
Income before cumulative effect of change in accounting principle and discontinued operations	$ 4,460	$ 3,914	$ 3,475	$ 3,095	$ 3,056
Cumulative effect of change in accounting principle		$ 58			
Income/(loss) from discontinued operations			$ 74	$ (594)	$ 52
Net income	$ 4,460	$ 3,97	$ 3,549	$ 2,501	$ 3,108
Volumes delivered:					
Natural gas (million cubic feet)	22,728	19,444	17,344	16,337	17,906
Propane (thousands of gallons)	18,395	17,250	17,125	14,837	16,008
Balance Sheet					
Gross plant	$ 110,023	$ 100,330	$ 91,039	$ 85,038	$ 80,552
Net plant	$ 75,313	$ 69,794	$ 64,596	$ 61,970	$ 60,807
Total assets	$ 108,271	$ 100,988	$ 89,557	$ 86,716	$ 87,432
Long-term debt	$ 24,329	$ 25,682	$ 25,668	$ 22,901	$ 24,671
Common stockholders' equity	$ 37,063	$ 34,878	$ 33,126	$ 32,207	$ 32,302
Capital expenditures	$ 10,653	$ 10,064	$ 6,720	$ 5,923	$ 6,965
Common Stock					
Shares outstanding at year end	3,653,182	3,575,068	3,487,778	3,437,934	3,414,549
Earnings per share					
Income before cumulative effect of change in accounting principle and discontinued operations	$ 1.23	$ 1.10	$ 1.00	$ 0.90	$ 0.90
Cumulative effect of change in accounting principle		$ 0.02			
Income/(loss) from discontinued operations			$ 0.02	$ (0.17)	$ 0.01
Net income	$ 1.23	$ 1.12	$ 1.02	$ 0.73	$ 0.91
Cash dividends per share	$ 0.88	$ 0.86	$ 0.86	$ 0.86	$ 0.85
Book value per share	$10.15	$ 9.76	$ 9.50	$ 9.37	$ 9.46
Common equity/Total capitalization	60.37%	57.59%	56.34%	58.44%	56.70%
Return on equity	12.03%	11.39%	10.71%	7.77%	9.62%
Number of Employees	320	326	317	311	315
Number of Registered Stockholders	1,721	1,743	1,674	1,723	1,735

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Liquidity and Capital Resources

The Company's capital requirements reflect the capital intensive nature of its business and are attributable principally to its construction program and the retirement of its outstanding debt. The Company relies on cash generated from operations and short-term borrowings to meet normal working capital

requirements and to temporarily finance capital expenditures. During 1994, the Company's net cash provided by operating activities, net cash used by investing activities and net cash used by financing activities were $14,381,011, $10,424,411 and $4,720,646, respectively.

The Board of Directors has authorized the Company to borrow up to $14,000,000 from various banks and trust companies. As of December 31, 1994, the Company had four unsecured bank lines of credit each in the amount of $8,000,000. Funds provided from these lines of credit are used for short-term cash needs to meet seasonal working capital requirements and to fund portions of its capital expenditures. The outstanding balances of short-term borrowings at December 31, 1994 and 1993 were $8,000,000 and $8,900,000, respectively. Based upon anticipated cash requirements in late 1995, the Company may refinance the short-term debt through the issuance of common equity, long-term debt or a combination thereof. The timing of such an issuance is dependent upon the nature of the securities involved as well as current market and economic conditions.

Capital Expenditures

	(Millions of Dollars)
1990	$ 7.0
1991	5.9
1992	6.7
1993	10.1
1994	10.6

In 1994 and 1992 the Company's capital additions were funded from operations, unlike 1993 when funding was provided by operations and financing activities. In 1994, cash provided by operations increased due to the collection of a large amount of underrecovered purchase gas costs present at the end of 1993. Cash provided by operations in 1993 was lower than 1992 due, in part, to a large accounts payable amount that was outstanding at the end of 1992 and paid in 1993 along with an increase in the amount of underrecovered purchase gas costs.

During 1994, 1993 and 1992, capital expenditures were approximately $10,653,000, $10,064,000 and $6,720,000, respectively. For 1995, the Company has budgeted $16,556,000 for capital expenditures. The breakdown of this amount is $11,682,000 for natural gas distribution, $1,651,000 for natural gas transmission, $1,734,000 for propane distribution, $452,000 for information technology services and $1,037,000 for Skipjack, Inc. and other. The natural gas and propane expenditures are for expansion and improvement of their existing service territories. The information technology services expenditures are for computer hardware, software and related equipment. The majority of expenditures for Skipjack are for construction and improvements. Financing for the 1995 construction program will be provided primarily using short-term borrowings and cash from operations. The construction program is subject to continuous review and modification. Actual construction expenditures may vary from the above estimates due to a number of factors including inflation, changing economic conditions, regulation, load growth, and the cost and availability of capital.

Gross Property, Plant & Equipment

	(Millions of Dollars)
1990	$ 80.5
1991	85.0
1992	91.0
1993	100.3
1994	110.0

The Company expects to incur environmental related expenditures in the future (see Note K to the Consolidated Financial Statements), a portion of which may need to be financed through external sources.

Management does not expect such financing to have a material adverse effect on the financial position or capital resources of the Company.

Capital Structure

As of December 31, 1994, common equity represented 60.4% of permanent capitalization, compared to 57.6% in 1993 and 56.3% in 1992. The Company remains committed to maintaining a sound capital structure and strong credit ratings in order to provide the financial flexibility needed to access the capital markets when required. This commitment, along with the adequate and timely rate relief for the Company's regulated operations, helps to ensure that the Company will be able to attract capital from outside sources at a reasonable cost. The achievement of these objectives will provide benefits to customers and creditors, as well as to the Company's investors.

Financing Activities

The Company issued no long-term debt in 1994. During the first quarter of 1993, the Company issued $10,000,000 of 7.97% senior notes due on February 1, 2008. The Company used a portion of the funds to repay the short-term borrowing balance outstanding (see Note F to the Consolidated Financial Statements). In April 1993, the Company used the remaining funds, along with available short-term borrowings, to repay $3,500,000 of the Company's 10.45% Series H First Mortgage Bonds. These Bonds were originally due April 1, 2001. During the year, the Company repaid a total of approximately $1,291,000 of long-term debt, compared to $5,026,000 and $2,667,000 in 1993 and 1992, respectively. The 1992 repayment of long-term debt includes a prepayment, using available short-term borrowing, of $900,000 to retire the Company's 12.50% Series F First Mortgage Bonds. These Bonds were originally due in 1998. The Company issued no long-term debt in 1992.

Common Equity

	(Millions of Dollars)
1990	$32.3
1991	32.2
1992	33.1
1993	34.9
1994	37.1

The Company issued 30,928, 27,942 and 12,546 shares of common stock in connection with its Automatic Dividend Reinvestment and Stock Purchase Plan during the years of 1994, 1993 and 1992, respectively. In 1993, the Company realized an increase in the number of shares issued from the Plan due to an increase in the level of optional cash payments from existing stockholders as well as the option made available in the fourth quarter of 1992 which allows employee stock purchases through payroll deductions.

The Company began utilizing treasury stock during the second half of 1993 to fund the monthly Company matching contribution to the Retirement Savings Plan. In 1994 and 1993, 14,475 and 4,808 shares respectively, were utilized, leaving 15,609 shares of treasury stock available. In 1995, the Company anticipates the continued use of treasury stock to administer the Company's Retirement Savings Plan.

Results of Operations

Net income for 1994 was $4,459,922, an increase of $488,251 from 1993 earnings of $3,971,671 which included $57,467 for the cumulative effect of a change in accounting for income taxes (see Note A to the Consolidated Financial Statements). Net income for 1993 also increased over 1992 earnings by $423,162. Earnings for 1992 include income of $73,500 for the reversal of the estimated loss from discontinued operations recorded in 1991 from our oil distribution business (see Note B to the Consolidated Financial

Statements). Earnings before interest and taxes ("EBIT") increased by $1,456,000 or 17.5% in 1994 after increasing by $412,000 or 5.2% in 1993.

Net Income

	(Millions of Dollars)
1990	$3.11
1991	2.50
1992	3.55
1993	3.97
1994	4.46

Natural Gas Distribution

The natural gas distribution segment contributed EBIT of approximately $4.7 million for 1994 as compared to $4.1 million in 1993 and $4.4 million in 1992. The 14.1% increase in 1994 EBIT was the result of a 6.2% increase in gross margin partially offset by an increase in operating expenses. The decrease in 1993 EBIT as compared to 1992 was the result of an increase in operating expenses, offset by an increase in gross margin.

Operating revenues increased to $49.6 million in 1994 from $44.3 million in 1993 after increasing from $42.0 million in 1992. Cost of gas was $32.4 million, $28.1 million and $26.1 million in 1994, 1993 and 1992, respectively. The 1994 increase in revenue and cost of gas is primarily due to the first full year of natural gas brokering operations for large industrial users and local distribution companies in Florida. Overall, the brokering of gas provided a minimal increase in gross margin for 1994. In addition, the Florida division has increased sales to its phosphate producing and citrus processing customers and two electric co-generation plants, which began operation in the first quarter of 1994. Despite temperatures being 6.5% warmer than last year, deliveries in the northern territories to residential and commercial customers increased 5.1% because of the timing and magnitude of colder weather in the first quarter of 1994. The 1993 increase was the result of an increase in Florida's transportation volumes. This was partially offset by a 25.7% reduction in interruptible sales volume due to competition from alternative fuel services and Florida industrial customers switching to transportation services.

Revenues

	(Millions of Dollars)
1990	$81.3
1991	69.8
1992	75.9
1993	85.9
1994	98.6

Operating expenses increased by $418,000 in 1994 after increasing by $596,000 in 1993. The 1994 increase was due primarily to higher payroll, customer accounting and maintenance of meter and regulating stations offset partially by a reduction in employee pension and benefits, legal fees, regulatory expenses and the absence of the one-time expense of listing of our stock on the NYSE in the first quarter of 1993. The 1993 increase was due primarily to higher sales expenses, employee benefit expenses, legal fees and the NYSE fees for listing the Company's stock. Depreciation and property taxes increased in 1994 and 1993 due to plant additions during the years.

Number of Customers

	(Thousands)
1990	51.1
1991	51.6
1992	51.5
1993	52.9
1994	54.5

Natural Gas Transmission

The natural gas transmission operations contributed EBIT of approximately $3.0 million for 1994 as compared to $3.1 million in 1993 and $2.7 million in 1992. The 2% decrease in 1994 EBIT was the result of an increase in operating expenses exceeding the slight increase in gross margin. The increase in 1993 EBIT was the result of an increase in gross margin partially offset by a slight increase in operating expenses.

Operating revenues increased to $39.5 million in 1994 from $37.4 million in 1993 after increasing from $29.5 million in 1992. The 1994 and 1993 increases in operating revenues were partially offset by increases in cost of gas of $1.9 million in 1994 and $7.5 million in 1993. The net effect of the increases in revenue and cost of gas is an increase in gross margin of $113,000 in 1994 and $401,000 in 1993. However, the prior period component of the reserve for refund recorded during the second quarter of 1994 (see Note I to the Consolidated Financial Statements) has the impact of understating 1994 margins by $412,000. This $412,000 accrual was recorded to adjust on a cumulative basis, the 1993 and 1992 margins as originally recorded on the books. Had the reserve been recorded in the years that the revenue was actually generated, 1994 gross margin would have increased by $871,000 over 1993, not $113,000.

The 1994 increase in revenue was due to a combination of factors including an increase in industrial interruptible sales volumes of 33%, an increase in contract demand levels effective November 1993, partially offset by a 9.4% decrease in the commodity cost of gas, which was passed on to our customers. The majority of the industrial interruptible sales volumes increase was attributable to one industrial customer, which purchased natural gas, instead of higher price alternative fuels. The increased sales to this customer contributed $533,000 and $91,000 for the years 1994 and 1993, respectively. It is expected that this customer will not continue to contribute to gross margin at the 1994 levels. Deliveries to our large methanol producing industrial customer were up 8.3% over the same period last year; however, margins earned were lower. The 1993 increase in revenue was due to an increase in the cost of gas and an 81% increase in interruptible sales volumes which was primarily due to deliveries to the methonal plant.

Operating expenses increased by $187,000 in 1994 after increasing by $44,000 in 1993. Depreciation and taxes other than income increased in both 1994 and 1993. Depreciation expense increased from $604,000 to $641,000 from 1992 to 1994, primarily due to plant additions being placed in service during those periods.

Book Value Per Share

	(Dollars)
1990	$ 9.46
1991	9.37
1992	9.50
1993	9.76
1994	10.15

Other taxes also increased from $298,000 in 1992 to $352,000 in 1994 due to property taxes associated with the above plant additions. Maintenance expenses increased by $125,000 due to the painting of a bridge structure and cathodic protection related maintenance costs to the pipeline. Administrative expenses increased slightly over 1993 as a result of an increase in payroll, legal fees and telemetering communication expenses. This was partially offset by a reduction in sales expense, employee pension and benefits and the other administrative expenses.

In 1993, the FERC began reevaluating the methodology being used by Eastern Shore in calculating its purchased gas adjustment ("PGA"). PGA clauses provide for the adjustment of rates charged to customers as gas costs fluctuate. In May 1994, the FERC issued an Order directing Eastern Shore to refund, with interest, what the FERC characterized as overcharges from November 1992 to the current billing month. In June 1994, Eastern Shore filed a request for rehearing of the Order based upon Eastern Shore's belief that the Order essentially requires a retroactive change to the FERC approved PGA tariff. In July 1994, the FERC

issued an "Order Granting Rehearing Solely For The Purpose of Further Consideration." This Order was issued only to afford the FERC additional time for consideration of the issues raised in Eastern Shore's request for rehearing.

Total Capitalization

	(Millions of Dollars)
1990	$57.0
1991	55.1
1992	58.8
1993	60.6
1994	61.4

Eastern Shore has indicated to the FERC staff that it intends on filing an offer of settlement to resolve all of the FERC's concerns. The ultimate outcome of these proceedings cannot be forecasted with any degree of certainty and accordingly Eastern Shore has accrued $1,283,000 for the potential refund.

Propane

For 1994, the propane segment realized record earnings, achieving an increase in EBIT of $699,000 or 44% over 1993's results. This increase in EBIT resulted from an increased gross margin, offset partially by higher operating costs. Although not as dramatic as 1994, the results for 1993 were also positive, with the segment recognizing an increase in EBIT of $149,000 over 1992. Like 1994, the increase in 1993's EBIT was attributable to an increased gross margin partially offset by higher operating expenses.

Comprising the increase in 1994's gross margin were several factors. The segment recognized volume growth of 6.6% and a 2.7% increase in the gross margin per gallon. The volume growth was principally a result of the timing and severity of cold weather experienced in the first quarter of 1994, despite temperatures for the year being 6.5% warmer than 1993. The increase in gross margin per gallon resulted from a lower average cost per gallon, primarily a result of more competitive supply contracts, offset partially by a lower average selling price per gallon, largely due to competition. Finally, additional margin comprising approximately 7.8% of the increase in total gross margin was obtained from one large wholesale customer to which the segment supplied 9 million gallons of propane in 1994.

Operating expenses in 1994 increased by 1.7%. Of this modest increase, the majority of it represented expenses which were a direct result of the severe weather as well as normal customer growth, including salaries for service and delivery personnel and associated vehicle fuel and maintenance costs. Increased expenses were also incurred for consulting services and higher insurance claims. Partially offsetting these higher costs were lower employee benefit costs.

For 1993, the increase in gross margin resulted from a slight growth in volume, as well as an 8.3% increase in the gross margin per gallon. The volume growth was a direct result of temperatures being 1.3% colder than 1992. The increase in gross margin was the result of a reduction in the segment's average cost per gallon. Operating expenses rose approximately 8%, of which the majority corresponded to non-recurring programming costs, increased advertising expenses, and higher insurance costs. Inherent within this 8% expense growth is a recovery of bad debts expense, which was achieved as a result of improved collection procedures; a recovery was also recognized in 1994, although not to the extent of that recorded in 1993.

Earnings Per Share

	(Dollars)
1990	$.91
1991	.71
1992	1.02
1993	1.12
1994	1.23

Information Technology Services and Other

The information technology services and other segment recognized an increase of $17,000, or 10.9%, in EBIT for 1994. This increase is directly attributable to an increase in EBIT of $169,000 for United Systems, Inc. ("USI"), partially offset by decreases in EBIT of $130,000 and $40,000 for Capital Data Systems, Inc. ("CDS") and Currin and Associates, Inc. ("C&A"), respectively. For 1993, the segment recognized an increase in EBIT of approximately $536,000 over 1992. Comprising this escalation were increases in EBIT of $474,000 and $66,000 for CDS and USI, respectively, partially offset by a small reduction in C&A's EBIT.

Contributing to the 1994 increase in EBIT for USI were higher revenues of $742,000, primarily relating to programming and consulting. Salaries, benefits, and other normal operating expenses for USI rose by $573,000, in response to these increased sales. For CDS, the increase in 1994's operating expenses of $1,127,000 surpassed the increase in revenues of $997,000. Although a majority of these expenses are a direct result of the increase in revenue, the balance of the increased expenses represents the absence of any capitalized payroll costs for software development in 1994. Slightly offsetting these expenses were reductions in depreciation expense and employee benefit costs.

