

ORIGINAL

MEMORANDUM

TO: PSC Clerk
FROM: Wayne L. Schiefelbein Of Counsel
RE: Chesapeake Utilities Corporation Docket No. 041263-GU
DATE: March 31, 2006

On behalf of Chesapeake Utilities Corporation, enclosed for filing are an original and 4 copies of a Consummation Report of Securities. I have also included one copy to be date stamped and returned to me.

If you have any questions, please feel free to call.

WLS/dcr
Enclosures
G:\chesapeake\Clerk 5 memo.wpd

RECEIVED-FPSC
05 MAR 31 PM 2:33
COMMISSION CLERK

- CMP
COM
CTR
ECR
GCL
OPC
RCA
SCR
SGA
SEC
OTH

RECEIVED & FILED

FPSC-BUREAU OF RECORDS

Rose, Sundstrom & Bentley, LLP
2548 Blirstone Pines Drive, Tallahassee, Florida 32301

DOCUMENT NUMBER-DATE

02899 MAR 31 06

FPSC-COMMISSION CLERK

CHESAPEAKE
UTILITIES CORPORATION

March 28, 2006

Ms. Blanca S. Bayo
Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, FL 32399-0850

RE: Docket No. 041263-GU, Consummation Report of Securities Issued by Chesapeake Utilities Corporation

Dear Ms. Bayo:

Chesapeake Utilities Corporation ("Chesapeake") respectfully files this Consummation Report (original and three copies) on the issuance of securities for the fiscal year ended December 31, 2005, in compliance with Rule 25-8.009, Florida Administrative Code. In satisfaction of the Consummation Report requirements, Chesapeake sets forth the following information:

1. On December 1, 2004, the Florida Public Service Commission ("FPSC") issued Order No. PSC-04-1184-FOF-GU, which authorized Chesapeake to issue up to 1,434,175 shares of common stock for the purpose of administering Chesapeake's Retirement Savings Plan, Performance Incentive Plan, Dividend Reinvestment and Stock Purchase Plan, the conversion of Chesapeake's convertible debentures, and pursuant to Stock Purchase Warrants. The Order also authorized Chesapeake to issue up to 4,565,825 shares of common stock and up to \$40 million in secured and/or unsecured debt for possible acquisitions. In addition, the Order authorized Chesapeake to issue up to \$40 million in secured and/or unsecured debt to 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. Chesapeake was also authorized to issue up to 1,000,000 shares of Chesapeake preferred stock for possible acquisitions, financing transactions, and other general corporate purposes, including potential distribution under the Company's Shareholder Rights Agreement adopted by the Board of Directors on August 20, 1999. Chesapeake was also authorized by the Order to enter into agreements for Interest Rate Swap Products in an amount, in the aggregate not to exceed \$30 million.
2. In addition, on May 3, 2005, the FPSC issued Order No. PSC-05-0479-FOF-GU, which authorized Chesapeake to increase by 100,000, the number of shares of common stock authorized and reserved

Chesapeake Utilities Corporation

909 Silver Lake Boulevard • Dover, Delaware 19904 • 302.734.6799 • 302.734.6750 / fax

02899 MAR 31 8
FPSC-COMMISSION CLERK

for issuance under its Director Stock Compensation Plan (DSCP) and Employee Stock Award Plan (ESAP) during the twelve months ended December 31, 2005. On May 5, 2005, at the Company's 2005 Annual Meeting, the shareholders approved the new DSCP and the ESAP. The new DSCP replaced the prior plan that expired on December 31, 2004. Both the DSCP and ESAP were effective as of May 5, 2005 and will continue in effect, unless terminated earlier by the Board of Directors, until December 31, 2015.

3. Of the above-mentioned securities, and for the twelve-month period ended December 31, 2005, Chesapeake has issued the following:

- (a) 21,071 shares of common stock were issued for the purpose of administering Chesapeake's Retirement Savings Plan. The average issuance price of these shares was \$32.89 per share. Expenses associated with this issuance were negligible.
- (b) 13,418 shares of common stock were issued for the Performance Incentive Plan. The average issuance price of these shares was \$26.02 per share. Expenses associated with this issuance were negligible.
- (c) 41,175 shares of common stock were issued for the purpose of administering Chesapeake's Automatic Dividend Reinvestment and Stock Purchase Plan and the subsequent Dividend Reinvestment and Direct Stock Purchase Plan, i.e., the Amended Plan. The average issuance price of these shares was \$30.23 per share. Expenses associated with this issuance were negligible.
- (d) 22,609 shares of common stock were issued for the conversion of debentures. The average issuance price of these shares was \$17.01 per share. Expenses associated with this issuance were negligible.
- (e) 5,850 shares of common stock were issued for the Directors Stock Compensation Plan. The average issuance price of these shares was \$24.68 per share. Expenses associated with this issuance were negligible.

(f) On June 29, 2005, Chesapeake signed an agreement in principle with Prudential Investment Management, Inc. doing business as Prudential Capital, pursuant to which Prudential agreed in principle to purchase from Chesapeake, \$20,000,000 in principal amount Unsecured Senior Notes issued by Chesapeake if Chesapeake elects to effect the sale of the Unsecured Senior Notes to Prudential at any time prior to January 15, 2007. The interest rate for the Unsecured Senior Notes was fixed at 5.50%. If the funding fails to occur by December 28, 2006, but occurs before January 15, 2007, a delayed delivery fee will be charged to Chesapeake to offset Prudential's hedging costs and to preserve its anticipated yield. If Chesapeake fails to issue the Notes by January 15, 2007, Chesapeake is required to pay Prudential a cancellation fee equal to the greater of (i) \$50,000 or (ii) the product of (a) the price increase determined by Prudential as the excess, if any, of the ask price of the Treasury Notes with the duration that most closely approximates the duration of the Notes proposed to be issued, on the date of cancellation, over the bid price of the Hedge Treasury Note (as determined by Prudential) on the date of the acceptance, divided by such bid price, and (b) the principal amount of such Notes. Chesapeake expects to use the Unsecured Senior Note proceeds to finance the expansion of Chesapeake's natural gas transmission pipeline, expansion of the natural gas distribution system in Delaware and other capital expenditures to support the Company's growth.

As of December 31, 2005, there is no balance for these Unsecured Senior Notes, as they have not been issued.

4. Schedules showing capitalization, pretax interest coverage and debt interest requirements as of December 31, 2005, are attached hereto as Exhibit A.
5. A copy of the application to the Delaware Public Service Commission requesting the authorization of 75,000 shares to be issued under the Directors Stock Compensation Plan and 25,000 shares to be issued under the Employee Stock Award Plan, is attached hereto as Exhibit B.
6. A copy of the Order of the Delaware Public Service Commission authorizing the issuance of 75,000 shares under the Directors Stock Compensation Plan and 25,000 shares under the Employee Stock Award Plan, is attached hereto as Exhibit C.

7. A copy of the Registration Statement relating to the issuance of 75,000 shares under the Directors Stock Compensation Plan, is attached hereto as Exhibit D.
8. A copy of the Registration Statement relating to the issuance of 25,000 shares under the Employee Stock Award Plan, is attached hereto as Exhibit E.
9. A copy of the Delaware Public Service Commission Application for the issuance of up to \$20,000,000 of Chesapeake Utilities Corporation 5.50% Unsecured Senior Notes, is attached hereto as Exhibit F.
10. A copy of the Order of the Delaware Public Service Commission authorizing the issuance of up to \$20,000,000 of Chesapeake Utilities Corporation 5.50% Unsecured Senior Notes, is attached hereto as Exhibit G.
11. A copy of the Chesapeake Utilities Corporation Agreement in Principle with Prudential Investment Management (doing business as Prudential Capital), is attached hereto as Exhibit H.
12. Copies of the signed Opinions of Counsel with respect to the legality of the issuance of 75,000 shares under the Directors Stock Compensation Plan and 25,000 shares under the Employee Stock Award Plan, are attached hereto under Exhibit I.
13. Copies of the signed Opinions of Counsel with respect to the legality of the issuance of up to \$20,000,000 of Chesapeake Utilities Corporation 5.50% Unsecured Senior Notes, are attached hereto under Exhibit J.
14. Except for those agreements provided as Exhibits to this document, copies of all Plans, Agreements, registration filings with the Securities and Exchange Commission and Orders of the Delaware Public Service Commission authorizing the issuance of the above securities have been previously filed with the FPSC under Docket Nos. 030942-GU, 931112-GU, 961194-GU, 981213-GU, and 991631-GU, and are hereby incorporated by reference.
15. Signed copies of the Opinions of Counsel with respect to the legality of all other securities issued have been previously filed with the FPSC as exhibits to the Consummation Reports of Securities issued by

Chesapeake Utilities, Docket Nos. 931112-GU, 961194-GU, and 991631-GU, dated April 1, 1994, March 27, 1998, and March 29, 2001, respectively, and are hereby incorporated by reference.

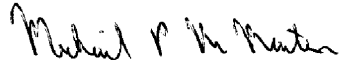
16. A copy of Chesapeake's most current Form 10-K as filed with the Securities and Exchange Commission is attached hereto as Exhibit K.

Remainder of this page intentionally blank.

We respectfully submit this Consummation Report on the issuance of securities by Chesapeake Utilities Corporation, Florida Public Service Commission Docket No. 041263-GU, this 28th day of March 2006.

Sincerely,

CHESAPEAKE UTILITIES CORPORATION

A handwritten signature in black ink, appearing to read "Michael P. McMasters". The signature is written in a cursive style with a large initial "M".

Michael P. McMasters
Senior Vice President and Chief Financial Officer

CHESAPEAKE UTILITIES CORPORATION
Summary of Exhibits

<u>Exhibit Reference</u>	<u>Description</u>
Exhibit A	Schedules showing capitalization, pretax interest coverage and debt requirements as of December 31, 2005
Exhibit B	Delaware Public Service Commission Application authorizing the issuance of 75,000 shares under the Directors Stock Compensation Plan and 25,000 shares under the Employee Stock Award Plan
Exhibit C	Delaware Public Service Commission Order authorizing the issuance of 75,000 shares under the Directors Stock Compensation Plan and 25,000 under the Employee Stock Award Plan
Exhibit D	Registration Statement relating to the issuance of 75,000 shares under the Directors Stock Compensation Plan
Exhibit E	Registration Statement relating to the issuance of 25,000 shares under the Employee Stock Award Plan
Exhibit F	Delaware Public Service Commission Application for the issuance of up to \$20,000,000 of Chesapeake Utilities Corporation 5.50% Unsecured Senior Notes
Exhibit G	Delaware Public Service Commission Order authorizing the issuance of up to \$20,000,000 of Chesapeake Utilities Corporation 5.50% Unsecured Senior Notes
Exhibit H	Chesapeake Utilities Corporation Agreement in Principle with Prudential Investment Management (doing business as Prudential Capital)
Exhibit I	Opinions of Counsel regarding the legality of the increase of the 100,000 shares for the issuance under the Directors Stock Compensation Plan and the Employee Stock Award Plan
Exhibit J	Opinions of Counsel with respect to the legality of the issuance of up to \$20,000,000 of Chesapeake Utilities Corporation 5.50% Unsecured Senior Notes
Exhibit K	December 31, 2005 Form 10-K

CHESAPEAKE UTILITIES CORPORATION

Notes to Capitalization, Income and
Pretax Interest Coverage Schedules
As of December 31, 2005

The following adjustments have been made to capitalization:

1. Common Stock – Number of shares (104,123) times par value (\$0.4867 per share), with the shares issued for the following purposes:

- 21,071 shares for the Retirement Savings Plan
- 13,418 shares for the Performance Incentive Plan
- 41,175 shares for the Dividend Reinvestment and Stock Purchase Plan
- 22,609 shares for the conversion of debentures
- 5,850 shares for the Directors Stock Compensation Plan

2. Additional Paid in Capital – Total cash value less the associated Common Stock amount for the following issuances:

- 21,071 shares at \$32.89 per share
- 13,418 shares at \$26.02 per share
- 41,175 shares at \$30.23 per share
- 22,609 shares at \$17.01 per share
- 5,850 shares at \$24.68 per share

3. Short-Term Debt –

- a) Decrease by a total of \$2,815,806 to reflect the paying down of short-term lines of credit with proceeds from the Dividend Reinvestment and Stock Purchase Plan, the Retirement Savings Plan, the Performance Incentive Plan, the conversion of certain debentures, and the Directors Stock Compensation Plan.

CHESAPEAKE UTILITIES CORPORATION
Capitalization Ratios Actual & Pro Forma as of December 31, 2004

TYPE OF CAPITAL	ACTUAL BEFORE ISSUANCE		PRO FORMA ADJUSTMENT	PRO FORMA AFTER ISSUANCE	
	AMOUNT OUTSTANDING	% OF TOTAL		AMOUNT OUTSTANDING	% OF TOTAL
<u>STOCKHOLDERS' EQUITY</u>					
COMMON STOCK	\$2,812,538	1.85%	\$50,677	\$2,863,215	1.89%
PAID IN CAPITAL	\$36,854,717	24.28%	\$2,765,162	\$39,619,879	26.11%
RETAINED EARNINGS	\$39,015,087	25.71%	\$0	\$39,015,087	25.71%
ACCUMULATED OTHER COMPREHENSIVE INCOME	(\$527,246)	-0.35%	\$0	(\$527,246)	-0.35%
DEFERRED COMPENSATION OBLIGATION	\$816,044	0.54%	\$0	\$816,044	0.54%
TREASURY STOCK	(\$1,008,696)	-0.66%	\$0	(\$1,008,696)	-0.66%
PREFERRED STOCK	<u>\$0</u>	<u>0.00%</u>	<u>\$0</u>	<u>\$0</u>	<u>0.00%</u>
TOTAL STOCKHOLDERS' EQUITY	<u>\$77,962,444</u>	<u>51.37%</u>	<u>\$2,815,839</u>	<u>\$80,778,283</u>	<u>53.23%</u>
<u>LONG-TERM DEBT</u>					
FIRST MORTGAGE BONDS	\$0	0.00%	\$0	0	0.00%
CONVERTIBLE DEBENTURES	\$2,644,000	1.74%	\$0	\$2,644,000	1.74%
SENIOR NOTES	\$63,545,454	41.87%	\$0	\$63,545,454	41.87%
OTHER	<u>\$0</u>	<u>0.00%</u>	<u>\$0</u>	<u>\$0</u>	<u>0.00%</u>
TOTAL LONG-TERM DEBT	<u>\$66,189,454</u>	<u>43.61%</u>	<u>\$0</u>	<u>\$66,189,454</u>	<u>43.61%</u>
TOTAL PERMANENT CAPITAL	<u>\$144,151,898</u>	<u>94.99%</u>	<u>\$2,815,839</u>	<u>\$146,967,737</u>	<u>96.84%</u>
<u>CURRENT PORTION OF LTD</u>	<u>\$2,909,091</u>	<u>1.92%</u>	<u>\$0</u>	<u>\$2,909,091</u>	<u>1.92%</u>
<u>SHORT-TERM DEBT</u>	<u>\$4,700,000</u>	<u>3.10%</u>	<u>(\$2,815,839)</u>	<u>\$1,884,161</u>	<u>1.24%</u>
TOTAL CAPITALIZATION	<u>\$151,760,990</u>	<u>100.00%</u>	<u>\$0</u>	<u>\$151,760,990</u>	<u>100.00%</u>

CHESAPEAKE UTILITIES CORPORATION
Statement of Income and Pretax Interest Coverage
Actual & Pro Forma for the Twelve Months Ended December 31, 2004 (a)

UNAUDITED

	<u>Annualized Twelve Months</u>		
	<u>Actual Before Issuance</u>	<u>Pro Forma Adjustment</u>	<u>Pro Forma After Issuance</u>
Statement of Income			
1 Operating revenues	\$177,955,441	\$0	\$177,955,441
2 Operating expenses before income taxes	\$157,985,695	\$0	\$157,985,695
3 Income taxes (including Deferrals)	<u>\$5,701,090</u>	<u>\$48,783</u>	<u>\$5,749,873</u>
4 Operating Income (1-(2+3))	\$14,268,656	(\$48,783)	\$14,219,873
5 Other Income, Net	<u>\$549,156</u>	<u>\$0</u>	<u>\$549,156</u>
6 Income Before Interest Charges (4+5)	\$14,817,812	(\$48,783)	\$14,769,029
7 Interest Charges	<u>\$5,268,145</u>	<u>(\$129,672)</u>	<u>\$5,138,473</u>
8 Income from Continuing Operations (6-7)	\$9,549,667	\$80,890	\$9,630,557
9 Preferred stock dividends	\$0	\$0	\$0
10 Earnings available to common equity (8-9)	\$9,549,667	\$80,890	\$9,630,557
11 Pretax Interest Coverage ((3+6)/7)	3.89	N/A	3.99

(a) Excludes discontinued operations.

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF DELAWARE**

**IN THE MATTER OF THE APPLICATION OF)
CHESAPEAKE UTILITIES CORPORATION)
FOR APPROVAL OF THE ISSUANCE OF) P.S.C. DOCKET NO. 05-
COMPANY STOCK)**

Chesapeake Utilities Corporation (hereinafter sometimes called “Chesapeake” or “Applicant”) pursuant to 26 Del. C. section 215, makes the following application for approval by the Delaware Public Service Commission (“Commission”) of the issuance of up to 500,000 shares of Chesapeake common stock. In support of this Application, Chesapeake states the following:

1. Chesapeake is a Delaware public utility with its principal place of business at 909 Silver Lake Boulevard, Dover, Delaware 19904. All communication should be addressed to Applicant at the following address, Attention: Jeffrey R. Tietbohl, Controller – Natural Gas, 350 South Queen Street, P.O. Box 1769, Dover, Delaware 19904 or at the following e-mail address: jtietbohl@chpk.com. The respective telephone number and facsimile number are 302.734.6742 and 302.734.6011.

2. Counsel for the Applicant is William A. Denman, Esquire, Parkowski, Guerke & Swayze P.A., 116 West Water Street, P.O. Box 598, Dover, Delaware 19903. Correspondence and other communications concerning this Application should be directed to counsel at the foregoing address, or at the following e-mail

address: wdenman@pgslegal.com. The respective telephone number and facsimile number are 302.678.3262 and 302.678.9415.

3. Chesapeake is a corporation incorporated under the laws of the State of Delaware. The voting stock of Chesapeake is publicly owned. Shares of common stock, 5,730,913 of which were outstanding as of December 31, 2004, are the only voting securities of Chesapeake. Each share is entitled to one vote.

4. Chesapeake's Board of Director's has approved the adoption of a Performance Incentive Plan ("PIP"), Directors Stock Compensation Plan ("DSCP"), and Employee Stock Award Plan ("ESAP") for which approval for the issuance of up to 500,000 shares of Chesapeake common stock is being sought. The Company will be seeking stockholder approval at its 2005 Annual Meeting. The exhibits attached to the 2005 Proxy describing each of the plans are attached hereto as Attachment A. As the stockholders have not yet approved the plans, the Company has not filed formal registration statements with the Securities and Exchange Commission. Net proceeds from the issuance will be added to Chesapeake's treasury and used for general corporate purposes.

5. The proposed PIP would replace, effective January 1, 2006, the prior PIP. The proposed PIP would allow for the issuance of restricted stock in the form of performance share awards to those key employees of the Company whom a designated committee, composed of independent directors chosen by the Board, determines are in positions to contribute significantly to the long-term growth, development, and financial success of the Company. The proposed PIP would encourage those employees to obtain proprietary interests in the Company and to

remain as employees of the Company as well as to assist the Company in recruiting able management personnel. No more than 25,000 shares can be awarded to an executive in any given year under the proposed PIP. By this Application, Chesapeake is seeking approval from the Commission to issue up to 400,000 shares of common stock for the purpose of administering the proposed PIP.

6. Chesapeake also requests approval from the Commission for the issuance of up to 75,000 shares of common stock for the DSCP. The DSCP would enhance the Company's ability to attract, motivate and retain as Non-Employee Directors persons of training, experience and ability, and to encourage the highest level of Non-Employee Director performance by providing such directors with a proprietary interest in the Company's growth and financial success. The Company acquired shares in the open market as compensation for Non-Employee Directors under the previous DSCP, which expired on December 31, 2004. Under the DSCP each Non-Employee Director who is elected as a director or whose service as a director will continue after the date of the respective Annual Meeting will receive, as compensation for services during the ensuing year, an award of no more than 1,200 shares of common stock on the date of the respective Annual Meeting. For 2005, the Board of Directors approved, subject to the approval of the DSCP by the shareholders at the 2005 Annual Meeting, (1) an award of 600 shares of common stock to each Non-Employee Director and (2) an award of 150 additional shares to each chairman of a committee of the Board of Directors.

7. Chesapeake also requests approval for the issuance of up to 25,000 shares of common stock for the ESAP. Historically, the Company has awarded

shares of Chesapeake common stock to the Company's top performing manager and employee of the year. When the New York Stock Exchange adopted new equity compensation rules in 2003, the Company was no longer able to issue shares, as it did not have a formal plan that had received stockholder approval. In order to continue to grant these awards, and to have the flexibility to make other awards of stock to employees for exemplary performance, the Company has developed the ESAP. The maximum number of shares that can be issued from the ESAP in any one year is 5,000 shares.

8. A copy of the opinion of counsel for Chesapeake with respect to the legality of the proposed issuance of common stock is attached hereto as Attachment B.

9. Attached hereto as Attachment C and incorporated herein by reference is a schedule setting forth Chesapeake's balance sheet and income statement for the twelve (12) months ended December 31, 2004, both before and after the issuance of the common stock.

10. Attached hereto as Attachment D is a copy of Chesapeake's annual report on Form 10-K for the calendar year ended December 31, 2004. This report has been filed with the Securities and Exchange Commission.

11. Pursuant to the Commission's Minimum Filing Requirements – Part (D), attached hereto and incorporated herein by reference are the following schedules:

- a) Schedule No. 1 – Capitalization ratios, actual and pro forma as of December 31, 2004.

- b) Schedule No. 2 – Rate of return, actual and pro forma for the twelve (12) months ended December 31, 2004.
- c) Schedule No. 3 – Fixed charge coverage ratios for the twelve (12) months ended December 31, 2004.

12. Chesapeake represents that the proposed issuance of common stock is in accordance with law, for a proper purpose, and consistent with the public interest.

WHEREFORE, Chesapeake prays as follows:

- A. That the Commission file this Application and make such investigation in this matter as it deems necessary;
- B. That the Commission approves the proposed issuance of common stock as described herein.

CHESAPEAKE UTILITIES CORPORATION

By: Beth W. Cooper
Beth W. Cooper
Treasurer & Assistant Secretary

PARKOWSKI, GUERKE & SWAYZE, P.A.

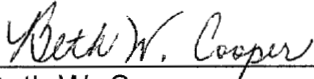
By: William A. Denman
William A. Denman
116 West Water Street
Dover, DE 19903
Attorney for Applicant

DATED: March 28, 2005

DATED: March 28, 2005

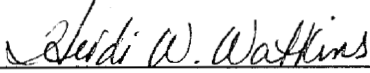
STATE OF DELAWARE)
)
COUNTY OF KENT)

BE IT REMEMBERED that on this 28th day of March, 2005, personally appeared before me, a notary public for the State and County aforesaid, Beth W. Cooper, who being by me duly sworn, did depose and say that she is 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 her personal knowledge, they are true; and insofar as those facts are not within her personal knowledge, she believes them to be true; and that the attachments accompanying this application and attached hereto are true and correct copies of the originals of the aforesaid attachments, and that she has executed this Application on behalf of the Company and pursuant to the authorization of its Board of Directors.



Beth W. Cooper
Treasurer & Assistant Secretary

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



Notary Public
My Commission Expires: 10/24/05

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF DELAWARE

IN THE MATTER OF THE APPLICATION)
OF CHESAPEAKE UTILITIES CORPORATION)
FOR APPROVAL OF THE ISSUANCE OF UP) PSC DOCKET NO. 05-114
TO 500,000 SHARES OF COMMON STOCK)
(FILED MARCH 28, 2005))

ORDER NO. 6607

AND NOW, on this 26th day of April, 2005;

WHEREAS, by application dated March 28, 2005, Chesapeake Utilities Corporation ("Chesapeake" or the "Company"), seeks Commission approval to issue up to 500,000 shares of new common stock to be used by the Company for administering the Company's revised Performance Incentive Plan, its revised Directors Stock Compensation Plan, and its Employee Stock Award Plan; with the net proceeds from the issuance to be used for general corporate purposes; and

WHEREAS, the Commission having examined the Company's application and having made such investigation in connection with said matters as the Commission deemed necessary, and having heard the presentation of the Company and the Commission Staff at the Commission's meeting on April 26, 2005; and

WHEREAS, the Commission being limited in its authority with respect to utility financing and stock issuance applications pursuant to 26 Del. C. § 215 under the holding of Diamond State Tel. Co. v. Public Service Commission, 367 A.2d 644 (Del. 1976), to the extent that, among other things, the future rate impact of the proposed financing is not deemed an appropriate consideration in making a determination concerning such applications; and

WHEREAS, the Commission having been advised by Staff, and having determined, that the proposed issuance of 500,000 shares of common stock by Chesapeake is in accordance with law, for a proper purpose, and consistent with the public interest; now, therefore,

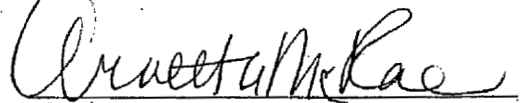
IT IS ORDERED THAT:

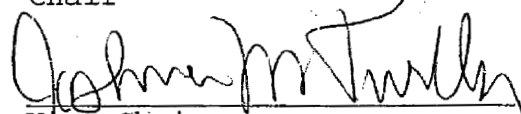
1. The application filed by Chesapeake Utilities Corporation in this matter on or about March 28, 2005, is hereby approved and Chesapeake Utilities Corporation is hereby authorized to issue up to 500,000 new shares of its common stock. The proceeds from such new issuance of common stock shall be used for the purposes outlined in the application.
2. Approval of Chesapeake Utilities Corporation's application by the Commission shall not be construed as approving any capitalization ratios that result for any purposes or procedures involving ratemaking. Further, the approval here shall not be construed as approving any portions of the revised Performance Incentive Plan, the revised Directors Stock Compensation Plan, or the Employee Stock Award Plan for the purposes of any future rate-making proceeding. This approval shall not waive the Commission's rules regarding the burden of proving the merits of any related issue in a later proceeding. Rather, the Commission's approval of Chesapeake Utilities Corporation's application is limited to that which is necessary under 26 Del. C. § 215 and shall not be construed as having any ratemaking effect in any later rate proceeding.
3. Nothing in this Order shall be construed as a guarantee, warranty, or representation by the State of Delaware or by any agency, commission, or department hereof, with respect to the Shares to be issued pursuant to the application and this Order.


4. Chesapeake Utilities Corporation shall, within thirty days of each issuance under the plan, provide the Commission notice, by letter, of the date and amount of such issuance.

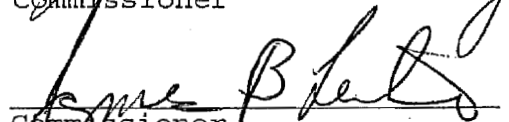
5. That the Commission reserves the jurisdiction and authority to enter such further Orders in this matter as may be deemed necessary or proper.

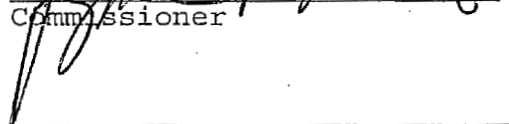
BY ORDER OF THE COMMISSION:


Chair


Vice Chair


Commissioner


Commissioner


Commissioner

ATTEST:


Secretary

As Filed with the Securities and Exchange Commission on May 5, 2005

Reg. No. 333-124646

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM S-8
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

CHESAPEAKE UTILITIES CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

51-0064146
(I.R.S. Employer
Identification No.)

909 SILVER LAKE BOULEVARD, DOVER, DELAWARE 19904

(Address of principal executive offices, including Zip Code)

CHESAPEAKE UTILITIES CORPORATION
DIRECTORS STOCK COMPENSATION PLAN

(Full title of the plan)

MICHAEL P. MCMASTERS
SENIOR VICE PRESIDENT AND CFO
CHESAPEAKE UTILITIES CORPORATION
909 SILVER LAKE BOULEVARD
DOVER, DELAWARE 19904
(302) 734-6799

Copies to:
D. MICHAEL LEFEVER, ESQ.
COVINGTON & BURLING
1201 PENNSYLVANIA AVENUE, N.W.
P.O. BOX 7566
WASHINGTON, D.C. 20004-7566
(202) 662-5276

(Name, address, including zip code,
and telephone number, including area
code, of agent for service)

CALCULATION REGISTRATION FEE

Title of Securities to be Registered	Amount to be Registered (1)	Proposed Maximum Offering Price Per Unit (2)	Aggregate Offering Price	Amount of Registration Fee
Common Stock, par value \$0.4867 per share	75,000	\$26.60	\$1,995,000	\$234.81

(1) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(h) under the Securities Act of 1933 Act, as amended (the "1933 Act"), based on the average of the high and low sale prices as reported in the consolidated reporting system on May 3, 2005.

(2) Pursuant to Rule 416 under the Securities Act of 1933 (the "1933 Act"), as amended, the number of shares of Common Stock registered includes such additional number of shares of Common Stock as are required to prevent dilution arising from stock splits, stock dividends or similar transactions that results in an increase in the number of outstanding shares of Common Stock.

Part I

Omitted pursuant to the Note to Part I of Form S-8.

Part II

INFORMATION REQUIRED IN THE REGISTRATION STATEMENT

Item 3. Incorporation of Documents by Reference.

The following documents, heretofore filed by Chesapeake Utilities Corporation (the "Registrant") with the Securities and Exchange Commission (the "SEC") pursuant to the Securities Exchange Act of 1934, as amended (the "Exchange Act"), are incorporated by reference in this Registration Statement:

The Registrant's Annual Report on Form 10-K for the year ended December 31, 2004.

The Registrant's Current Reports on Form 8-K filed with the SEC on January 19, February 24, March 1, March 2 and April 29, 2005.

The description of Common Stock contained in the Registrant's registration statement filed under Section 12(b) of the Exchange Act, including any amendments or reports filed for the purpose of updating such description.

All documents filed by the Registrant pursuant to Sections 13(a), 13(c), 14 and 15(d) of the Exchange Act subsequent to the date of this Registration Statement and prior to the filing of a post-effective amendment that indicates that all securities offered have been sold or that deregisters all securities then remaining unsold shall be deemed to be incorporated by reference in this Registration Statement and to be part hereof from the date of filing of such documents. Any statement contained in this Registration Statement or in a document incorporated by reference in this registration statement shall be deemed to be modified or superseded for purposes of this Registration Statement to the extent that a statement contained herein or incorporated by reference herein or in any subsequently filed document that is also incorporated by reference in this Registration Statement modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Registration Statement.

The financial statements incorporated by reference to the Annual Report on Form 10-K of the Registrant for the year ended December 31, 2004, have been so incorporated in reliance on the reports of PricewaterhouseCoopers LLP, independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

Item 4. Description of Securities

Not applicable

Item 5. Interests of Named Experts and Counsel.

Not applicable

Item 6. Indemnification of Directors and Officers.

Under the Registrant's Bylaws, each person who was or is made a party or is threatened to be made a party to any action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact he is or was a director or officer of the Registrant, or is or was serving at the request of the Registrant as a director or officer of another corporation or of a partnership, joint venture, trust or other enterprise (including employee benefit plans), is entitled to indemnification and to be held harmless by the Registrant to the fullest extent permitted by the General Corporation Law of the State of Delaware (the "DGCL") against all expense, liabilities and loss (including attorneys' fees, judgments, fines or penalties and amounts paid in settlement) reasonably incurred or suffered by such person in connection therewith, including liabilities arising under the Securities Act of 1933. These indemnification rights include the right to be paid by the Registrant the expenses incurred in defending any action, suit or proceeding in advance of its final disposition, subject to the receipt by the Registrant of an undertaking by or on behalf of such person to repay all amounts so advanced if it is ultimately determined that such person is not entitled to be indemnified. These indemnification rights under the Bylaws are not exclusive of any other indemnification right which any person may have or acquire under any law, bylaw, agreement, vote of stockholders, disinterested directors or otherwise.

Under Section 145 of the DGCL, a corporation may indemnify any person who was or is a party, or is threatened to be made a party, to any action, suit, or proceeding by reason of the fact that he is or was a director or officer of such corporation if such person acted in good faith and in a manner he reasonably believed to be in and not opposed to the best interest of the corporation and, with respect to a criminal action or proceeding, such person had no reasonable cause to believe that his conduct was unlawful, except that, in the case of any action or suit by or in the right of the corporation (such as a derivative action), no indemnification is permitted if the person shall be adjudged liable to the corporation (other than indemnification for such expenses as a court shall determine such person is fairly and reasonably entitled).

Article Eleven of the Registrant's Certificate of Incorporation provides that a director of the Registrant shall not be personally liable to the Registrant or its stockholders for monetary damages for breach of fiduciary duty as a director, except for liability (i) for breach of the director's duty of loyalty to the Registrant 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 DGCL, or (iv) for any transaction from which the director derived an improper personal benefit.

The Registrant has in effect liability insurance policies covering certain claims against any director or officer of the Registrant by reason of certain breaches of duty, neglect, error, misstatement, omission or other act committed by such person in his capacity as director or officer.

Item 7. Exemption from Registration Claimed.

Not applicable

Item 8. Undertakings.

(a) The undersigned Registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this Registration Statement:

(i) to include any prospectus required by Section 10(a)(3) of the Securities Act of 1933,

(ii) to reflect in the prospectus any facts or events arising after the effective date of the Registration Statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the Registration Statement,

(iii) to include any material information with respect to the plan of distribution not previously disclosed in the Registration Statement or any material change to such information in the Registration Statement;

Provided, however, that paragraphs (a)(1)(i) and (a)(1)(ii) do not apply if the information required to be included in a post-effective amendment by those paragraphs is contained in periodic reports filed with or furnished to the SEC by the Registrant pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934 that are incorporated by reference in the Registration Statement.

(2) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities registered which remain unsold at the termination of the offering.

(b) The undersigned Registrant hereby undertakes that, for purposes of determining any liability under the Securities Act of 1933, each filing of the Registrant's annual report pursuant to Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934 that is incorporated by reference in the Registration Statement shall be deemed to be a new registration statement relating to the securities offered thereby, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(c) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act of 1933 and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act of 1933 and will be governed by the final adjudication of such issue.

Item 9. Exhibits.

Exhibit Number	Description	Reference
5.1	Opinion of Covington & Burling	Filed herewith
23.1	Consent of Covington & Burling	Contained in Exhibit 5.1
23.2	Consent of PricewaterhouseCoopers LLP	Filed herewith

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-8, and has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the city of Dover, State of Delaware, on the 5th day of May 2005.

CHESAPEAKE UTILITIES CORPORATION

By: */s/ John R. Schimkaitis*

John R. Schimkaitis
President and Chief Executive Officer

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities indicated on the 5th day of May 2005.

/s/Ralph J. Adkins

Ralph J. Adkins

Chairman of the Board of Directors

/s/ John R. Schimkaitis

John R. Schimkaitis

President, Chief Executive Officer and Director (principal executive officer)

/s/ Michael P. McMasters

Michael P. McMasters

Senior Vice President and Chief Financial Officer (principal financial officer and principal accounting officer)

/s/ Richard Bernstein

Richard Bernstein

Director

/s/ Thomas J. Bresnan

Thomas J. Bresnan

Director

/s/ Walter J. Coleman

Walter J. Coleman

Director

/s/ J. Peter Martin

J. Peter Martin

Director

/s/ Joseph E. Moore

Joseph E. Moore

Director

/s/ Calvert A. Morgan, Jr.

Calvert A. Morgan, Jr.

Director

/s/ Rudolph M. Peins, Jr. Director

Rudolph M. Peins, Jr.

/s/ Robert F. Rider Director

Robert F. Rider

Exhibit Index

<u>Exhibit Number</u>	<u>Description</u>	<u>Sequential Page Number</u>
5.1	Opinion of Covington & Burling	9
23.2	Consent of PricewaterhouseCoopers LLP	10

[Covington & Burling Letterhead]

May 5, 2005

Chesapeake Utilities Corporation
909 Silver Lake Boulevard
Dover, Delaware 19904

Gentlemen:

This opinion is being furnished to you in connection with the registration of 75,000 shares of common stock, par value \$.4867 per share (the "Shares"), of Chesapeake Utilities Corporation, a Delaware corporation (the "Corporation"), for offer and sale under the Chesapeake Utilities Corporation Directors Stock Compensation Plan (the "Plan") pursuant to a Registration Statement on Form S-8 (the "Registration Statement") to be filed on the date hereof with the Securities and Exchange Commission (the "Commission") under the Securities Act of 1933, as amended.

We have acted as counsel to the Corporation in connection with the preparation of the Registration Statement, and have examined signed copies of the Registration Statement. We have also examined and relied upon (i) a copy of the Amended Certificate of Incorporation of the Corporation, (ii) a copy of the Bylaws of the Corporation, (iii) a copy of the minutes of the meeting of the Board of Directors of the Corporation at which the Plan was adopted and (iv) a copy of Order No. 6607 of the Public Service Commission of the State of Delaware, dated April 26, 2005, approving the issuance of the Shares.

We also have examined originals or copies, certified otherwise identified to our satisfaction, of such other documents, and have made such other investigations, as we have deemed necessary to form a basis for the opinion hereinafter expressed. In making such examination, we have assumed the genuineness of all signatures, the legal capacity of all natural persons, the authenticity of all documents submitted to us as originals, and the conformity to original documents of documents submitted to us as copies. As to all matters of fact relevant to our opinion, we have relied exclusively, without independent investigation or verification, upon the foregoing documents and on the certificates of public officials and officials of the Company.

Based upon the foregoing, we are of the opinion that the Shares have been duly authorized and, upon the issuance thereof in accordance with the terms of the Plan, the Shares will be validly issued, fully paid and nonassessable.

We assume no obligation to advise you of any changes in the foregoing subsequent to the delivery of this letter. This letter has been prepared solely for your use in connection with the registration of the Shares and shall not be relied upon, quoted in whole or in part or otherwise be referred to, nor be filed with or furnished to any government agency or other person or entity, without the prior written consent of this firm, except that we hereby consent to the filing of this opinion as part of the Registration Statement.

Very truly yours,

COVINGTON & BURLING

[PricewaterhouseCoopers LLP Letterhead]

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in this Registration Statement on Form S-8 of our report dated March 16, 2005 relating to the financial statements, financial schedule, management's assessment of the effectiveness of internal control over financial reporting and the effectiveness of internal control over financial reporting of Chesapeake Utilities Corporation, which appears in Chesapeake Utilities Corporation's Annual Report on Form 10-K for the year ended December 31, 2004.

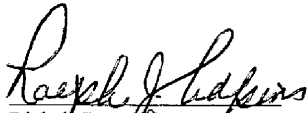
/s/ PRICEWATERHOUSECOOPERS LLP

PricewaterhouseCoopers LLP

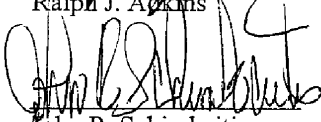
Boston, MA

May 5, 2005

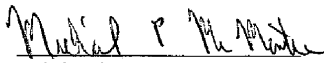
Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities indicated on the 5 day of May 2005.


Ralph J. Adams

Chairman of the Board of Directors

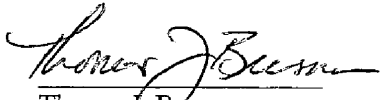

John R. Schimkaitis

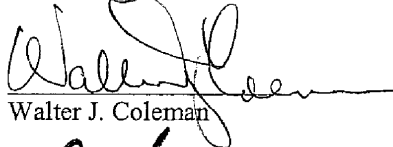
President, Chief Executive Officer and Director (principal executive officer)



Michael P. McMasters

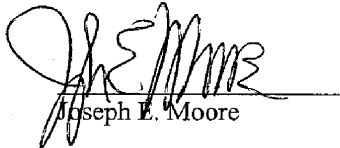
Senior Vice President and Chief Financial Officer (principal financial officer and principal accounting officer)

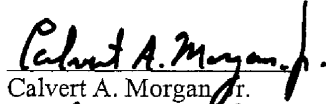
Richard Bernstein Director

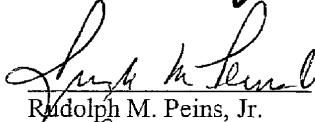

Thomas J. Bresnan Director


Walter J. Coleman Director


J. Peter Martin Director


Joseph E. Moore Director


Calvert A. Morgan, Jr. Director


Rudolph M. Peins, Jr. Director


Robert F. Rider Director

As Filed with the Securities and Exchange Commission on May 6, 2005

Reg. No. 333-124694

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM S-8
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

CHESAPEAKE UTILITIES CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

51-0064146
(I.R.S. Employer
Identification No.)

909 SILVER LAKE BOULEVARD, DOVER, DELAWARE 19904

(Address of principal executive offices, including Zip Code)

CHESAPEAKE UTILITIES CORPORATION
EMPLOYEE STOCK AWARD PLAN

(Full title of the plan)

MICHAEL P. MCMASTERS
SENIOR VICE PRESIDENT AND CFO
CHESAPEAKE UTILITIES CORPORATION
909 SILVER LAKE BOULEVARD
DOVER, DELAWARE 19904
(302) 734-6799

Copies to:
D. MICHAEL LEFEVER, ESQ.
COVINGTON & BURLING
1201 PENNSYLVANIA AVENUE, N.W.
P.O. BOX 7566
WASHINGTON, D.C. 20004-7566
(202) 662-5276

(Name, address, including zip code,
and telephone number, including area
code, of agent for service)

CALCULATION REGISTRATION FEE

Title of Securities to be Registered	Amount to be Registered (1)	Proposed Maximum Offering Price Per Unit (2)	Aggregate Offering Price	Amount of Registration Fee
Common Stock, par value \$0.4867 per share	25,000	\$26.60	\$665,000	\$78.27

(1) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(h) under the Securities Act of 1933 Act, as amended (the "1933 Act"), based on the average of the high and low sale prices as reported in the consolidated reporting system on May 3, 2005.

(2) Pursuant to Rule 416 under the Securities Act of 1933 (the "1933 Act"), as amended, the number of shares of Common Stock registered includes such additional number of shares of Common Stock as are required to prevent dilution arising from stock splits, stock dividends or similar transactions that results in an increase in the number of outstanding shares of Common Stock.

Part I

Omitted pursuant to the Note to Part I of Form S-8.

Part II

INFORMATION REQUIRED IN THE REGISTRATION STATEMENT

Item 3. Incorporation of Documents by Reference.

The following documents, heretofore filed by Chesapeake Utilities Corporation (the "Registrant") with the Securities and Exchange Commission (the "SEC") pursuant to the Securities Exchange Act of 1934, as amended (the "Exchange Act"), are incorporated by reference in this Registration Statement:

The Registrant's Annual Report on Form 10-K for the year ended December 31, 2004.

The Registrant's Current Reports on Form 8-K filed with the SEC on January 19, February 24, March 1, March 2 and April 29, 2005.

The description of Common Stock contained in the Registrant's registration statement filed under Section 12(b) of the Exchange Act, including any amendments or reports filed for the purpose of updating such description.

All documents filed by the Registrant pursuant to Sections 13(a), 13(c), 14 and 15(d) of the Exchange Act subsequent to the date of this Registration Statement and prior to the filing of a post-effective amendment that indicates that all securities offered have been sold or that deregisters all securities then remaining unsold shall be deemed to be incorporated by reference in this Registration Statement and to be part hereof from the date of filing of such documents. Any statement contained in this Registration Statement or in a document incorporated by reference in this registration statement shall be deemed to be modified or superseded for purposes of this Registration Statement to the extent that a statement contained herein or incorporated by reference herein or in any subsequently filed document that is also incorporated by reference in this Registration Statement modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Registration Statement.

The financial statements incorporated by reference to the Annual Report on Form 10-K of the Registrant for the year ended December 31, 2004, have been so incorporated in reliance on the reports of PricewaterhouseCoopers LLP, independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

Item 4. Description of Securities.

Not applicable

Item 5. Interests of Named Experts and Counsel.

Not applicable

Item 6. Indemnification of Directors and Officers.

Under the Registrant's Bylaws, each person who was or is made a party or is threatened to be made a party to any action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact he is or was a director or officer of the Registrant, or is or was serving at the request of the Registrant as a director or officer of another corporation or of a partnership, joint venture, trust or other enterprise (including employee benefit plans), is entitled to indemnification and to be held harmless by the Registrant to the fullest extent permitted by the General Corporation Law of the State of Delaware (the "DGCL") against all expense, liabilities and loss (including attorneys' fees, judgments, fines or penalties and amounts paid in settlement) reasonably incurred or suffered by such person in connection therewith, including liabilities arising under the Securities Act of 1933. These indemnification rights include the right to be paid by the Registrant the expenses incurred in defending any action, suit or proceeding in advance of its final disposition, subject to the receipt by the Registrant of an undertaking by or on behalf of such person to repay all amounts so advanced if it is ultimately determined that such person is not entitled to be indemnified. These indemnification rights under the Bylaws are not exclusive of any other indemnification right which any person may have or acquire under any law, bylaw, agreement, vote of stockholders, disinterested directors or otherwise.

Under Section 145 of the DGCL, a corporation may indemnify any person who was or is a party, or is threatened to be made a party, to any action, suit, or proceeding by reason of the fact that he is or was a director or officer of such corporation if such person acted in good faith and in a manner he reasonably believed to be in and not opposed to the best interest of the corporation and, with respect to a criminal action or proceeding, such person had no reasonable cause to believe that his conduct was unlawful, except that, in the case of any action or suit by or in the right of the corporation (such as a derivative action), no indemnification is permitted if the person shall be adjudged liable to the corporation (other than indemnification for such expenses as a court shall determine such person is fairly and reasonably entitled).

Article Eleven of the Registrant's Certificate of Incorporation provides that a director of the Registrant shall not be personally liable to the Registrant or its stockholders for monetary damages for breach of fiduciary duty as a director, except for liability (i) for breach of the director's duty of loyalty to the Registrant 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 DGCL, or (iv) for any transaction from which the director derived an improper personal benefit.

The Registrant has in effect liability insurance policies covering certain claims against any director or officer of the Registrant by reason of certain breaches of duty, neglect, error, misstatement, omission or other act committed by such person in his capacity as director or officer.

Item 7. Exemption from Registration Claimed.

Not applicable

Item 8. Undertakings.

(a) The undersigned Registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this Registration Statement:

(i) to include any prospectus required by Section 10(a)(3) of the Securities Act of 1933,

(ii) to reflect in the prospectus any facts or events arising after the effective date of the Registration Statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the Registration Statement,

(iii) to include any material information with respect to the plan of distribution not previously disclosed in the Registration Statement or any material change to such information in the Registration Statement;

Provided, however, that paragraphs (a)(1)(i) and (a)(1)(ii) do not apply if the information required to be included in a post-effective amendment by those paragraphs is contained in periodic reports filed with or furnished to the SEC by the Registrant pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934 that are incorporated by reference in the Registration Statement.

(2) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities registered which remain unsold at the termination of the offering.

(b) The undersigned Registrant hereby undertakes that, for purposes of determining any liability under the Securities Act of 1933, each filing of the Registrant's annual report pursuant to Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934 that is incorporated by reference in the Registration Statement shall be deemed to be a new registration statement relating to the securities offered thereby, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(c) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act of 1933 and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act of 1933 and will be governed by the final adjudication of such issue.

Item 9. Exhibits.

Exhibit Number	Description	Reference
5.1	Opinion of Covington & Burling	Filed herewith
23.1	Consent of Covington & Burling	Contained in Exhibit 5.1
23.2	Consent of PricewaterhouseCoopers LLP	Filed herewith

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-8, and has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the city of Dover, State of Delaware, on the 5th day of May 2005.

CHESAPEAKE UTILITIES CORPORATION

By: */s/ John R. Schimkaitis*

John R. Schimkaitis
President and Chief Executive Officer

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities indicated on the 5th day of May 2005.

/s/ Ralph J. Adkins

Ralph J. Adkins

Chairman of the Board of Directors

/s/ John R. Schimkaitis

John R. Schimkaitis

President, Chief Executive Officer and Director (principal executive officer)

/s/ Michael P. McMasters

Michael P. McMasters

Senior Vice President and Chief Financial Officer (principal financial officer and principal accounting officer)

/s/ Richard Bernstein

Richard Bernstein

Director

/s/ Thomas J. Bresnan

Thomas J. Bresnan

Director

/s/ Walter J. Coleman

Walter J. Coleman

Director

/s/ J. Peter Martin

J. Peter Martin

Director

/s/ Joseph E. Moore

Joseph E. Moore

Director

/s/ Calvert A. Morgan, Jr.

Calvert A. Morgan, Jr.

Director

/s/ Rudolph M. Peins, Jr. Director

Rudolph M. Peins, Jr.

/s/ Robert F. Rider Director

Robert F. Rider

Exhibit Index

<u>Exhibit Number</u>	<u>Description</u>	<u>Sequential Page Number</u>
5.1	Opinion of Covington & Burling	9
23.2	Consent of PricewaterhouseCoopers LLP	10

[Covington & Burling Letterhead]

May 5, 2005

Chesapeake Utilities Corporation
909 Silver Lake Boulevard
Dover, Delaware 19904

Gentlemen:

This opinion is being furnished to you in connection with the registration of 25,000 shares of common stock, par value \$.4867 per share (the "Shares"), of Chesapeake Utilities Corporation, a Delaware corporation (the "Corporation"), for offer and sale under the Chesapeake Utilities Corporation Employee Stock Award Plan (the "Plan") pursuant to a Registration Statement on Form S-8 (the "Registration Statement") to be filed on the date hereof with the Securities and Exchange Commission (the "Commission") under the Securities Act of 1933, as amended.

We have acted as counsel to the Corporation in connection with the preparation of the Registration Statement, and have examined signed copies of the Registration Statement. We have also examined and relied upon (i) a copy of the Amended Certificate of Incorporation of the Corporation, (ii) a copy of the Bylaws of the Corporation, (iii) a copy of the minutes of the meeting of the Board of Directors of the Corporation at which the Plan was adopted and (iv) a copy of Order No. 6607 of the Public Service Commission of the State of Delaware, dated April 26, 2005, approving the issuance of the Shares.