The total increase in revenues of $997,000 for 1994 represents sales to external customers. During 1994, CDS recognized revenues of $1,227,000 associated with the ongoing development of the natural gas distribution segment's customer billing system, UtiliCIS. This compares closely to $1,239,000 for 1993. For these amounts, it is Chesapeake's policy to eliminate the corresponding portion of EBIT, which represented $468,000, $651,000, and $257,000 for 1994, 1993 and 1992, respectively. Chesapeake will reverse this eliminated EBIT once the project is complete and the natural gas distribution segment begins depreciating the system. Finally, as a result of declining revenue and business prospects, Chesapeake disposed of its investment in C&A in 1994. Contributing to the increase in 1993's EBIT for CDS were increased revenues of $1,306,000, of which approximately $815,000, or 62.4% correspond to intercompany billings. Offsetting this rise in revenues were increased operating expenses associated with higher programming and payroll costs as well as increased maintenance and depreciation expenses on various pieces of computer hardware. For USI, the increase in 1993's EBIT stemmed from higher consulting and programming revenues of $743,000, partially offset by higher salaries, benefits, and consulting fees of $677,000. In 1993, the net reduction in C&A's EBIT was minimal, approximately $9,000 or 9.6%.

Other

Non-operating income was approximately $16,000 in 1994 as compared to $265,000 in 1993. The 1994 decrease is primarily due to the disposition of its investment in Currin & Associates and the 1993 increase of $140,000 from interest associated with upstream supplier refunds. The 1993 decrease as compared to 1992 is primarily due to a non-recurring gain of $382,000 on the sale of Company-owned rental property which occurred in 1992, somewhat offset by the interest from upstream supplier refunds received in 1993.

Dividends Per Share

	(Dollars)
1990	$.85
1991	.86
1992	.86
1993	.86
1994	.88

Environmental Matters

The Company continues to work with federal and state environmental agencies to assess the environmental impacts and explore corrective action at several former gas manufacturing plant sites (see Note K to the Consolidated Financial Statements). The Company believes that any future costs associated with these sites will be recoverable in rates.

FERC Order 636

In April 1992, the FERC issued Order No. 636 ("Order") to be effective November 1, 1993. The Order requires that pipelines restructure their services and operations in an attempt to enhance competition and maximize the benefits of wellhead price deregulation. The restructuring will force pipelines to incur transition costs. Pipelines will be allowed to recover prudently incurred transition costs from customers after approval by the FERC.

Currently, the Company is unable to determine what future transition costs will be incurred by Eastern Shore and the effect, if any, that these costs will have on its financial position. The Company's Florida distribution division is currently being billed transition costs from Florida Gas Transmission. The Company is recovering all transition costs incurred through the purchased gas adjustment (see note L to the Consolidated Financial Statements).

Competition

Historically, the Company's natural gas operations have successfully competed with other forms of energy such as electric, oil and propane. The principal considerations have been price and to a lesser extent, accessibility. However, natural gas shows great potential for increased sales as a vehicle fuel and for electric power generation because of its environmentally superior qualities, its production from domestic sources and endorsements received by government officials. Since Eastern Shore has not elected to be an "open access" pipeline, the Company is not subject to the competitive pressures, on the Delmarva Peninsula, of FERC Order No. 636.

Both the propane distribution and the information technology businesses face significant competition from a number of larger competitors having substantially greater resources available to them than the Company. In addition, in the information technology business, changes are occurring rapidly which could adversely impact the markets for the Company's products and services.

Inflation

Inflation impacts the prices the Company must pay for labor and other goods and services required for operation, maintenance and capital improvements, although in recent years, the impact of inflation has lessened. Purchased gas costs, which have been relatively stable, are passed on to customers through the purchased gas adjustment clause in the Company's tariff. To help cope with the effects of inflation on its capital investments and returns, the Company seeks rate relief from its regulatory commissions for its regulated segments and constantly monitors the returns of its unregulated business segments.

Item 8. **Financial Statements and Supplementary Data**

REPORT OF INDEPENDENT ACCOUNTANTS

To the Shareholders of
Chesapeake Utilities Corporation

We have audited the accompanying consolidated balance sheets of Chesapeake Utilities Corporation and Subsidiaries as of December 31, 1994 and 1993, and the related consolidated statements of income, cash flows, stockholders' equity, and income taxes for each of the three years in the period ended December 31, 1994, and the consolidated financial statement schedules listed in Item 14(a)(1) and (2) of this Form 10-K. These financial statements and financial statement schedules are the responsibility of the Company's Management. Our responsibility is to express an opinion on these financial statements and financial statement schedules based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimate made by Management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Chesapeake Utilities Corporation and Subsidiaries as of December 31, 1994 and 1993, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1994 in conformity with generally accepted accounting principles. In addition, in our opinion, the consolidated financial schedules referred to above, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information required to be included therein.

As discussed in Note A to the consolidated financial statements, effective January 1, 1993, the Company changed its method of accounting for income taxes.

We have also previously audited, in accordance with generally accepted standards, the consolidated balance sheets as of December 31, 1992, 1991, and 1990, and the related consolidated statements of income, cash flows, stockholders' equity, and income taxes for each of the two years in the period ended December 31, 1991, (none of which are presented herein), and we expressed unqualified opinion on those financial statements. In our opinion, the information set forth in the Selected Financial Data section, for each of the five years in the period ended December 31, 1994, is fairly stated in all material respect in relation to the financial statements from which it has been derived.

COOPERS & LYBRAND L.L.P.

Baltimore, Maryland
February 10, 1995

CONSOLIDATED STATEMENTS OF INCOME

	For the Years Ended December 31,		
	1994	1993	1992
Operating Revenues	$98,572,297	$85,872,632	$75,934,708
Operating Expenses			
Purchased gas costs	59,013,165	49,838,349	42,356,210
Operations	19,681,435	18,178,500	16,792,136
Maintenance	2,181,404	1,833,244	1,791,866
Depreciation and amortization	5,140,679	5,087,087	4,674,645
Other taxes	2,798,905	2,635,072	2,431,968
Income taxes	2,529,635	1,989,287	2,118,340
Total operating expenses	91,345,223	79,561,539	70,165,165
Operating Income	7,227,074	6,311,093	5,769,543
Other Income and (Deductions)			
Interest income	123,271	351,426	213,754
Other income and (deductions), net	(144,038)	(49,185)	498,203
Income taxes	(12,733)	(37,002)	(197,346)
Allowance for equity funds used during construction	49,154		
Total other income and (deductions)	15,654	265,239	514,611
Income Before Interest Charges	7,242,728	6,576,332	6,284,154
Interest Charges			
Interest on long-term debt	2,322,942	2,443,035	2,201,958
Amortization of debt expense	103,859	100,797	68,662
Other	426,242	258,978	549,795
Allowance for borrowed funds used during construction	(70,237)	(140,682)	(11,270)
Total interest charges	2,782,806	2,662,128	2,809,145
Income Before Cumulative Effect of Change in Accounting Principle and Discontinued Operations	4,459,922	3,914,204	3,475,009
Cumulative Effect of Change in Accounting Principle		57,467	
Discontinued Operations			
Income on disposal (less applicable taxes of $37,864)			73,500
Net Income	$ 4,459,922	$ 3,971,671	$ 3,548,509
Average Shares Outstanding	3,628,056	3,551,932	3,477,244
Earnings Per Share of Common Stock:			
Income before cumulative effect of change in accounting principle and discontinued operations	$ 1.23	$ 1.10	$ 1.00
Cumulative effect of change in accounting principle		0.02	
Income from discontinued operations			0.02
Net income	$ 1.23	$ 1.12	$ 1.02

See accompanying notes

CONSOLIDATED BALANCE SHEETS

	At December 31	
	1994	1993
Assets		
Property, Plant and Equipment		
Natural gas distribution	$ 57,773,632	$ 50,132,505
Natural gas transmission	24,546,916	24,037,676
Propane distribution	18,289,571	17,574,143
Information technology services and other	8,618,014	7,790,865
Gas plant acquisition adjustments	795,004	795,004
Total property, plant and equipment	110,023,137	100,330,193
Less: Accumulated depreciation and amortization	(34,710,478)	(30,536,616)
Net property, plant and equipment	75,312,659	69,793,577
Investments	1,641,851	1,766,626
Current Assets		
Cash and cash equivalents	398,751	1,162,797
Accounts receivable, net	8,416,293	9,719,810
Materials and supplies, at average cost	797,147	739,279
Propane inventory, at average cost	1,411,384	1,102,591
Storage gas prepayments	3,467,281	3,554,831
Underrecovered purchased gas costs	109,025	1,832,457
Income taxes receivable	836,813	190,995
Prepaid expenses	855,107	800,911
Deferred income taxes	1,290,680	213,129
Total current assets	17,582,481	19,316,800
Deferred Charges and Other Assets		
Intangible assets, net	1,941,239	2,668,910
Environmental cost	7,462,64	2,551,080
Order 636 transition cost	2,020,732	2,503,053
Other deferred charges	2,309,008	2,387,855
Total deferred charges and other assets	13,733,626	10,110,898
Total Assets	$108,270,617	$100,988,10[illegible]

See accompanying notes

CONSOLIDATED BALANCE SHEETS

	At December 31	
	1994	1993
Capitalization and Liabilities		
Capitalization		
Stockholders' equity		
Common stock	$ 1,785,514	$ 1,754,[illegible]
Additional paid-in capital	16,834,823	15,[illegible]
Retained earnings	19,480,374	18,21[illegible]
Less: Treasury stock, at cost	(99,842)	([illegible])
Unearned compensation related to restricted stock awarded	(696,679)	(663,5[illegible])
Unrealized loss on marketable equity securities, net	(241,609)	(90,517)
Total stockholders' equity	37,062,581	34,877,[illegible]
Long-term debt, net of current portion	24,328,988	25,682,[illegible]
Total capitalization	61,391,569	60,559,[illegible]
Current Liabilities		
Current portion of long-term debt	1,348,080	1,265,946
Short-term borrowings	8,000,000	8,900,000
Accounts payable	7,385,590	7,002,677
Refunds payable to customers	567,817	319,818
Accrued interest	691,949	659,[illegible]
Dividends payable	803,700	768,640
Other accrued expenses	2,225,097	2,057,33[illegible]
Total current liabilities	21,022,233	21,034,217
Deferred Credits and Other Liabilities		
Deferred income taxes	8,700,472	8,392,325
Deferred investment tax credits	986,062	1,040,877
Environmental liability	6,642,092	1,675,000
Order 636 transition liability	2,020,732	2,503,053
Accrued pension costs	2,530,904	2,116,942
Other liabilities	4,976,553	3,666,106
Total deferred credits and other liabilities	25,856,815	19,394,303
Commitments and Contingencies (Notes K and L)		
Total Capitalization and Liabilities	$108,270,617	$100,988,101

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Years Ended December 31,		
	1994	1993	1992
Operating Activities			
Net income	$ 4,459,922	$ 3,971,671	$ 3,548,509
Adjustments to reconcile net income to net operating cash			
Cumulative effect of change in method of accounting for income taxes		(57,467)	
Depreciation and amortization	5,862,154	5,393,934	4,955,862
Allowance for equity funds used during construction	(49,154)		
Gain on the sale of fixed assets and investments			(363,542)
Investment tax credit adjustments	(54,815)	(54,815)	(54,815)
Deferred income taxes, net	(669,404)	778,896	1,308,302
Employee benefits	492,082	1,117,017	756,661
Employee compensation resulting from lapsing of stock restrictions	374,121	367,085	90,453
Reserve for refund	1,238,705		
Other, net	424,83[illegible]	1,952	776,670
Changes in assets and liabilities			
Accounts receivable	1,303,517	(1,332,217)	(1,505,048)
Other current assets	(979,125)	1,066,583	1,216,493
Other deferred charges	(168,078)	(489,528)	(851,840)
Accounts payable	382,913	(1,659,248)	3,308,345
Refunds payable to customers	59,999	(177,915)	(121,463)
Overrecovered (Underrecovered) purchased gas costs	1,723,432	(861,006)	(617,453)
Other current liabilities	159,910	(204,856)	(699,454)
Net cash provided by operating activities	14,381,011	7,860,086	11,747,371
Investing Activities			
Property, plant and equipment expenditures	(10,473,565)	(10,023,702)	(6,680,166)
Proceeds from the sale of Sharpoil assets			393,261
Allowance for equity funds used during construction	49,154		
Net cash used by investing activities	(10,424,411)	(10,023,702)	(6,286,905)
Financing Activities			
Common stock dividends net of amounts reinvested of $42[illegible],190, $409,248 and $160,555 in 1994, 1993 and 1992, respectively	(2,736,388)	(2,634,479)	(2,834,57[illegible])
Sale of treasury stock	201,704	79,017	
Net (repayments) borrowings under line of credit agreements	(900,000)	200,000	(100,000)
Proceeds from issuance of long-term debt		10,000,000	
Repayments of long-term debt	(1,285,962)	(5,025,934)	(2,667,388)
Payment under capital lease obligations		(102,761)	(91,461)
Net cash (used) provided by financing activities	(4,720,646)	2,515,843	(5,693,427)
Net (Decrease) Increase in Cash and Cash Equivalents	(764,046)	352,227	(232,961)
Cash and Cash Equivalents at Beginning of Year	1,162,797	810,570	1,043,531
Cash and Cash Equivalents at End of Year	$ 398,751	$ 1,162,797	$ 810,570
Supplemental Disclosures of Cash Flow Information			
Cash paid during the year for interest	$ 2,652,323	$ 2,421,764	$ 2,760,308
Cash paid during the year for income taxes	$ 3,509,034	$ 1,099,422	$ 1,043,378

See accompanying notes

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	For the Years Ended December 31,		
	1994	1993	1992
Common Stock			
Balance — beginning of period	$ 1,754,547	$ 1,714,404	$ 1,690,145
Dividend Reinvestment Plan	15,046	13,599	6,106
USI restricted stock award agreements	15,778	26,544	18,153
Conversion of debentures	143		
Balance — end of period	1,785,514	1,754,547	1,714,404
Additional Paid-in Capital			
Balance — beginning of period	15,850,319	14,628,476	14,039,942
Dividend Reinvestment Plan	412,144	395,649	154,449
USI restricted stock award agreements	458,335	777,920	434,085
Sale of treasury stock to Company's Retirement Savings Plan	109,184	48,274	
Conversion of debentures	4,841		
Balance — end of period	16,834,823	15,850,319	14,628,476
Retained Earnings			
Balance — beginning of period	18,219,083	17,309,905	16,756,529
Net income	4,459,922	3,971,671	3,548,509
Cash dividends(1)	(3,198,631)	(3,062,493)	(2,995,133)
Balance — end of period	19,480,374	18,219,083	17,309,905
Treasury Stock			
Balance — beginning of period	(192,362)	(223,105)	(223,105)
Sale of treasury stock to Company's Retirement Savings Plan	92,520	30,743	
Balance — end of period	(99,842)	(192,362)	(223,105)
Unearned Compensation			
Balance — beginning of period	(663,557)	(271,332)	0
Issuance of award	(474,113)	(804,465)	(452,238)
Amortization of prior years' awards	440,991	412,240	180,906
Balance — end of period	(696,679)	(663,557)	(271,332)
Unrealized Loss on Marketable Securities(2)	(241,609)	(90,517)	(32,151)
Total Stockholders' Equity	$37,062,581	$34,877,513	$33,126,197

(1) Dividends per share of common stock were $.88, $.86 and $.86 for the years 1994, 1993 and 1992, respectively.

(2) Net of income taxes of approximately $160,000, $60,000 and $21,000 for the years 1994, 1993 and 1992, respectively.

See accompanying notes

CONSOLIDATED STATEMENTS OF INCOME TAXES

	Year Ended December 31		
	1994	1993	1992
Current Income Tax Expense			
Federal	$ 2,375,332	$ 950,259	$ 810,728
State	707,190	332,834	289,335
Investment tax credit adjustments, net	(54,815)	(54,815)	(54,815)
Total current income tax expense	3,027,707	1,228,278	1,045,248
Deferred Income Tax Expense			
Accelerated depreciation	270,213	692,393	762,891
Deferred gas costs	(656,772)	319,794	232,014
Pensions and other employee benefits	(169,731)	(394,161)	(296,059)
Alternative minimum tax	230,575	320,000	107,000
Unbilled revenue	188,356	(274,256)	(29,033)
Reserve for refund	(580,361)	53,973	12,110
Other	232,381	80,268	519,379
Total deferred income tax expense (1)	(485,339)	798,011	1,308,302
Cumulative Effect of Change in Method of Accounting for Income Taxes			
Decrease in deferred tax assets		297,973	
Amount recorded on the balance sheet		(355,440)	
Amount recognized in income		(57,467)	
Total income tax expense	$ 2,542,368	$ 1,968,822	$2,353,550
Reconciliation for Effective Income Tax Rates			
Federal income tax expense at 34%	$ 2,458,354	$ 2,019,766	$2,006,700
State income taxes, net of federal benefit	443,716	244,860	261,753
Cumulative effect of change in method of accounting for income taxes		(57,467)	
Other	(359,702)	(238,337)	85,097
Total income tax expense	$ 2,542,368	$ 1,968,822	$2,353,550
Effective income tax rate	35.6%	33.1%	39.9%
Deferred Income Taxes			
Deferred tax liabilities			
Accelerated depreciation	$10,709,693	$10,883,002	
Deferred gas costs	36,862	693,634	
Other	961,628	852,689	
Total deferred tax liabilities	11,708,183	12,429,325	
Deferred tax assets			
State operating loss carryforwards, net	$ 242,621	$ 284,293	
Alternative minimum tax credits		644,309	
Deferred investment tax credit	477,365	502,768	
Reserve for refund	625,549	3,872	
Unbilled revenue	657,088	845,454	
Pensions and other employee benefits	1,093,163	923,492	
Self insurance	514,509	518,604	
Other	687,886	527,337	
Total deferred tax assets	4,298,391	4,250,129	
Deferred Income Taxes Per Consolidated Balance Sheet	$ 7,409,792	$ 8,179,196	

(1) Total deferred income tax expense includes $66,000, $38,000 and $9[illegible],000 of deferred state income taxes for the years 1994, 1993 and 1992, respectively.

See accompanying notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A. Summary of Accounting Policies

Principles of Consolidation

The consolidated financial statements of Chesapeake Utilities Corporation (the "Company") include the Company's subsidiaries: Eastern Shore Natural Gas Company ("Eastern Shore"), Sharp Energy, Inc. ("Sharp Energy") and Chesapeake Service Company ("Chesapeake Service"). Eastern Shore's accounts include those of its wholly owned subsidiary, Dover Exploration Company ("Dover Exploration"). Sharp Energy's accounts include those of its wholly owned subsidiaries, Sharpgas, Inc. ("Sharpgas") and Sharpoil, Inc. ("Sharpoil"). Chesapeake Service's accounts include those of Capital Data Systems, Inc. ("CDS"), Currie and Associates, Inc. ("C&A"), United Systems, Inc. ("USI"), Skipjack, Inc. ("Skipjack") and Chesapeake Investment Company ("Chesapeake Investment").

All intercompany transactions have been eliminated in consolidation.

System of Accounts

The natural gas distribution divisions of the Company located in Delaware, Maryland and Florida are subject to regulation by the Delaware, Maryland and Florida Public Service Commissions with respect to their rates for service, maintenance of their accounting records and various other matters. Eastern Shore is subject to regulation by the Federal Energy Regulatory Commission ("FERC") and the Delaware Public Service Commission. The Company's financial statements are prepared on the basis of generally accepted accounting principles which give appropriate recognition to the ratemaking and accounting practices and policies of the various commissions. The propane and information technology services subsidiaries are not subject to regulation with respect to rates or maintenance of accounting records.

Cash and Cash Equivalents

The Company's policy is to invest cash in excess of operating requirements in overnight income producing accounts. Such amounts are stated at cost which approximates market. Investments with an original maturity of three months or less are considered cash equivalents.

Property, Plant and Equipment and Depreciation

Utility property is stated at original cost while the assets of the propane subsidiary are valued at cost. The costs of repairs and minor replacements are charged as incurred to the appropriate operating expense and the costs of major renewals and betterments are capitalized. Upon retirement or disposition of utility property, the recorded cost of removal, net of salvage value, is charged to accumulated depreciation. Upon retirement or disposition of non-utility property, the gain or loss, net of salvage value, is charged to the income statement.

The provision for depreciation is computed using the straight-line method at rates which will amortize the unrecovered cost of depreciable property over the estimated useful life. Depreciation and amortization expense for financial statement purposes is provided at an annual rate averaging 4.5% for natural gas distribution, 2.8% for natural gas transmission, 5.2% for propane distribution, 6.2% for gas plant acquisition adjustments and 14.4% for information technology services and other.

Allowance for Funds Used During Construction

The allowance for funds used during construction ("AFUDC") is an accounting procedure whereby the cost of borrowed funds and other funds used to finance construction projects is capitalized as part of utility plant on the balance sheet, crediting the cost as a non-cash item on the income statement. The cost of borrowed and equity funds is segregated between interest expense and other income, respectively. The Company used

rates of 4.23% in 1994, 3.52% in 1993 and 4.05% in 1992 for calculating AFUDC on borrowed funds. In 1994, AFUDC for equity funds was calculated using an average rate of 2.92%.

Other Deferred Charges

Other deferred charges include discount, premium and issuance costs associated with long-term debt, restricted stock earned for services performed but not yet awarded and rate case expenses. The discount, premium and issuance costs are deferred and amortized over the lives of the respective debt issues. Rate case expenses are deferred and amortized over periods approved by the applicable regulatory authorities.

Income Taxes and Investment Tax Credit Adjustments

The Company files a consolidated federal income tax return. Income tax expense allocated to the individual companies is based upon their respective taxable incomes and tax credits.

Deferred tax assets and liabilities are recorded for the tax effect of temporary differences between the financial statements and tax basis of assets and liabilities, and is measured using current effective income tax rates. The portion of the Company's deferred tax liabilities applicable to utility operations which has not been reflected in current service rates represents income taxes recoverable through future rates.

Investment tax credits on utility property have been deferred and are allocated to income ratably over the lives of the subject property.

Effective January 1, 1993 the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 109 "Accounting for Income Taxes." The adoption of SFAS No. 109 changed the method of accounting for income taxes from the deferred method to the asset and liability approach. In adopting SFAS No.109, the Company elected to restate its financial statements in order to include the tax consequences on the amounts paid in excess of original cost in gas plant acquisition adjustments for prior utility acquisitions. Restated prior years' financial statements have not been presented due to the immaterial impact of SFAS No. 109. The principal effect on the Company's financial statements of adopting SFAS No. 109 was the recording of deferred regulatory assets and liabilities.

The deferred regulatory assets consist primarily of income taxes on temporary depreciation differences which were previously flowed through to ratepayers. Deferred regulatory assets were approximately $885,000 and $931,000 at December 31, 1994 and 1993, respectively. The deferred regulatory liabilities primarily represent excess deferred income tax credits resulting from the reduction in the federal income tax rate and also deferred tax credits provided on investment tax credits which were previously flowed through to ratepayers. Deferred regulatory liabilities were approximately $1,233,000 and $1,322,000 at December 31, 1994 and 1993, respectively.

Changes in accumulated deferred income taxes related to the Company's non-regulated operations have been recorded as a cumulative effect of change in accounting principle on the income statement and a deferred tax asset on the balance sheet. The result was a one-time increase to net income of $57,467. The increase to net income resulted from a reduction in the deferred income taxes associated with depreciation, coupled with the recording of net state tax loss carryforwards. The Company has state tax loss carryforwards of $8,529,000 and $8,753,000 at December 31, 1994 and 1993, respectively. The Company has recorded valuation allowances of $153,000 and $255,000 at December 31, 1994 and 1993, respectively. The loss carryforwards expire in various years beginning in 1997 through 2007.

Operating Revenues

Revenues for the natural gas distribution divisions of the Company and a portion of Eastern Shore revenues are based on rates approved by the various commissions. Customers' base rates may not be changed without formal approval of these commissions. The Company, except for its Florida division, recognizes

revenues from meters read on a monthly cycle basis. This practice results in unbilled and unrecorded revenue from the cycle date through month-end. The Florida division recognizes revenues based on services rendered and records an amount for gas delivered but not billed.

The natural gas distribution divisions of the Company and Eastern Shore have purchased gas adjustment clauses that provide for the adjustment of rates charged to customers as gas costs fluctuate. These amounts are collected or refunded through adjustments to rates in subsequent periods.

Intangible Assets

Intangible assets are associated with the acquisition of non-utility companies, and are being amortized on a straight-line basis. At December 31, 1994 and 1993, the balances and amortization periods for these assets were as follows:

Intangible Assets	1994	1993	Amortization Period
Organization costs and other	$ 263,657	$ 303,010	10 to 40 years
Goodwill	424,226	672,368	15 to 40 years
Customer lists	1,232,968	1,232,968	12 years
Covenants not to compete	3,100,000	3,100,000	8 years
	5,020,851	5,308,346	
Less: Accumulated amortization	(3,079,612)	(2,639,436)	
Intangible assets, net	$ 1,941,239	$ 2,668,910	

Earnings Per Share

Earnings per common share are based on the weighted average number of shares of common stock outstanding for each year presented. The dilutive effect of the Company's common stock equivalents related to convertible debentures is insignificant.

Reclassification of Prior Years' Amounts

Certain prior years' amounts have been reclassified to conform with 1994 presentation.

B. Discontinued Operations

During 1992, the Company consummated the sale of all the remaining assets of Sharp Energy's products distribution subsidiary, Sharpoil. The Company's decision to discontinue the operations of Sharp- resulted in a charge to fourth quarter 1991 earnings of $500,000, which represented the estimated after-tax loss on the disposal of Sharpoil's assets and the expected loss on operating the business up to the time the assets were sold. The actual loss incurred in 1992 was $426,500. The remaining $73,500 of the estimated loss was reversed in the fourth quarter of 1992 and is included as income from discontinued operations in 1992 consolidated statement of income. Sharpoil revenues in 1992 were approximately $595,000.

C. Write-Off of Investment

In 1994, based on declining revenue and business projections, the Company disposed of its investment in Currin and Associates, Inc. ("C&A"), a rate and regulatory consulting subsidiary acquired in 1988. Revenue declined from a high of $593,000 in 1992 to a low of $51,000 for 1994. The disposition has resulted in a $260,000 after tax loss recorded to Other Income and Deductions on the income statement. The loss resulted from the write-off of goodwill and the disposition of other assets.

D. Segment Information

The Company is engaged in natural gas distribution and transmission, propane distribution and information technology services. Information concerning these segments of the Company is stated below. The information provided pertains only to continuing operations except where noted otherwise. All intersegment revenues have been eliminated from consolidated revenues. During 1994 and 1992, no individual customer accounted for 10% or more of revenues. In 1993, the Company had sales to one customer which exceeded 10% of total revenue. Total sales to this industrial interruptible customer of our transmission segment were approximately $9,600,000 or 11.2% of total revenue.

	For the Years Ended December 31,		
	1994	1993	1992
Operating Revenues, Unaffiliated Customers			
Natural gas distribution	$ 49,523,743	$ 44,286,243	$41,909,029
Natural gas transmission	22,191,896	20,094,343	13,968,258
Propane distribution	20,684,150	16,908,289	16,489,173
Information technology services and other	6,172,508	4,583,757	3,568,248
Total operating revenues, unaffiliated customers	$ 98,572,297	$ 85,872,632	$75,934,708
Intersegment Revenues			
Natural gas distribution	$ 55,888	$ 52,577	$ 64,381
Natural gas transmission	17,303,529	17,345,800	15,530,496
Propane distribution	85,552	48,248	2,118
Information technology services and other	2,277,361	2,311,498	1,575,992
Total intersegment revenues	$ 19,722,330	$ 19,758,123	$17,172,987
Operating Income Before Income Taxes			
Natural gas distribution	$ 4,696,659	$ 4,114,683	$ 4,350,992
Natural gas transmission	3,018,212	3,091,843	2,732,068
Propane distribution	2,287,688	1,588,383	1,440,096
Information technology services and other	174,033	156,910	(378,763)
Total	10,176,592	8,951,819	8,144,393
Less: Eliminations	(419,883)	(651,439)	(256,510)
Total operating income before income taxes	$ 9,756,709	$ 8,300,380	$ 7,887,883
Depreciation and Amortization			
Natural gas distribution	$ 2,136,979	$ 1,938,344	$ 1,839,146
Natural gas transmission	641,485	628,927	604,264
Propane distribution	1,323,698	1,370,590	1,355,366
Information technology services and other	1,038,517	1,149,226	875,869
Total depreciation and amortization	$ 5,140,679	$ 5,087,087	$ 4,674,645
Capital Expenditures			
Natural gas distribution	$ 8,160,874	$ 6,580,075	$ 3,475,720
Natural gas transmission	619,852	1,497,910	794,139
Propane distribution	828,519	724,677	721,956
Information technology services and other	1,044,094	1,261,125	1,728,266
Total capital expenditures	$ 10,653,339	$ 10,063,787	$ 6,720,081
Identifiable Assets			
Natural gas distribution	$ 68,528,774	$ 59,404,795	$46,550,482
Natural gas transmission	17,792,415	18,212,489	17,605,175
Propane distribution	16,949,431	18,244,020	20,417,580
Information technology services and other	4,999,997	5,126,797	4,984,067
Total identifiable assets	$108,270,617	$100,988,101	$89,557,304

E. Investments

The investment balance at December 31, 1994 and 1993 consists primarily of the common stock of Florida Public Utilities Company ("FPU"). The Company's ownership at December 31, 1994 and 1993 represents a 6.84% and 6.50% interest, respectively. The Company adopted Statement of Financial Accounting Standards ("SFAS") No. 115 "Accounting for Certain Investments in Debt and Equity Securities" effective January 1, 1994, as required. SFAS No. 115 addresses the accounting and reporting for investments in equity securities that have readily determinable fair values. The Company has classified its investment in FPU as an "Available for Sale" security, which requires that all unrealized gains and losses be excluded from earnings and be reported net of tax as a separate component of stockholders' equity. The adoption of SFAS No. 115 had no effect on the Company's 1994 results of operation. The aggregate cost basis of the Company's portfolio at December 31, 1994 and 1993 exceeded its market value by $401,[illegible] and $150,517, respectively. In management's opinion, the decline in the value of the stock is a temporary decline. At December 31, 1994 and 1993, the investment was stated at the lower of cost or market, and was reported net of tax as a separate component of stockholders' equity.

F. Lease Obligations

The Company has entered into several operating leases for office space at various locations. Rent expense related to these leases was $418,043, $439,445 and $472,148 for 1994, 1993 and 1992, respectively. Future minimum payments under the Company's lease agreements are $361,823 in 1995; $295,276 in 1996; $111,041 in 1997; $31,800 in 1998; $33,400 in 1999 and $96,000 thereafter.

G. Long-Term Debt

The outstanding long-term debt, net of current maturities is as follows:

	For the Years Ended December 31,	
	1994	1993
First mortgage sinking fund bonds:		
Adjustable rate Series G, due January 1, 1998	$ 562,500	$ 812,500
9.37% Series I, due December 15, 2004	5,860,000	6,380,000
12.00% Mortgage, due February 1, 1998	39,988	50,568
10.85% Senior uncollateralized note, due October 1, 2003	3,636,500	4,091,000
8.25% Convertible debentures, due March 1, 2014	4,230,000	4,348,000
7.97% Senior uncollateralized note, due February 1, 2008	10,000,000	10,000,000
Total long-term debt	$24,328,988	$25,682,068

The Series G bonds are subject to an interest rate equal to seventy-three percent (73%) of the prime rate ([illegible]% and 6.00% at December 31, 1994 and 1993, respectively).

The convertible debentures may be converted, at the option of the holder, into shares of the Company's common stock at a conversion price of $17.01 per share. During 1994, $5,000 in debentures were converted. The debentures are redeemable at the option of the holder, subject to an annual non-cumulative maximum limitation of $200,000 in the aggregate. As of December 31, 1994, $113,000 of the debentures have been accepted for redemption. At the Company's option, the debentures may be redeemed at the stated amounts.

On February 9, 1993, the Company issued $10,000,000 of 7.97% senior notes due on February 1, 2008. The Company used a portion of the proceeds to repay $8,700,000 in short-term borrowings. On April 1, 1993 the Company repaid $3,600,000 of the 10.45% Series H bonds. These bonds were originally due April 1, 2001.

Indentures to the long-term debt of the Company and its subsidiaries contain various restrictions. The most stringent restrictions state that the Company must maintain equity of at least 40% of total

capitalization, the times interest earned ratio must be at least 2.5 times and that the Company cannot, until the retirement of its Series I bonds, pay any dividends after December 31, 1988 which exceed the sum of $2,135,188 plus consolidated net income recognized on or after January 1, 1989. As of December 31, 1994, the amounts available for future dividends permitted by the Series I covenant approximated $5,669,300.

Substantially all of the natural gas distribution plant assets owned by the Company are subject to a lien under the mortgage pursuant to which the Company's first mortgage sinking fund bonds are issued.

Annual maturities of consolidated long-term debt are as follows:

Year	Amount
1995	$ 1,348,080
1996	$ 1,436,349
1997	$ 1,437,771
1998	$ 1,251,868
1999	$ 2,174,500
2000 through 2014	$18,028,500

H. Common Stock, Additional Paid-in Capital and Treasury Stock

The following is a schedule of changes in the Company's shares of common stock.

	For the Years Ended December 31,		
	1994	1993	1992
Common Stock: Shares Issued and Outstanding*			
Balance—beginning of period	3,605,152	3,522,670	3,472,826
Dividend Reinvestment Plan	30,928	27,942	12,546
USI restricted stock award agreements	32,418	54,540	37,298
Conversion of debentures	293	—	—
Balance—end of period	3,668,791	3,605,152	3,522,670
Shares of common stock held in treasury			
Balance—beginning of period	30,084	34,892	34,892
Sale of stock to Company's Retirement Savings Plan	(14,475)	(4,808)	
Balance—end of period	15,609	30,084	34,892

* 12,000,000 shares authorized at a par value $.4867 per share.

As part of the USI acquisition, certain key USI employees entered into restricted stock award agreements under which shares of Chesapeake common stock can be issued. The issuance of these shares is treated as a non-cash transaction on the consolidated statements of cash flow. Shares are awarded over a five year period beginning in 1992, and restrictions lapse over a five to ten year period from the award date, if certain financial targets are met. Based on 1994 USI earnings, 14,138 shares of Chesapeake common stock will be issued in 1995. Of these shares, 2,828 will have no restrictions, other than those that may be imposed by federal or state securities laws.

In addition, 48,716 shares from the previous awards, originally valued at $696,679, remain restricted and are shown as a reduction of stockholders' equity at December 31, 1994. As of December 31, 1993, 47,638 shares, valued at $663,557, remained restricted and were shown as a reduction of stockholders' equity.