We also have examined originals or copies, certified otherwise identified to our satisfaction, of such other documents, and have made such other investigations, as we have deemed necessary to form a basis for the opinion hereinafter expressed. In making such examination, we have assumed the genuineness of all signatures, the legal capacity of all natural persons, the authenticity of all documents submitted to us as originals, and the conformity to original documents of documents submitted to us as copies. As to all matters of fact relevant to our opinion, we have relied exclusively, without independent investigation or verification, upon the foregoing documents and on the certificates of public officials and officials of the Company.

Based upon the foregoing, we are of the opinion that the Shares have been duly authorized and, upon the issuance thereof in accordance with the terms of the Plan, the Shares will be validly issued, fully paid and nonassessable.

We assume no obligation to advise you of any changes in the foregoing subsequent to the delivery of this letter. This letter has been prepared solely for your use in connection with the registration of the Shares and shall not be relied upon, quoted in whole or in part or otherwise be referred to, nor be filed with or furnished to any government agency or other person or entity, without the prior written consent of this firm, except that we hereby consent to the filing of this opinion as part of the Registration Statement.

Very truly yours,

COVINGTON & BURLING

[PricewaterhouseCoopers LLP Letterhead]

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in this Registration Statement on Form S-8 of our report dated March 16, 2005 relating to the financial statements, financial schedule, management's assessment of the effectiveness of internal control over financial reporting and the effectiveness of internal control over financial reporting of Chesapeake Utilities Corporation, which appears in Chesapeake Utilities Corporation's Annual Report on Form 10-K for the year ended December 31, 2004.

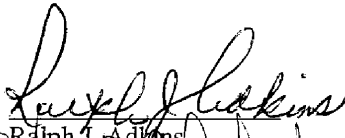
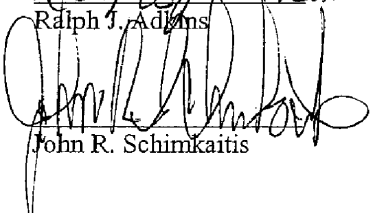
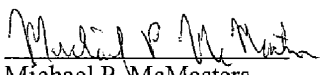
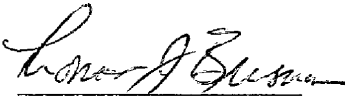
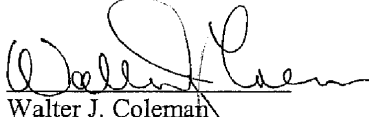

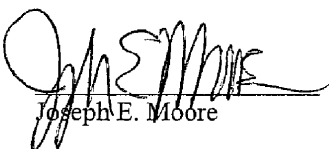
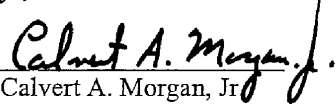
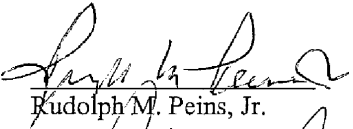
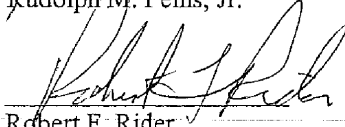
/s/ PRICEWATERHOUSECOOPERS LLP

PricewaterhouseCoopers LLP

Boston, MA

May 5, 2005

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities indicated on the 5 day of May 2005.

 Ralph J. Adkins	Chairman of the Board of Directors
 John R. Schimkaitis	President, Chief Executive Officer and Director (principal executive officer)
 Michael P. McMasters	Senior Vice President and Chief Financial Officer (principal financial officer and principal accounting officer)
<hr/> Richard Bernstein	Director
 Thomas J. Bresnan	Director
 Walter J. Coleman	Director
 J. Peter Martin	Director
 Joseph E. Moore	Director
 Calvert A. Morgan, Jr.	Director
 Rudolph M. Peins, Jr.	Director
 Robert F. Rider	Director

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF DELAWARE

IN THE MATTER OF THE APPLICATION OF)
CHESAPEAKE UTILITIES CORPORATION)
FOR APPROVAL OF THE ISSUANCE OF) P.S.C. DOCKET NO. 05-
LONG-TERM DEBT)

Chesapeake Utilities Corporation (hereinafter sometimes called "Chesapeake" or "Applicant") pursuant to 26 Del. C. section 215, makes the following application for approval by the Delaware Public Service Commission ("Commission") of the issuance of up to \$20,000,000 of Chesapeake unsecured Senior Notes. In support of this Application, Chesapeake states the following:

1. Chesapeake is a Delaware public utility with its principal place of business at 909 Silver Lake Boulevard, Dover, Delaware 19904. All communications should be addressed to Applicant at the following address, Attention: Jeffrey R. Tietbohl, Director of Regional Business Planning and Development, 350 South Queen Street, P.O. Box 1769, Dover, Delaware 19904 or at the following e-mail address: jtietbohl@chpk.com. The respective telephone number and facsimile number are 302.734.6742 and 302.734.6011.

2. Counsel for the Applicant is William A. Denman, Esquire, Parkowski, Guerke & Swayze P.A., 116 West Water Street, P.O. Box 598, Dover, Delaware 19903. Correspondence and other communications concerning this Application should be directed to counsel at the foregoing address, or at the following e-mail

address: wdenman@pgslegal.com. The respective telephone number and facsimile number are 302.678.3262 and 302.678.9415.

3. Chesapeake is a corporation incorporated under the laws of the State of Delaware. The voting stock of Chesapeake is publicly owned. Shares of common stock, 5,835,240 of which were outstanding as of June 30, 2005, are the only voting securities of Chesapeake. Each share is entitled to one vote.

4. On June 29, 2005, Chesapeake entered into an agreement in principle with Prudential Investment Management Inc., also known as Prudential Capital Group, ("Prudential") pursuant to which Prudential has agreed in principle to purchase from the Company \$20,000,000 in principle amount unsecured Senior Notes issued by the Company if the Company elects to effect the sale of the unsecured Senior Notes to Prudential at any time prior to January 15, 2007. A true and correct copy of the Agreement and a draft of the proposed terms and conditions of the Notes are included as Attachment A. Included in the draft Summary of Terms and Conditions of the Notes are the following principal terms:

- a. Up to \$20,000,000 of Chesapeake unsecured Senior Notes with a maturity of up to 14 years and an average life of up to 10 years.
- b. Interest will be paid quarterly on the unpaid amount of the unsecured Senior Notes.
- c. \$2 million annually is principal repayments, beginning December 28, 2011 and continuing through December 28, 2020.

5. Chesapeake expects to use the unsecured Senior Note proceeds to finance the expansion of Chesapeake's natural gas transmission pipeline, expansion

of the natural gas distribution system in Delaware and other capital expenditures to support the Company's growth.

6. The Board of Directors of Chesapeake authorized the officers of Chesapeake to proceed with the issuance of the unsecured Senior Notes on June 29, 2005. Chesapeake selected the aforesaid form of financing because, in Chesapeake's judgment, the long-term debt financing is consistent with the Company's capital requirements.

7. Chesapeake's anticipated closing date is late December of 2006. The Company entered into this agreement with Prudential in June 2005 in order to secure the most favorable terms possible in the current marketplace. The Company is requesting approval at this time, as it will be executing the Note Agreement within the next several weeks. A current draft of the Note Agreement is included as Attachment B.

8. A copy of the opinion of counsel for Chesapeake with respect to the legality of the proposed issuance of long-term debt is attached hereto as Attachment C.

9. Attached hereto as Attachment D and incorporated herein by reference is a schedule setting forth Chesapeake's balance sheet and income statement for the twelve (12) months ended June 30, 2005, both before and after the issuance of the long-term debt.

10. Attached hereto as Attachment E is a copy of Chesapeake's annual report on Form 10-K for the calendar year ended December 31, 2004. Attached

hereto as Attachment F is Chesapeake's most recent quarterly report on Form 10-Q. Both reports have been filed with the Securities and Exchange Commission.

11. Pursuant to the Commission's Minimum Filing Requirements – Part (D), attached hereto and incorporated herein by reference are the following schedules:

- a) Schedule No. 1 – Capitalization ratios, actual and pro forma as of June 30, 2005.
- b) Schedule No. 2 – Rate of return, actual and pro forma for the twelve (12) months ended June 30, 2005.
- c) Schedule No. 3 – Fixed charge coverage ratios for the twelve (12) months ended June 30, 2005.

12. Chesapeake represents that the proposed issuance of long-term debt is in accordance with the law, for a proper purpose, and consistent with the public interest.

WHEREFORE, Chesapeake prays as follows:

A. That the Commission file this Application and make such investigation in this matter as it deems necessary;

B. That the Commission approve the proposed issuance of long-term debt as described herein.

CHESAPEAKE UTILITIES CORPORATION

By: Beth W. Cooper
Beth W. Cooper
Vice President and Treasurer

PARKOWSKI, GUERKE & SWAYZE, P.A.

By: William A. Denman
William A. Denman
116 West Water Street
Dover, DE 19903
Attorney for Applicant

DATED: August 10, 2005

DATED: August 10, 2005

STATE OF DELAWARE)
)
COUNTY OF KENT)

BE IT REMEMBERED that on this 10th day of August, 2005, personally appeared before me, a notary public for the State and County aforesaid, Beth W. Cooper, who being by me duly sworn, did depose and say that she is Vice President and Treasurer 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 her personal knowledge, they are true; and insofar as those facts are not within her personal knowledge, she believes them to be true; and that the attachments accompanying this application and attached hereto are true and correct copies of the originals of the aforesaid attachments, and that she has executed this Application on behalf of the Company and pursuant to the authorization of its Board of Directors.

Beth W. Cooper
Beth W. Cooper
Vice President and Treasurer

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

Patricia L. Connors
Notary Public
My Commission Expires: 2/19/08

STATE OF DELAWARE

BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF THE APPLICATION)
OF CHESAPEAKE UTILITIES CORPORATION)
FOR APPROVAL OF THE ISSUANCE OF) PSC DOCKET NO. 05-290
LONG-TERM DEBT)
(FILED AUGUST 10, 2005))

ORDER NO. 6708

This 6th day of September, 2005, the Commission finds, determines, and Orders the following:

1. On August 10, 2005, Chesapeake Utilities Corporation ("Chesapeake" or "the Company") filed an application seeking approval for the Company to issue up to \$20 million of unsecured Senior Notes. The Notes will have maturities ranging up to 14 years, with an average life of 10 years. According to the application, Prudential Investment Management, Inc., has agreed to purchase the total amount of these Notes. The proceeds from the debt will be used in various capital projects, including financing the expansion of Chesapeake's transmission pipeline, financing the growth of its Delaware distribution system, and supporting other projects related to the Company's growth.

2. Staff filed a memorandum recommending that the Commission approve the request by Chesapeake to issue up to \$20 million in long-term debt in the form of unsecured Senior Notes. In addition, the Commission heard presentations by the Company and Staff at the Commission's public meeting on September 6, 2005.

3. Historically, the Commission has been limited in its authority with respect to utility financing and stock issuance applications pursuant to 26 Del. C. § 215. See Diamond State Tel. Co. v. Public

Service Commission, Del. Supr., 367 A.2d 644 (1976) (holding that the future rate impact of the proposed financing transaction is not appropriate consideration in making a determination concerning such section 215 application). Here, based on the application and Staff's memorandum, the Commission determines that the Company's proposed issuance of up to \$20 million in unsecured Senior Notes for the purposes set forth in the application is in accordance with law, for a proper purpose, and consistent with the public interest. Consequently, the application is granted and the debt issuance approved.

Now, therefore, **IT IS ORDERED:**

1. That, pursuant to 26 Del. C. § 215(a)(2), the application filed by Chesapeake Utilities Corporation in this matter on August 10, 2005, is hereby approved and Chesapeake Utilities Corporation is hereby authorized to issue up to \$20 million in unsecured Senior Notes with maturity dates of up to 14 years. The proceeds from such debt shall be used for the purposes outlined in the application.

2. That the approval of Chesapeake Utilities Corporation's application shall not be construed as approving any capitalization ratios that result for any purposes or procedures involving ratemaking; nor are the Commission's rules regarding the burden of proving the merits of any related issue waived hereby. Rather, the approval of Chesapeake Utilities Corporation's application is limited to that which is necessary under 26 Del. C. § 215 and shall not be construed as having any rate-making effect in any later rate proceeding.

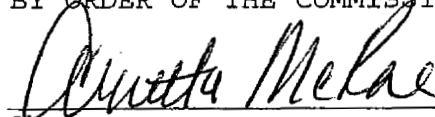
3. That nothing in this Order shall be construed as a guarantee, warranty, or representation by the State of Delaware or by any agency,

commission, or department hereof, with respect to the indebtedness to be issued pursuant to the application and this Order.

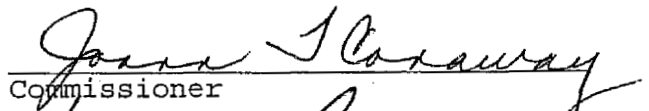
4. That Chesapeake Utilities Corporation shall, within thirty days of the consummation of any debt transactions approved herein, provide the Commission with copies of the loan agreements supporting the debt transactions. In addition, Chesapeake Utilities Corporation shall notify the Commission of any changes in the terms and conditions in the commitment letter made prior to the consummation of such debt instrument.


5. That the Commission reserves the jurisdiction and authority to enter such further Orders in this matter as may be deemed necessary or proper.


BY ORDER OF THE COMMISSION:


Chair

Vice Chair


Commissioner


Commissioner


Commissioner

ATTEST:


Secretary

Prudential Capital Group
2200 Ross Avenue, Suite 4200E, Dallas TX 75201
Tel 214 720-6216 Fax 214 720-6299
brian.thomas@prudential.com

June 29, 2005

Chesapeake Utilities Corporation
909 Silver Lake Blvd.
Dover, DE 19904

Attention: Beth Cooper
Assistant Vice President and Corporate Treasurer

Ladies and Gentlemen:

I am pleased to confirm the agreement in principle of Prudential Investment Management, Inc. and/or one or more accounts managed by it and/or its affiliates (collectively, "**Prudential**"), subject to the conditions set forth below, to purchase \$20,000,000 principal amount of 5.50% Senior Notes due 2020 (the "**Notes**") of the Company. Prudential's agreement in principle to purchase the Notes will expire on the Cancellation Date. The principal terms to be contained in the Note Agreement (the "**Note Agreement**") and the Notes would be as outlined in the attached preliminary term sheet. Unless otherwise defined, capitalized terms used in this letter have the meanings described in Annex 1 which is attached hereto and incorporated herein by reference.

Prudential's purchase of the Notes would be subject to (a) authorization of such purchase by (or pursuant to authority delegated by) the Investment Committee of Prudential's Board of Directors, (b) Prudential and the Company reaching final agreement upon terms, conditions, covenants and other provisions satisfactory to Prudential to be included in the Note Agreement and the Notes and the other documents relating to the proposed financing, (c) satisfactory completion of Prudential's due diligence investigation (including investigation of the financial condition and prospects of the Company), (d) the absence of any material adverse change in the condition (financial or otherwise) or prospects of the Company, (e) payment to Prudential at closing of the structuring fee specified in the attached term sheet and (f) the satisfaction of Prudential Capital's Law Department with the documentation, proceedings, legal opinions and other matters in connection with the proposed financing.

On June 29, 2005, the interest rate was fixed on all of the Notes. If the Company does not issue the Notes:

YBNC


- (a) on or before December 28, 2006, the Company will pay Prudential the Rate Lock Delayed Delivery Fee, and
- (b) by the Cancellation Date for any reason, then on the Cancellation Date the Company will pay Prudential the Cancellation Payment described in the attached term sheet.

We intend to retain the law firm of Schiff Hardin LLP to act as our special counsel in connection with the proposed financing. In addition, we may determine that it is necessary to retain other consultants of our choice to advise us in connection with the proposed financing. We understand that the fees, charges and disbursements of our special counsel and other consultants will be paid by the Company whether or not the proposed financing closes. If the fees and expenses incurred exceed \$25,000, the \$15,000 Structuring Fee described in the term sheet will be reduced by 50% of the excess amount.

If the terms and conditions described above are acceptable to you, please so indicate by signing the enclosed copy of this letter in the place provided and returning the same to me.

Very truly yours,

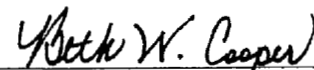
PRUDENTIAL INVESTMENT
MANAGEMENT, INC.

By: 
Vice President

WMB

Accepted and agreed to:

CHESAPEAKE UTILITIES CORPORATION

By: 
Name: *Beth W. Cooper*
Title: *Vice President and Treasurer*

DEFINITIONS

"Cancellation Date" means the earlier of (i) the date Prudential receives the Company's notice that it does not intend to issue the Notes (or the next business day if Prudential receives that notice after 4:00 p.m. Eastern time) and (ii) January 15, 2007.

"Rate Lock Delayed Delivery Fee" means the amount calculated as follows:

$$(BEY - MMY) \times DTS/360 \times \text{Full Price};$$

where:

BEY means the bond equivalent yield of the Notes;

DTS, or Days to Settlement, means the number of days (a) from December 28, 2006, (b) to the date on which the Rate Lock Delayed Delivery Fee is to be paid pursuant to the terms of the Letter to which this Annex is attached;

MMY, or Money Market Yield, means the yield of an alternative investment selected by Prudential on the date Prudential receives notice of a delay in the closing of the financing having a maturity date approximately equal to the rescheduled closing date (a new alternative investment will be selected each time the closing is delayed); and

Full Price means (i) if the Notes are to be purchased at par, the principal amount of the Notes for which the rate was fixed or (ii) if the Notes are to be purchased at a premium or discount, the purchase price, including any accrued interest.

The Rate Lock Delayed Delivery Fee will never be less than zero and will be recalculated for the period following each delay of the closing date.

LAW OFFICES
PARKOWSKI, GUERKE & SWAYZE

PROFESSIONAL ASSOCIATION

116 WEST WATER STREET
P.O. BOX 598
DOVER, DELAWARE 19903
302-678-3262
FAX: 302-678-9415

Exhibit I

F. MICHAEL PARKOWSKI
I. BARRY GUERKE
DAVID S. SWAYZE
CLAY T. JESTER
JEREMY W. HOMER
JOHN C. ANDRADE
MARK F. DUNKLE
WILLIAM A. DENMAN
MICHAEL W. ARRINGTON
CHRISTINE P. SCHILTZ
MICHAEL W. TEICHMAN
BASIL C. KOLLIAS
ANNE HARTNETT REIGLE

GEORGE F. GARDNER, III
OF COUNSEL

WILMINGTON OFFICE
800 KING STREET, SUITE 203
WILMINGTON, DE 19801-0369
302-654-3300
FAX: 302-654-3033

March 24, 2005

Bruce H. Burcat, Executive Director
Delaware Public Service Commission
Suite 100, Cannon Building
861 Silver Lake Blvd.
Dover, DE 19904

RE: Application of Chesapeake Utilities Corporation for the Approval of the Issuance
of Company Stock

Dear Mr. Burcat:

We are Delaware counsel for Chesapeake Utilities Corporation ("Chesapeake") in connection with Chesapeake's Application for Commission approval of the issuance of up to 500,000 shares of Chesapeake's common stock. Chesapeake's Application is submitted pursuant to 26 Del. C. §215.

We are familiar with the terms, interpretations, and application of 26 Del. C. §215 which sets forth the required, but limited findings to be made by the Commission in its consideration of such a proposed issuance of stock. We note the limited scope of Commission review, as determined by the Delaware Supreme Court in the Diamond State Telephone Company case, 367 A.2d 644 (1976). Specifically, in the Diamond State Telephone Company case, the Delaware Supreme Court held that the powers legislated to the Commission pursuant to 26 Del. C. §215 were intended to be applied in cases of a proposed issuance of stock for an inadequate consideration or for some other improper purpose. In Diamond State, the Delaware Supreme Court stated that in the absence of a showing of improper consideration, fraud, bad faith, or self-dealing on the part of the members of a utility's board of directors in their decision to issue shares of stock for the purpose of raising needed monies, it would be improper for the Commission to substitute its judgment for that of the board of directors.

Based upon our knowledge of the applicable statute, and its regulatory and judicial interpretation and application, it is our opinion that the proposed issuance of up to 500,000 shares of

Chesapeake common stock for the purposes set forth in the aforesaid Application has been duly authorized by the Board of Directors of Chesapeake and is valid and in accordance with law, subject to the approval of the holders of a majority of the issued and outstanding shares of Chesapeake at Chesapeake's upcoming annual meeting, any necessary approval on the part of the Maryland and/or Florida Public Service Commissions, and satisfactory compliance by Chesapeake with all applicable federal securities laws.

Based upon the statement of Chesapeake's intended purpose for the issuance of the common stock (as set forth in the Application), it is our opinion that the proposed issuance of common stock is for a proper purpose, and is consistent with the public interest, by enabling Chesapeake to fund its Performance Incentive Plan, Directors Stock Compensation Plan, and Employee Stock Award Plan.

Accordingly, it is our opinion that Chesapeake's pending Application for Commission approval pursuant to 26 Del. C. §215 fully complies with the limited statutory requirements and findings necessary for Commission approval.

Very truly yours,

Parkowski, Guerke & Swayze, P.A.

A handwritten signature in cursive script, appearing to read "William A. Denman".

BY: WILLIAM A. DENMAN

WAD/cl

LAW OFFICES

PARKOWSKI, GUERKE & SWAYZE

PROFESSIONAL ASSOCIATION

116 WEST WATER STREET

P.O. BOX 598

DOVER, DELAWARE 19903

302-678-3262

FAX: 302-678-9415

F. MICHAEL PARKOWSKI
I. BARRY GUERKE
DAVID S. SWAYZE
CLAY T. JESTER
JEREMY W. HOMER
JOHN C. ANDRADE
MARK F. DUNKLE
WILLIAM A. DENMAN
MICHAEL W. ARRINGTON
CHRISTINE P. SCHILTZ
MICHAEL W. TEICHMAN
BASIL C. KOLLIAS
ANNE HARTNETT REIGLE

GEORGE F. GARDNER, III
OF COUNSEL

WILMINGTON OFFICE
800 KING STREET, SUITE 203
WILMINGTON, DE 19801-0369
302-654-3300
FAX: 302-654-3033

August 9, 2005

Bruce H. Burcat, Executive Director
Delaware Public Service Commission
Suite 100, Cannon Building
861 Silver Lake Blvd.
Dover, DE 19904

RE: Application of Chesapeake Utilities Corporation for the Approval of the Issuance of Long-Term Debt of up to \$20,000,000

Dear Mr. Burcat:

We are Delaware counsel for Chesapeake Utilities Corporation ("Chesapeake") in connection with Chesapeake's Application for Commission approval of the issuance of up to \$20,000,000 in long-term debt at a rate of 5.50%. Chesapeake's Application is submitted pursuant to 26 Del. C. §215.

We are familiar with the terms, interpretations, and application of 26 Del. C. §215, which sets forth the required, but limited findings to be made by the Commission in its consideration of such a proposed issuance of debt. We note the limited scope of Commission review, as determined by the Delaware Supreme Court in the Diamond State Telephone Company case, 367 A.2d 644 (1976). Specifically, in the Diamond State Telephone Company case, the Delaware Supreme Court held that the powers legislated to the Commission pursuant to 26 Del. C. §215 were intended to be applied in cases of a proposed issuance of stock or debt for an inadequate consideration or for some other improper purpose. In Diamond State, the Delaware Supreme Court stated that in the absence of a showing of improper consideration, fraud, bad faith, or self-dealing on the part of the members of a utility's board of directors in their decision to issue shares of stock or debt for the purpose of raising needed monies, it would be improper for the Commission to substitute its judgment for that of the board of directors.

Based upon our knowledge of the applicable statute, and its regulatory and judicial interpretation and application, it is our opinion that the proposed issuance of up to \$20,000,000 of long-term

debt at a rate of 5.50% for the purposes set forth in the aforesaid Application has been duly authorized by the Board of Directors of Chesapeake and is valid and in accordance with law, subject to any necessary approval on the part of the Maryland and/or Florida Public Service Commissions and satisfactory compliance by Chesapeake with all applicable federal securities laws.

Based upon the statement of Chesapeake's intended purpose for the issuance of the long-term debt, it is our opinion that the proposed issuance of debt, as described in the Application, is for a proper purpose, and is consistent with the public interest, by enabling Chesapeake to retire short-term debt, that was incurred to fund the Company's capital expenditures program, including expansion of its natural gas transmission pipeline, expansion of the natural gas distribution system in Delaware and other capital expenditures to support the Company's growth.

Accordingly, it is our opinion that Chesapeake's pending Application for Commission approval pursuant to 26 Del. C. §215 fully complies with the limited statutory requirements and findings necessary for Commission approval.

Very truly yours,

Parkowski, Guerke & Swayze, P.A.

A handwritten signature in black ink, appearing to read "William A. Denman". The signature is fluid and cursive, with a long horizontal stroke at the end.

BY: WILLIAM A. DENMAN

WAD/cl

UNITED STATES
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, 2005

Commission File Number: 001-11590

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.)

909 Silver Lake Boulevard, Dover, Delaware 19904
(Address of principal executive offices, including zip code)

302-734-6799
(Registrant's telephone number, including area code)

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 if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes []. No [X].

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes []. No [X].

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]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of “accelerated filer and large accelerated filer” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer [] Accelerated filer [X] Non-accelerated filer []

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes [], No [X].

The aggregate market value of the common shares held by non-affiliates of Chesapeake Utilities Corporation as of June 30, 2005, the last business day of its most recently completed second fiscal quarter, based on the last trade price on that date, as reported by the New York Stock Exchange, was approximately \$170 million.