The Performance Incentive Plan, which was adopted in 1992, provides for the granting of stock options to certain officers of the Company over a 10 year period. Changes in outstanding options were as follows

	1994		1993		1992	
	Number of Shares	Option Price	Number of Shares	Option Price	Number of Shares	Option Price
Outstanding—beginning of period	80,280	$12.75	92,525	$12.75-$16.33	12,245	$16.33
Options granted	55,906	$12.625			80,280	$12.75
Options expired			(12,245)	$16.33		
Outstanding—end of period	136,186	$12.625-$12.75	80,280	$12.75	92,525	$12.75-$16.33
Exercisable	53,520	$12.75	26,760	$12.75		

I. Short-Term Borrowing

The Board of Directors has authorized the Company to borrow up to $14,000,000 from various banks and trust companies. As of December 31, 1994, the Company had four $8,000,000 unsecured bank lines of credit, none of which required compensating balances.

A detail of short-term borrowings for 1994 and 1993 is as follows

	At December 31,	
	1994	1993
Total authorized amount	$14,000,000	$14,000,000
Less Amount outstanding	(8,000,000)	(8,900,000)
Available for borrowings	$ 6,000,000	$ 5,100,000

	For the Years Ended December 31,	
	1994	1993
Maximum amount outstanding at any month-end	$ 8,000,000	$ 9,900,000
Average daily amount outstanding	$ 3,640,548	$ 3,297,863
Weighted average interest rates based on		
Average daily amount outstanding	4.68%	3.47%
Amount outstanding at year-end	6.04%	3.55%

J. Employee Benefit Plans

Retirement Savings Plan

The Company offers a Retirement Savings Plan, a 401(k) plan, which provides participants a mechanism for making contributions for retirement savings. Each participant may make pre-tax contributions based upon eligible compensation. The Company makes a contribution equal to 60% of each participant's pre-tax contributions not to exceed 3.6% of the participant's compensation for the plan year. The Company's contributions totalled $240,103, $227,577 and $181,165 for the years ended December 31, 1994, 1993 and 1992, respectively.

Pension

The Company has a defined benefit pension plan covering substantially all of its employees. Benefits under the plan are based on each participant's years of service and highest average compensation. The Company's funding policy provides that payments to the trustee shall be equal to the minimum funding requirements of the Employee Retirement Income Security Act of 1974.

Total pension expense for the Company for 1994, 1993 and 1992 was approximately $387,700, $741,300 and $763,200, respectively. Pension expense decreased in 1994 because of a combination of factors including the (1) increase in the discount rate to 7% from 6.5%; (2) decrease in the rate used for average increase in future compensation levels to 5.5% from 6%, and (3) increase in the expected long-term rate of return on assets to 8.5% from 7.5%.

Total Net Pension Cost

	For the Years Ended December 31,		
	1994	1993	1992
Service cost	$ 592,294	$ 719,417	$ 718,296
Interest cost	518,184	511,536	489,812
Actual return (loss) on assets	742,949	(1,521,228)	(68,034)
Net amortization and deferral	(1,465,744)	1,031,618	(376,855)
Total net pension cost	$ 387,683	$ 741,343	$ 763,219
Assumptions			
Discount rate used in calculating total net pension cost	8.50%	7.00%	6.50%
Average increase in future compensation levels	5.50%	6.00%	6.00%
Expected long-term rate of return on assets	8.50%	7.50%	7.50%

The following schedule sets forth the funding status of the pension plan at December 31, 1994 and 1993:

Accrued Pension Cost

	At December 31,	
	1994	1993
Vested	$ 4,454,627	$ 4,724,482
Nonvested	104,402	310,132
Total accumulated benefit obligation	$ 4,559,029	$ 5,034,614
Plan assets at fair value	$ 7,799,483	$ 8,789,465
Projected benefit obligation	(6,492,622)	(8,297,798)
Plan assets in excess of projected benefit obligation	1,306,861	491,667
Unrecognized net gain	(3,590,066)	(2,372,085)
Unamortized net assets from adoption of SFAS No. 87	(171,787)	(186,891)
Accrued pension cost	$(2,454,992)	$(2,067,309)

Other Postretirement Benefits

The Company sponsors a defined benefit postretirement health care and life insurance plan which covers substantially all natural gas and corporate employees. Effective January 1, 1993, the Company adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 106, "Employers' Accounting for Postretirement Benefits Other than Pensions", which requires that the expected cost of these future benefits be included in the financial statements during the years employees render service. The implementation of SFAS No. 106 resulted in an accumulated postretirement benefit obligation (transition obligation) related to past employee service of $2,215,000. As permitted, the Company elected to amortize this cost over 20 years instead of expensing the total benefit obligation in 1993. The Company's 1993 cost under SFAS No. 106, including the amortization of the transition obligation, was $400,000. In the first quarter of 1994, the Company increased the amount that future retirees would be required to contribute to participate in the Company's health care program. The effect of the change in future employee contributions reduced the Company's transition obligation and annual costs to $357,000 and $70,000, respectively. The change also resulted in a one-time curtailment loss of $64,000 in 1994.

The health care inflation rate for 1994 and 1993 is assumed to be 12.0%. This rate is projected to gradually decrease to an ultimate rate of 5.5% by the year 2007. A one percentage point increase in the health care inflation rate from the assumed rate would increase the accumulated postretirement benefit obligation by approximately $61,000 as of January 1, 1995, and would increase the aggregate of the service cost and interest cost components of net periodic other postretirement benefit cost for 1995 by approximately $6,000.

The Company deferred approximately $35,000 and $92,000 in 1994 and 1993, respectively. These amounts represent the difference between the Maryland divisions' SFAS No. 106 expense and its actual pay-as-you-go cost. The Company expects the amount deferred would ultimately be recovered, since the Maryland Public Service Commission has allowed rate recovery for the accrual treatment of SFAS No. 106 costs in rate case decisions rendered for other utilities.

The following tables set forth the status of the plan at December 31, 1994 and 1993:

Accrued Postretirement Benefit Liability

	At December 31,	
	1994	1993
Accumulated postretirement obligation		
Retirees	$ 426,624	$ 476,607
Fully eligible active employees	108,444	478,580
Other active	70,098	1,381,352
Total accumulated postretirement benefit obligation	605,166	2,336,539
Unrecognized transition obligation	(328,731)	(2,110,000)
Net gain after recognizing change in discount rate		137,800
Unrecognized net gain	139,637	
Accrued postretirement benefit liability	$ 416,072	$ 364,339

Net Periodic Postretirement Benefit Cost

	At December 31,	
	1994	1993
Service cost	$ 3,553	$ 119,000
Interest cost on APBO	44,118	176,000
Amortization of transition obligation over 20 years	22,148	105,000
Curtailment loss	63,821	
Net Periodic Postretirement Cost	133,640	400,000
Amount capitalized as construction cost	(20,134)	(52,112)
Amount deferred	(34,969)	(92,499)
Amount charged to expense	$ 78,537	$ 255,389
Assumption:		
Discount rate used in calculating net periodic postretirement cost	8.50%	7.00%

Other Post Employment Benefits

In 1994, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 112, "Employers' Accounting for Postemployment Benefits", as required. SFAS No. 112 establishes standards of financial accounting and reporting for the estimated cost of benefits provided by an employer to former or inactive employees after employment but before retirement. The adoption of SFAS No. 112 did not have a material effect on the Company's results of operations.

K. **Environmental Commitments and Contingencies**

The Company currently is participating in the investigation, assessment, or remediation of several former gas manufacturing plant sites, located in different jurisdictions, including the exploration of corrective action options to remove environmental contaminants. The Company has accrued liabilities for two of these sites, the Dover Gas Light and Salisbury Town Gas Light sites.

The Dover site has been listed by the Environmental Protection Agency Region III ("EPA") on the Superfund National Priorities List under the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA"). In 1993, both the Company and EPA proposed remedial action plans for the site. In the fourth quarter of 1993, the Company recorded a liability of $700,000, representing the estimated liability for future environmental expenditures associated with the Company's proposed plan, which was the least extensive remedial alternative set forth in the two plans. The EPA plan proposed a more extensive remediation, estimated to cost $4.9 million. On August 19, 1994, the EPA issued the Record of Decision ("ROD") for the site. The ROD selected a remedial plan that differed from both proposals, and estimated the costs of the selected remedy at $2.7 million for groundwater remediation and $3.3 million for soil remediation. In January 1995, Chesapeake submitted to the EPA a good faith proposal to perform a substantial portion of the work set forth in the ROD, which was subsequently rejected. It is unknown whether any other potentially responsible party ("PRP") will submit good faith proposals, what such proposals might include, and whether EPA would accept such proposals. Under CERCLA, EPA may reject any of the proposals, and seek an administrative or court order to require any or all of the PRPs to implement the work. EPA may also do the work itself and seek recovery of its costs in court.

In the third quarter of 1994, the Company increased its liability recorded with respect to the Dover site to $6.0 million. This amount reflects EPA's present estimate, as stated in the ROD, for remediation of the site according to the ROD. The Company and EPA are each attempting to secure voluntary performance of part of the remediation by other parties. These parties include the State of Delaware, which is the owner of the property and was identified in the ROD as a PRP, and a local business identified in the ROD as a PRP for having contributed to groundwater contamination. On March 6, 1995, in order to protect its interests, the Company filed suit in federal court for the determination that the State of Delaware is a liable party and for recovery from the State of costs of compliance with the ROD. The Company is also considering a suit against other potentially responsible parties. In addition, EPA has stated that it will take steps to secure prompt commencement of the remedial design phase needed to implement the ROD. The Company therefore anticipates further negotiations to resolve these matters among the parties and with the government. Management is also evaluating the ROD to determine the most economic approach to implementation of the remedies selected in the ROD. Favorable developments in these matters would be accompanied by appropriate reductions to the liability recorded as they occur.

The Company also increased the corresponding regulatory asset to $6.0 million. If the Company incurs expenses of that amount in connection with undertaking the remedies selected in the ROD, management believes that the Company will be equitably entitled to contribution from other responsible parties for the greater part of these expenses. Management also believes that any amounts not so contributed will be recoverable in the Company's rates.

The Company has accrued a liability with respect to the Salisbury site of $642,092 as of December 31, 1994. This amount is based on the estimated capital and operating cost as set forth in the Company's remedial action plan submitted to the Maryland Department of the Environment ("MDE"). A corresponding regulatory asset has been recorded, reflecting the Company's belief that costs incurred will be recoverable in rates. The Company has begun preliminary remediation procedures at the site and continues discussions with MDE to finalize the remedial plan. The current liability has been reduced from the liability of $975,000 recorded in the fourth quarter of 1993, reflecting revised estimates of the scope of remediation, as determined by MDE.

Portions of the liability payouts for the Dover and Salisbury sites are expected to be over a thirty year and five year period, respectively. In addition, the Company has two other sites currently being evaluated for which no estimate of liability can be made at this time. It is management's opinion that any current costs not currently recovered and any future costs incurred will be recoverable through future rates or sharing arrangements with other responsible parties.

The following table summarizes total environmental liabilities and associated regulatory assets.

Environmental Liabilities and Regulatory Assets

	At December 31,	
	1994	1993
Delaware	$6,000,000	$ 700,000
Maryland	642,092	975,000
	$6,642,092	$1,675,000

The following table summarizes the total costs incurred related to environmental testing and remedial action.

Environmental Costs Incurred

	At December 31,	
	1994	1993
Delaware	$3,144,366	$2,814,561
Maryland	1,722,757	1,251,684
Florida	594,844	610,355
	$5,461,967	$4,676,600

Of the total costs incurred and regulatory assets above, the following table summarizes the balances of environmental costs which have not been recovered through insurance proceeds or ratemaking.

Environmental Costs Not Recovered

	At December 31,	
	1994	1993
Delaware	$6,820,555	$1,576,080
Maryland	1,608,333	1,515,813
Florida	—	59,253
Total	8,428,888	3,151,146
Less Amount charged to accumulated depreciation as cost of removal	966,241	(600,066)
Total Environmental Cost	$7,462,647	$2,551,080

I. Commitments and Contingencies

Delaware Public Service Commission Order Asserting Jurisdiction Over Eastern Shore Natural Gas Company

On February 11, 1992, the Delaware Public Service Commission ("Commission") issued an Order that declared Eastern Shore to be a "public utility" under Delaware law subject to the Commission's jurisdiction in connection with Eastern Shore's direct retail sales of natural gas to end users in the State of Delaware. The Order initiated a proceeding to consider the extent to which public utility regulatory supervision should be imposed upon the direct sales of Eastern Shore within the State of Delaware. On May 17, 1994 the

Company filed with the commission a proposal for a limited level of regulation. On October 4, 1994, the Commission issued an Order essentially agreeing with a level of regulation limited to the following: accepting and considering complaints from customers, requiring Eastern Shore to file annual and other periodic reports and requiring Eastern Shore to pay the annual public utility tax. The Order will not have a material effect on Eastern Shore's financial position or results of operations.

FERC Order No. 636

The Company is served by three direct natural gas pipelines: Columbia Gas Transmission ("Columbia"), Transcontinental Gas Pipe Line Corporation ("Transco") and Florida Gas Transmission Company ("FGT"). Columbia and Transco serve the Company's natural gas transmission subsidiary, Eastern Shore, which in turn serves the Company's local distribution companies ("LDC") located in Delaware and Maryland. FGT serves the Company's LDC in Central Florida. In connection with the issuance of Order No. 636 ("Order") by the FERC in April 1992, pipelines will incur four types of transition costs in implementing the unbundled service requirement of the Order: (1) gas supply realignment costs (the cost of renegotiating existing gas supply contracts with producers); (2) unrecovered purchased gas adjustment ("PGA") costs (gas costs remaining in the pipelines' PGA account at the time they cease the merchant function); (3) stranded costs (unrecovered costs of assets that cannot be assigned to customers of unbundled services); and (4) new facilities costs (costs of new facilities required to physically implement the Order). In order to recover prudently incurred transition costs from its customers, each pipeline is required to file for and obtain FERC approval. Eastern Shore, based on FERC proceedings involving the recovery of gas purchased and related costs, believes that transition costs passed on from pipelines will be similarly recoverable through the Eastern Shore PGA mechanism for their FERC regulated sales. Eastern Shore also has direct sales customers whose rates are currently not regulated. All transition costs allocated to these non-regulated sales would be required to be expensed when known and measurable. Eastern Shore has received notification that FERC has approved Columbia's request for recovery of transition costs related to PGA costs. Eastern Shore's portion of these costs is $180,924. On April 1, 1994, Columbia started to invoice the amount in equal installments of $15,077 over the next twelve months. Accordingly, in the second quarter, the jurisdictional amount of $150,514 was recorded as a liability and a regulatory asset. The liability is reduced each month as payment is made and the asset is reduced as the costs are recorded to the PGA. The balance for both accounts at December 31, 1994 is $38,000. The remaining amount assigned to the non-regulated sales was expensed in 1994. The Company is unable to estimate Eastern Shore's portion of any additional future transition costs that may be assigned by Transco and Columbia until FERC approves their request for recovery. In the opinion of management, it is not possible to determine the effect, if any, that any transition costs incurred in the future would have on Eastern Shore's financial position or results of operations. FGT has incurred transition costs in the form of gas supply realignment costs and the FERC has approved recovery of prudently incurred costs from FGT's customers, such as the Company's LDC in Central Florida, through a demand charge beginning November 1, 1993 and extending for five years. The Company estimates that its portion of the transition costs on December 31, 1994 and 1993 are $1,983,000 and $2,503,000, respectively, of which $520,000 is due within one year. During 1994 the Company received approval of the PGA rate which includes recovery of the transition costs. Accordingly, the Company has recorded a regulatory asset equivalent to the liability established for transition costs at December 31, 1994 and 1993.

FERC PGA

On May 19, 1994, the FERC issued an Order directing Eastern Shore to refund, with interest, what the FERC characterized as overcharges from November 1, 1992 to the current billing month. The Order also directed Eastern Shore to file a report showing how the refund was calculated, and to revise tariff language clarifying the PGA provisions of its tariff.

Eastern Shore filed a request for rehearing of the Order on June 20, 1994 based on what Eastern Shore believes is the FERC's erroneous interpretation of Eastern Shore's tariff. It is Eastern Shore's position that

the FERC's Order essentially requires a retroactive change to the FERC approved PGA procedures which Eastern Shore has consistently applied over the last six years. Such retroactive application is a violation of Sections 4 and 5 of the Natural Gas Act.

On June 21, 1994, in compliance with the FERC's Order, Eastern Shore filed: (1) revised tariff sheets clarifying its PGA methodology and (2) two alternative refund calculations based on the FERC's Order. The two alternatives were filed due to what Eastern Shore believes to be an inconsistency or contradiction with respect to the FERC's language in its Order. On July 18, 1994 the FERC issued an "Order Granting Rehearing Solely for the Purpose of Further Consideration." Such Order was issued only to afford the FERC additional time for consideration of the issues raised in Eastern Shore's request for rehearing. As of the date of this report, the FERC has not approved either of the alternative refund calculations submitted by Eastern Shore and has not made a final determination as to Eastern Shore's request for rehearing. Accordingly, Eastern Shore accrued $412,000 in the second quarter of 1994, relating to prior periods. Eastern Shore has also accrued an amount each month in 1994 to insure fully funding the potential refund. The total accrued liability at December 31, 1994 is $1,239,000.

Other Commitments and Contingencies

The Company is involved in certain legal actions and claims arising in the normal course of business. The Company is also involved in certain legal and administrative proceedings before various governmental agencies concerning rates. In the opinion of management, the ultimate disposition of these proceedings will not have a material effect on the consolidated financial position of the Company.

M. Quarterly Financial Data (Unaudited)

In the opinion of the Company, the quarterly financial information shown below includes all adjustments necessary for a fair presentation of the operations for such periods. Due to the seasonal nature of the Company's business, there are substantial variations in operations reported on a quarterly basis.

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
1994				
Operating Revenue	$36,009,510	$19,868,566	$18,789,776	$23,904,445
Operating Income	$ 4,322,605	$ 588,550	$ 296,110	$ 2,019,809
Net Income (Loss)	$ 3,746,087	$ (116,584)	$ (264,773)	$ 1,095,192
Net Income (Loss) Per Share	$ 1.04	$ (0.03)	$ (0.07)	$ 0.29
1993				
Operating Revenue	$30,020,809	$17,328,003	$13,859,549	$24,664,271
Operating Income	$ 3,632,209	$ 600,606	$ (67,466)	$ 2,145,744
Net Income (Loss)	$ 2,975,258	$ (13,722)	$ (679,042)	$ 1,689,177
Net Income (Loss) Per Share	$ 0.85	$ (0.00)	$ (0.19)	$ 0.46

Effective January 1, 1993, the Company adopted SFAS No. 109 as discussed in Note A to the Consolidated Financial Statements. The first quarter of 1993 includes an increase in net income of $57,467 ($0.02 per share) for the one-time cumulative effect of the accounting change.

Operating Statistics

	For the Years Ended December 31,				
	1994	1993	1992	1991	1990
Revenues (In Thousands)					
Natural gas					
Residential	$15,228	$14,007	$12,935	$11,167	$11,387
Commercial	11,594	10,837	9,857	8,606	8,794
Industrial	32,718	31,622	26,977	26,660	37,617
Sale for resale	9,586	5,242	3,843	3,437	2,798
Transportation	2,639	2,480	2,400	1,555	588
Other	(50)	193	(134)	44	109
Total natural gas revenues	71,715	64,381	55,878	51,469	61,293
Propane	17,789*	16,908	16,489	14,961	17,539
Other	6,173	4,584	3,568	3,398	2,424
Total revenues	$95,677	$85,873	$75,935	$69,828	$81,256
Volumes					
Natural gas deliveries (in MMCF)					
Residential	1,665	1,596	1,561	1,337	1,338
Commercial	1,771	1,676	1,633	1,445	1,407
Industrial	10,752	9,308	8,014	8,396	11,508
Sale for resale	998	984	997	922	796
Transportation	7,542	5,880	5,139	4,237	2,857
Total natural gas deliveries	22,728	19,444	17,344	16,337	17,906
Propane (in thousands of gallons)	18,395	17,250	17,125	14,837	16,008
Customers					
Natural gas					
Residential	28,260	27,312	26,523	25,710	24,864
Commercial	3,879	3,759	3,683	3,560	3,428
Industrial**	204	196	198	191	184
Sale for resale**	3	3	3	3	3
Total natural gas customers	32,346	31,270	30,407	29,464	28,479
Propane	22,180	21,622	21,132	22,145	22,629
Total customers	54,526	52,892	51,539	51,609	51,108

* Excludes revenue of $2,895,000, which resulted from the sale of 9 million gallons of propane to one large wholesale customer in 1994.

** Includes transportation customers.

Item 9. Changes In and Disagreements With Accountants on Accounting and Financial Disclosure

None

PART III

Item 10. Directors and Executive Officers of the Registrant

Information pertaining to the Directors of the Company is incorporated herein by reference to the Proxy Statement, under "Information Regarding the Board of Directors and Nominees", dated and to be filed on or before April 13, 1995 in connection with the Company's Annual Meeting to be held on May 16, 1995

The information required by this item with respect to executive officers is, pursuant to instruction 3 of paragraph (b) of Item 401 of Regulation S-K, set forth in Item 10 of Part I of this Form 10-K under "Executive Officers of the Registrant."

Item 11. Executive Compensation

This information is incorporated herein by reference to the Proxy Statement, under "Management Compensation", dated and to be filed on or before April 13, 1995 in connection with the Company's Annual Meeting to be held on May 16, 1995.

Item 12. Security Ownership of Certain Beneficial Owners and Management

This information is incorporated herein by reference to the Proxy Statement, under "Beneficial Ownership of the Company's Securities", dated and to be filed on or before April 13, 1995 in connection with the Company's Annual Meeting to be held on May 16, 1995.

Item 13. Certain Relationships and Related Transactions

This information is incorporated herein by reference to the Proxy Statement, under "Beneficial Ownership of the Company's Securities", dated and to be filed on or before April 13, 1995 in connection with the Company's Annual Meeting to be held on May 16, 1995

PART IV

Item 14. Financial Statements, Financial Statement Schedules, and Exhibits and Reports on Form 8-K

(a) The following documents are filed as a part of this report

1. Financial Statements
   - Auditors' Report dated February 10, 1995 of Coopers & Lybrand, L.L.P., Independent Auditors
   - Consolidated Statements of Income for each of the three years ended December 31, 1994, 1993 and 1992
   - Consolidated Balance Sheets at December 31, 1994 and December 31, 1993
   - Consolidated Statements of Cash Flows for each of the three years ended December 31, 1994
   - Consolidated Statements of Common Shareholders' Equity for each of the three years ended December 31, 1994
   - Consolidated Statements of Income Taxes for each of the three years ended December 31, 1994
   - Notes to Consolidated Financial Statements
2. The following additional information for the years 1994, 1993 and 1992 is submitted herewith
   - Schedule II—Valuation and Qualifying Account

All other schedules are omitted because they are not required, inapplicable, or the information is otherwise shown in the financial statements or notes thereto

(b) No reports on Form 8-K were required to be filed during the fourth quarter of 1994.

(c) Exhibits

Exhibit 3. (a)	—Articles of Incorporation Amended Articles of Incorporation of Chesapeake Utilities Corporation, is incorporated herein by reference to Exhibit 3.(b) to the Annual Report on Form 10-K for the year ended December 31, 1993, of Chesapeake Utilities Corporation
Exhibit 3. (b)	—Bylaws Amended Bylaws of Chesapeake Utilities Corporation, filed herewith.
Exhibit 4. (a)	—The Form of Indenture between the Company and Boatmen's Trust Company, Trustee, with respect to the 8 1/4% Convertible Debentures is incorporated herein by reference to Exhibit 4.2 of the Company's Registration Statement on Form S-2, Reg. No. 33-26582, filed on January 13, 1989
Exhibit 4. (b)	—Note Agreement dated February 9, 1993, by and between the Company and Massachusetts Mutual Life Insurance Company and MML Pension Insurance Company, with respect to $10,000,000 7.97% Unsecured Senior Notes due February 1, 2008, is incorporated herein by reference to Exhibit 4.(b) to the Annual Report on Form 10-K for the year ended December 31, 1992, of Chesapeake Utilities Corporation
Exhibit 10. (a)	—Service Agreement dated November 1, 1989, by and between Transcontinental Gas Pipe Line Corporation and Eastern Shore Natural Gas Company, is incorporated herein by reference to Exhibit 10.(a) to the Annual Report on Form 10-K for the year ended December 31, 1989, of Chesapeake Utilities Corporation.
Exhibit 10. (b)	—Service Agreement dated November 1, 1989, by and between Columbia Gas Transmission Corporation and Eastern Shore Natural Gas Company, is incorporated herein by reference to Exhibit 10.(b) to the Annual Report on Form 10-K for the year ended December 31, 1989, of Chesapeake Utilities Corporation.
Exhibit 10. (c)	—Service Agreement for General Service dated November 1, 1989, by and between Florida Gas Transmission Company and Chesapeake Utilities Corporation, is incorporated herein by reference to Exhibit 10.(c) to the Annual Report on Form 10-K for the year ended December 31, 1990, of Chesapeake Utilities Corporation
Exhibit 10. (d)	—Service Agreement for Preferred Service dated November 1, 1989, by and between Florida Gas Transmission Company and Chesapeake Utilities Corporation, is incorporated herein by reference to Exhibit 10.(d) to the Annual Report on Form 10-K for the year ended December 31, 1990, of Chesapeake Utilities Corporation.
Exhibit 10. (e)	—Service Agreement for Firm Transportation Service dated November 1, 1989, by and between Florida Gas Transmission Company and Chesapeake Utilities Corporation, is incorporated herein by reference to Exhibit 10.(e) to the Annual Report on Form 10-K for the year ended December 31, 1990, of Chesapeake Utilities Corporation
Exhibit 10. (f)	—Form of Service Agreement for Interruptible Sales Services dated May 11, 1990, by and between Florida Gas Transmission Company and Chesapeake Utilities Corporation, is incorporated herein by reference to Exhibit 10.(f) to the Annual Report on Form 10-K for the year ended December 31, 1990, of Chesapeake Utilities Corporation
Exhibit 10. (g)	—Interruptible Transportation Service Agreement dated February 23, 1990, by and between Florida Gas Transmission Company and Chesapeake Utilities Corporation, is incorporated herein by reference to Exhibit 10.(g) to the Annual Report on Form 10-K for the year ended December 31, 1990, of Chesapeake Utilities Corporation.

Exhibit 10 (h) —Interruptible Transportation Service Agreement dated November 30, 1990, by and between Florida Gas Transmission Company and Chesapeake Utilities Corporation, is incorporated herein by reference to Exhibit 10.(h) to the Annual Report on Form 10-K for the year ended December 31, 1990, of Chesapeake Utilities Corporation

Exhibit 10 (i) —Executive Employment Agreement dated March 26, 1992, by and between Chesapeake Utilities Corporation and Ralph J. Adkins is incorporated herein by reference to Exhibit 10.(a) to the Quarterly Report on Form 10-Q for the quarter ended June 30 1992, of Chesapeake Utilities Corporation

Exhibit 10 (j) —Executive Employment Agreement dated March 26, 1992, by and between Chesapeake Utilities Corporation and John R. Schimkaitis, is incorporated herein by reference to Exhibit 10.(b) to the Quarterly Report on Form 10-Q for the quarter ended June 30, 1992, of Chesapeake Utilities Corporation

Exhibit 10 (k) —Executive Employment Agreement dated March 26, 1992, by and between Chesapeake Utilities Corporation and Wayne L. Hart, is incorporated herein by reference to Exhibit 10.(c) to the Quarterly Report on Form 10-Q for the quarter ended June 30, 1992, of Chesapeake Utilities Corporation

Exhibit 10 (l) —Chesapeake Utilities Corporation Cash Bonus Incentive Plan dated January 1, 1992, is incorporated herein by reference to Exhibit 10.(o) to the Annual Report on Form 10-K for the year ended December 31, 1991, of Chesapeake Utilities Corporation

Exhibit 10 (m) —Chesapeake Utilities Corporation Performance Incentive Plan dated January 1, 1992, is incorporated herein by reference to the Company's Proxy Statement dated April 20, 1992, in connection with the Company's Annual Meeting held on May 19, 1992.

Exhibit 10 (n) —Form of Tandem Stock Option and Performance Share Agreement dated November 18, 1994, pursuant to Chesapeake Utilities Corporation Performance Incentive Plan by and between Chesapeake Utilities Corporation and Ralph J. Adkins, John R. Schimkaitis, Kenneth H. Dean, Philip S. Barefoot and Jerry D. West, filed herewith

Exhibit 11 —Computation of Primary and Fully Diluted Earnings Per Share, filed herewith

Exhibit 12 —Computation of Ratio of Earning to Fixed Charges, filed herewith

Exhibit 22 —Subsidiaries of the Registrant, filed herewith

Exhibit 23 —Consent of Independent Accountants, filed herewith

SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, Chesapeake Utilities Corporation has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CHESAPEAKE UTILITIES CORPORATION

By /s/ RALPH J. ADKINS
Ralph J. Adkins
President and Chief Executive Officer

Date: March 30, 1995

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signatures	Title	Date
/s/ JOHN W. JARDINE, JR. John W. Jardine, Jr.	Chairman of the Board and Director	March 30, 1995
/s/ RALPH J. ADKINS Ralph J. Adkins	President, Chief Executive Officer	March 30, 1995
/s/ JOHN R. SCHIMKAITIS John R. Schimkaitis	Senior Vice President & Assistant Treasurer (Principal Financial Officer and Principal Accounting Officer)	March 30, 1995
/s/ RICHARD BERNSTEIN Richard Bernstein	Director	March 30, 1995
/s/ WALTER J. COLEMAN Walter J. Coleman	Director	March 30, 1995
/s/ RUDOLPH M. PEINS, JR Rudolph M. Peins, Jr	Director	March 30, 1995
/s/ ROBERT F. RIDER Robert F. Rider	Director	March 30, 1995
/s/ JEREMIAH P. SHEA Jeremiah P. Shea	Director	March 30, 1995
/s/ WILLIAM G. WARDEN, III William G. Warden, III	Director	March 30, 1995

CHESAPEAKE UTILITIES CORPORATION AND SUBSIDIARIES

SCHEDULE II

VALUATION AND QUALIFYING ACCOUNTS

FOR THE YEARS ENDED DECEMBER 31, 1994, 1993 AND 1992

COLUMN A	COLUMN B	COLUMN C		COLUMN D	COLUMN E
		ADDITIONS			
Description	Balance at Beginning of Period	Charged to Costs and Expense	Charged to Other Accounts	Deductions	Balance at end of Period
Valuation accounts deducted from assets to which they apply for doubtful accounts receivable					
The year ended December 31, 1994	$186,018	$130,263	$57,633(B)	$(171,762)(A)	$202,152
The year ended December 31, 1993	$239,019	$ 82,672	$66,246(B)	$(201,919)(A)	$186,018
The year ended December 31, 1992	$554,188	$152,624	$37,872(B)	$(505,665)(A,C)	$239,019

Notes

(A) Uncollectible accounts charged off

(B) Recoveries

(C) Recovery of propane accounts previously considered to be uncollectible ($315,500).

CHESAPEAKE UTILITIES CORPORATION AND SUBSIDIARIES

EXHIBIT 11

COMPUTATION OF PRIMARY AND FULLY DILUTED EARNINGS PER SHARE

For the Years Ended December 31, 1994, 1993 and 1992

Item	1994	1993	1992
Shares issued at beginning of year	3,605,152	3,522,670	3,472,826
Treasury stock at beginning of year	(30,084)	(34,892)	(34,892)
Sale of treasury stock	14,475	4,808	
Issuance of common stock for dividend reinvestment plan	30,928	27,942	12,546
Issuance of common stock pursuant to USI restricted stock award agreement	32,418	54,540	37,298
Issuance of common stock for conversion of debentures	293		
Shares outstanding at end of year	3,653,182	3,575,068	3,487,778
Primary earnings per share calculation:			
Weighted average number of shares assuming primary dilution	3,632,413	3,556,037	3,477,244
Income from continuing operations	$4,459,922	$3,971,671	$3,475,009
Income from discontinued operations			73,500
Consolidated net income	$4,459,922	$3,971,671	$3,548,509
Primary earnings per share from continuing operations	$ 1.23	$ 1.12	$ 1.00
Primary earnings per share from discontinued operations	0.00	0.00	0.02
Total primary earnings per share	$ 1.23	$ 1.12	$ 1.02
Fully diluted earnings per share calculation:			
Weighted average number of shares assuming primary dilution	3,632,413	3,556,037	3,477,244
Contingent shares related to assumed conversion of convertible debt	255,777	260,258	271,887
Weighted average number of shares assuming full dilution	3,888,190	3,816,295	3,749,131
Adjusted income from continuing operations			
Income from continuing operations	$4,459,922	$3,971,671	$3,475,009
Interest on convertible debt	358,998	365,284	381,604
Less: Applicable income taxes	(140,009)	(142,461)	(148,825)
Adjusted income from continuing operations	4,678,911	4,194,494	3,707,788
Income from discontinued operations			73,500
Adjusted net income	$4,678,911	$4,194,494	$3,781,288
Fully diluted earnings per share from continuing operations	$ 1.20	$ 1.10	$ 0.99
Fully diluted earnings per share from discontinued operations	0.00	0.00	0.02
Total fully diluted earnings per share	$ 1.20*	$ 1.10*	$ 1.01*

NOTES

* This calculation is submitted in accordance with Regulation S-K item 601(b)(11) although not required by footnote 2 to paragraph 14 of APB Opinion No. 15 because it results in dilution of less than 3%.

CHESAPEAKE UTILITIES CORPORATION AND SUBSIDIARIES

SCHEDULE II

VALUATION AND QUALIFYING ACCOUNTS

FOR THE YEARS ENDED DECEMBER 31, 1994, 1993 AND 1992

COLUMN A	COLUMN B	COLUMN C		COLUMN D	COLUMN E
		ADDITIONS			
Description	Balance at Beginning of Period	Charged to Costs and Expense	Charged to Other Accounts	Deductions	Balance at end of Period
Valuation accounts deducted from assets to which they apply for doubtful accounts receivable					
The year ended December 31, 1994:	$186,018	$130,263	$57,633(B)	$(171,762)(A)	$202,152
The year ended December 31, 1993:	$239,019	$ 82,672	$66,246(B)	$(201,919)(A)	$186,018
The year ended December 31, 1992	$554,189	$152,624	$37,872(B)	$(505,665)(A,C)	$239,019

Notes.

(A) Uncollectible accounts charged off

(B) Recoveries

(C) Recovery of propane accounts previously considered to be uncollectible ($315,500).