As of March 2, 2006, 5,925,945 shares of common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the 2006 Annual Meeting of Stockholders are incorporated by reference in Part III.

Chesapeake Utilities Corporation

Form 10-K

YEAR ENDED DECEMBER 31, 2005

TABLE OF CONTENTS

	<u>Page</u>
Part I	1
Item 1. Business	1
Item 1A. Risk Factors	8
Item 1B. Unresolved Staff Comments	11
Item 2. Properties	11
Item 3. Legal Proceedings	11
Item 4. Submission of Matters to a Vote of Security Holders	11
Part II	12
Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	12
Item 6. Selected Financial Data	14
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations	18
Item 7A. Quantitative and Qualitative Disclosures About Market Risk	36
Item 8. Financial Statements and Supplemental Data	36
Item 9. Changes In and Disagreements With Accountants on Accounting and Financial Disclosure	67
Item 9A. Controls and Procedures	67
Item 9B. Other Information	67
Part III	68
Item 10. Directors and Executive Officers of the Registrant	68
Item 11. Executive Compensation	68
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	68
Item 13. Certain Relationships and Related Transactions	69
Item 14. Principal Accounting Fees and Services	69
Part IV	70
Item 15. Exhibits, Financial Statement Schedules	70
Signatures	73

Part I

Safe Harbor for Forward-Looking Statements

References in this document to “Chesapeake,” “the Company,” “we,” “us” and “our” mean Chesapeake Utilities Corporation and/or its wholly owned subsidiaries, as appropriate. Chesapeake Utilities Corporation has made statements in this Form 10-K that are considered to be forward-looking statements. These statements are not matters of historical fact. Sometimes they contain words such as “believes,” “expects,” “intends,” “plans,” “will” or “may,” and other similar words of a predictive nature. These statements relate to matters such as customer growth, changes in revenues or gross margins, capital expenditures, environmental remediation costs, regulatory approvals, market risks associated with our propane operations, the competitive position of the Company and other matters. It is important to understand that these forward-looking statements are not guarantees, but are subject to certain risks and uncertainties and other important factors that could cause actual results to differ materially from those in the forward-looking statements.

Item 1. Business.

(a) General Development of Business

Chesapeake is a diversified utility company engaged directly or through subsidiaries in natural gas distribution, transmission and marketing, propane distribution and wholesale marketing, advanced information services and other related businesses. Chesapeake is a Delaware corporation that was formed in 1947.

Chesapeake’s three natural gas distribution divisions serve approximately 54,800 residential, commercial and industrial customers in central and southern Delaware, Maryland’s Eastern Shore and parts of Florida. The Company’s natural gas transmission subsidiary, Eastern Shore Natural Gas Company (“Eastern Shore” or “ESNG”), operates a 331-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 southern Pennsylvania, Delaware and on the Eastern Shore of Maryland. Our propane distribution operation serves approximately 32,900 customers in central and southern Delaware, the Eastern Shore of Maryland and Virginia, southeastern Pennsylvania, and parts of Florida. The advanced information services segment provides domestic and international clients with information technology related business services and solutions for both enterprise and e-business applications.

(b) Financial Information about Industry Segments

Financial information by business segment is included in Item 8 under the heading “Notes to Consolidated Financial Statements — Note C.”

(c) Narrative Description of Business

Chesapeake is engaged in three primary business activities: natural gas distribution and transmission, propane distribution and wholesale marketing and advanced information services. In addition to the primary groups, Chesapeake has subsidiaries in other related businesses.

(i) (a) Natural Gas Distribution and Transmission

General

Chesapeake distributes natural gas to residential, commercial and industrial customers in central and southern Delaware, the Salisbury and Cambridge, Maryland areas on Maryland’s Eastern Shore and parts of Florida. These activities are conducted through three utility divisions, one division in Delaware, another in Maryland and a third division in Florida. The Company also offers natural gas supply and supply management services in the state of Florida through its subsidiary, Peninsula Energy Services Company, Inc. (“PESCO”).

Delaware and Maryland. Chesapeake’s Delaware and Maryland utility divisions serve approximately 42,000 customers, of which approximately 41,800 are residential and commercial customers purchasing gas primarily for heating purposes. The remainder are industrial customers. For the year 2005, residential and commercial customers accounted for approximately 75% of the volume delivered by the divisions and 68% of the divisions’ revenue.

Florida. The Florida division distributes natural gas to approximately 13,100 residential and commercial and 100 industrial customers in Polk, Osceola, Hillsborough, Gadsden, Gilchrist, Union, Holmes, Jackson, Desoto, Suwannee, Liberty and Citrus Counties. Currently the industrial customers, which purchase and transport gas on a firm basis, account for approximately 90% of the volume delivered by the Florida division and 45% of the revenues. These customers are primarily engaged in the citrus and phosphate industries and in electric cogeneration. PESCO provides natural gas supply management services to 285 customers on the Company's Florida division, which operates as Central Florida Gas and an additional 424 customers on the Peoples Gas system, a subsidiary of TECO Energy, headquartered in Tampa, Florida. During 2005, Chesapeake formed a new wholly owned subsidiary, Peninsula Pipeline Company, Inc. to deliver natural gas to industrial customers by an intra-state pipeline.

Eastern Shore. The Company's wholly owned transmission subsidiary, Eastern Shore, owns and operates an interstate natural gas pipeline and provides open access transportation services for affiliated and non-affiliated companies through an integrated gas pipeline extending from southeastern Pennsylvania through Delaware to its terminus on the Eastern Shore of Maryland. Eastern Shore also provides swing transportation service and contract storage services. Eastern Shore's rates and services are subject to regulation by the Federal Energy Regulatory Commission ("FERC").

Adequacy of Resources

General. The Delaware and Maryland divisions have both firm and interruptible contracts with four interstate "open access" pipelines including Eastern Shore. The divisions are directly interconnected with Eastern Shore and services upstream of Eastern Shore are contracted with Transcontinental Gas Pipeline Corporation ("Transco"), Columbia Gas Transmission Corporation ("Columbia") and Columbia Gulf Transmission Company ("Gulf"), none of which are affiliates of the Company. The divisions use their firm transportation supply resources to meet a significant percentage of their projected demand requirements. In order to meet the difference between firm supply and firm demand, the divisions purchase natural gas supply on the spot market from various suppliers. This gas is transported by the upstream pipelines and delivered to the divisions' interconnects with Eastern Shore. The divisions also have the capability to use propane-air peak-shaving to supplement or displace the spot market purchases. The Company believes that the availability of gas supply and transportation to the Delaware and Maryland divisions is adequate under existing arrangements to meet the anticipated needs of their customers.

Delaware. The Delaware division's contracts with Transco include: (a) firm transportation capacity of 9,029 dekatherms ("Dt") per day, with provisions to continue from year to year, subject to six (6) months notice for termination; (b) firm transportation capacity of 311 Dt per day for December through February, expiring in 2006; (c) firm transportation capacity of 174 Dt per day, which expires in 2008; (d) firm transportation capacity of 1,842 Dt, currently released from Eastern Shore, which expires in 2006; (e) firm storage service, providing a total capacity of 142,830 Dt, with provisions to continue from year to year, subject to six (6) months notice for termination; and (f) firm storage service, providing a total capacity of 17,967 Dt, currently released from Eastern Shore, which expires in 2006.

The Delaware division's contracts with Columbia include: (a) firm transportation capacity of 880 Dt per day, which expires in 2014; (b) firm transportation capacity of 1,132 Dt per day, which expires in 2017; (c) firm transportation capacity of 549 Dt per day, which expires in 2018; (d) firm transportation capacity of 899 per day, which expires in 2019; (e) firm storage service providing a peak day entitlement of 6,193 Dt and a total capacity of 298,195 Dt, which expires in 2015; (f) firm storage service, providing a peak day entitlement of 635 Dt and a total capacity of 57,139 Dt, which expires in 2018; (g) firm storage service providing a peak day entitlement of 583 Dt and a total capacity of 52,460 Dt, which expires in 2019; (h) firm storage service providing a peak day entitlement of 583 Dt and a total capacity of 52,460 Dt, which expires in 2020; (i) firm storage service providing a peak day entitlement of 15 Dt and a total capacity of 1,350 Dt, which expires in 2018; and (j) firm storage service providing a peak day entitlement of 215 Dt and a total capacity of 10,646 Dt, which expires in 2010. Delaware's contracts with Columbia for storage-related transportation provide quantities that are equivalent to the peak day entitlement for the period of October through March and are equivalent to fifty percent (50%) of the peak day entitlement for the period of April through September. The terms of the storage-related transportation contracts mirror the storage services that they support.

The Delaware division's contract with Gulf, which expires in 2009, provides firm transportation capacity of 880 Dt per day for the period November through March and 809 Dt per day for the period April through October.

The Delaware division's contracts with Eastern Shore include: (a) firm transportation capacity of 43,787 Dt per day for the period December through February, 42,565 Dt per day for the months of November, March and April, and 33,489 Dt per day for the period May through October, with various expiration dates ranging from 2005 to 2017; (b) firm storage capacity providing a peak day entitlement of 2,655 Dt and a total capacity of 131,370 Dt, which expires in 2013; (c) firm storage capacity providing a peak day entitlement of 580 Dt and a total capacity of 29,000 Dt, which expires in 2013; (d) firm storage capacity providing a peak day entitlement of 911 Dt and a total capacity of 5,708 Dt, which expires in 2006.

The Delaware division currently has contracts for the purchase of firm natural gas supply with several suppliers. These supply contracts provide the availability of a maximum firm daily entitlement of 29,700 Dt and delivered on Transco, Columbia, and/or Gulf systems to Eastern Shore for redelivery under firm transportation contracts. The gas purchase contracts have various expiration dates and daily quantities may vary from day to day and month to month.

Maryland. The Maryland division's contracts with Transco include: (a) firm transportation capacity of 4,738 Dt per day, with provisions to continue from year to year, subject to six (6) months notice for termination; (b) firm transportation capacity of 155 Dt per day for December through February, expiring in 2006; (c) firm transportation capacity of 973 Dt, currently released from Eastern Shore, which expires in 2006; (d) firm storage service providing a total capacity of 33,120 Dt, with provisions to continue from year to year, subject to six months notice for termination ; and (e) firm storage service, providing a total capacity of 5,489 Dt, currently released from Eastern Shore, which expires in 2006.

The Maryland division's contracts with Columbia include: (a) firm transportation capacity of 442 Dt per day, which expires in 2014; (b) firm transportation capacity of 908 Dt per day, which expires in 2017; (c) firm transportation capacity of 350 Dt per day, which expires in 2018; (d) firm storage service providing a peak day entitlement of 3,142 Dt and a total capacity of 154,756 Dt, which expires in 2015; and (e) firm storage service providing a peak day entitlement of 521 Dt and a total capacity of 46,881 Dt, which expires in 2018. The Maryland division's contracts with Columbia for storage-related transportation provide quantities that are equivalent to the peak day entitlement for the period October through March and are equivalent to fifty percent (50%) of the peak day entitlement for the period April through September. The terms of the storage-related transportation contracts mirror the storage services that they support.

The Maryland division's contract with Gulf, which expires in 2009, provides firm transportation capacity of 590 Dt per day for the period November through March and 543 Dt per day for the period April through October.

The Maryland division's contracts with Eastern Shore include: (a) firm transportation capacity of 16,278 Dt per day for the period December through February, 15,554 Dt per day for the months of November, March and April and 10,993 Dt per day for the period May through October, with various expiration dates ranging from 2006 to 2015; (b) firm storage capacity providing a peak day entitlement of 1,428 Dt and a total capacity of 70,665 Dt, which expires in 2013; (c) firm storage capacity providing a peak day entitlement of 309 Dt and a total capacity of 15,500 Dt, which expires in 2013; and (d) firm storage capacity providing a peak day entitlement of 569 Dt and a total capacity of 3,560 Dt, which expires in 2006.

The Maryland division currently has contracts for the purchase of firm natural gas supply with several suppliers. These supply contracts provide the availability of a maximum firm daily entitlement of 7,500 Dt delivered on Transco, Columbia, and/or Gulf systems to Eastern Shore for redelivery under the Maryland division's transportation contracts. The gas purchase contracts have various expiration dates and daily quantities may vary from day to day and month to month.

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 27,579 Dt in November through April; 21,123 Dt in May through September, and 27,105 Dt in October, which expires in 2010; and (b) daily firm transportation capacity of 1,000 Dt daily, which expires in 2015.

The Florida division also began receiving transportation service from Gulfstream Natural Gas System ("Gulfstream"), beginning in June 2002. Chesapeake has a contract with Gulfstream for daily firm transportation capacity of 10,000 Dt daily. The contract with Gulfstream expires May 31, 2022.

PESCO currently has a contract with Eagle Energy Partners for the purchase of firm natural gas supply. This contract provides the availability of a maximum firm daily entitlement of 7,500 MMBtus. The gas purchase contract expires in April 2006.

Eastern Shore. Eastern Shore has 2,720 thousand cubic feet ("Mcf") of firm transportation capacity under contract with Transco, which expires in 2008. Eastern Shore also has contracts with Transco for: (a) 5,406 Mcf of firm peak day entitlements and total storage capacity of 267,981 Mcf, which expires in 2013; and (b) 1,640 Mcf of firm peak day entitlements and total storage capacity of 10,283 Mcf, which expires in 2006.

Eastern Shore has retained the firm transportation capacity and firm storage services described above in order to provide swing transportation service and storage service to those customers that requested such service.

Competition

See discussion on competition in Item 7 under the heading "Management's Discussion and Analysis — Competition."

Rates and Regulation

General. Chesapeake's natural gas distribution divisions are subject to regulation by the Delaware, Maryland and Florida Public Service Commissions with respect to various aspects of the business, including the rates for sales and transportation to all customers in each respective jurisdiction. All of Chesapeake's firm distribution sales rates are subject to gas cost recovery mechanisms, which match revenues with gas costs and normally allow eventual full recovery of gas costs. Adjustments under these mechanisms, which are limited to gas costs, require periodic filings and hearings with the relevant regulatory authority.

Eastern Shore is subject to regulation by the FERC as an interstate pipeline. The FERC regulates the provision of service, terms and conditions of service, and the rates Eastern Shore can charge for its transportation and storage services.

Management monitors the achieved rate of return in each jurisdiction in order to ensure the timely filing of rate cases.

Regulatory Proceedings

See discussion of regulatory activities in Item 7 under the heading "Management's Discussion and Analysis — Regulatory Activities."

(i) (b) Propane Distribution and Wholesale Marketing

General

Chesapeake's propane distribution group consists of (1) Sharp Energy, Inc. ("Sharp Energy"), a wholly owned subsidiary of Chesapeake, (2) Sharpgas, Inc. ("Sharpgas"), a wholly owned subsidiary of Sharp Energy, and (3) Tri-County Gas Co., Incorporated ("Tri-County"), a wholly owned subsidiary of Sharp Energy. The propane wholesale marketing group consists of Xeron, Inc. ("Xeron"), a wholly owned subsidiary of Chesapeake.

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 a gas at normal pressure, 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 distributors. 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.

During 2005, our propane distribution operations served approximately 32,900 propane customers on the Delmarva Peninsula, southeastern Pennsylvania and in Florida and delivered approximately 26 million retail and wholesale gallons of propane.

In May 1998, Chesapeake acquired Xeron, a natural gas liquids trading company located in Houston, Texas. Xeron markets propane to large independent and petrochemical companies, resellers and southeastern retail propane companies in the United States. Additional information on Xeron's trading and wholesale marketing activities, market risks and the controls that limit and monitor the risks are included in Item 7 under the heading "Management's Discussion and Analysis — Market Risk."

The propane distribution business is affected by many factors, such as seasonality, the absence of price regulation, and competition among local providers. The propane wholesale marketing business is affected by wholesale price volatility and the supply and demand for propane at a wholesale level.

Adequacy of Resources

The Company's propane distribution operations purchase propane primarily from 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 premiums) and maximum purchase provisions.

The Company's propane distribution operations use trucks and railroad cars to transport propane from refineries, natural gas processing plants or pipeline terminals to its bulk storage facilities. From these facilities, propane is delivered in portable cylinders or by "bobtail" trucks, owned and operated by the Company, to tanks located at the customer's premises.

Xeron does not own physical storage facilities or equipment to transport propane; however, it contracts for storage and pipeline capacity to facilitate the sale of propane on a wholesale basis.

Competition

See discussion on competition in Item 7 under the heading "Management's Discussion and Analysis — Competition."

Rates and Regulation

The propane distribution and wholesale marketing 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 associated with 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 million, but there is no assurance that such insurance will be adequate.

(i) (c) Advanced Information Services

General

Chesapeake's advanced information services segment consists of BravePoint, Inc. ("BravePoint"), a wholly owned subsidiary of the Company. BravePoint, headquartered in Norcross, Georgia, provides domestic and international clients with information technology related business services and solutions for both enterprise and e-business applications.

Competition

See discussion on competition in Item 7 under the heading "Management's Discussion and Analysis — Competition."

(i) (d) Other Subsidiaries

Skipjack, Inc. ("Skipjack"), Eastern Shore Real Estate, Inc. and Chesapeake Investment Company are wholly owned subsidiaries of Chesapeake Service Company. Skipjack and Eastern Shore Real Estate, Inc. own and lease office buildings in Delaware and Maryland to affiliates of Chesapeake. Chesapeake Investment Company is a Delaware affiliated investment company. During 2004, Chesapeake formed a new wholly owned subsidiary, OnSight Energy, LLC ("OnSight"), to provide distributed energy solutions to customers requiring reliable, uninterrupted energy sources and/or those wishing to reduce energy costs.

(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

A discussion of capital expenditures by business segment and capital expenditures for environmental control facilities are included in Item 7 under the heading "Management Discussion and Analysis — Liquidity and Capital Resources."

(iv) Employees

As of December 31, 2005, Chesapeake had 423 employees, including 185 in natural gas, 140 in propane and 60 in advanced information services. The remaining 38 employees are considered general and administrative and include officers of the Company, treasury, accounting, internal audit, information technology, human resources and other administrative personnel.

(v) Executive Officers of the Registrant

Information pertaining to the executive officers of the Company is as follows:

John R. Schimkaitis (age 58) Mr. Schimkaitis is President and Chief Executive Officer of Chesapeake and its subsidiaries. Mr. Schimkaitis assumed the role of Chief Executive Officer on January 1, 1999. He has served as President since 1997. Prior to this, Mr. Schimkaitis served as President and Chief Operating Officer, Executive Vice President, Senior Vice President, Chief Financial Officer, Vice President, Treasurer, Assistant Treasurer and Assistant Secretary of Chesapeake.

Paul M. Barbas (age 49) Mr. Barbas is Chief Operating Officer of Chesapeake Utilities Corporation. He was appointed to his current position effective January 1, 2006. He previously served as Executive Vice President and President of Chesapeake Service Company. He was appointed Executive Vice President in 2004 and served as Vice President and President of Chesapeake Service Company since joining the company in 2003. Prior to joining Chesapeake, Mr. Barbas was Executive Vice President of Allegheny Power. Mr. Barbas joined Allegheny Energy as President of Allegheny Ventures in 1999 and was appointed Executive Vice President of Allegheny Power in 2001. Prior to 1999 Mr. Barbas held a variety of executive positions within G.E. Capital.

Michael P. McMasters (age 47) Mr. McMasters is Senior Vice President and Chief Financial Officer of Chesapeake Utilities Corporation. He was appointed Senior Vice President in 2004 and has served as Chief Financial Officer since December 1996. He has previously held the positions of Vice President, Treasurer, Director of Accounting and Rates, and Controller. From 1992 to May 1994, Mr. McMasters was employed as Director of Operations Planning for Equitable Gas Company.

Stephen C. Thompson (age 45) Mr. Thompson is President of Eastern Shore Natural Gas Company and Senior Vice President of Chesapeake Utilities Corporation. Prior to becoming Senior Vice President in 2004, he served as Vice President of Chesapeake since May 1997. He has also served as Vice President, Director of Gas Supply and Marketing, Superintendent of Eastern Shore and Regional Manager for the Florida distribution operations.

Beth W. Cooper (age 39) Ms. Cooper is Vice President, Treasurer and Corporate Secretary of Chesapeake Utilities Corporation. Ms. Cooper has served as Corporate Secretary since July 2005. She previously served as Assistant Treasurer and Assistant Secretary, Director of Internal Audit, Director of Strategic Planning, Planning Consultant, Accounting Manager for Non-regulated Operations and Treasury Analyst. Prior to joining Chesapeake, she was employed as an auditor with Ernst & Young's Entrepreneurial Services Group.

S. Robert Zola (age 53) Mr. Zola joined Sharp Energy in August of 2002 as President. Prior to joining Sharp Energy, Mr. Zola most recently served as Northeast Regional Manager of Synergy Gas, now Cornerstone MLP, in Philadelphia, PA. During his 25-year career in the propane industry, Mr. Zola also started Bluestreak Propane in Phoenix, AZ, which after successfully developing the business, was sold to Ferrell Gas.

(vi) Financial Information about Geographic Areas

All of the Company's material operations, customers, and assets occur and are located in the United States.

(d) Available Information

As a public company, Chesapeake files annual, quarterly and other reports, as well as its annual proxy statement and other information, with the Securities and Exchange Commission ("the SEC"). The public may read and copy any materials that the Company files with the SEC at the SEC's Public Reference Room at 100 F Street, N.E.

Washington, DC 20549-5546; and the public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet site that contains reports, proxy and information statements and other information regarding the Company. The address of the SEC's Internet website is www.sec.gov. Chesapeake makes available, free of charge, on its Internet website its Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports, as soon as reasonably practicable after such reports are electronically filed with or furnished to the SEC. The address of Chesapeake's Internet website is www.chpk.com. The content of this website is not part of this report.

Chesapeake has a Business Code of Ethics and Conduct applicable to all employees, officers and directors and a Code of Ethics for Financial Officers. Copies of the Business Code of Ethics and Conduct and the Financial Officer Code of Ethics are available on its website. Chesapeake also adopted Corporate Governance Guidelines and Charters for the Audit Committee, Compensation Committee, and Governance Committee of the Board of Directors, each of which satisfies the regulatory requirements established by the Securities and Exchange Commission and the New York Stock Exchange ("NYSE"). The Board of Directors has also adopted "Corporate Governance Guidelines on Director Independence," which conform to the NYSE listing standards on director independence. Each of these documents also is available on Chesapeake's Internet website or may be obtained by writing to: Corporate Secretary; c/o Chesapeake Utilities Corporation; 909 Silver Lake Blvd.; Dover, DE 19904.

If Chesapeake makes any amendment to, or grants a waiver of, any provision of the Business Code of Ethics and Conduct or the Financial Officer Code of Ethics applicable to its principal executive officer, principal financial officer, principal accounting officer or controller, the amendment or waiver will be disclosed within five business days on the Company's Internet website.

Item 1A. Risk Factors.

The following is a discussion of the primary factors that may affect the operations and/or financial performance of the regulated and unregulated businesses of Chesapeake. Refer to the section entitled "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" under Item 7 of this report for an additional discussion of these and other related factors that affect the Company's operations and/or financial performance. The principal business, economic and other factors that affect the operations and/or financial performance of the Company include:

Fluctuations in weather have the potential to adversely affect the company's results of operations, cash flows and financial condition.

The Company's regulated utility and propane distribution operations are weather sensitive, with a significant portion of its revenues derived from the delivery of natural gas and propane to residential and commercial heating customers during the winter season. Generally, weather conditions directly influence the volume of natural gas and propane delivered by the regulated utility and propane distribution operations.

Regulation of Chesapeake, including changes in the regulatory environment in general, may adversely affect the company's results of operations, cash flows and financial condition.

The state Public Service Commissions of Delaware, Maryland and Florida regulate the natural gas distribution operations. The Company's natural gas transmission operation is regulated by the FERC. These regulatory commissions set the rates in their respective jurisdictions that the Company can charge customers for its rate-regulated services. Changes in these rates, as ordered by regulatory commissions, affect the Company's financial performance.

The Company expects that regulatory commissions will continue to set the prices for delivery service that give it an opportunity to earn a just and reasonable rate of return on the capital invested in its distribution system and to recover reasonable operating expenses.

The amount and availability of natural gas and propane supplies are difficult to predict, which may reduce our earnings.

Natural gas and propane production can be impacted by factors outside of the Company's control, such as weather and refinery closings. The Company believes it has adequate resources to meet its customer's needs. See discussion on adequacy of resources in Item 1 under the heading "Business — Narrative Description of Business."

Chesapeake relies on direct connections to interstate pipelines and storage capacity. If these pipelines or storage facilities were unable to deliver for any reason it could impair Chesapeake's ability to meet its customers' full requirements.

Chesapeake is responsible for acquiring both sufficient natural gas supplies and interstate pipeline and storage capacity to meet customer requirements. As such, Chesapeake must contract for reliable and adequate delivery capacity to its distribution system, while considering the dynamics of the interstate pipeline and storage capacity market, its own on-system peak-shaving facilities, as well as the characteristics of its customer base.

Local distribution companies, including Chesapeake, along with other participants in the energy industry, have raised concerns regarding the gradual depletion in the availability of additional upstream interstate pipeline and storage capacity. Diminishing pipeline and storage capacity is a business issue that must be managed by the Company, whose customer base has grown at an annual rate between seven and nine percent. This rate of growth is expected to continue. To help maintain the adequacy of pipeline and storage capacity for its growing customer base, the Company has contracted with various interstate pipeline and storage companies for the acquisition of additional existing capacity, as well as, the construction of new capacity by ESNG. The Company will continue to monitor other opportunities to acquire or participate in obtaining additional pipeline and storage capacity that will improve or maintain the high level of service expected by its customer base.