CHESAPEAKE UTILITIES CORPORATION AND SUBSIDIARIES

EXHIBIT 12

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

	For the Years Ended December 31,		
	1994	1993	1992
Income from continuing operations	$4,459,922	$3,971,671	$3,548,509
Add			
Income taxes	2,542,368	1,968,822	2,315,686
Portion of rents representative of interest fact	187,012	199,021	191,971
Interest on indebtedness	2,637,654	2,702,013	2,751,753
Amortization of debt discount and expense	103,859	100,797	68,662
Earnings as adjusted	$9,930,815	$8,942,324	$8,876,581
Fixed Charges			
Portion of rents representative of interest fact	$ 187,012	$ 199,021	$ 191,971
Interest on indebtedness	2,637,654	2,702,013	2,751,753
Amortization of debt discount and expense	103,859	100,797	68,662
Fixed Charges	$2,928,525	$3,001,831	$3,012,386
Ratio of Earnings to Fixed Charges	3.39	2.98	2.95

CHESAPEAKE UTILITIES CORPORATION AND SUBSIDIARIES

EXHIBIT 22

SUBSIDIARIES OF THE REGISTRANT

Subsidiaries	**State Incorporated**
Eastern Shore Natural Gas Company	Delaware
Sharp Energy, Inc	Delaware
Chesapeake Services Company	Delaware
United Systems, Inc	Georgia

Subsidiary of Eastern Shore Natural Gas Company	**State Incorporated**
Dover Exploration Company	Delaware

Subsidiaries of Sharp Energy, Inc.	**State Incorporated**
Sharpgas, Inc.	Delaware
Sharpoil, Inc.	Delaware

Subsidiaries of Chesapeake Service Company	**State Incorporated**
Skipjack, Inc.	Delaware
Capital Data Systems, Inc.	North Carolina
Currin and Associates, Inc	North Carolina
Chesapeake Investment Company	Delaware

CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

We consent to the incorporation be reference in the Prospectuses prepared in accordance with the requirements of Form S-2 (File No. 33-26582) and Form S-3 (File No. 33-28391) of our report dated February 10, 1995, which contains an explanatory paragraph related to changes in accounting methods, accompanying the consolidated financial statements and the consolidated financial statement schedules of Chesapeake Utilities Corporation as of December 31, 1994 and 1993 and for each of the three years in the period ended December 31, 1994, included in this Annual Report on Form 10-K of Chesapeake Utilities Corporation

COOPERS & LYBRAND, L.L.P.

Baltimore, Maryland
March 30, 1995

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 1995

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ______ to ______

Commission file number 0-593

CHESAPEAKE UTILITIES CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	51-0064146
(State of other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

861 Silver Lake Boulevard, Dover, Delaware	19904
(Address of principal executive offices)	(Zip Code)

(302) 734-6754

(Registrant's Telephone Number, Including Area Code)

____

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ].

Common Stock, par value $.4867 - 3,700,688 shares issued as of June 30, 1995, of which 4,135 are held in treasury.

PART I
FINANCIAL INFORMATION

CHESAPEAKE UTILITIES CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

Assets	June 30, 1995 (Unaudited)	December 31, 1994
Property, Plant And Equipment		
Natural gas distribution	$61,835,512	$57,773,632
Natural gas transmission	24,885,913	24,546,916
Propane distribution	18,507,980	18,289,571
Information technology services and other	9,496,740	8,618,014
Gas plant acquisition adjustment	795,004	795,004
Total property, plant and equipment	115,521,149	110,023,137
Less: Accumulated depreciation and amortization	(36,925,922)	(34,710,478)
Net property, plant and equipment	78,595,227	75,312,659
Investments	1,873,407	1,641,851
Current Assets		
Cash and cash equivalents	259,005	398,751
Accounts receivable, less allowance for uncollectibles	7,370,116	8,416,293
Materials and supplies, at average cost	864,164	797,147
Propane inventory, at average cost	967,971	1,411,384
Storage gas prepayments	2,237,041	3,467,281
Underrecovered purchased gas costs		109,025
Income taxes receivable		836,813
Prepaid expenses	902,331	855,107
Deferred income taxes	1,896,146	1,290,680
Total current assets	14,496,774	17,582,481
Deferred Charges and Other Assets		
Intangible assets, net of accumulated amortization	1,687,512	1,941,239
Environmental cost	7,401,945	7,462,647
Order 636 transition cost	1,719,573	2,020,732
Other deferred charges	2,135,887	2,309,008
Total deferred charges and other assets	12,944,917	13,733,626
Total Assets	$107,910,325	$108,270,617

The accompanying notes are an integral part of these financial statements.

CHESAPEAKE UTILITIES CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

Capitalization and Liabilities	June 30, 1995 (Unaudited)	December 31, 1994
Capitalization		
Stockholders' equity		
Common Stock, par value $.4867 per share; (authorized 12,000,000 shares; issued 3,700,688 and 3,653,182 shares, respectively)	$1,801,039	$1,785,514
Additional paid-in capital	17,301,961	16,834,823
Retained earnings	22,243,014	19,480,374
Less: Treasury stock, at cost; (4,135 and 15,609 shares, respectively)	(26,476)	(99,842)
Unearned compensation - restricted stock awards	(652,402)	(696,679)
Net unrealized loss on marketable securities	(141,412)	(241,609)
Total stockholders' equity	40,525,724	37,062,581
Long-term debt, net of current portion	23,909,138	24,328,988
Total capitalization	64,434,862	61,391,569
Current Liabilities		
Current portion of long-term debt	1,249,349	1,348,080
Short-term borrowings	3,500,000	8,000,000
Accounts payable	6,236,916	7,385,590
Refunds payable to customers	658,244	567,817
Overrecovered purchased gas costs	1,316,633	
Accrued interest	682,408	691,949
Dividends payable	831,724	803,700
Accrued income taxes	1,384,029	
Other accrued expenses	2,310,412	2,225,097
Total current liabilities	18,169,715	21,022,233
Deferred Credits and Other Liabilities		
Deferred income taxes	8,582,045	8,700,472
Deferred investment tax credits	963,335	986,062
Environmental liability	6,500,022	6,642,092
Accrued pension costs	2,641,134	2,530,904
Order 636 transition liability	1,719,573	2,020,732
Other liabilities	4,899,439	4,976,553
Total deferred credits and other liabilities	25,305,748	25,856,815
Total Capitalization and Liabilities	$107,910,325	$108,270,617

The accompanying notes are an integral part of these financial statements.

CHESAPEAKE UTILITIES CORPORATION AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENTS
(UNAUDITED)

	For the Quarter Ended June 30,	
	1995	1994
Operating Revenues	$22,074,663	$19,868,566
Operating Expenses		
Purchased gas costs	12,926,940	12,511,333
Operations	4,771,005	4,596,300
Maintenance	506,894	554,440
Depreciation and amortization	1,335,653	1,301,700
Other taxes	706,523	657,817
Income taxes	458,306	(341,574)
Total operating expenses	20,705,321	19,280,016
Operating Income	1,369,342	588,550
Other Income and Deductions	87,418	(39,244)
Income Before Interest Charges	1,456,760	549,306
Interest Charges	692,675	665,890
Net Income	$764,085	($116,584)
Weighted Average Number of Common Shares Outstanding	3,692,515	3,625,892
Earnings Per Share of Common Stock (1):		
Net income	$0.21	($0.03)
Fully Diluted Earnings Per Share of Common Stock (1):		
Net income	$0.21	($0.03)

The accompanying notes are an integral part of these financial statements.

(1) See Exhibit 11 - Computation of Primary and Fully Diluted Earnings Per Share

CHESAPEAKE UTILITIES CORPORATION AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENTS
(UNAUDITED)

	For the Six Months Ended June 30, 1995	1994
Operating Revenues	$52,971,460	$55,878,077
Operating Expenses		
Purchased gas costs	29,899,031	34,162,328
Operations	9,724,209	9,695,515
Maintenance	918,392	981,532
Depreciation and amortization	2,666,927	2,648,865
Other taxes	1,573,440	1,507,689
Income taxes	2,489,157	1,970,995
Total operating expenses	47,271,156	50,966,924
Operating Income	5,700,304	4,911,153
Other Income and Deductions	131,678	24,821
Income Before Interest Charges	5,831,982	4,935,974
Interest Charges	1,409,466	1,306,472
Net Income	$4,422,516	$3,629,502
Weighted Average Number of Common Shares Outstanding	3,681,837	3,612,262
Earnings Per Share of Common Stock (1):		
Net income	$1.20	$1.00
Fully Diluted Earnings Per Share of Common Stock (1):		
Net income	$1.15	$0.96

The accompanying notes are an integral part of these financial statements.

(1) See Exhibit 11 - Computation of Primary and Fully Diluted Earnings Per Share

CHESAPEAKE UTILITIES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	For the Six Months Ended June 30,	
	1995	1994
Operating Activities		
Net Income	$4,422,516	$3,629,502
Adjustments to reconcile net income to net operating cash		
Depreciation and amortization	2,827,420	2,810,899
Deferred income taxes, net	(788,893)	(1,124,102)
Investment tax credit adjustments	(22,527)	(27,408)
Employee benefits	70,813	495,962
Employee compensation from lapsing stock restrictions	216,885	184,125
Reserve for refund	282,240	820,011
Other	(609,401)	(1,287)
Changes in assets and liabilities:		
Accounts receivable	1,046,177	2,212,316
Inventory, materials, supplies and storage gas	1,606,637	1,431,179
Prepaid expenses	(47,224)	2,301
Other deferred charges	389,950	(219,939)
Accounts payable	(1,148,674)	(1,978,518)
Refunds payable to customers	90,427	171,537
Overrecovered purchased gas costs	1,425,658	3,003,587
Other current liabilities	2,270,661	2,601,368
Net cash provided by operating activities	12,032,665	14,011,533
Investing Activities		
Property, plant and equipment expenditures, net	(5,856,261)	(4,050,084)
Purchases of investments, net	(38,836)	
Net cash used by investing activities	(5,895,097)	(4,050,084)
Financing Activities		
Common stock dividends net of amounts reinvested of $225,484 and $196,065, respectively	(1,406,342)	(1,368,588)
Net repayments under line of credit agreements	(4,500,000)	(8,900,000)
Proceeds from issuance of treasury stock	147,608	85,100
Repayments of long-term debt	(518,580)	(451,446)
Payments under capital lease obligations		(46,476)
Converted debenture bonds		4,984
Net cash used by financing activities	(6,277,314)	(10,676,426)
Net Decrease in Cash	(139,746)	(714,977)
Cash and Cash Equivalents at Beginning of Period	398,751	1,162,797
Cash and Cash Equivalents at End of Period	$259,005	$447,820

The accompanying notes are an integral part of these financial statements.

CHESAPEAKE UTILITIES CORPORATION AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS
(UNAUDITED)

1. **Quarterly Financial Data**

The financial information included herein is unaudited; however, the financial information reflects normal recurring adjustments, which are, in the opinion of management, necessary for a fair presentation of the Company's interim results. Due to the seasonal nature of the Company's business, there are substantial variations in the results of operations reported on a quarterly basis. Certain amounts in 1994 have been reclassified to conform with the 1995 presentation.

2. **Investments**

The investment balances at June 30, 1995 and December 31, 1994 consist primarily of an investment in the common stock of Florida Public Utilities Company ("FPU"). The Company's ownership at June 30, 1995 and December 31, 1994, represents a 7.06% and 6.84% interest, respectively.

The Company has classified its investment in FPU as an "available for sale" security, which requires that all unrealized gains and losses be excluded from earnings and be reported as a separate component of stockholders' equity, net of income taxes. At June 30, 1995 the market price per share, cost basis per share, and the unrealized loss on the investment in FPU were $17.75, $20.05 and $236,412, respectively. In management's opinion, the decline in the value of the stock is temporary. At December 31, 1994 the market price per share, cost basis per share and the unrealized loss were $16.125, $20.20 and $401,609, respectively.

3. **Statement of Financial Accounting Standards No. 121**

In March 1995, the Financial Accounting Standards Board issued Statement of Accounting Standards ("SFAS") No. 121 regarding accounting for asset impairments. This statement, which must be adopted by the Company by January 1, 1996, requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Additionally, the standard requires rate-regulated companies to write-off regulatory assets to earnings whenever those assets no longer meet the criteria for recognition of a regulatory asset as defined by SFAS No. 71, Accounting for the Effects of Certain Types of Regulation. Adoption of SFAS No. 121 is not expected to have a material impact on the Company's financial statements.

4. **Commitments and Contingencies**

FERC PGA

On May 19, 1994, the FERC issued an Order directing Eastern Shore to refund, with interest, what the FERC characterized as overcharges from November 1, 1992 to the current billing month. The Order also directed Eastern Shore to file a report showing how the refund was calculated, and to revise tariff language clarifying the PGA provisions of its tariff.

Eastern Shore filed a request for rehearing of the Order on June 20, 1994 based on what Eastern Shore believes is the FERC's erroneous interpretation of Eastern Shore's tariff. It is Eastern Shore's position that the FERC's Order essentially requires a retroactive change to the FERC approved PGA procedures which Eastern Shore has consistently applied over the last six years.

On June 21, 1994, in compliance with the FERC's Order, Eastern Shore filed: (1) revised tariff sheets clarifying its PGA methodology and (2) two alternative refund calculations based on the FERC's Order. The two alternatives were filed due to what Eastern Shore believes to be an inconsistency or contradiction with respect to the FERC's language in its Order. On July 18, 1994 the FERC issued an "Order Granting Rehearing Solely for the Purpose of Further Consideration." Such Order was issued only to afford the FERC additional time for consideration of the issues raised in Eastern Shore's request for rehearing. As of the date of this report, the FERC has not approved either of the alternative refund calculations submitted by Eastern Shore and has not made a final determination as to Eastern Shore's

request for rehearing. The Company is currently waiting for FERC to rule on the issue. The total accrued liability at June 30, 1995 and December 31, 1994 are $1,526,000 and $1,239,000, respectively.

Other Commitments and Contingencies
The Company and its subsidiaries are involved in certain legal actions and claims arising in the normal course of business. The Company is also involved in certain legal and administrative proceedings before various governmental agencies concerning rates. In the opinion of management, ultimate disposition of these proceedings will not have a material effect on the consolidated financial position of the Company.

Environmental Matters

Dover Gas Light Company Site
In 1984, the State of Delaware notified the Company that a parcel of land it purchased in 1949 from Dover Gas Light Company, a predecessor gas company, contains hazardous substances. The State also asserted that the Company is responsible for any clean-up and prospective environmental monitoring of the site. The Delaware Department of Natural Resources and Environmental Control ("DNREC") investigated the site and surroundings, finding coal tar residue and some ground-water contamination.

In October 1989, the Environmental Protection Agency Region III ("EPA") listed the Dover Site on the National Priorities List under the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA" or "Superfund"). At this time, under CERCLA, both the State of Delaware and the Company were named as potentially responsible parties ("PRP") for clean-up of the site. In July 1990, the Company entered into an agreement with EPA and DNREC to perform a Remedial Investigation/Feasibility Study under the supervision of EPA and DNREC to study the site and surroundings to determine any environmental impacts. Pursuant to the agreement, the Company agreed to pay for the study and 80% of the EPA's oversight costs. The Company submitted its reports on the Remedial Investigation ("RI") and Feasibility Study ("FS") to EPA and DNREC in January and February 1993, respectively. After receiving extensive comments, the Company submitted to the EPA and DNREC its revised RI and FS reports in May and June 1993, respectively. In the FS Report, Chesapeake proposed a remedy which involved capping the site and monitoring ground-water quality in the surrounding area with a total estimated cost of approximately $700,000.

After further discussions with the regulatory authorities, Chesapeake undertook an additional phase study, the Ground Water Evaluation Study - Phase III, which focused on delineating the area of maximum ground-water impact from the site. The results of that study were submitted to EPA and DNREC in September 1993. On February 1, 1994, EPA issued its proposed plan of action (the "Plan"). The Plan adopted many findings of the Phase III Study, acknowledging that the Dover Site has only impacted ground-water in a limited area.

The Plan presented and discussed a number of remedial alternatives, including the remedial strategy proposed by the Company in the FS. The EPA Plan proposed a more extensive remediation strategy that involved removal of contaminated soils from the site and drilling a series of twenty (20) wells. EPA estimated that execution of its Plan would cost $4.9 million. The Plan was submitted by the EPA for 30 day public comment period, which ended on April 4, 1994. During this period, the EPA received public comments, including those submitted by the Company.

The EPA issued the site Record of Decision ("ROD") dated August 16, 1994. The remedial action selected by the EPA in the ROD differed significantly from the Plan. The EPA selected a less stringent ground-water remediation addressing contamination with a combination of hydraulic containment and natural attenuation. Remediation selected for the soil at the site is to meet stringent clean-up standards for the first two feet of soil and less stringent standards for the soil below two feet. These selected levels of remediation were not alternatives listed in the Plan, but utilized elements proposed. In addition, the ROD incorporated many of the public comments that were received. The ROD estimates the costs of selected remediation of ground-water and soil at $2.7 million and $3.3 million, respectively. The remediation selected in the ROD is substantially more limited than had been suggested in the Plan. In the ROD, the EPA indicated that its previous $4.9 million estimate was incorrect.

On November 18, 1994, EPA issued a "Special Notice Letter" (the "Letter") to Chesapeake and three other PRPs. The Letter included, _inter alia_, (1) a demand for payment by the PRPs of EPA's past costs (currently estimated to be approximately $300,000) and future costs incurred overseeing site work; (2) notice of EPA's commencement of a 60-day moratorium on certain EPA response activities at the Site; (3) a request by EPA that Chesapeake and the other PRPs submit a "good faith proposal" to conduct or finance the work identified in the ROD and (4) proposed consent orders by which Chesapeake and other parties may agree to perform the good faith proposal.

In January 1995, Chesapeake submitted to the EPA a good faith proposal to perform a substantial portion of the work set forth in the ROD, which was subsequently rejected.

The Company and the EPA each attempted to secure voluntary performance of part of the remediation by other parties. These parties include the State of Delaware, which is the owner of the property and was identified in the ROD as a PRP, and a business identified in the ROD as a PRP for having contributed to ground-water contamination. On March 6, 1995, in order to protect its interests, the Company filed suit in U.S. Distr`:t Court for the District of Delaware for a determination that the State of Delaware is a liable party and for recovery from the State of costs of complying with the ROD. The Company is also considering suit against other PRPs.

On May 17, 1995, EPA issued an order to the Company under section 106 of CERCLA (the "Order"), which requires the Company to fund or implement the site ROD issued by EPA on August 6, 1994. The Order was also issued to General Public Utilities Corporation, Inc. ("GPU"), which EPA and the Company believe is liable under CERCLA. Other PRPs such as the State of Delaware were not ordered to perform the ROD. EPA may seek judicial enforcement of its Order, as well as significant financial penalties for failure to comply. Although notifying EPA of objections to the Order, the Company agreed to comply. GPU has informed EPA that it does not intend to comply with the order.

The Company has commenced the design phase of the work required by the Order. On July 6, 1995, the Company also submitted to EPA a study that proposes two alternative remedies for the soil at the site. The alternatives contemplate a reduction in the level and cost of soil cleanup from that identified in the ROD. The alternatives are consistent with a prior agreement by the State of Delaware that limits construction on the site. The EPA is currently evaluating the proposal, which is supported by the State of Delaware, and the Company anticipates further negotiations on this issue.

The litigation commenced by the Company on March 6, 1995 against the State of Delaware remains pending in U.S. District Court for the District of Delaware. The Company is currently engaged in discovery related to any additional parties who may be PRPs. Based upon this discovery, the Company will consider suit against other PRPs. Additionally, the Company and EPA each continue to attempt to secure voluntary funding or performance of part of the remediation by other PRPs. The Company expects continued negotiations with PRPs to attempt to resolve these matters.

In the third quarter of 1994, the Company increased its accrued liability recorded with respect to the Dover Site to $6.0 million from $700,000. This amount reflects the EPA's present estimate, as stated in the ROD, for remediation of the site according to the ROD. Future developments in the matters discussed above would be accompanied by appropriate reductions to the liability recorded as they occur. The Company also increased the corresponding regulatory asset to $6.0 million. If the Company incurs expenses of that amount in connection with undertaking the remedies selected in the ROD, management's belief is that the Company will be equitably entitled to contribution from other responsible parties for the greater part of these expenses. Management also believes that any amounts not so contributed will be recoverable in the Company's rates.

As of June 30, 1995, the Company has incurred approximately $3.2 million in costs relating to environmental testing and remedial action studies. In 1990, the Company entered into settlement agreements with a number of insurance companies resulting in proceeds to fund a portion of actual environmental costs incurred over a five to seven-year period beginning in 1990. The final insurance proceeds were requested and received in 1994. On February 23, 1993, the Delaware Public Service Commission, consistent with prior base rate proceedings, authorized the Company to amortize an additional $749,971 in environmental expenses for ratemaking purposes over a seven-year period. At June 30, 1995

the unamortized balance is approximately $500,000. Of the $3.2 million in costs reported above, approximately $328,000 has not been recovered through insurance proceeds or received ratemaking treatment. It is management's opinion that these costs incurred will be recoverable in future rates.

Salisbury Town Gas Light Site
In cooperation with the Maryland Department of the Environment ("MDE"), the Company has completed an assessment of the Salisbury manufactured gas plant site. The assessment determined that there was localized contamination of ground-water. A remedial design report was submitted to MDE in November 1990 and included a proposal to monitor, pump and treat any contaminated ground-water on-site. Through negotiations with the MDE, the remedial action workplan was revised with final approval from MDE obtained in early 1995. The remediation process for ground-water was revised from pump-and-treat to Air Sparging and Soil-Vapor Extraction, resulting in a substantial reduction in overall costs. The Company hopes to have the remediation facilities for ground water designed and constructed by year-end.

The cost of remediation is estimated to be approximately $365,000 in capital costs with yearly operating expenses of approximately $200,000. Based on earlier estimated costs, the Company recorded both a liability and a deferred regulatory asset of $642,092 on December 31, 1994 to cover the Company's projected remediation costs for this site. In July, the Company will be increasing both the liability and deferred regulatory asset to reflect the increase in costs. The liability payout for this site is expected to be over a five-year period. As of June 30, 1995, the Company has incurred approximately $1,725,000 for remedial actions and environmental studies and has charged such costs to accumulated depreciation. In a previous rate proceeding, the Company requested and received recovery for all costs incurred as of November 30, 1988 through base rates, including both a ten-year amortization of these costs and rate base treatment for the unamortized balance. As of June 30, 1995, the unamortized balance was approximately $179,000 and will be fully amortized by May 31, 1999. In January 1990, the Company entered into settlement agreements with a number of insurance companies resulting in proceeds to fund a portion of actual environmental costs incurred over a three to five-year period beginning in 1990. The final insurance proceeds were requested and received in 1992. Of the $1,725,000 in costs reported above, approximately $767,000 has not been recovered through insurance proceeds or received ratemaking treatment. It is management's opinion that these costs incurred and future costs incurred, if any, will be recoverable in future rates.

Winter Haven Coal Gas Site
The Company is currently conducting investigations of a site in Winter Haven, Florida, where the Company's predecessors manufactured coal gas earlier this century. A Contamination Assessment Report ("CAR") was submitted to the Florida Department of Environmental Protection ("FDEP") on July 11, 1990. The CAR contained the results of additional investigations of conditions at the site. These investigations confirmed limited soil and ground-water impacts to the site. By letter dated March 26, 1991, FDEP directed the Company to conduct additional investigations on-site to fully delineate the vertical and horizontal extent of soil and ground-water impacts.

Additional contamination assessment activities were conducted at the site in late 1992 and early 1993. On March 25, 1993, a Contamination Assessment Report Addendum ("CAR Addendum") was delivered to FDEP. The CAR Addendum concluded that soil and ground-water impacts have been adequately delineated as a result of the additional field work. The FDEP approved the CAR and CAR Addendum in March of 1994. The next step is a Risk Assessment ("RA") and a Feasibility Study ("FS") on the site. The RA and FS may be filed with the FDEP during the second half of 1995 at an estimated cost of $60,000. Until the RA and FS are completed and accepted as final by the FDEP, it is not possible to determine whether remedial action will be required by FDEP and, if so, the cost of such remediation.

The Company has spent approximately $600,000 on these investigations as of June 30, 1995 and expects to recover these expenses, as well as any future expenses, through base rates. These costs have been accounted for as charges to accumulated depreciation. The Company requested and received approval from the Florida Public Service Commission ("FPSC") to amortize through base rates $359,659 of all costs incurred as of December 31, 1986. As of December 31, 1992, these costs were fully amortized. In January 1993, the Company received approval to recover through base rates

approximately $217,000 in additional costs related to the former manufactured gas plant. This amount represents recovery of $173,000 of costs incurred from January 1987 through December 1992, as well as prospective recovery of estimated future costs, which had not yet been incurred at that time. The FPSC has allowed for amortization of these costs over a three-year period and provided for rate base treatment for the unamortized balance. In a separate docket before the FPSC, the Company has requested and received approval to apply a refund of 1991 overearnings of approximately $118,000 against the balance of unamortized environmental charges incurred as of December 31, 1992. As a result, these environmental charges were fully amortized as of June 1994. Of the $600,000 in costs reported above, all costs have received ratemaking treatment. The FPSC has allowed the Company to continue to accrue for future environmental costs. At June 30, 1995, the Company has $49,000 accrued. It is management's opinion that future costs above the amount accrued, if any, will be recoverable in future rates.

Smyrna Coal Gas Site

On August 29, 1989 and August 4, 1993, representatives of DNREC conducted sampling on property owned by the Company in Smyrna, Delaware. This property is believed to be the location of a former manufactured gas plant. Analysis of the samples taken by DNREC show a limited area of soil contamination.

In November 1993 DNREC advised the Company that it would require a remediation of the soil contamination under the state's Hazardous Substance Cleanup Act. The Company met with DNREC personnel in December 1993 to discuss the scope of any remediation of the site, and in January 1994, submitted a proposed workplan, together with comments on the draft Consent Decree. Initial comments from DNREC on the Work Plan were received in March 1994, appropriate revisions were prepared and the Work Plan was resubmitted. Several additional sets of comments on the Work Plan were received from DNREC. The final Work Plan was submitted on September 27, 1994. DNREC has approved the Work Plan and the Consent Decree. Remediation based on the Work Plan has begun in 1995 at an estimated cost of approximately $200,000. It is management's opinion that these and any other costs will be recoverable in future rates.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS FOR THE QUARTER ENDED JUNE 30, 1995

The Company recognized net income of $764,085 for the three months ended June 30, 1995, representing an increase in net income of $880,669 as compared to the corresponding period in 1994. As indicated in the table below, the increase in earnings before interest and taxes ("EBIT") is due to higher earnings or a reduction in loss before interest and taxes ("LBIT") by all segments of the Company.

	FOR THE QUARTER ENDED JUNE 30,		
	1995	1994	Change
Earnings Before Interest and Taxes			
Natural Gas Distribution	$ 652,420	$ 544,147	$ 108,273
Natural Gas Transmission	1,416,056	250,135	1,165,921
Propane Distribution	(362,243)	(429,190)	66,947
Information Technology Services and Other	184,649	(14,971)	199,620
Eliminations	(63,234)	(103,145)	39,911
Total EBIT	1,827,648	246,976	1,580,672
Operating Income Taxes	458,306	(341,574)	799,880
Interest	692,675	665,890	26,785
Non-Operating Income, Net	87,418	(39,244)	126,662
Net Income	$ 764,085	$ (116,584)	$ 880,669

Natural Gas Distribution

The natural gas distribution segment reported EBIT of $652,420 for the second quarter 1995 as compared to EBIT of $544,147 for the corresponding period last year, an increase of $108,273. The increase in EBIT is due to an increase in gross margin in all of our service territories, partially offset by an increase in operating expenses.

	FOR THE QUARTER ENDED JUNE 30,		
	1995	1994	Change
Revenue	$ 10,720,619	$ 10,718,471	$ 2,148
Cost of Gas	6,839,884	7,160,811	(320,927)
Gross Margin	3,880,735	3,557,660	323,075
Operations & Maintenance	2,163,143	2,049,641	113,502
Depreciation & Amortization	603,259	537,530	65,729
Other Taxes	461,913	426,342	35,571
EBIT	$ 652,420	$ 544,147	$ 108,273

The increase in gross margin is primarily due to an increase in firm sales in our northern service territories due to cooler than normal spring temperatures in the second quarter of 1995 when compared to the corresponding period of 1994. In addition, our Florida service territory had an increase in transportation sales to two co-generation facilities that began operations in April and July of 1994.

The increase in operations and maintenance expenses of $113,502 is due to an increase in customer accounting expenses, mains, meter and house regulating equipment. Depreciation and amortization expenses increased $65,729 due to plant placed in service during the past year. Other taxes increased $35,571 primarily due to an increase in property and payroll taxes.

Natural Gas Transmission

The natural gas transmission segment reported EBIT of $1,416,056 for the second quarter of 1995 as compared to EBIT of $250,135 for the corresponding period last year, an increase of $1,165,921. The increase in EBIT is due to an increase in gross margin and a decrease in operating expenses.

	FOR THE QUARTER ENDED JUNE 30,		
	1995	1994	Change
Revenue	$ 10,256,182	$ 7,868,230	$ 2,387,952
Cost of Gas	7,887,217	6,626,019	1,261,198
Gross Margin	2,368,965	1,242,211	1,126,754
Operations & Maintenance	684,852	733,147	(48,295)
Depreciation & Amortization	174,239	174,445	(206)
Other Taxes	93,818	84,484	9,334
EBIT	$ 1,416,056	$ 250,135	$ 1,165,921

The increase in revenue and cost of gas is primarily due to a 106% increase in industrial interruptible sales volumes. This was partially offset by a 17% decrease in the cost of gas which is passed on to our customers. The increase in gross margin is attributable to the increase in interruptible sales volumes as natural gas competed favorably with alternative fuels. The increase in industrial interruptible sales is primarily due to increased sales to the methanol plant. Sales volumes and margins to this customer were up 153% and 168%, respectively, when compared to the same period last year. Adding to the increased gross margin is a $549,000 reduction in the amount expensed in 1995 to accrue for a potential refund, when compared to the corresponding period in 1994 (see note 4 to the Consolidated Financial Statements). Of the $549,000 reduction in 1995, $412,000 was a one-time expense in June 1994 to fully accrue for a refund ordered by FERC.

The decrease in operations and maintenance expenses of $48,295 is due to a delay in the painting of a structure and reduction in cathodic related maintenance expenses in the second quarter of 1995 when compared to the same period of 1994. Other taxes increased $9,334 due to plant placed in service during the past year and an increase in pipeline safety assessments from the federal government.

Propane Distribution

For the second quarter of 1995, the propane distribution segment experienced a LBIT of $362,243. These results were more favorable than those achieved for the corresponding quarter in 1994, with the segment recognizing a decrease in LBIT of $66,947, or 16%, over the second quarter 1994 LBIT of $429,190. Slightly over one-half of this decrease in LBIT was attributable to an increased gross margin, with the remaining decline in LBIT being a direct result of reduced operating expenses.

	FOR THE QUARTER ENDED JUNE 30,		
	1995	1994	Change
Revenue	$ 2,503,533	$ 3,168,118	$ (664,585)
Cost of Gas	1,248,735	1,949,889	(701,154)
Gross Margin	1,254,798	1,218,229	36,569
Operations & Maintenance	1,215,342	1,226,412	(11,070)
Depreciation & Amortization	325,485	338,320	(12,835)
Other Taxes	76,214	82,687	(6,473)
LBIT	$ (362,243)	$ (429,190)	$ 66,947

Revenues and cost of gas decreased in 1995, when compared to the same period in 1994 due to sales in 1994 to a wholesale customer under a non-recurring contract. The increase in gross margin resulted from a 2% increase in sales volumes, coupled with a 5% increase in the average margin per gallon. The increase in gallon sales directly related to a larger customer base and slightly colder temperatures. The rise in the average margin per gallon corresponded to a higher selling price per gallon, partially offset by a higher cost per gallon. Selling prices are adjusted in response to demand and competition. Regional market prices for propane did not drop as far in the second quarter of 1995, as compared to 1994, resulting in a higher propane cost for the segment.

Operations and maintenance expenses decreased by $11,070, or 1%, largely as a result of lower vehicle maintenance, advertising and insurance expenses. Depreciation and amortization dropped by $12,835, or 4%, as assets obtained in a prior acquisition became fully depreciated. Other taxes also declined $6,473, or 8%, as a result of lower real estate and personal property taxes.

Information Technology Services and Other

The information technology services and other segment recognized an EBIT of $184,649 and a LBIT of $14,971 for the second quarters ended June 30, 1995 and 1994, respectively. This increase in EBIT of $199,620 is attributable to higher revenues and lower operating expenses.

	FOR THE QUARTER ENDED JUNE 30,		
	1995	1994	Change
Revenue	$ 2,070,528	$ 1,909,460	$ 161,068
Operations & Maintenance	1,578,630	1,604,208	(25,578)
Depreciation & Amortization	232,671	255,919	(23,248)
Other Taxes	74,578	64,304	10,274
EBIT/LBIT	$ 184,649	$ (14,971)	$ 199,620

Higher consulting and programming training, resource placement, facilities management, hardware and consulting and programming revenues contributed to the overall increase in revenues of $161,068, or 8%. Partially offsetting these higher revenues was reduced system software revenue, as well as the absence of any Currin and Associates, Inc. ("C&A") revenues due to its dissolution in 1994. Included in the second quarter results were $413,028 and $556,138 of intercompany revenues for 1995 and 1994, respectively. Of these total intercompany revenues, $63,236 and $103,144 corresponded to intercompany EBIT for 1995 and 1994, respectively. The decline in intercompany revenues from 1994 to 1995, and therefore, intercompany EBIT, illustrates the drop in development time as UtiliCIS™, the customer information and billing system for the Company's natural gas distribution segment, is in its implementation stage. UtiliCIS™ is expected to be completed in 1995.

Operations and maintenance expenses declined $25,578, or 2%, primarily due to the absence of $63,135 of expenses incurred by C&A in 1994 and lower health care and pension costs. These decreased expenses were partially offset by increased expenses in areas such as payroll and hardware, which are directly associated with the increased revenues

Depreciation and amortization declined $23,248, or 9%, due to more assets becoming fully depreciated and the C&A's dissolution. Other taxes rose $10,274, or 16%, in response to the higher payroll costs.

Interest

The increase in interest expense is associated with higher short-term borrowing balances, as compared to the same period last year, and higher interest rates on those balances.