Natural gas and propane commodity price changes may affect the operating costs and competitive positions of the company's natural gas and propane distribution operations, which could adversely affect its results of operations, cash flows and financial condition.

Natural Gas

Increased prices of natural gas are being driven by increased demand that is exceeding the growth in available supply. As discussed above, the fall 2005 hurricane season significantly reduced the current and anticipated availability of natural gas supply from the Gulf Coast region, causing a dramatic rise in natural gas prices during the fourth quarter of fiscal year 2005. The higher natural gas prices resulted in significant increases in the cost of gas billed to customers during the upcoming 2005-2006 winter heating season. Under its regulated gas cost recovery mechanisms, Chesapeake records cost of gas expense equal to the cost of gas recovered in revenues from customers. Accordingly, an increase in the cost of gas due to an increase in the purchase price of the natural gas commodity generally has no direct effect on the regulated utility's net revenues and net income. However, net income may be reduced due to higher expenses that may be incurred for uncollectible customer accounts, as well as lower volumes of natural gas deliveries to firm customers that may result due to lower natural gas consumption caused by customer conservation. Increases in the price of natural gas also can affect the Company's operating cash flows, as well as the competitiveness of natural gas as an energy source.

Propane

The level of profitability in the retail propane business is largely dependent on the difference between retail sales price and product cost. The unit cost of propane is subject to volatile changes as a result of product supply or other market conditions, including, but not limited to, economic and political factors impacting crude oil and natural gas supply or pricing. Product cost changes can occur rapidly over a short period of time and can impact profitability. There is no assurance that the Company will be able to pass on product cost increases fully or immediately, particularly when product costs increase or decrease rapidly. Therefore, average retail sales prices can vary significantly from year to year as product costs fluctuate with propane, fuel oil, crude oil and natural gas commodity market conditions. In addition, in periods of sustained higher commodity prices, as was experienced in fiscal 2005, retail sales volumes may be negatively impacted by customer conservation efforts and increased amounts of uncollected accounts.

The replacement of less efficient gas appliances with more energy efficient appliances will result in a decline of consumption per customer, which will lead to reduced revenues.

Natural gas and propane supply requirements may be affected by changes in natural gas and propane consumption by end-use customers. Natural gas and propane usage per customer will decline as customers replace older, less efficient gas appliances with more efficient appliances. In addition, homebuilders in each of the growth areas are installing the newer, more efficient appliances in the homes they build.

Each of Chesapeake's segments competes in a competitive environment and may be faced with losing customers to a competitor.
See discussion on competition in Item 7 under the heading "Management's Discussion and Analysis — Competition."

A change in Chesapeake's approved rate mechanisms for recovery of environmental remediation costs at former manufacturer gas sites could adversely affect the company's results of operations, cash flows and financial condition.

The Company and its subsidiaries are subject to federal, state and local laws and regulations related to environmental matters. These evolving laws and regulations may require expenditures over a long time frame to control environmental effects. Refer to Note M of the Notes to Consolidated Financial Statements for a further discussion of these matters.

A change in the economic conditions and interest rates could adversely affect the company's results of operations and cash flows.

The Company and its subsidiaries operate in one of the fastest growing regions in the nation. The continued prosperity of this region, supported by a relatively low interest-rate environment, has allowed our regulated utility to expand its delivery services to its customer base at a rate of growth approximately twice the national industry average during the past five years. A downturn in the economy of the region in which we operate, or a significant increase in interest rates, which cannot be predicted with accuracy, might adversely affect the Company's ability to grow its regulated utility customer base and other businesses at the same rate they have grown in the recent past.

The Company has been operating in a relatively low interest-rate environment in the recent past as it relates to long-term debt financings. Short-term interest rates had been relatively low in relation to historical levels; however, actions and communications by the Federal Reserve in the past year have resulted in increases in short-term interest rates. A rise in interest rates without the recovery of the higher cost of debt in the sales and/or transportation rates the Company charges its utility customers could adversely affect future earnings. A rise in short-term interest rates would negatively affect the results of operations, which depend on short-term debt to finance accounts receivable and storage gas inventories.

Inflation / Deflation conditions may impact Chesapeake's results of operations, cash flows, and financial position.

See discussion on competition in Item 7 under the heading "Management's Discussion and Analysis — Inflation."

Changes in technology could adversely affect the Company's advanced information services segment's results of operations, cash flows, and financial condition.

The advanced information services segment participates in a market that is characterized by rapidly changing technology and accelerating product introduction cycles. The success of our advanced information services segment depends upon our ability to address the rapidly changing needs of our customers by developing and supplying high-quality, cost-effective products, product enhancements and services on a timely basis, and by keeping pace with technological developments and emerging industry standards.

The Company's propane wholesale and marketing operation has credit risk that could adversely affect the Company's results of operations, cash flows, and financial condition.

The propane wholesale and marketing operation extends credit to its counter-parties. Despite prudent credit policies, the Company is exposed to the risk that it may not be able to collect amounts owed to it. If the counter-party to such a transaction fails to perform and any collateral the Company has secured is inadequate, the Company could experience financial losses.

Chesapeake's use of derivative instruments could adversely affect the company's results of operations.

The Company's propane distribution operation uses derivative instruments, including forwards, swaps, and puts, to hedge propane price risk. Fluctuating propane prices cause earnings and financing costs of Chesapeake to be impacted. The use of derivative instruments that are not perfectly matched to the exposure could adversely affect the Company's results of operations, cash flows, and financial conditions.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties**(a) General**

The Company owns offices and operates facilities in the following locations: Pocomoke, Salisbury, Cambridge and Princess Anne, Maryland; Dover, Seaford, Laurel and Georgetown, Delaware; and Winter Haven, Florida. Chesapeake rents office space in Dover and Ocean View, Delaware; Jupiter and Lecanto, Florida; Chincoteague and Belle Haven, Virginia; Easton, and Salisbury, Maryland; Honey Brook and Allentown, Pennsylvania; Houston, Texas; and Atlanta, Georgia. In general, the Company believes that its properties 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 880 miles of natural gas distribution mains (together with related service lines, meters and regulators) located in its Delaware and Maryland service areas and 695 miles of natural gas distribution 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.

(c) Natural Gas Transmission

Eastern Shore owns and operates approximately 331 miles of transmission pipelines extending from supply interconnects at Parkesburg, Pennsylvania; Daleville, Pennsylvania and Hockessin, Delaware to approximately 75 delivery points in southeastern Pennsylvania, Delaware and the eastern shore of Maryland.

(d) Propane Distribution and Wholesale Marketing

The company's Delmarva-based propane distribution operation owns bulk propane storage facilities with an aggregate capacity of approximately 2.0 million gallons at 42 plant facilities in Delaware, Maryland and Virginia, located on real estate that is either owned or leased. The Company's Florida-based propane distribution operation owns three bulk propane storage facilities with a total capacity of 66,000 gallons. Xeron does not own physical storage facilities or equipment to transport propane; however, it leases propane storage capacity and pipeline capacity.

Item 3. Legal Proceedings**(a) General**

The Company and its subsidiaries are involved in various 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 our consolidated financial position.

(b) Environmental

See discussion of environmental commitments and contingencies in Item 8 under the heading "Notes to Consolidated Financial Statements — Note M."

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

None

Part II

Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

(a) Common Stock Price Ranges, Common Stock Dividends and Shareholder Information:

The Company's Common Stock is listed on the New York Stock Exchange under the symbol "CPK." The high, low and closing prices of Chesapeake's Common Stock and dividends declared per share for each calendar quarter during the years 2005 and 2004 were as follows:

Quarter Ended	High	Low	Close	Dividends Declared Per Share
2005				
March 31	\$ 27.5900	\$ 25.8300	\$ 26.6000	\$ 0.2800
June 30	30.9500	23.6000	30.5800	0.2850
September 30	35.6000	59.5000	35.1620	0.2850
December 31	35.7799	30.3227	30.8000	0.2850
2004				
March 31	\$ 26.5100	\$ 24.3000	\$ 25.6200	\$ 0.2750
June 30	26.2000	20.4200	22.7000	0.2800
September 30	25.4000	22.1000	25.1000	0.2800
December 31	27.5500	24.5000	26.7000	0.2800

Dividend payments are payable at the discretion of our Board of Directors. Future payment of dividends, and the amount of these dividends, will depend on our financial condition, results of operations, capital requirements, and other factors. We sold no securities during the year 2005 that were not registered under the Securities Act of 1933, as amended.

Indentures to the long-term debt of the Company contain various restrictions. The most stringent restrictions state that the Company must maintain equity of at least 40 percent of total capitalization and the pro-forma fixed charge coverage ratio must be at least 1.5 times.

At December 31, 2005, there were approximately 2,026 shareholders of record of the Common Stock.

(b) Purchases of Equity Securities by the Issuer

The following table sets forth information on purchases by or on behalf of Chesapeake of shares of its Common Stock during the quarter ended December 31, 2005.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (2)	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs (2)
October 1, 2005 through October 31, 2005 (1)	295	\$ 36.00	0	0
November 1, 2005 through November 30, 2005	0	\$ 0.00	0	0
December 1, 2005 through December 31, 2005	0	\$ 0.00	0	0
Total	295	\$ 36.00	0	0

(1) Chesapeake purchased shares of stock on the open market to add to shares held in a Rabbi Trust to adjust the balance to the contractual value. 295 shares were purchased through executive dividend deferrals.

(2) Chesapeake has no publicly announced plans or programs to repurchase its shares.

See discussion on compensation plans of Chesapeake and its subsidiaries under which shares of Chesapeake common stock are authorized for issuance in Item 12 under the heading "Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Item 6. Selected Financial Data

For the Years Ended December 31,	2005	2004	2003	2002 ⁽¹⁾	2001 ⁽¹⁾
Operating (in thousands of dollars) ⁽³⁾					
Revenues					
Natural gas distribution and transmission	\$ 166,582	\$ 124,246	\$ 110,247	\$ 93,588	\$ 107,418
Propane	48,976	41,500	41,029	29,238	35,742
Advanced informations systems	14,140	12,427	12,578	12,764	14,104
Other and eliminations	(68)	(218)	(286)	(334)	(113)
Total revenues	\$ 229,630	\$ 177,955	\$ 163,568	\$ 135,256	\$ 157,151
Operating income					
Natural gas distribution and transmission	\$ 17,236	\$ 17,091	\$ 16,653	\$ 14,973	\$ 14,405
Propane	3,209	2,364	3,875	1,052	913
Advanced informations systems	1,197	387	692	343	517
Other and eliminations	(112)	128	359	237	386
Total operating income	\$ 21,530	\$ 19,970	\$ 21,579	\$ 16,605	\$ 16,221
Net income from continuing operations	\$ 10,468	\$ 9,550	\$ 10,079	\$ 7,535	\$ 7,341
Assets (in thousands of dollars)					
Gross property, plant and equipment	\$ 280,345	\$ 250,267	\$ 234,919	\$ 229,128	\$ 216,903
Net property, plant and equipment ⁽⁴⁾	\$ 201,504	\$ 177,053	\$ 167,872	\$ 166,846	\$ 161,014
Total assets ⁽⁴⁾	\$ 295,980	\$ 241,938	\$ 222,058	\$ 223,721	\$ 222,229
Capital expenditures ⁽³⁾	\$ 33,423	\$ 17,830	\$ 11,822	\$ 13,836	\$ 26,293
Capitalization (in thousands of dollars)					
Stockholders' equity	\$ 84,757	\$ 77,962	\$ 72,939	\$ 67,350	\$ 67,517
Long-term debt, net of current maturities	58,991	66,190	69,416	73,408	48,409
Total capitalization	\$ 143,748	\$ 144,152	\$ 142,355	\$ 140,758	\$ 115,926
Current portion of long-term debt	\$ 4,929	\$ 2,909	\$ 3,665	\$ 3,938	\$ 2,686
Short-term debt	35,482	5,002	3,515	10,900	42,100
Total capitalization and short-term financing	\$ 184,159	\$ 152,063	\$ 149,535	\$ 155,596	\$ 160,712

⁽¹⁾ The years 2002, 2001, 2000 and 1999 have been restated in order to reflect the Company's Delaware and Maryland natural gas divisions on the "accrual" rather than the "as billed" revenue recognition method.

⁽²⁾ The years 1998, 1997, and 1996 have not been restated to reflect the "accrual" revenue recognition method due to the immateriality of the impact on the Company's financial results.

⁽³⁾ These amounts exclude the results of water services due to their reclassification to discontinued operations. The assets of all of the water businesses were sold in 2004 and 2003.

⁽⁴⁾ The years 2005, 2004, 2003, 2002 and 2001 reflect the results of adopting SFAS 143.

Item 6. Selected Financial Data

For the Years Ended December 31,	2000 ⁽¹⁾	1999 ⁽¹⁾	1998 ⁽²⁾	1997 ⁽²⁾	1996 ⁽²⁾
Operating (in thousands of dollars) ⁽³⁾					
Revenues					
Natural gas distribution and transmission	\$ 101,138	\$ 75,637	\$ 68,770	\$ 88,108	\$ 90,044
Propane	31,780	25,199	23,377	28,614	36,727
Advanced informations systems	12,390	13,531	10,331	7,786	7,230
Other and eliminations	(131)	(14)	(15)	(182)	(243)
Total revenues	\$ 145,177	\$ 114,353	\$ 102,463	\$ 124,326	\$ 133,758
Operating income					
Natural gas distribution and transmission	\$ 12,798	\$ 10,388	\$ 8,820	\$ 9,240	\$ 9,627
Propane	2,135	2,622	965	1,137	2,668
Advanced informations systems	336	1,470	1,316	1,046	1,056
Other and eliminations	816	495	485	558	560
Total operating income	\$ 16,085	\$ 14,975	\$ 11,586	\$ 11,981	\$ 13,911
Net income from continuing operations	\$ 7,665	\$ 8,372	\$ 5,329	\$ 5,812	\$ 7,764
Assets (in thousands of dollars)					
Gross property, plant and equipment	\$ 192,925	\$ 172,068	\$ 152,991	\$ 144,251	\$ 134,001
Net property, plant and equipment ⁽⁴⁾	\$ 131,466	\$ 117,663	\$ 104,266	\$ 99,879	\$ 94,014
Total assets ⁽⁴⁾	\$ 211,764	\$ 166,958	\$ 145,029	\$ 145,719	\$ 155,786
Capital expenditures ⁽³⁾	\$ 22,057	\$ 21,365	\$ 12,516	\$ 13,471	\$ 15,399
Capitalization (in thousands of dollars)					
Stockholders' equity	\$ 64,669	\$ 60,714	\$ 56,356	\$ 53,656	\$ 50,700
Long-term debt, net of current maturities	50,921	33,777	37,597	38,226	28,984
Total capitalization	\$ 115,590	\$ 94,491	\$ 93,953	\$ 91,882	\$ 79,684
Current portion of long-term debt	\$ 2,665	\$ 2,665	\$ 520	\$ 1,051	\$ 3,526
Short-term debt	25,400	23,000	11,600	7,600	12,735
Total capitalization and short-term financing	\$ 143,655	\$ 120,156	\$ 106,073	\$ 100,533	\$ 95,945

⁽¹⁾ The years 2002, 2001, 2000 and 1999 have been restated in order to reflect the Company's Delaware and Maryland natural gas divisions on the "accrual" rather than the "as billed" revenue recognition method.

⁽²⁾ The years 1998, 1997, and 1996 have not been restated to reflect the "accrual" revenue recognition method due to the immateriality of the impact on the Company's financial results.

⁽³⁾ These amounts exclude the results of water services due to their reclassification to discontinued operations. The assets of all of the water businesses were sold in 2004 and 2003.

⁽⁴⁾ The years 2005, 2004, 2003, 2002 and 2001 reflect the results of adopting SFAS 143.

Item 6. Selected Financial Data

For the Years Ended December 31,	2005	2004	2003	2002 ⁽¹⁾	2001 ⁽¹⁾
Common Stock Data and Ratios					
Basic earnings per share from continuing operations ⁽³⁾	\$ 1.79	\$ 1.66	\$ 1.80	\$ 1.37	\$ 1.37
Diluted earnings per share from continuing operations ⁽³⁾	\$ 1.77	\$ 1.64	\$ 1.76	\$ 1.37	\$ 1.35
Return on average equity from continuing operations ⁽³⁾	12.9%	12.7%	14.4%	11.2%	11.1%
Common equity / total capitalization	59.0%	54.1%	51.2%	47.8%	58.2%
Common equity / total capitalization and short-term financing	46.0%	51.3%	48.8%	43.3%	42.0%
Book value per share	\$ 14.41	\$ 13.49	\$ 12.89	\$ 12.16	\$ 12.45
Market price:					
High	\$ 35.780	\$ 27.550	\$ 26.700	\$ 21.990	\$ 19.900
Low	\$ 23.600	\$ 20.420	\$ 18.400	\$ 16.500	\$ 17.375
Close	\$ 30.800	\$ 26.700	\$ 26.050	\$ 18.300	\$ 19.800
Average number of shares outstanding	5,836,463	5,735,405	5,610,592	5,489,424	5,367,433
Shares outstanding at year-end	5,845,571	5,730,801	5,612,935	5,500,357	5,394,516
Registered common shareholders	2,026	2,026	2,069	2,130	2,171
Cash dividends declared per share	\$ 1.14	\$ 1.12	\$ 1.10	\$ 1.10	\$ 1.10
Dividend yield (annualized) ⁽⁴⁾	3.7%	4.2%	4.2%	6.0%	5.6%
Payout ratio from continuing operations ^{(3) (5)}	63.7%	67.5%	61.1%	80.3%	80.3%
Additional Data					
Customers					
Natural gas distribution and transmission	54,786	50,878	47,649	45,133	42,741
Propane distribution	35,367	34,888	34,894	34,566	35,530
Volumes					
Natural gas deliveries (in MMCF)	34,981	31,430	29,375	27,935	27,264
Propane distribution (in thousands of gallons)	26,178	24,979	25,147	21,185	23,080
Heating degree-days (Delmarva Peninsula)	4,792	4,553	4,715	4,161	4,368
Propane bulk storage capacity (in thousands of gallons)	2,315	2,045	2,195	2,151	1,958

Total employees ⁽³⁾	423	426	439	455	458
--------------------------------	-----	-----	-----	-----	-----

⁽¹⁾ The years 2002, 2001, 2000 and 1999 have been restated in order to reflect the Company's Delaware and Maryland natural gas divisions on the "accrual" rather than the "as billed" revenue recognition method.

⁽²⁾ The years 1998, 1997, and 1996 have not been restated to reflect the "accrual" revenue recognition method due to the immateriality of the impact on the Company's financial results.

⁽³⁾ These amounts exclude the results of water services due to their reclassification to discontinued operations. The assets of all of the water businesses were sold in 2004 and 2003.

⁽⁴⁾ Dividend yield (annualized) is calculated by multiplying the fourth quarter dividend declared by four (4), then dividing that amount by the closing common stock price at December 31.

⁽⁵⁾ The payout ratio from continuing operations is calculated by dividing cash dividends declared per share (for the year) by basic earnings per share from continuing operations.

Item 6. Selected Financial Data

For the Years Ended December 31,	2000 ⁽¹⁾	1999 ⁽¹⁾	1998 ⁽²⁾	1997 ⁽²⁾	1996 ⁽²⁾
Common Stock Data and Ratios					
Basic earnings per share from continuing operations ⁽³⁾	\$ 1.46	\$ 1.63	\$ 1.05	\$ 1.17	\$ 1.58
Diluted earnings per share from continuing operations ⁽³⁾	\$ 1.43	\$ 1.59	\$ 1.04	\$ 1.15	\$ 1.54
Return on average equity from continuing operations ⁽³⁾	12.2%	14.3%	9.7%	11.1%	16.1%
Common equity / total capitalization	55.9%	64.3%	60.0%	58.4%	63.6%
Common equity / total capitalization and short-term financing	45.0%	50.5%	53.1%	53.4%	52.8%
Book value per share	\$ 12.21	\$ 11.71	\$ 11.06	\$ 10.72	\$ 10.26
Market price:					
High	\$ 18.875	\$ 19.813	\$ 20.500	\$ 21.750	\$ 18.000
Low	\$ 16.250	\$ 14.875	\$ 16.500	\$ 16.250	\$ 15.125
Close	\$ 18.625	\$ 18.375	\$ 18.313	\$ 20.500	\$ 16.875
Average number of shares outstanding	5,249,439	5,144,449	5,060,328	4,972,086	4,912,136
Shares outstanding at year-end	5,290,001	5,186,546	5,093,788	5,004,078	4,939,515
Registered common shareholders	2,166	2,212	2,271	2,178	2,213
Cash dividends declared per share	\$ 1.07	\$ 1.03	\$ 1.00	\$ 0.97	\$ 0.93
Dividend yield (annualized) ⁽⁴⁾	5.8%	5.7%	5.5%	4.7%	5.5%
Payout ratio from continuing operations ⁽³⁾ ⁽⁵⁾	73.3%	63.2%	95.2%	82.9%	58.9%
Additional Data					
Customers					
Natural gas distribution and transmission	40,854	39,029	37,128	35,797	34,713
Propane distribution	35,563	35,267	34,113	33,123	31,961
Volumes					
Natural gas deliveries (in MMCF)	30,830	27,383	21,400	23,297	24,835
Propane distribution (in thousands of gallons)	28,469	27,788	25,979	26,682	29,975
Heating degree-days (Delmarva Peninsula)	4,730	4,082	3,704	4,430	4,717
Propane bulk storage capacity (in thousands of gallons)	1,928	1,926	1,890	1,866	1,860

Total employees ⁽³⁾	471	466	431	397	338
--------------------------------	-----	-----	-----	-----	-----

⁽¹⁾ The years 2002, 2001, 2000 and 1999 have been restated in order to reflect the Company's Delaware and Maryland natural gas divisions on the "accrual" rather than the "as billed" revenue recognition method.

⁽²⁾ The years 1998, 1997, and 1996 have not been restated to reflect the "accrual" revenue recognition method due to the immateriality of the impact on the Company's financial results.

⁽³⁾ These amounts exclude the results of water services due to their reclassification to discontinued operations. The assets of all of the water businesses were sold in 2004 and 2003.

⁽⁴⁾ Dividend yield (annualized) is calculated by multiplying the fourth quarter dividend declared by four (4), then dividing that amount by the closing common stock price at December 31.

⁽⁵⁾ The payout ratio from continuing operations is calculated by dividing cash dividends declared per share (for the year) by basic earnings per share from continuing operations.

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

Business Description

Chesapeake Utilities Corporation ("Chesapeake" or "the Company") is a diversified utility company engaged in natural gas distribution, transmission and marketing, propane distribution and wholesale marketing, advanced information services and other related businesses.

Critical Accounting Policies

Chesapeake's reported financial condition and results of operations are affected by the accounting methods, assumptions and estimates that are used in the preparation of the Company's financial statements. Because most of Chesapeake's businesses are regulated, the accounting methods used by Chesapeake must comply with the requirements of the regulatory bodies; therefore, the choices available are limited by these regulatory requirements. Management believes that the following policies require significant estimates or other judgments of matters that are inherently uncertain. These policies and their application have been discussed with Chesapeake's Audit Committee.

Regulatory Assets and Liabilities

Chesapeake records certain assets and liabilities in accordance with Statement of Financial Accounting Standards ("SFAS") No. 71 "Accounting for the Effects of Certain Types of Regulation." Costs are deferred when there is a probable expectation that they will be recovered in future revenues as a result of the regulatory process. At December 31, 2005, Chesapeake had recorded regulatory assets of \$5.6 million, including \$4.0 million for under-recovered purchased gas costs, \$712,000 for tax-related regulatory assets, and \$304,000 for conservation cost recovery. The Company has recorded regulatory liabilities totaling \$19.3 million, including \$16.7 million for accrued asset removal cost, \$1.4 million for self-insurance, \$483,000 for cash in/cash out, and \$328,000 for tax-related regulatory assets at December 31, 2005. If the Company were required to terminate application of SFAS No. 71, it would be required to recognize all such deferred amounts as a charge to earnings, net of applicable income taxes. Such a charge could have a material adverse effect on the Company's results of operations.

Valuation of Environmental Assets and Liabilities

As more fully described in Note M to the Financial Statements, Chesapeake has completed its responsibilities related to one environmental site and is currently participating in the investigation, assessment or remediation of three other former gas manufacturing plant sites. Amounts have been recorded as environmental liabilities and associated environmental regulatory assets based on estimates of future costs provided by independent consultants. There is uncertainty in these amounts because the Environmental Protection Agency ("EPA") or state authority may not have selected the final remediation methods. Additionally, there is uncertainty due to the outcome of legal remedies sought from other potentially responsible parties. At December 31, 2005, Chesapeake had recorded environmental regulatory assets of \$195,000 and a regulatory liability of \$298,000 for over-collections and an additional liability of \$353,000 for environmental costs.

Propane Wholesale Marketing Contracts

Chesapeake's propane wholesale marketing operation enters into forward and futures contracts that are considered derivatives under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." In accordance with the pronouncement, open positions are marked to market prices at the end of each reporting period and unrealized gains or losses are recorded in the Consolidated Statement of Income as revenue. The contracts all mature within one year, and are almost exclusively for propane commodities with delivery points of Mt. Belvieu, Texas, Conway, Kansas and Hattiesburg, Mississippi. Management estimates the market valuation based on references to exchange-traded futures prices, historical differentials and actual trading activity at the end of the reporting period. At December 31, 2005, these contracts had net unrealized gains of \$46,000 that was recorded in the financial statements. At December 31, 2004, these contracts had net unrealized losses of \$182,000 that were recorded in the financial statements.