Non-Operating Income

The increase of approximately $127,000 in the second quarter 1995, as compared to the corresponding quarter in 1994 is primarily the absence of the 1994 after tax write-off of our investment in Currin and Associates, Inc., slightly offset by a decrease in 1995 interest income.

Operating Income Taxes

Income taxes increased due to higher second quarter EBIT, as compared to last year, and the elimination of the valuation allowance for state operating loss carryforwards associated with the Company's propane segment. The Company projects the utilization of all state operating loss carryforwards generated by the propane segment in the early 1990's.

RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED JUNE 30, 1995

The Company recognized net income of $4,422,516 for the six months ended June 30, 1995, representing an increase in net income of $793,014 as compared to the corresponding period in 1994. As indicated in the table below, the increase in EBIT is due to a higher gross margin by the transmission segment offset by a reduced gross margin by the propane segment.

	FOR THE SIX MONTHS ENDED JUNE 30,		
	1995	1994	Change
Earnings Before Interest and Taxes			
Natural Gas Distribution	$ 3,944,483	$ 3,880,652	$ 63,831
Natural Gas Transmission	2,264,064	974,736	1,289,328
Propane Distribution	1,642,844	2,355,798	(712,954)
Information Technology Services and Other	474,950	(28,587)	503,537
Eliminations	(136,880)	(300,451)	163,571
Total EBIT	8,189,461	6,882,148	1,307,313
Operating Income Taxes	2,489,157	1,970,995	518,162
Interest	1,409,466	1,306,472	102,994
Non-Operating Income, Net	131,678	24,821	106,857
Net Income	$ 4,422,516	$ 3,629,502	$ 793,014

Natural Gas Distribution

The natural gas distribution segment reported EBIT of $3,944,483 for the first six months of 1995 as compared to EBIT of $3,880,652 for the corresponding period last year, an increase of $63,831. The increase in EBIT is due to an increase in gross margin in our service territories, partially offset by an increase in operating expenses.

	FOR THE SIX MONTHS ENDED JUNE 30,		
	1995	1994	Change
Revenue	$ 28,449,275	$ 31,534,659	$ (3,085,384)
Cost of Gas	18,027,540	21,397,980	(3,370,440)
Gross Margin	10,421,735	10,136,679	285,056
Operations & Maintenance	4,258,681	4,203,676	55,005
Depreciation & Amortization	1,199,626	1,068,424	131,202
Other Taxes	1,018,945	983,927	35,018
EBIT	$ 3,944,483	$ 3,880,652	$ 63,831

The decrease in revenue and cost of gas is primarily due to a decrease in firm sales in our northern service territories due to temperatures which were 5% warmer in the first two quarters of 1995 when compared to the corresponding period of 1994. Partially offsetting this decrease, was an increase in sales to phosphate customers and two co-generation facilities in our Florida division.

The increase in operations and maintenance expenses of $55,005 is due to an increase in maintenance to mains, customer installation expenses, engineering, customer accounting expenses and less administrative expenses transferred to plant. This was partially offset by a decrease to outside services and employee pension and benefits. Depreciation and amortization expenses increased $131,202 due to plant placed in service during the past year.

Natural Gas Transmission

The natural gas transmission segment reported EBIT of $2,264,064 for the first six months of 1995 as compared to EBIT of $974,736 for the corresponding period last year, an increase of $1,289,328. The increase in EBIT is due to an increase in gross margin and a decrease in operating expenses.

	FOR THE SIX MONTHS ENDED JUNE 30,		
	1995	1994	Change
Revenue	$ 19,978,867	$ 19,826,852	$ 152,015
Cost of Gas	15,879,530	16,935,214	(1,055,684)
Gross Margin	4,099,337	2,891,638	1,207,699
Operations & Maintenance	1,292,462	1,396,051	(103,589)
Depreciation & Amortization	348,478	348,890	(412)
Other Taxes	194,333	171,961	22,372
EBIT	$ 2,264,064	$ 974,736	$ 1,289,328

The increase in revenue is primarily due to a 64% increase in industrial interruptible sales volumes which was offset by a 24% decrease in the cost of gas which is passed on to our customers. The increase in gross margin is attributable to the increase in interruptible sales volumes as natural gas competed favorably with alternative fuels. The increase in industrial interruptible sales is primarily due to increased sales to the methanol plant. Sales volumes and margins to this customer were up 78% and 84%, respectively, when compared to the same period last year. Adding to the increased gross margin is a $549,000 reduction in the amount expensed in 1995 to accrue for a potential refund, when compared to the corresponding period in 1994 (see note 4 to the Consolidated Financial Statements). Of the $549,000 reduction in 1995, $412,000 was a one time expense in June 1994 to fully accrue for a refund ordered by FERC.

The decrease in operations and maintenance expenses of $103,589 is due to a reduction in employee benefits and the delay in the painting of structures and reduction in cathodic related maintenance expenses in the second quarter of 1995 when compared to the same period of 1994. Other taxes increased $22,372 due to plant placed in service during the past year, an increase in pipeline safety assessments from the federal government and payroll related taxes.

Propane Distribution

The propane distribution segment recognized EBIT of $1,642,844 for the first six months of 1995. As compared to EBIT for the six months ended June 30, 1994, these results represent a decline in earnings of $712,954, or 30%. Producing this decrease in EBIT was a lower gross margin, offset slightly by reduced operating expenses, particularly depreciation and amortization.

	FOR THE SIX MONTHS ENDED JUNE 30,		
	1995	1994	Change
Revenue	$ 9,837,432	$ 11,839,701	$ (2,002,269)
Cost of Gas	4,755,577	6,005,005	(1,249,428)
Gross Margin	5,081,855	5,834,696	(752,841)
Operations & Maintenance	2,597,542	2,605,994	(8,452)
Depreciation & Amortization	649,011	679,820	(30,809)
Other Taxes	192,458	193,084	(626)
EBIT	$ 1,642,844	$ 2,355,798	$ (712,954)

The decrease in gross margin resulted from an 11% decline in sales volumes, as well as a 2% decrease in the average margin per gallon. The decrease in gallon sales resulted from average temperatures in 1995 being 5% warmer than the corresponding period in 1994. Furthermore, the magnitude and timing of the colder temperatures experienced in the first quarter of 1994 did not recur in 1995. The decrease in the average margin per gallon corresponded to a higher cost per gallon, which was only partially offset by higher selling prices.

Operations and maintenance expenses decreased by $8,452, just under 1%, as a result of lower advertising, pension and benefits, and insurance expenses. Depreciation and amortization decreased by $30,809, or approximately 5%, as various assets obtained in a prior acquisition became fully depreciated.

Information Technology Services and Other

For the six months ended June 30, the information technology services and other segment recognized an EBIT of $474,950 and a LBIT of $28,587 for 1995 and 1994, respectively. This increase in EBIT of $503,537 is the outcome of higher revenues and lower operating expenses.

	FOR THE SIX MONTHS ENDED JUNE 30,		
	1995	1994	Change
Revenue	$ 4,363,042	$ 4,110,710	$ 252,332
Operations & Maintenance	3,250,574	3,419,823	(169,249)
Depreciation & Amortization	469,813	560,757	(90,944)
Other Taxes	167,705	158,717	8,988
EBIT/LBIT	$ 474,950	$ (28,587)	$ 503,537

Comprising the increase in revenues of $252,332 were higher consulting and programming training, resource placement and consulting and programming revenues, as well as a sale of Page-IT™, the segment's billing software product for the telecommunication industry. Partially offsetting these higher revenues were reduced hardware sales. Of the total revenues for the six months ended June 30, 1995 and 1994, $865,098 and $1,229,417, respectively, represented intercompany revenues. The intercompany EBIT associated with these revenues are eliminated in consolidation; these amounts totalled $136,881 and $300,451 for 1995 and 1994, respectively. The intercompany revenue and EBIT amounts for the six months ended June 30, 1995 continued to decline over the prior year as less time is being spent on the development of UtiliCIS™,

a customer information and billing system designed for the Company's natural gas distribution segment. UtiliCIS™ is in an implementation stage, with completion scheduled in 1995.

Operations and maintenance expenses declined $169,249, or 5%, primarily due to the absence of $136,301 of expenses incurred by C&A in 1994. Despite recognizing significant decreases in such expenses as health care, pension and hardware, these reductions were partially offset by increases in other operations expenses, primarily payroll. Payroll rose in response to increased revenues. Depreciation and amortization declined $90,944, or 16%, due to certain pieces of hardware becoming fully depreciated and the dissolution of C&A. Other taxes increased $8,988, or 6%, as a result of higher payroll costs

Interest

The increase in interest expense is associated with higher short-term borrowing balances, as compared to the same period last year, and higher interest rates on those balances.

Non-Operating Income

Non-operating income increased approximately $107,000 as compared to the same period in 1994, primarily due to the absence of the 1994 after tax write-off of our investment in Currin and Associates, Inc., slightly offset by a decrease in 1995 interest income.

Operating Income Taxes

Income taxes increased due to higher 1995 EBIT, as compared to last year, and the elimination of the valuation allowance for state operating loss carryforwards associated with the Company's propane segment. The Company projects the utilization of all state operating loss carryforwards generated by the propane segment in the early 1990's.

Environmental Matters

The Company continues to work with federal and state environmental agencies to assess the environmental impacts and explore corrective action at several former gas manufacturing plant sites (see Note 4 to the Consolidated Financial Statements). The Company believes that any future costs associated with these sites will be recoverable in future rates.

FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

The Company's capital requirements reflect the capital intensive nature of its business and are attributable principally to its construction program and the retirement of its outstanding debt. The Company relies on funds provided by operations and short-term borrowings to meet normal working capital requirements and temporarily finance capital expenditures. During the first six months of 1995, the Company's net cash flow provided by operating activities, net cash used by investing activities and net cash used by financing activities were approximately $12,033,000, $5,895,000 and $6,277,000, respectively. Due to the seasonal nature of the Company's business, there are substantial variations in the results of operations reported on a quarterly basis.

The Board of Directors has authorized the Company to borrow up to $14,000,000 from banks and trust companies. As of June 30, 1995, the Company had four $8,000,000 unsecured bank lines of credit. Funds provided from these lines of credit are used for short-term cash needs to meet seasonal working capital requirements and to fund portions of its capital expenditures. The outstanding balances of short-term borrowings at June 30, 1995 and 1994 were $3,500,000 and $0, respectively

On July 6, 1995, the Company entered into an agreement for the private placement of $10,000,000 of 6.91% Senior Notes due in 2010. It is anticipated that funding on these Senior Notes will occur in October 1995. The Company will use the

proceeds to retire $4,091,000 of the 10.85% Senior Notes of Eastern Shore Natural Gas Company, originally due October 1, 2003, and to repay short-term borrowing under the Company's lines of credit.

During the six months ended June 30, 1995 and 1994, net property, plant and equipment expenditures were approximately $5,856,000 and $4,050,000, respectively. For 1995, the Company has budgeted $16.6 million for capital expenditures. The components of this amount include $11.9 million for natural gas distribution, $1.7 million for natural gas transmission, $1.8 million for propane distribution, $1.0 million for structures and the remaining $200,000 for computer equipment. The natural gas and propane expenditures are for expansion and improvement of their existing service territories. The expenditures for Skipjack are for construction and improvements. Financing of the 1995 construction will be provided primarily by short-term borrowings and cash from operations. The construction program is subject to continuous review and modification by management. Actual construction expenditures may vary from the above estimates due to a number of factors including inflation, changing economic conditions, regulation, load growth and the cost and availability of capital.

The Company expects to incur environmental related expenditures in the future (see Note 4 to the Consolidated Financial Statements), a portion of which may need to be financed through external sources. Management does not expect such financing to have a material adverse effect on the financial position or capital resources of the Company.

As of June 30, 1995, common equity represented 62.9% of permanent capitalization, compared to 60.4% as of December 31, 1994. The Company remains committed to maintaining a sound capital structure and strong credit ratings in order to provide the financial flexibility needed to access the capital markets when required. This commitment, along with adequate and timely rate relief for the Company's regulated operations, helps to ensure that the Company will be able to attract capital from outside sources at a reasonable cost. The achievement of these objectives will provide benefits to customers and creditors, as well as the Company's investors.

PART II
OTHER INFORMATION

CHESAPEAKE UTILITIES CORPORATION AND SUBSIDIARIES

Item 1: Legal Proceedings
See Note 4 to Financial Statements

Item 2. Changes in Securities
None

Item 3: Defaults Upon Senior Securities
None

Item 4 Submission of Matters to a Vote of Security Holders
The Annual Meeting of Stockholders was held on May 16, 1995. Proposals as submitted in the proxy statement were voted on as follows:

1. All Board of Director nominees were elected to the classes indicated in the proxy statement.
2. The Chesapeake Utilities Corporation Directors Stock Compensation Plan was approved.
3. Amendments to the Company's Certificate of Incorporation (the "Certificate") for the purpose of modernizing the Certificate was approved.
4. Amendments to the Certificate authorizing 2,000,000 shares of preferred stock was approved.
5. Amendments to the Certificate changing the number of Directors to a number to be determined by the Board was defeated.
6. Ratification of the selection of the Company's independent auditors through the fiscal year ending December 31, 1995 was approved.

Item 5: Other Information
None

Item 6(a): Exhibits
Exhibit 3 - Certificate of Incorporation of Chesapeake Utilities Corporation is filed herewith.
Exhibit 11 - Computation of Primary and Fully Diluted Earnings Per Share is submitted herewith.

Item 6 (b). Reports on Form 8-K
None

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CHESAPEAKE UTILITIES CORPORATION

/s/ John R. Schimkaitis

John R. Schimkaitis
Senior Vice President and Assistant Treasurer
(Principal Financial and Accounting Officer)

Date August 15, 1995

CHESAPEAKE UTILITIES CORPORATION AND SUBSIDIARIES

EXHIBIT 11
COMPUTATION OF PRIMARY AND FULLY DILUTED EARNINGS PER SHARE

	For the Quarter Ended June 30,		For the Six Months Ended June 30,	
	1995	1994	1995	1994
Primary earnings per share calculation:				
Weighted average number of shares assuming primary dilution	3,693,016	3,630,355	3,682,586	3,617,896
Consolidated net income	$764,085	($116,584)	$4,422,516	$3,629,502
Total primary earnings per share	$0.21	($0.0[illegible])	$1.20	$1.00
Fully diluted earings per share calculation (1):				
Weighted average number of shares assuming primary dilution	3,693,016	3,630,355	3,682,586	3,617,896
Contingent shares	248,245	255,282	250,607	256,287
Weighted average number of shares assuming full dilution	3,941,261	3,885,637	3,933,193	3,874,183
Consolidated net income	$764,085	($116,584)	$4,422,516	$3,629,502
Interest on convertible debt	86,867	89,329	174,423	178,377
Less: Applicable federal income taxes	33,878	34,838	68,025	69,567
Adjusted net income	$817,074	($62,093)	$4,528,914	$3,738,312
Fully diluted earnings per share	$0.21	($0.02)	$1.15	$0.96

(1) This calculation is submitted in accordance with Regulation S-K item 601(b)(11) although it is contrary to paragraph 40 of APB Opinion No. 15, because it produces an anti-dilutive result for the quarter.

EXHIBIT C

Sources and Uses of Funds Statement and Construction Budget

CHESAPEAKE UTILITIES CORPORATION
1996 SUMMARY OF ESTIMATED CAPITAL EXPENDITURES
DISTRIBUTION UTILITY PLANT
AS OF OCTOBER 30 1995
UNAUDITED

EXHIBIT C

PLANT ACCOUNT NUMBER	DESCRIPTION	TOTAL 1996 CAPITAL ESTIMATED
301	ORGANIZATION	$0
302	FRANCHISE AND CONSENTS	0
303	INTANGIBLE PLANT	110,625
304	LAND AND LAND RIGHTS	51,656
305	STRUCTURES AND IMPROVEMENTS	107,246
311	LIQUIFIED PETROLEUM	369,856
374	LAND AND LAND RIGHTS	0
375	STRUCTURES AND IMPROVEMENTS	0
376	MAINS	4,756,167
378	M & R EQUIPMENT - GENERAL	124,691
379	M & R EQUIPMENT - CITY GATE	238,773
380	SERVICES	931,804
381	METERS	525,921
382	METER INSTALLATIONS	161,474
383	HOUSE REGULATORS	207,403
384	REGULATOR INSTALLATIONS	0
385	INDUSTRIAL M & R STATION	509,776
387	OTHER EQUIPMENT	98,990
389	LAND AND LAND RIGHTS	0
390	STRUCTURES AND IMPROVEMENTS	270,998
391	OFFICE FURNITURE AND EQUIPMENT	235,766
392	TRANSPORTATION	471,603
393	STORES EQUIPMENT	0
394	TOOLS SHOP. AND GARAGE EQUIP	14,609
395	LABORATORY EQUIPMENT	0
396	POWER OPERATED EQUIPMENT	110,627
397	COMMUNICATIONS EQUIPMENT	21,062
398	MISCELLANEOUS EQUIPMENT	23,203
399	OTHER TANGIBLE PROPERTY	0
108	- 305 COST OF REMOVAL	1,250,000
	TOTAL CAPITAL EXPENDITURES	$10,592,254

SOURCES AND USES OF FUNDS

The proceeds from stock and debt issuances will be used to administer the Company's Retirement Savings Plan, Performance Incentive Plan, Automatic Dividend Reinvestment and Stock Purchase Plan, Restricted Stock Award Agreements and Convertible Debentures, as well as for other corporate purposes including but not limited to, working capital, retirement of short-term debt, retirement of long-term debt, capital improvements and/or acquisitions