Operating Revenues

Revenues for the natural gas distribution operations of the Company are based on rates approved by the public service commissions of the jurisdictions in which we operate. The natural gas transmission operation's revenues are based on rates approved by the Federal Energy Regulatory Commission ("FERC"). Customers' base rates may not be changed without formal approval by these commissions. However, the regulatory authorities have granted the Company's regulated natural gas distribution operations the ability to negotiate rates with customers that have competitive alternatives using approved methodologies. In addition, the natural gas transmission operation can negotiate rates above or below the FERC approved tariff rates.

Chesapeake's natural gas distribution operations in Delaware and Maryland each have a gas cost recovery mechanism that provides 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.

The Company charges flexible rates to the natural gas distribution's industrial interruptible customers to make them competitive with alternative types of fuel. Based on pricing, these customers can choose natural gas or alternative types of supply. Neither the Company nor the interruptible customer is contractually obligated to deliver or receive natural gas.

The propane wholesale marketing operation records trading activity, on a net mark-to-market basis in the Company's income statement, for open contracts. The natural gas segment recognizes revenue on an accrual basis. The propane distribution, advanced information services and other segments record revenue in the period the products are delivered and/or services are rendered.

Goodwill Impairment

In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets," Chesapeake no longer amortizes goodwill. Instead, goodwill is tested for impairment at least annually. In addition, goodwill of a reporting unit is tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value.

The initial test was performed upon adoption of SFAS No. 142 on January 1, 2002, and again at the end of each subsequent year. These tests were based on subjective measurements, including discounted cash flows of expected future operating results and market valuations of similar businesses. The propane unit had \$674,000 in goodwill at both December 31, 2005 and 2004. Testing for 2005 and 2004 has indicated that no impairment has occurred.

Results of Operations

Net Income & Diluted Earnings Per Share Summary

For the Years Ended December 31,	2005	2004	Increase (decrease)	2004	2003	Increase (decrease)
Net Income *						
Continuing operations	\$ 10,468	\$ 9,550	\$ 918	\$ 9,550	\$ 10,080	(\$530)
Discontinued operations	-	(121)	121	(121)	(788)	667
Total Net Income	\$ 10,468	\$ 9,429	\$ 1,039	\$ 9,429	\$ 9,292	\$ 137
Diluted Earnings Per Share						
Continuing operations	\$ 1.77	\$ 1.64	\$ 0.13	\$ 1.64	\$ 1.76	(\$0.12)
Discontinued operations	-	(0.02)	0.02	(0.02)	(0.13)	0.11
Total Earnings Per Share	\$ 1.77	\$ 1.62	\$ 0.15	\$ 1.62	\$ 1.63	(\$0.01)

* Dollars in thousands.

The Company's net income from continuing operations increased \$918,000, or 10 percent, in 2005 compared to 2004. Net income from continuing operations was \$10.5 million, or \$1.77 per share (diluted), compared to a net income from continuing operations of \$9.6 million, or \$1.64 per share (diluted) for 2004.

Net income from continuing operations for 2004 was \$9.6 million, or \$1.64 per share (diluted), a decline of \$530,000 compared to net income from continuing operations of \$10.1 million, or \$1.76 per share (diluted), for 2003.

During 2003, Chesapeake decided to exit the water services business and had sold the assets of six of seven dealerships by December 31, 2003. The remaining operation was sold in 2004. The results of water services were classified as discontinued operations for years 2004 and 2003. Discontinued operations experienced losses of \$0.02 and \$0.13 per share (diluted) for 2004 and 2003, respectively.

Operating Income Summary (in thousands)

<u>For the Years Ended December 31,</u>	<u>2005</u>	<u>2004</u>	<u>Increase (decrease)</u>	<u>2004</u>	<u>2003</u>	<u>Increase (decrease)</u>
Business Segment:						
Natural gas distribution & transmission	\$ 17,236	\$ 17,091	\$ 145	\$ 17,091	\$ 16,653	\$ 438
Propane	3,209	2,364	845	2,364	3,875	(1,511)
Advanced information services	1,197	387	810	387	692	(305)
Other & eliminations	(112)	128	(240)	128	359	(231)
Total Operating Income	\$ 21,530	\$ 19,970	\$ 1,560	\$ 19,970	\$ 21,579	(\$1,609)

The improvement in results for 2005 was primarily driven by:

- The Lightweight Association Management Processing Systems ("LAMPS™") product, including the sale of its property rights, contributed \$622,000 to operating income in 2005 for the Company's advanced information services segment. The LAMPS product was an internally developed software that was developed and marketed specifically for REALTOR® Associations.
- The Delmarva and Florida natural gas distribution operations experienced strong residential customer growth of 8.7 percent and 7.4 percent, respectively, in 2005.
- Temperatures on the Delmarva Peninsula were 5 percent colder than 2004, which led to increased contributions from the Company's natural gas and propane distribution operations. This increase was offset by conservation efforts by customers.
- The natural gas transmission operation achieved gross margin growth of 9 percent due to additional transportation capacity contracts that went into effect in November 2004.
- A 100 percent increase of the number of customers for the Company's natural gas marketing operation.
- An increase of 1.1 million gallons sold by the Delmarva propane distribution operation.

Improvement in Chesapeake's 2005 overall results compared to 2004 was primarily related to a \$924,000 pre-tax gain on the sale of its LAMPS™ by the Company's advanced information service operation, continued strong customer growth, and colder weather, which led to increased contributions from the Company's natural gas and propane operations. The Company's natural gas operations experienced an increase of 7.9 percent in residential customers. Weather, measured in heating degree-days, was 5 percent colder than 2004. The gross margin increases from growth and weather was partially offset by energy conservation efforts by customers in light of increased natural gas and propane costs and also, an increase in operating expenses.

Chesapeake's 2004 results reflected strong customer growth, warmer weather as compared to 2003, customers' energy conservation and costs incurred to comply with Sarbanes-Oxley. Weather, measured in heating degree-days, was 4 percent warmer than 2003. Management estimates that warmer weather negatively impacted gross margin by \$566,000. The natural gas segment was able to offset the impact of warmer weather through customer growth of 7 percent. Additionally, the Company incurred approximately \$600,000 of expenses through December 31, 2004 related to compliance with Section 404 of Sarbanes-Oxley. These costs include incremental audit fees, expansion of the Internal Audit Department and the temporary hiring of an outside consultant. The increase in operating income from the Company's natural gas operations was more than offset by decreases in the propane and advanced information services businesses.

The following discussions of segment results include use of the term "gross margin." Gross margin is determined by deducting the cost of sales from operating revenue. Cost of sales includes the purchased gas cost for natural gas and propane and the cost of labor spent on direct revenue-producing activities. Gross margin should not be considered an alternative to operating income or net income, which are determined in accordance with Generally Accepted Accounting Principles ("GAAP"). Chesapeake believes that gross margin, although a non-GAAP measure, is useful and meaningful to investors as a basis for making investment decisions. It provides investors with information that demonstrates the profitability achieved by the Company under its allowed rates for regulated operations and under its competitive pricing structure for non-regulated segments. Chesapeake's management uses gross margin in measuring its business units' performance and has historically analyzed and reported gross margin information publicly. Other companies may calculate gross margin in a different manner.

Natural Gas Distribution and Transmission

The natural gas distribution and transmission segment earned operating income of \$17.2 million for 2005, \$17.1 million for 2004, and \$16.7 million for 2003, resulting in increases of \$145,000 for 2005 and \$438,000 for 2004.

Natural Gas Distribution and Transmission (in thousands)

For the Years Ended December 31,	2005	2004	Increase (decrease)	2004	2003	Increase (decrease)
Revenue	\$ 166,582	\$ 124,246	\$ 42,336	\$ 124,246	\$ 110,247	\$ 13,999
Cost of gas	116,178	77,456	38,722	77,456	65,495	11,961
Gross margin	50,404	46,790	3,614	46,790	44,752	2,038
Operations & maintenance	23,874	21,129	2,745	21,129	19,893	1,236
Depreciation & amortization	5,682	5,418	264	5,418	5,188	230
Other taxes	3,612	3,152	460	3,152	3,018	134
Other operating expenses	33,168	29,699	3,469	29,699	28,099	1,600
Total Operating Income	\$ 17,236	\$ 17,091	\$ 145	\$ 17,091	\$ 16,653	\$ 438

Natural Gas Heating Degree-Day (HDD) and Customer Analysis

For the Years Ended December 31,	2005	2004	Increase (decrease)	2004	2003	Increase (decrease)
Heating degree-day data — Delmarva						
Actual HDD	4,792	4,553	239	4,553	4,715	(162)
10-year average HDD	4,436	4,383	53	4,383	4,409	(26)
Estimated gross margin per HDD	\$ 2,234	\$ 1,800	\$ 434	\$ 1,800	\$ 1,680	\$ 120

Estimated dollars per residential customer added:

Gross margin	\$ 372	\$ 372	\$ 0	\$ 372	\$ 360	\$ 12
Other operating expenses	\$ 106	\$ 104	\$ 2	\$ 104	\$ 100	\$ 4

Average number of residential customers

Delmarva	37,346	34,352	2,994	34,352	31,996	2,356
Florida	11,717	10,910	807	10,910	10,189	721
Total	49,063	45,262	3,801	45,262	42,185	3,077

2005 Compared to 2004

Revenue and cost of gas increased in 2005 compared to 2004, primarily due to changes in natural gas commodity prices. Increased prices of natural gas costs are being driven by increased demand that is exceeding the growth of available supply. The fall 2005 hurricane season significantly reduced the current and anticipated availability of natural gas supply from the Gulf Coast region, causing a dramatic rise in natural gas prices during the fourth quarter of 2005. Commodity cost changes are passed on to the ratepayers through a gas cost recovery or purchased gas cost adjustment in all jurisdictions; therefore, they have limited impact on the Company's profitability. However, higher

commodity prices may cause customers to reduce their energy consumption through conservation efforts and may cause the Company to have higher uncollectible accounts.

Natural gas gross margin increased \$3.6 million, or 7.7 percent, for 2005 compared to 2004. The natural gas transmission operation achieved gross margin growth of \$1.4 million, or 9 percent, primarily due to additional contracts signed in November 2004 for transportation capacity provided to its firm customers. In addition, the Company's capital investments enabled the natural gas transmission operations to execute additional transportation capacity contracts in November 2005. These additional contracts will contribute approximately \$53,000 monthly to gross margins. An increase of \$980,000 in other operating expenses partially offset the increased gross margin. The factors contributing to the increase in expenses are associated with higher customer counts caused by continued economic growth, as well as higher depreciation and property taxes due to an increase in the level of capital investments.

Gross margin for the natural gas marketing operation increased \$506,000, or 39 percent, for 2005 compared to 2004 as the number of customers to which it provides supply management services increased 100 percent. The increase in the number of customers is attributed to the additional customers that are on the Peoples Gas system for which the Company provides services. The increase in gross margin was partially offset by an increase of \$352,000 in other operating expenses due to higher levels of staff and other operating costs necessary to support the increase in business.

Gross margin for the Delaware and Maryland distribution divisions increased \$1.2 million, as temperatures in 2005 were 5 percent colder and the number of residential customers increased 8.7 percent. An increase in gross margin from the colder weather of \$534,000 was offset by a decrease of \$651,000 in gas deliveries to customers as a result of conservation efforts in response to the higher gas prices. Gross margin for the Florida distribution operations increased \$579,000, primarily due to changes in the customer rate design and a 7.4 percent increase in the number of residential customers served. The Company estimates the rate design changes contributed \$322,000 in additional gross margin and resulted in the Florida division collecting a greater percentage of revenues from fixed charges, rather than variable charges based upon consumption. Other operating expense for the natural gas distribution operations increased \$2.1 million in 2005. Some of the key components of the increase in other operating expenses in 2005, compared to 2004, include the following:

- The incremental operating and maintenance cost of supporting the residential customers added by the Delmarva and Florida distribution operations was approximately \$403,000.
- In response to higher natural gas prices, the Company increased its allowance for uncollectible accounts by \$98,000.
- The cost of providing health care for our employees increased \$180,000.
- Costs of line location activities increased \$177,000.
- With the additional capital investments, depreciation expense, asset removal cost, and property taxes increased \$225,000, \$130,000, and \$319,000, respectively.

2004 Compared to 2003

Gross margin grew by \$2.0 million in 2004 compared to 2003. The Company estimates that warmer weather reduced gross margin by \$292,000. After adjusting for the effect of weather, gross margin would have increased 5.3 percent. The Company estimates that residential and commercial growth for the distribution operations generated \$1.1 million of gross margin increase. The Company added 3,077 residential customers, an increase of 7 percent, in 2004. This growth was net of lower consumption per customer, which reflects customer conservation efforts in light of higher energy costs and a higher mix of apartments rather than single family homes in the customer additions for some divisions. Additionally, the natural gas supply and management services operation increased gross margin by \$565,000, primarily through industrial customer growth and resale of seasonal excess capacity on upstream pipelines. The natural gas transmission operation also achieved gross margin growth of \$716,000, due to additional transportation services provided to its firm customers.

Higher other operating expenses partially offset the gross margin increase. Operating expenses increased \$1.6 million, or 5.7 percent, which includes \$382,000 of expenses related to Sarbanes-Oxley Section 404 compliance implementation. The higher other operating expenses reflect the costs to support customer growth.

Propane

During 2005, the propane segment increased operating income by \$845,000, or 36 percent, over 2004. In addition, gross margin increased \$2.6 million, which more than offset the increase of \$1.7 million of operating expenses. During 2004, the propane segment experienced a decrease of \$1.5 million in operating income compared to 2003, reflecting a gross margin decrease of \$1.9 million, partially offset by a decrease in operating expenses of \$411,000.

Propane (in thousands)

For the Years Ended December 31,	2005	2004	Increase (decrease)	2004	2003	Increase (decrease)
Revenue	\$ 48,976	\$ 41,500	\$ 7,476	\$ 41,500	\$ 41,029	\$ 471
Cost of sales	30,041	25,155	4,886	25,155	22,762	2,393
Gross margin	18,935	16,345	2,590	16,345	18,267	(1,922)
Operations & maintenance	13,355	11,718	1,637	11,718	12,053	(335)
Depreciation & amortization	1,574	1,524	50	1,524	1,506	18
Other taxes	797	739	58	739	833	(94)
Other operating expenses	15,726	13,981	1,745	13,981	14,392	(411)
Total Operating Income	\$ 3,209	\$ 2,364	\$ 845	\$ 2,364	\$ 3,875	(\$1,511)

Propane Heating Degree-Day (HDD) Analysis — Delmarva

For the Years Ended December 31,	2005	2004	Increase (decrease)	2004	2003	Increase (decrease)
Heating degree-days						
Actual	4,792	4,553	239	4,553	4,715	(162)
10-year average	4,436	4,383	53	4,383	4,409	(26)
Estimated gross margin per HDD	\$ 1,743	\$ 1,691	\$ 52	\$ 1,691	\$ 1,670	\$ 21

2005 Compared to 2004

The increases in revenues and cost of sales in 2005 compared to 2004 were caused both by increases in volumes and by increases in the commodity prices of propane. Commodity price changes are passed on to the customer, subject to competitive market conditions.

The gross margin increase for the propane segment was due primarily to an increase of \$1.8 million for the Delmarva distribution operations. Volumes sold in 2005 increased 1.1 million gallons or 5 percent. Temperatures in 2005 were 5 percent colder than 2004, causing an estimated gross margin increase of \$417,000. Additionally, the gross margin per retail gallon improved by \$0.0342 in 2005 compared to 2004. Gross margin per gallon increased as a result of market prices rising greater than the Company's inventory price per gallon. This trend will reverse when market prices decrease and move closer to the Company's inventory price per gallon. The gross margin increase was partially offset by increased other operating expenses of \$1.5 million. The higher other operating costs are attributable to the Pennsylvania start-up costs and expenses related to higher earnings, such as incentive compensation and other taxes, employee benefits, insurance, vehicle fuel and maintenance expenses, and a non-recurring credit of \$100,000 for vehicle insurance audits in 2004. The start-up costs accounted for \$722,000, or approximately 49 percent, of the increase in operating expenses.

Gross margin for the Florida propane distribution operations increased \$385,000, or 45 percent, in 2005 compared to 2004. The increase in gross margin was attained from an increase of 27% in the average number of customers, which contributed to the \$267,000 in propane sales gross margin, and an increase of \$118,000 in house-piping sales. Florida propane also experienced an increase in other operating expenses. The higher expenses of \$147,000 were attributed to business growth, such as payroll, vehicle fuel and maintenance, insurance, and depreciation expense.

The Company's propane wholesale marketing operation experienced an increase in gross margin of \$445,000 and an increase of \$121,000 in other operating expenses, leading to an improvement of \$323,000 in operating income over 2004. Wholesale price volatility created trading opportunities during the third and fourth quarters of the year; however, these were partially offset by reduced trading activities particularly in the first half of the year when the wholesale marketing operation followed a conservative marketing strategy, which lowered risk and earnings, in light of continued high wholesale price levels.

2004 Compared to 2003

Increases in revenues and cost of sales in 2004 were caused by an increase in the commodity prices of propane, partially offset by lower sales volumes due to warmer weather. Commodity price changes are generally passed on to the customer, subject to competitive market conditions. High commodity prices may cause customers to reduce their energy consumption through conservation efforts and may cause higher bad debt expense.

Propane distribution gross margin declined \$1.2 million and propane wholesale marketing gross margin fell by \$710,000. The Company estimates that warmer weather negatively impacted gross margin by \$274,000. After adjusting for the impact of weather, gross margin decreased 9 percent. Lower retail gross margin per gallon in the distribution business reduced gross margin by approximately \$493,000. In addition, lower sales volumes, not attributable to the weather, reduced gross margin by approximately \$197,000, including \$172,000 related to customers in the poultry industry. The closing of a poultry processing plant in the fourth quarter of 2003 is estimated to have reduced gross margin by \$129,000. The plant is not expected to reopen. An outbreak of avian influenza on the Delmarva Peninsula in the first quarter of 2004 also contributed to the lower sales volumes. The influenza outbreak was contained. Volumes were also down partially due to customers conserving energy in light of higher energy costs. Finally, gross margin earned from a non-recurring service project in 2003 contributed \$192,000 to the decline in gross margin.

The Company's propane wholesale marketing operation contributed \$373,000 to operating income; however, this was a decrease of \$533,000 compared to 2003. This reflects a conservative strategy taken in the wholesale marketing operation, due to the high level of energy prices.

Other operating expenses decreased \$411,000 despite additional costs of \$142,000 associated with the implementation of Sarbanes-Oxley Section 404 compliance procedures. The decrease included reductions in incentive compensation, revenue-related taxes and lower delivery costs.

Advanced Information Services

The advanced information services segment provides domestic and international clients with information technology related business services and solutions for both enterprise and e-business applications. The advanced information services business contributed operating income of \$1.2 million for 2005, \$387,000 for 2004, and \$692,000 for 2003.

Advanced Information Services (in thousands)

For the Years Ended December 31,	2005	2004	Increase (decrease)	2004	2003	Increase (decrease)
Revenue	\$ 14,140	\$ 12,427	\$ 1,713	\$ 12,427	\$ 12,578	(\$151)
Cost of sales	7,181	7,015	166	7,015	7,018	(3)
Gross margin	6,959	5,412	1,547	5,412	5,560	(148)
Operations & maintenance	5,129	4,405	724	4,405	4,196	209
Depreciation & amortization	123	138	(15)	138	191	(53)
Other taxes	510	482	28	482	481	1
Other operating expenses	5,762	5,025	737	5,025	4,868	157
Total Operating Income	\$ 1,197	\$ 387	\$ 810	\$ 387	\$ 692	(\$305)

2005 Compared to 2004

The advanced information services segment had operating income of \$1.2 million and \$387,000 for years 2005 and 2004, respectively. The results for 2005 and 2004 include revenues and costs related to the LAMPS™ product that was sold in October 2005. The sale resulted in a \$924,000 pre-tax gain.

Revenues for 2005 increased \$1.7 million to \$14.1 million compared to revenues of \$12.4 million for 2004. The 2005 and 2004 revenue figures include \$2.4 million and \$149,000 of revenue relating to the LAMPS™ product for those respective years. Decreases in consulting revenues for the eBusiness group of \$793,000 and lower sales of Progress software licenses of \$285,000 account for the decrease in revenue when compared to 2004. This decrease is partially offset by the performance revenue of \$238,000 received in the third quarter 2005 and an increase of \$317,000 in consulting revenues for the Enterprise Solutions group. The performance revenue is related to the sale of the webproEX software to QAD that took place in 2003. As part of the sale agreement, Chesapeake receives a percentage of revenues after certain annual revenue and performance targets have been reached by QAD.

Cost of sales for 2005 increased \$165,000 to \$7.2 million, compared to \$7.0 million for 2004. The increase in cost of sales is attributed to the LAMPS™ product. The 2005 and 2004 cost of sales figures includes \$511,000 and \$345,000 of cost for the LAMPS™ product. Other operating expenses increased \$738,000 in 2005 to \$5.8 million, compared to \$5.0 million in 2004. The increase in other operating cost is attributed to the increase of costs relating to the LAMPS™ product. The costs associated with the LAMPS™ product for 2005 and 2004 are \$1.2 million and \$575,000 respectively. The remaining increase is primarily due to health care claims and office rent, which were offset by cost containment measures implemented in the second quarter of 2005 to reduce operating expenses.

2004 compared to 2003

The decrease in gross margin and operating income in 2004 was due to the non-recurring revenue recorded in 2003 on the sale of some rights to one of the Company's internally-developed software products to a third party software provider. Absent the sale, gross margin would have increased by \$351,000; however, the increase was partially offset by higher costs associated with continued investment in the Company's LAMPS™ product and Sarbanes-Oxley compliance costs of \$60,000.

Other Operations and Eliminations

Other operations and eliminating entries generated an operating loss of \$112,000 for 2005 compared to income of \$128,000 for 2004. Other operations consist primarily of subsidiaries that own real estate leased to other Company subsidiaries. In addition, in August 2004 the Company formed OnSight Energy, LLC ("OnSight") to provide distributed energy services. The increase in revenues in 2005 is primarily attributed to OnSight completing its first contract in the second quarter of 2005. Other operating expenses increased in 2005 as a result of a full year of operation by OnSight, compared to a partial year in 2004. Eliminations are entries required to eliminate activities between business segments from the consolidated results.

Other Operations & Eliminations (in thousands)

For the Years Ended December 31,	2005	2004	Increase (decrease)	2004	2003	Increase (decrease)
Revenue	\$ 763	\$ 647	\$ 116	\$ 647	\$ 702	(\$55)
Cost of sales	116	-	116	-	-	-
Gross margin	647	647	-	647	702	(55)
Operations & maintenance	472	279	193	279	79	200
Depreciation & amortization	220	210	10	210	238	(28)
Other taxes	97	63	34	63	55	8
Other operating expenses	789	552	237	552	372	180
Operating Income — Other	(\$142)	\$ 95	(\$237)	\$ 95	\$ 330	(\$235)
Operating Income — Eliminations	\$ 30	\$ 33	(\$3)	\$ 33	\$ 29	\$ 4
Total Operating Income (Loss)	(\$112)	128	(\$240)	128	359	(\$231)

Discontinued Operations

In 2003, Chesapeake decided to exit the water services business. Six of seven water dealerships were sold during 2003 and the remaining operation was sold in October 2004. The results of the water companies' operations, for all periods presented in the consolidated income statements, have been reclassified to discontinued operations and shown net of tax. For 2004, the discontinued operations experienced a net loss of \$121,000, compared to a net loss of \$788,000 for 2003. The Company did not have any discontinued operations in 2005.

Income Taxes

Operating income taxes increased in 2005 compared to 2004, due to increased taxable income. Operating income taxes decreased in 2004 compared to 2003, due to decreased income. The effective current federal income tax rate for 2005 was 35%, whereas the rate for both 2004 and 2003 was 34%. During 2005, 2004 and 2003, the Company benefited of \$223,000, \$205,000, and 197,000, respectively, from a change in the tax law that allows tax deductions for dividends paid on Company stock held in Employee Stock Ownership Plans ("ESOP").

Other Income

Other income was \$383,000, \$549,000 and \$238,000 for the years 2005, 2004 and 2003, respectively. The other income amounts for the years 2005 and 2003 consist of interest income, compared to interest income and gains from the sale of assets for the year 2004.

Interest Expense

Total interest expense for 2005 decreased approximately \$135,000, or 2.6 percent, compared to 2004. The decrease reflects the decrease in the average long-term debt balance. The average long-term debt balance during 2005 was \$67.4 million with a weighted average interest rate of 7.2 percent, compared to \$71.3 million with a weighted average interest rate of 7.2 percent in 2004. The average short-term borrowing balance in 2005 was \$5.7 million, an increase from \$870,000 in 2004. The weighted average interest rate for short-term borrowing increased from 3.7 percent for 2004 to 4.6 percent for 2005.

Total interest expense for 2004 decreased approximately \$438,000, or 8 percent, compared to 2003. The decrease reflects the decrease in the average long-term debt balance. The average long-term debt balance during 2004 was \$71.3 million with a weighted average interest rate of 7.2 percent, compared to \$75.4 million with a weighted average interest rate of 7.2 percent in 2003. The average short-term borrowing balance in 2004 was \$870,000, a decrease from \$3.5 million in 2003. The weighted average interest rate for short-term borrowing increased from 2.4 percent for 2003 to 3.7 percent for 2004.

Liquidity and Capital Resources

Chesapeake's capital requirements reflect the capital-intensive nature of its business and are principally attributable to its investment in new plant and equipment and the retirement of outstanding debt. The Company relies on cash generated from operations and short-term borrowing to meet normal working capital requirements and to temporarily finance capital expenditures. During 2005, net cash provided by operating activities was \$13.3 million, cash used by investing activities was \$32.8 million and cash provided by financing activities was \$20.4 million.

During 2004, net cash provided by operating activities was \$23.4 million, cash used by investing activities was \$16.9 million and cash used by financing activities was \$8.0 million.

As of December 31, 2005, the Board of Directors has authorized the Company to borrow up to \$50.0 million of short-term debt from various banks and trust companies. On December 31, 2005, Chesapeake had five unsecured bank lines of credit with three financial institutions, totaling \$65.0 million. These bank lines provide funds for the Company's short-term cash needs to meet seasonal working capital requirements and to temporarily fund portions of its capital expenditures. Two of the bank lines, totaling \$15.0 million, are committed. The other three lines are subject to the banks' availability of funds. The outstanding balances of short-term borrowing at December 31, 2005 and 2004 were \$35.5 million and \$5.0 million, respectively. In 2005 and 2004, Chesapeake used funds provided by operations and financing to fund net investing.

Chesapeake has budgeted \$54.4 million for capital expenditures during 2006. This amount includes \$20.8 million for natural gas distribution, \$26.7 million for natural gas transmission, \$5.7 million for propane distribution and wholesale marketing, \$178,000 for advanced information services and \$1.0 million for other operations. The natural gas distribution and transmission expenditures are for expansion and improvement of facilities. The propane expenditures are to support customer growth and for the replacement of equipment. The advanced information services expenditures are for computer hardware, software and related equipment. The other category includes general plant, computer software and hardware. Financing for the 2006 capital expenditure program is expected from short-term borrowing, cash provided by operating activities, and other sources. The capital expenditure program is subject to continuous review and modification. Actual capital requirements may vary from the above estimates due to a number of factors, including acquisition opportunities, changing economic conditions, customer growth in existing areas, regulation, new growth opportunities and availability of capital.

Chesapeake expects to incur approximately \$300,000 in 2006 and \$25,000 in 2007 for environmental-related expenditures. Additional expenditures may be required in future years (see Note M to the Consolidated Financial Statements). Management does not expect financing of future environmental-related expenditures to have a material adverse effect on the financial position or capital resources of the Company.

Capital Structure

As of December 31, 2005, common equity represented 59.0 percent of total capitalization, compared to 54.1 percent in 2004. If short-term borrowing and the current portion of long-term debt were included in total capitalization, the equity component of the Company's capitalization would have been 46.0 percent and 51.3 percent, respectively. Chesapeake remains committed to maintaining a sound capital structure and strong credit ratings 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, is intended to ensure that Chesapeake will be able to attract capital from outside sources at a reasonable cost. The Company believes that the achievement of these objectives will provide benefits to customers and creditors, as well as to the Company's investors.

Cash Flows from Operating Activities

The primary drivers for the Company's operating cash flows are cash payments received from gas customers, offset by payments made by the Company for gas costs, operation and maintenance expenses, taxes and interest costs.

Net cash provided by operating activities totaled \$13.3 million, \$23.4 million and \$23.0 million for fiscal years 2005, 2004 and 2003, respectively. A description of certain material changes in working capital from December 31, 2004 to December 31, 2005 is listed below:

- Accounts receivable and accrued revenue increased \$16.8 million. The increase in receivables is attributed to higher gas and propane sale invoices in response to the higher natural gas and propane prices.
- Propane inventory, storage gas and other inventory increased \$5.7 million, primarily due to higher propane and natural gas prices.
- The Company used \$1.2 million of cash to purchase investments for the Rabbi Trust associated with the Company's Supplemental Executive Retirement Savings Plan. See Note E on Investments in Item 8 under the heading "Financial Statements and Supplemental Data".
- Accounts payable and other accrued liabilities increased \$15.3 million largely to fund the higher natural gas and propane purchases due mostly to higher prices.

During 2004, propane inventory, storage gas, and other inventory rose \$1.7 million due to higher natural gas costs and increased storage capacity. During 2004 and 2003, Accounts receivable and accrued revenue increased \$11.7 million and \$3.6 million, respectively, primarily in response to higher gas and propane sale invoices in response to the higher natural gas and propane prices. Accounts payable and other accrued liabilities increased \$11.1 million and \$564,000, respectively, in 2004 and 2003 due to higher natural gas and propane purchases.

Cash Flows Used in Financing Activities

Cash flows received from financing totaled \$20.4 million for 2005 and the cash used in financing activities totaled \$8.0 million and \$16.4 million for fiscal years 2004 and 2003, respectively. During fiscal year 2005, the Company increased the net amount of cash borrowed under its short-term lines of credits by \$29.6 million. Additionally, the Company paid common stock dividends totaling \$5.8 million and reduced its outstanding long-term notes payable balance by \$4.8 million.

Cash flows used in financing activities during year 2004 reflected a \$3.7 million repayment of long-term notes payable, coupled with common stock dividend payments totaling \$5.6 million. Additionally during year 2004, the Company increased the net amount of cash borrowed from its short-term lines of credits by \$1.2 million. During year 2003, cash flows used in financing activities reflected a \$3.9 million repayment of long-term notes payable, a \$7.4 million net repayment of short-term lines of credit, and payment of common stock dividends totaling \$5.4 million.

On June 29, 2005, the Company entered into an agreement in principle with Prudential Investment Management Inc. Subsequently, the Company executed a Note Agreement, dated October 18, 2005, with three institutional investors (The Prudential Insurance Company of America, Prudential Retirement Insurance and Annuity Company and United Omaha Life Insurance Company), pursuant to which the investors agreed, subject to certain conditions, to purchase from the Company \$20 million in principal of 5.5 percent Senior Notes (the "Notes") issued by the Company; provided, that the Company elects to effect the sale of the Notes at any time prior to January 15, 2007. The terms of the Notes will require annual principal repayments of \$2 million beginning on the fifth anniversary of the issuance of the Notes.

Cash Flows Used in Investing Activities

Net cash flows used in investing activities totaled \$32.8 million, \$16.9 million and \$5.9 million during fiscal years 2005, 2004 and 2003, respectively. In fiscal years 2005, 2004 and 2003, \$33.0 million, \$17.8 million and \$11.8 million, respectively, of cash was utilized for capital expenditures. Additions to property, plant and equipment in 2005 were primarily for natural gas transmission (\$15.0 million), natural gas distribution (\$13.3 million) and propane distribution (\$3.8 million). In both 2005 and 2004, the natural gas distribution expenditures were used primarily to fund expansion and facilities improvements. Natural gas transmission capital expenditures related primarily to expanding the Company's transmission system. Additionally, cash of \$240,000, \$370,000 and \$2.2 million was received in years 2005, 2004, and 2003, respectively, for the recovery of environmental costs through rates charged to customers. The year 2003 included cash proceeds of \$3.7 million received from the sale of discontinued operations.

Contractual Obligations

We have the following contractual obligations and other commercial commitments as of December 31, 2005:

Contractual Obligations	Payments Due by Period				Total
	Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years	
Long-term debt ⁽¹⁾	\$ 4,929,091	\$15,312,727	\$13,312,727	\$30,364,909	\$ 63,919,454
Operating leases ⁽²⁾	645,576	1,062,394	692,741	2,376,302	4,777,013
Purchase obligations ⁽³⁾					
Transmission capacity	7,585,816	12,497,472	11,890,259	25,015,062	56,988,609
Storage — Natural Gas	1,422,987	2,709,353	2,696,217	6,518,563	13,347,120
Commodities	20,012,976	-	-	-	20,012,976
Forward purchase contracts — Propane ⁽⁴⁾	21,622,201	-	-	-	21,622,201
Unfunded benefits ⁽⁵⁾	259,399	528,995	551,782	2,678,755	4,018,931
Funded benefits ⁽⁶⁾	68,680	129,697	111,081	1,376,178	1,685,636
Total Contractual Obligations	\$56,546,726	\$32,240,638	\$29,254,807	\$68,329,769	\$186,371,940

⁽¹⁾ Principal payments on long-term debt, see Note H, "Long-Term Debt," in the Notes to the Consolidated Financial Statements for additional discussion of this item. The expected interest payments on long-term debt are \$4.5 million, \$7.7 million, \$5.7 million and \$7.2 million, respectively, for the periods indicated above. Expected interest payments for all periods total \$25.1 million.

⁽²⁾ See Note J, "Lease Obligations," in the Notes to the Consolidated Financial Statements for additional discussion of this item.

⁽³⁾ See Note N, "Other Commitments and Contingencies," in the Notes to the Consolidated Financial Statements for further information.

⁽⁴⁾ The Company has also entered into forward sale contracts. See "Market Risk" of the Management's Discussion and Analysis for further information.

⁽⁵⁾ The Company has recorded long-term liabilities of \$4.0 million at December 31, 2005 for unfunded post-retirement benefit plans. The amounts specified in the table are based on expected payments to current retirees and assumes a retirement age of 65 for currently active employees. There are many factors that would cause actual payments to differ from these amounts, including early retirement, future health care costs that differ from past experience and discount rates implicit in calculations.

⁽⁶⁾ The Company has recorded long-term liabilities of \$1.7 million at December 31, 2005 for funded benefits. These liabilities have been funded using a Rabbi Trust and an asset in the same amount is recorded under Investments on the Balance Sheet. The defined benefit pension plan was closed to new participants on January 1, 1999 and participants in the plan on that date were given the option to leave the plan. See Note K, "Employee Benefit Plans," in the Notes to the Consolidated Financial Statements for further information on the plan. Since the plan modification, no additional funding has been required from the Company and none is expected for the next five years, based on factors in effect at December 31, 2005. However, this is subject to change based on the actual return earned by the plan assets and other actuarial assumptions, such as the discount rate and long-term expected rate of return on plan assets.

Off-Balance Sheet Arrangements

The Company has issued corporate guarantees to certain vendors of its propane wholesale marketing subsidiary, advanced information services, and the Florida natural gas supply and management services subsidiary. These corporate guarantees provide for the payment of propane and natural gas purchases and office rent in the event of the subsidiaries' default. The liabilities for these purchases are included in our Consolidated Financial Statements. The guarantees at December 31, 2005, totaled \$11.2 million and expire on various dates in 2006.

The Company has issued a letter of credit to its main insurance company for \$694,000, which expires May 31, 2006. The letter of credit was provided as security for claims amounts below the deductibles on the Company's policies.

Regulatory Activities

The Company's natural gas distribution operations are subject to regulation by the Delaware, Maryland and Florida Public Service Commissions. The natural gas transmission operation is subject to regulation by the FERC.

Delaware. On October 3, 2005, the Delaware division filed its annual Gas Sales Service Rates ("GSR") application that was effective for service rendered on and after November 1, 2005 with the Delaware Public Service Commission ("Delaware PSC"). On October 11, 2005, the Delaware PSC approved the GSR charges, subject to full evidentiary hearings and a final decision. An evidentiary hearing is currently scheduled for April 6, 2006, with a final decision by the Delaware PSC expected during the second or third quarter of 2006.

On November 1, 2005, the Delaware division filed with the Delaware PSC its annual Environmental Rider ("ER") Rate application that was effective for service rendered on and after December 1, 2005. The Delaware PSC granted approval of the ER rate at its regularly scheduled meeting on November 8, 2005, subject to full evidentiary hearings and a final decision. An evidentiary hearing is currently scheduled for April 5, 2006, with a final decision by the Delaware PSC expected during the second or third quarter of 2006.

On September 2, 2005, the Delaware division filed an application with the Delaware PSC requesting approval of an alternative rate design and rate structure in order to provide natural gas service to prospective customers in eastern Sussex County. While Chesapeake does provide natural gas service to residents and businesses in portions of Sussex County, under the Company's current tariff and traditional ratemaking processes, natural gas has not been extended to the State of Delaware's recently targeted growth areas in eastern Sussex County. In April 2002, Governor Ruth Ann Minner established the Delaware Energy Task Force ("Task Force"), whose mission was to address the State of Delaware's long-term and short-term energy challenges. In September 2003, the Task Force issued its final report to the Governor that included a strategy related to enhancing the availability of natural gas within the State by evaluating possible incentives for expanding residential and commercial natural gas service. Chesapeake believes its current proposal to implement a rate design that will enable the Company to provide natural gas as a viable energy choice to a broad number of prospective customers within eastern Sussex County is consistent with the Task Force recommendation. While the Company cannot predict the outcome of its application at this time, the Company anticipates a final decision from the Delaware PSC regarding its application during the first half of 2006.

Maryland. On December 8, 2005, the Maryland Public Service Commission ("Maryland PSC") held an evidentiary hearing to determine the reasonableness of the Maryland division's four quarterly gas cost recovery filings during the twelve months ended September 30, 2005. On January 12, 2006, the Hearing Examiner issued proposed findings approving the quarterly gas cost recovery rates as filed by the Maryland division, permitting complete recovery of its purchased gas costs for the period under review. The Maryland PSC did not receive any appeals or written exceptions to the proposed findings and as a result a final order was issued on February 14, 2006.

Florida. On August 25, 2004, the Florida division filed a petition with the Florida Public Service Commission ("Florida PSC") for authorization to restructure rates and establish new customer classifications. The filing was revenue-neutral, but would allow the Florida division to collect a greater percentage of revenues from fixed charges, rather than variable charges based upon consumption. On February 1, 2005, the Florida PSC voted to approve the petition, as modified by the PSC staff. The Florida PSC issued a final order on February 22, 2005.

On May 16, 2005, the Florida division filed for approval of a Special Contract with the Department of Management Services, an agency of the State of Florida, for service to the Washington Correction Institution ("WCI"). The Florida Public Service Commission approved the Company's request on July 19, 2005, and service to the existing WCI facility is expected to begin during the first quarter of 2006. WCI is located in Washington County in the Florida panhandle and would become the thirteenth county served by the Company's Florida division.

On September 2, 2005, the Florida division filed a petition for a Declaratory Statement with the FPSC for a determination that Peninsula Pipeline Company, Inc. ("PPC"), a wholly owned subsidiary of the Company, qualifies as a natural gas transmission company under the Natural Gas Transmission Pipeline Intrastate Regulatory Act. The Florida PSC approved this Petition at its December 20, 2005 agenda conference, and a final order was issued on January 9, 2006. A determination that PPC does qualify as a natural gas transmission company would provide opportunities for investment to deliver gas service to industrial customers in Florida by an intra-state pipeline, instead of through Chesapeake Utilities Corporation, to certain niche markets.

Eastern Shore. During October 2002, Eastern Shore filed for recovery of gas supply realignment costs, which totaled \$196,000 (including interest), associated with the implementation of FERC Order No. 636. At that time, the FERC deferred review of the filing pending settlement of a related matter concerning another transmission company. Chesapeake understands that the other matter has now been resolved and Eastern Shore intends to resubmit its gas supply realignment filing during first quarter of 2006.

On April 1, 2003, Eastern Shore filed an application for a Certificate of Public Convenience and Necessity ("Application") before the FERC requesting authorization to construct the necessary facilities to enable Eastern Shore to provide additional daily firm transportation capacity of 15,100 dekatherms over a three-year period commencing November 1, 2003. On October 8, 2003, the FERC issued an order granting Eastern Shore the authority to construct and operate certain pipeline and measurement facilities in its service territories as requested. Phases I and II of the Application began providing services November 1, 2003 and 2004, respectively. On December 22, 2004, Eastern Shore filed to amend the above-referenced Application to seek FERC authorization to construct and operate new pipeline facilities to provide an additional 7,450 dekatherms of daily firm transportation service, as requested by its customers, to be available November 1, 2005. On June 27, 2005, the FERC issued an Order Amending Certificate, granting approval to Eastern Shore to construct and operate the additional pipeline facilities requested. Phase III began November 1, 2005.

On December 9, 2005, Eastern Shore filed revised tariff sheets to replace its existing fixed price penalties with penalties that are the higher of a fixed price or a multiple of a daily index price. The revised penalties are applicable to customers who violate operational Flow Orders and customers who take unauthorized overrun quantities that could threaten the operational integrity of the pipeline, or to Eastern Shore's ability to render reliable service. By letter order dated January 6, 2006, the FERC accepted Eastern Shore's proposed changes, effective December 21, 2005.

Eastern Shore is also following the FERC's recent rulemaking pertaining to creditworthiness standards for customers of interstate natural gas pipelines. FERC has not yet issued its final rules in this proceeding. Upon such issuance, Eastern Shore will evaluate its currently effective tariff creditworthiness provisions to determine whether any actions will need to be taken to conform to the FERC's final rules.

Environmental Matters

The Company continues to work with federal and state environmental agencies to assess the environmental impact and explore corrective action at three other environmental sites (see Note M to the Consolidated Financial Statements). The Company believes that future costs associated with these sites will be recoverable in rates or through sharing arrangements with, or contributions by, other responsible parties.

Market Risk

Market risk represents the potential loss arising from adverse changes in market rates and prices. Long-term debt is subject to potential losses based on the change in interest rates. The Company's long-term debt consists of first mortgage bonds, senior notes and convertible debentures (see Note H to the Consolidated Financial Statements for annual maturities of consolidated long-term debt). All of Chesapeake's long-term debt is fixed-rate debt and was not entered into for trading purposes. The carrying value of the Company's long-term debt, including current maturities, was \$63.9 million at December 31, 2005, as compared to a fair value of \$68.5 million, based mainly on current market prices or discounted cash flows using current rates for similar issues with similar terms and remaining maturities. The Company evaluates whether to refinance existing debt or permanently finance existing short-term borrowing based in part on the fluctuation in interest rates.

The Company's propane distribution business is exposed to market risk as a result of propane storage activities and entering into fixed price contracts for supply. The Company can store up to approximately four million gallons of propane (including leased storage and rail cars) during the winter season to meet its customers' peak requirements and to serve metered customers. Decreases in the wholesale price of propane may cause the value of stored propane to decline. To mitigate the impact of price fluctuations, the Company has adopted a Risk Management Policy that allows the propane distribution operation to enter into fair value hedges of its inventory. At December 31, 2005, the propane distribution operation had entered into a put contract to protect the value of 2.1 million gallons of propane inventory from a drop in fair value. The Company settled the put in January 2006, which resulted in a benefit of \$28,000.

The propane wholesale marketing operation is a party to natural gas liquids ("NGL") forward contracts, primarily propane contracts, with various third parties. These contracts require that the propane wholesale marketing operation purchase or sell NGL at a fixed price at fixed future dates. At expiration, the contracts are settled by the delivery of NGL to the Company or the counter party or booking out the transaction (booking out is a procedure for financially settling a contract in lieu of the physical delivery of energy). The propane wholesale marketing operation also enters into futures contracts that are traded on the New York Mercantile Exchange. In certain cases, the futures contracts are settled by the payment of a net amount equal to the difference between the current market price of the futures contract and the original contract price.

The forward and futures contracts are entered into for trading and wholesale marketing purposes. The propane wholesale marketing operation is subject to commodity price risk on its open positions to the extent that market prices for NGL deviate from fixed contract settlement amounts. Market risk associated with the trading of futures and forward contracts are monitored daily for compliance with Chesapeake's Risk Management Policy, which includes volumetric limits for open positions. To manage exposures to changing market prices, open positions are marked up or down to market prices and reviewed by oversight officials on a daily basis. Additionally, the Risk Management Committee reviews periodic reports on market and credit risk, approves any exceptions to the Risk Management Policy (within the limits established by the Board of Directors) and authorizes the use of any new types of contracts. Quantitative information on the forward and futures contracts at December 31, 2005 and 2004 is shown in the following charts.

<u>At December 31, 2005</u>	<u>Quantity in gallons</u>	<u>Estimated Market Prices</u>	<u>Weighted Average Contract Prices</u>
Forward Contracts			
Sale	20,794,200	\$1.0350 — \$1.1013	\$1.0718
Purchase	20,202,000	\$1.0100 — \$1.0450	\$1.0703

*Estimated market prices and weighted average contract prices are in dollars per gallon.
All contracts expire in 2006.*

<u>At December 31, 2004</u>	<u>Quantity in gallons</u>	<u>Estimated Market Prices</u>	<u>Weighted Average Contract Prices</u>
Forward Contracts			
Sale	10,044,510	\$0.7725 — \$0.7750	\$0.7828
Purchase	9,975,000	\$0.7300 — \$0.7500	\$0.8007
Futures Contracts			
Sale	378,000	\$0.7450 — \$0.7500	\$0.7868
Purchase	420,000	\$0.7200 — \$0.7300	\$0.7500

*Estimated market prices and weighted average contract prices are in dollars per gallon.
All contracts expired in 2005.*

The Company's natural gas distribution operations have entered into agreements with natural gas suppliers to purchase natural gas for resale to their customers. Purchases under these contracts either do not meet the definition of derivatives in SFAS No. 133 or are considered "normal purchases and sales" under SFAS No. 138 and are not marked to market.

Competition

The Company's natural gas operations compete with other forms of energy including electricity, oil and propane. The principal competitive factors are price, and to a lesser extent, accessibility. The Company's natural gas distribution operations have several large volume industrial customers that have the capacity to use fuel oil as an alternative to natural gas. When oil prices decline, these interruptible customers convert to oil to satisfy their fuel requirements. Lower levels in interruptible sales occur when oil prices are lower relative to the price of natural gas. Oil prices, as well as the prices of electricity and other fuels, are subject to fluctuation for a variety of reasons; therefore, future competitive conditions are not predictable. To address this uncertainty, the Company uses flexible pricing arrangements on both the supply and sales side of this business to maximize sales volumes. As a result of the transmission business' conversion to open access and the Florida division's restructuring of its services, their businesses have shifted from providing competitive sales service to providing transportation and contract storage services.

The Company's natural gas distribution operations located in Delaware, Maryland and Florida offer transportation services to certain commercial and industrial customers. In 2002, the Florida operation extended transportation service to residential customers. With transportation service available on the Company's distribution systems, the Company is competing with third party suppliers to sell gas to industrial customers. As it relates to transportation services, the Company's competitors include the interstate transmission company if the distribution customer is located close enough to the transmission company's pipeline to make a connection economically feasible. The customers at risk are usually large volume commercial and industrial customers with the financial resources and capability to bypass the distribution operations in this manner. In certain situations, the distribution operations may adjust services and rates for these customers to retain their business. The Company expects to continue to expand the availability of transportation service to additional classes of distribution customers in the future. The Company established a natural gas sales and supply operation in Florida to compete for customers eligible for transportation services. The Company also provides sales service in Delaware.

The Company's propane distribution operations compete with several other propane distributors in their service territories, primarily on the basis of service and price, emphasizing reliability of service and responsiveness. Competition is generally from local outlets of national distribution companies and local businesses, because distributors located in close proximity to customers incur lower costs of providing service. Propane competes with electricity as an energy source, because it is typically less expensive than electricity, based on equivalent BTU value. Propane also competes with home heating oil as an energy source. Since natural gas has historically been less expensive than propane, propane is generally not distributed in geographic areas serviced by natural gas pipeline or distribution systems.

The propane wholesale marketing operation competes against various marketers, many of which have significantly greater resources and are able to obtain price or volumetric advantages.

The advanced information services business faces significant competition from a number of larger competitors having substantially greater resources available to them than does the Company. In addition, changes in the advanced information services business are occurring rapidly, which could adversely impact the markets for the products and services offered by these businesses. This segment competes on the basis of technological expertise, reputation and price.

Inflation

Inflation affects the cost of labor, products and services required for operation, maintenance and capital improvements. While the impact of inflation has remained low in recent years, natural gas and propane prices are subject to rapid fluctuations. Fluctuations in natural gas prices are passed on to customers through the gas cost recovery mechanism in the Company's tariffs. To help cope with the effects of inflation on its capital investments and returns, the Company seeks rate relief from regulatory commissions for regulated operations while monitoring the returns of its unregulated business operations. To compensate for fluctuations in propane gas prices, Chesapeake adjusts its propane selling prices to the extent allowed by the market.

Recent Pronouncements

In December 2004, the FASB released a revision ("Share-Based Payment") to SFAS No. 123 "Accounting for Stock-Based Compensation," referred to as SFAS No. 123R. In April 2005, the SEC approved a new rule that delayed the effective date for SFAS No. 123R until the first annual period beginning after June 15, 2005. This Statement establishes financial accounting and reporting standards for stock-based employee compensation plans. Those plans include all arrangements by which employees receive shares of stock or other equity instruments of the employer or the employer incurs liabilities to employees in amounts based on the price of the employer's stock. Examples are stock purchase plans, stock options, restricted stock and stock appreciation rights. The adoption of this pronouncement will not have a material impact on the Company's financial statements.

In March 2005, the FASB issued Interpretation No. 47 ("FIN No. 47"), "Accounting for Conditional Asset Retirement Obligations," an interpretation of SFAS No. 143. FIN No. 47 clarifies that the term conditional asset retirement obligation refers to a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. The obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and (or) method of settlement. Thus, the timing and (or) method of settlement may be conditional on a future event. FIN No. 47 also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. The Company adopted FIN No. 47 during the fourth quarter of 2005 and it did not have a material impact on its financial statements.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections — a replacement of APB Opinion No. 20 and FASB Statement No. 3". SFAS No. 154 primarily requires retrospective application to prior periods' financial statements for the direct effects of changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. This statement applies to all voluntary changes in accounting principle and also applies to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. The statement is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The Company is required to adopt the provision of SFAS No. 154, as applicable, beginning in fiscal year 2006.

Cautionary Statement

Chesapeake has made statements in this report that are considered to be forward-looking statements. These statements are not matters of historical fact. Sometimes they contain words such as “believes,” “expects,” “intends,” “plans,” “will” or “may,” and other similar words of a predictive nature. These statements relate to matters such as customer growth, changes in revenues or gross margin, capital expenditures, environmental remediation costs, regulatory approvals, market risks associated with the Company’s propane wholesale marketing operation, competition, inflation and other matters. It is important to understand that these forward-looking statements are not guarantees but are subject to certain risks and uncertainties and other important factors that could cause actual results to differ materially from those in the forward-looking statements. These factors include, among other things:

- o the temperature sensitivity of the natural gas and propane businesses;
- o the effect of spot, forward and futures market prices on the Company’s distribution, wholesale marketing and energy trading businesses;
- o the effects of competition on the Company’s unregulated and regulated businesses;
- o the effect of changes in federal, state or local regulatory and tax requirements, including deregulation;
- o the effect of accounting changes;
- o the effect of changes in benefit plan assumptions;
- o the effect of compliance with environmental regulations or the remediation of environmental damage;
- o the effects of general economic conditions on the Company and its customers;
- o the ability of the Company’s new and planned facilities and acquisitions to generate expected revenues; and
- o the Company’s ability to obtain the rate relief and cost recovery requested from utility regulators and the timing of the requested regulatory actions.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Information concerning quantitative and qualitative disclosure about market risk is included in Item 7 under the heading "Management's Discussion and Analysis — Market Risk."

Item 8. Financial Statements and Supplemental Data.

Management's Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f). A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Under the supervision and with the participation of management, including the principal executive officer and principal financial officer, Chesapeake's management conducted an evaluation of the effectiveness of its internal control over financial reporting based on the criteria established in a report entitled "Internal Control — Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Chesapeake's management has evaluated and concluded that Chesapeake's internal control over financial reporting was effective as of December 31, 2005.

Management's assessment of the effectiveness of Chesapeake's internal control over financial reporting as of December 31, 2005 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which is included herein.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders
of Chesapeake Utilities Corporation

We have completed integrated audits of Chesapeake Utilities Corporation's 2005 and 2004 consolidated financial statements and of its internal control over financial reporting as of December 31, 2005, and an audit of its 2003 financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated financial statements and financial statement schedule

In our opinion, the consolidated financial statements listed in the index appearing under Item 15(a)(1) present fairly, in all material respects, the financial position of Chesapeake Utilities Corporation and its subsidiaries at December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2005, in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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 of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Internal control over financial reporting

Also, in our opinion, management's assessment, included in Management's Report on Internal Control Over Financial Reporting appearing under Item 8, that the Company maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control - Integrated Framework* issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP
PricewaterhouseCoopers LLP
Boston, MA
March 6, 2006

This page intentionally left blank.

Consolidated Statements of Income

For the Years Ended December 31,	2005	2004	2003
Operating Revenues	\$229,629,736	\$177,955,441	\$163,567,592
Operating Expenses			
Cost of sales, excluding costs below	153,514,739	109,626,377	95,246,819
Operations	40,181,649	35,146,595	33,526,804
Maintenance	1,818,981	1,518,774	1,737,855
Depreciation and amortization	7,568,209	7,257,538	7,089,836
Other taxes	5,015,659	4,436,411	4,386,878
Total operating expenses	208,099,237	157,985,695	141,988,192
Operating Income	21,530,499	19,969,746	21,579,400
Other income net of other expenses	382,626	549,156	238,439
Interest charges	5,133,495	5,268,145	5,705,911
Income Before Income Taxes	16,779,630	15,250,757	16,111,928
Income taxes	6,312,016	5,701,090	6,032,445
Net Income from Continuing Operations	10,467,614	9,549,667	10,079,483
Loss from discontinued operations, net of tax benefit of \$0, \$59,751 and \$74,997	-	(120,900)	(787,607)
Net Income	\$ 10,467,614	\$ 9,428,767	\$ 9,291,876
Earnings Per Share of Common Stock:			
Basic			
From continuing operations	\$ 1.79	\$ 1.66	\$ 1.80
From discontinued operations	-	(0.02)	(0.14)
Net Income	\$ 1.79	\$ 1.64	\$ 1.66
Diluted			
From continuing operations	\$ 1.77	\$ 1.64	\$ 1.76
From discontinued operations	-	(0.02)	(0.13)
Net Income	\$ 1.77	\$ 1.62	\$ 1.63

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

Consolidated Statements of Cash Flows

For the Years Ended December 31,	2005	2004	2003
Operating Activities			
Net Income	\$ 10,467,614	\$ 9,428,767	\$ 9,291,876
Adjustments to reconcile net income to net operating cash:			
Depreciation and amortization	7,568,209	7,257,538	8,030,399
Depreciation and accretion included in other costs	2,705,619	2,611,779	2,468,647
Deferred income taxes, net	1,510,776	4,559,207	2,397,594
Unrealized (loss) gain on commodity contracts	(227,193)	353,183	457,901
Employee benefits and compensation	1,621,607	1,536,586	2,042,093
Other, net	(62,692)	67,079	15,874
Changes in assets and liabilities:			
Sale (purchase) of investments	(1,242,563)	43,354	-
Accounts receivable and accrued revenue	(16,831,750)	(11,723,505)	(3,565,363)
Propane inventory, storage gas and other inventory	(5,704,040)	(1,741,941)	(466,412)
Regulatory assets	(1,719,184)	428,516	116,153
Prepaid expenses and other current assets	36,703	(221,137)	(316,425)
Other deferred charges	(102,562)	(168,898)	43,844
Long-term receivables	247,600	428,964	(101,373)
Accounts payable and other accrued liabilities	15,258,551	11,079,661	564,270
Income taxes receivable (payable)	(2,006,763)	(229,237)	25,090
Accrued interest	(42,374)	(51,272)	(47,464)
Customer deposits and refunds	462,781	665,549	128,704
Accrued compensation	875,342	(794,194)	910,587
Regulatory liabilities	144,499	(191,266)	466,923
Environmental and other liabilities	328,383	12,721	550,977
Net cash provided by operating activities	13,288,563	23,351,454	23,013,895
Investing Activities			
Property, plant and equipment expenditures	(33,008,235)	(17,784,240)	(11,790,364)
Sale of investments	-	135,170	-
Sale of discontinued operations	-	415,707	3,732,649
Environmental recoveries and other	240,336	369,719	2,127,248
Net cash used by investing activities	(32,767,899)	(16,863,644)	(5,930,467)
Financing Activities			
Common stock dividends	(5,789,179)	(5,560,535)	(5,403,536)
Issuance of stock for Dividend Reinvestment Plan	458,756	200,551	347,546
Change in cash overdrafts due to outstanding checks	874,083	(143,720)	(46,853)
Net borrowing (repayment) under line of credit agreements	29,606,400	1,184,743	(7,384,743)
Repayment of long-term debt	(4,794,827)	(3,665,589)	(3,945,617)
Net cash used by financing activities	20,355,233	(7,984,550)	(16,433,203)
Net Increase (Decrease) in Cash and Cash Equivalents	875,897	(1,496,740)	650,225
Cash and Cash Equivalents — Beginning of Period	1,611,761	3,108,501	2,458,276
Cash and Cash Equivalents — End of Period	\$ 2,487,658	\$ 1,611,761	\$ 3,108,501
Supplemental Disclosure of Cash Flow information			
Cash paid for interest	\$ 5,052,013	\$ 5,280,299	\$ 5,648,332
Cash paid for income taxes	\$ 6,342,476	\$ 1,977,223	\$ 3,767,816

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

Consolidated Balance Sheets

Assets

At December 31,	2005	2004
Property, Plant and Equipment		
Natural gas distribution and transmission	\$220,685,461	\$198,306,668
Propane	41,563,810	38,344,983
Advanced information services	1,221,177	1,480,779
Other plant	9,275,729	9,368,153
Total property, plant and equipment	272,746,177	247,500,583
Less: Accumulated depreciation and amortization	(78,840,413)	(73,213,605)
Plus: Construction work in progress	7,598,531	2,766,209
Net property, plant and equipment	201,504,295	177,053,187
Investments	1,685,635	386,422
Current Assets		
Cash and cash equivalents	2,487,658	1,611,761
Accounts receivable (less allowance for uncollectible accounts of \$861,378 and \$610,819, respectively)	54,284,011	36,938,688
Accrued revenue	4,716,383	5,229,955
Propane inventory, at average cost	6,332,956	4,654,119
Other inventory, at average cost	1,538,936	1,056,530
Regulatory assets	4,434,828	2,435,284
Storage gas prepayments	8,628,179	5,085,382
Income taxes receivable	2,725,840	719,078
Prepaid expenses	2,021,164	1,759,643
Other current assets	1,596,797	459,908
Total current assets	88,766,752	59,950,348
Deferred Charges and Other Assets		
Goodwill	674,451	674,451
Other intangible assets, net	205,683	219,964
Long-term receivables	961,434	1,209,034
Other regulatory assets	1,178,232	1,542,741
Other deferred charges	1,003,393	902,281
Total deferred charges and other assets	4,023,193	4,548,471
Total Assets	\$295,979,875	\$241,938,428

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

Consolidated Balance Sheets

Capitalization and Liabilities

At December 31,	2005	2004
Capitalization		
Stockholders' equity		
Common Stock, par value \$.4867 per share; (authorized 12,000,000 shares) ⁽¹⁾	\$ 2,863,212	\$ 2,812,538
Additional paid-in capital	39,619,849	36,854,717
Retained earnings	42,854,894	39,015,087
Accumulated other comprehensive income	(578,151)	(527,246)
Deferred compensation obligation	794,535	816,044
Treasury stock	(797,156)	(1,008,696)
Total stockholders' equity	84,757,183	77,962,444
Long-term debt, net of current maturities	58,990,363	66,189,454
Total capitalization	143,747,546	144,151,898
Current Liabilities		
Current portion of long-term debt	4,929,091	2,909,091
Short-term borrowing	35,482,241	5,001,758
Accounts payable	45,645,228	30,938,272
Customer deposits and refunds	5,140,999	4,678,218
Accrued interest	558,719	601,095
Dividends payable	1,676,398	1,617,245
Deferred income taxes payable	1,150,828	571,876
Accrued compensation	3,793,244	2,680,370
Regulatory liabilities	550,546	571,111
Other accrued liabilities	3,560,055	1,800,540
Total current liabilities	102,487,349	51,369,576
Deferred Credits and Other Liabilities		
Deferred income taxes payable	24,248,624	23,350,414
Deferred investment tax credits	367,085	437,909
Other regulatory liabilities	2,008,779	1,578,374
Environmental liabilities	352,504	461,656
Accrued pension costs	3,099,882	3,007,949
Accrued asset removal cost	16,727,268	15,024,849
Other liabilities	2,940,838	2,555,803
Total deferred credits and other liabilities	49,744,980	46,416,954
Other Commitments and Contingencies (Note N)		
Total Capitalization and Liabilities	\$295,979,875	\$241,938,428

⁽¹⁾ Shares issued were 5,883,099 and 5,778,976 for 2005 and 2004, respectively.

Shares outstanding were 5,883,002 and 5,769,558 for 2005 and 2004, respectively.

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



Consolidated Statements of Stockholders' Equity

For the Years Ended December 31,	2005	2004	2003
Common Stock			
Balance — beginning of year	\$ 2,812,538	\$ 2,754,748	\$ 2,694,935
Dividend Reinvestment Plan	20,038	20,125	24,888
Retirement Savings Plan	10,255	19,058	21,047
Conversion of debentures	11,004	9,060	9,144
Performance shares and options exercised ⁽¹⁾	9,377	9,547	4,734
Balance — end of year	2,863,212	2,812,538	2,754,748
Additional Paid-in Capital			
Balance — beginning of year	36,854,717	34,176,361	31,756,983
Dividend Reinvestment Plan	1,224,874	996,715	1,066,386
Retirement Savings Plan	682,829	946,319	899,475
Conversion of debentures	373,259	307,940	310,293
Performance shares and options exercised ⁽¹⁾	484,170	427,382	143,224
Balance — end of year	39,619,849	36,854,717	34,176,361
Retained Earnings			
Balance — beginning of year	39,015,087	36,008,246	32,898,283
Net income	10,467,614	9,428,767	9,291,876
Cash dividends ⁽²⁾	(6,627,807)	(6,403,450)	(6,181,913)
Loss on issuance of treasury stock	-	(18,476)	-
Balance — end of year	42,854,894	39,015,087	36,008,246
Accumulated Other Comprehensive Income			
Balance — beginning of year	(527,246)	-	-
Minimum pension liability adjustment, net of tax	(50,905)	(527,246)	-
Balance — end of year	(578,151)	(527,246)	0
Deferred Compensation Obligation			
Balance — beginning of year	816,044	913,689	711,109
New deferrals	130,426	296,790	202,580
Payout of deferred compensation	(151,935)	(394,435)	-
Balance — end of year	794,535	816,044	913,689
Treasury Stock			
Balance — beginning of year	(1,008,696)	(913,689)	(711,109)
New deferrals related to compensation obligation	(130,426)	(296,790)	(202,580)
Purchase of treasury stock	(182,292)	(344,753)	-
Sale and distribution of treasury stock	524,258	546,536	-
Balance — end of year	(797,156)	(1,008,696)	(913,689)
Total Stockholders' Equity	\$ 84,757,183	\$ 77,962,444	\$ 72,939,355

⁽¹⁾ Includes amounts for shares issued for Directors' compensation.

⁽²⁾ Cash dividends declared per share for 2005, 2004 and 2003 were \$1.14, \$1.12 and \$1.10, respectively.

Consolidated Statements of Comprehensive Income

For the Years Ended December 31,	2005	2004	2003
Net income	\$ 10,467,614	\$ 9,428,767	\$ 9,291,876
Minimum pension liability adjustment, net of tax of \$33,615 and \$347,726, respectively	(50,905)	(527,246)	-
Comprehensive Income	\$ 10,416,709	\$ 8,901,521	\$ 9,291,876

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

Consolidated Statements of Income Taxes

For the Years Ended December 31,	2005	2004	2003
Current Income Tax Expense			
Federal	\$ 3,687,800	\$ 1,221,155	\$ 4,168,433
State	789,233	618,916	948,023
Investment tax credit adjustments, net	(54,816)	(54,816)	(54,816)
Total current income tax expense	4,422,217	1,785,255	5,061,640
Deferred Income Tax Expense ⁽¹⁾			
Property, plant and equipment	1,380,628	4,230,650	1,980,070
Deferred gas costs	1,064,310	283,547	105,846
Pensions and other employee benefits	(340,987)	(49,620)	(203,229)
Environmental expenditures	(98,229)	(150,864)	(866,206)
Other	(115,923)	(397,878)	(45,676)
Total deferred income tax expense	1,889,799	3,915,835	970,805
Total Income Tax Expense	\$ 6,312,016	\$ 5,701,090	\$ 6,032,445
Reconciliation of Effective Income Tax Rates			
Federal income tax expense ⁽²⁾	\$ 5,872,871	\$ 5,185,257	\$ 5,478,056
State income taxes, net of federal benefit	708,192	736,176	737,370
Other	(269,047)	(220,343)	(182,981)
Total Income Tax Expense	\$ 6,312,016	\$ 5,701,090	\$ 6,032,445
Effective income tax rate	37.6%	37.4%	37.4%
At December 31,	2005	2004	
Deferred Income Taxes			
Deferred income tax liabilities:			
Property, plant and equipment	\$ 26,795,452	\$ 25,736,718	
Deferred gas costs	1,664,252	599,945	
Other	612,943	749,259	
Total deferred income tax liabilities	29,072,647	27,085,922	
Deferred income tax assets:			
Pension and other employee benefits	2,289,370	1,914,402	
Self insurance	575,303	535,755	
Environmental costs	181,734	83,510	
Other	626,788	629,965	
Total deferred income tax assets	3,673,195	3,163,632	
Deferred Income Taxes Per Consolidated Balance Sheet	\$ 25,399,452	\$ 23,922,290	

⁽¹⁾ Includes \$146,000, \$386,000 and \$113,000 of deferred state income taxes for the years 2005, 2004 and 2003, respectively.

⁽²⁾ Federal income taxes were recorded at 35% for the year 2005. They were recorded at 34% in both 2004 and 2003.

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

A. Summary of Accounting Policies

Nature of Business

Chesapeake Utilities Corporation (“Chesapeake” or “the Company”) is engaged in natural gas distribution to approximately 54,800 customers located in central and southern Delaware, Maryland’s Eastern Shore and Florida. The Company’s natural gas transmission subsidiary operates an intrastate pipeline from various points in Pennsylvania and northern Delaware to the Company’s Delaware and Maryland distribution divisions, as well as other utility and industrial customers in Pennsylvania, Delaware and the Eastern Shore of Maryland. The Company’s propane distribution and wholesale marketing segment provides distribution service to approximately 32,900 customers in central and southern Delaware, the Eastern Shore of Maryland, southeastern Pennsylvania, central Florida and the Eastern Shore of Virginia, and markets propane to wholesale customers including large independent oil and petrochemical companies, resellers and propane distribution companies in the southeastern United States. The advanced information services segment provides domestic and international clients with information technology related business services and solutions for both enterprise and e-business applications.

Principles of Consolidation

The Consolidated Financial Statements include the accounts of the Company and its wholly owned subsidiaries. The Company does not have any ownership interests in investments accounted for using the equity method or any variable interests in a variable interest entity. All significant 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 their respective public service commissions with respect to their rates for service, maintenance of their accounting records and various other matters. Eastern Shore Natural Gas Company is an open access pipeline and is subject to regulation by the Federal Energy Regulatory Commission (“FERC”). Our financial statements are prepared in accordance with generally accepted accounting principles, which give appropriate recognition to the ratemaking and accounting practices and policies of the various commissions. The propane, advanced information services and other business segments are not subject to regulation with respect to rates or maintenance of accounting records.

Property, Plant, Equipment and Depreciation

Utility property is stated at original cost while the assets of the non-utility segments are recorded at cost. The costs of repairs and minor replacements are charged against income as incurred and the costs of major renewals and betterments are capitalized. Upon retirement or disposition of non-utility property, the gain or loss, net of salvage value, is charged to income. The provision for depreciation is computed using the straight-line method at rates that amortize the unrecovered cost of depreciable property over the estimated remaining useful life of the asset. Depreciation and amortization expenses are provided at an annual rate for each segment. The three-year average rates were 3 percent for natural gas distribution and transmission, 5 percent for propane, 11 percent for advanced information services and 7 percent for general plant.

<u>At December 31,</u>	<u>2005</u>	<u>2004</u>	<u>Useful Life ⁽¹⁾</u>
Plant in service			
Mains	\$113,111,408	\$ 99,154,938	24-37 years
Services — utility	29,010,008	25,733,797	14-28 years
Compressor station equipment	23,853,871	23,766,105	28 years
Liquefied petroleum gas equipment	22,162,867	21,483,969	30-39 years
Meters and meter installations	15,165,212	13,656,918	Propane 15-33 years, Natural gas 17-49 years
Measuring and regulating station equipment	12,219,964	10,142,531	17-37 years
Office furniture and equipment	9,572,926	10,171,180	Non-regulated 3-10 years, Regulated 3-20 years
Transportation equipment	9,822,272	9,425,605	2-11 years
Structures and improvements	9,161,696	9,177,011	5-44 years ⁽²⁾
Land and land rights	5,646,852	4,703,683	Not depreciable, except certain regulated assets
Propane bulk plants and tanks	6,097,036	5,024,462	15 - 40 years
Various	16,922,065	15,060,384	Various
Total plant in service	272,746,177	247,500,583	
Plus construction work in progress	7,598,531	2,766,209	
Less accumulated depreciation	(78,840,413)	(73,213,605)	
Net property, plant and equipment	<u>\$201,504,295</u>	<u>\$177,053,187</u>	

⁽¹⁾ Certain immaterial account balances may fall outside this range.

The regulated operations compute depreciation in accordance with rates approved by either the state Public Service Commission or the Federal Energy Regulatory Commission. These rates are based on depreciation studies and may change periodically upon receiving approval from the appropriate regulatory body. The depreciation rates shown above are based on the remaining useful lives of the assets at the time of the depreciation study, rather than their original lives. The depreciation rates are composite, straight-line rates applied to the average investment for each class of depreciable property and are adjusted for anticipated cost of removal less salvage value.

The non-regulated operations compute depreciation using the straight-line method over the estimated useful life of the asset.

⁽²⁾ Includes buildings, structures used in connection with natural gas and propane operations, improvements to those facilities and leasehold improvements.

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 value. Investments with an original maturity of three months or less when purchased are considered cash equivalents.

Inventories

The Company uses the average cost method to value propane and materials and supplies inventory. The appliance inventory is valued at first-in first-out ("FIFO"). If the market prices drop below cost, inventory balances that are subject to price risk are adjusted to market values.

Regulatory Assets, Liabilities and Expenditures

The Company accounts for its regulated operations in accordance with SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation." This standard includes accounting principles for companies whose rates are determined by independent third-party regulators. When setting rates, regulators often make decisions, the economics of which require companies to defer costs or revenues in different periods than may be appropriate for unregulated enterprises. When this situation occurs, the regulated utility defers the associated costs as assets

(regulatory assets) on the balance sheet, and records them as expense on the income statement as it collects revenues. Further, regulators can also impose liabilities upon a company for amounts previously collected from customers, and for recovery of costs that are expected to be incurred in the future (regulatory liabilities).

At December 31, 2005 and 2004, the regulated utility operations had recorded the following regulatory assets and liabilities on the Balance Sheets. These assets and liabilities will be recognized as revenues and expenses in future periods as they are reflected in customers' rates.

At December 31,	2005	2004
Regulatory Assets		
Current		
Underrecovered purchased gas costs	\$ 4,016,522	\$ 1,479,358
Conservation cost recovery	303,930	186,234
Swing transportation imbalances	454	32,707
Flex rate asset	113,922	736,985
Total current	4,434,828	2,435,284
Non-Current		
Income tax related amounts due from customers	711,961	711,961
Deferred regulatory and other expenses	89,258	200,746
Deferred gas supply	15,201	15,201
Deferred gas required for operations	-	141,082
Deferred post retirement benefits	166,739	194,529
Environmental regulatory assets and expenditures	195,073	279,222
Total non-current	1,178,232	1,542,741
Total Regulatory Assets	\$ 5,613,060	\$ 3,978,025
Regulatory Liabilities		
Current		
Self insurance — current	\$ 44,221	\$ 127,000
Shared interruptible margins	3,039	135,098
Operational flow order penalties	7,831	130,338
Swing transportation imbalances	495,455	178,675
Total current	550,546	571,111
Non-Current		
Self insurance — long-term	1,383,247	1,221,101
Income tax related amounts due to customers	327,893	324,974
Environmental overcollections	297,639	32,299
Total non-current	2,008,779	1,578,374
Accrued asset removal cost	16,727,268	15,024,849
Total Regulatory Liabilities	\$19,286,593	\$17,174,334

Included in the regulatory assets listed above are \$1.8 million of which are accruing interest. Of the remaining regulatory assets, \$2.7 million will be collected in approximately one to two years, \$360,000 will be collected within approximately 3 to 10 years, and \$729,000 are awaiting regulatory approval for recovery, but once approved are expected to be collected within 12 months.

As required by SFAS No. 71, the Company monitors its regulatory and competitive environment to determine whether the recovery of its regulatory assets continues to be probable. If the Company were to determine that recovery of these assets is no longer probable, it would write off the assets against earnings. The Company believes that SFAS No. 71 continues to apply to its regulated operations, and that the recovery of its regulatory assets is probable.

Goodwill and Other Intangible Assets

Goodwill and other intangible assets are associated with the acquisition of non-utility companies. In accordance with SFAS No. 142, goodwill is not amortized, but is tested for impairment on an annual basis and when events change. Other intangible assets are amortized on a straight-line basis over their estimated economic useful lives.

Other Deferred Charges

Other deferred charges include discount, premium and issuance costs associated with long-term debt. Debt costs are deferred, then amortized to interest expense over the original lives of the respective debt issuances. Deferred post-employment benefits are adjusted based on current age, the present value of the projected annual benefit received and estimated life expectancy.

Income Taxes and Investment Tax Credit Adjustments

The Company files a consolidated federal income tax return. Income tax expense allocated to the Company's subsidiaries 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 bases and tax bases of assets and liabilities and are measured using current effective income tax rates. The portions of the Company's deferred tax liabilities applicable to utility operations, which have not been reflected in current service rates, represent 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.

Financial Instruments

Xeron, Inc. ("Xeron"), the Company's propane wholesale marketing operation, engages in trading activities using forward and futures contracts which have been accounted for using the mark-to-market method of accounting. Under mark-to-market accounting, the Company's trading contracts are recorded at fair value, net of future servicing costs. The changes in market price are recognized as gains or losses in revenues on the income statement in the period of change. The resulting unrealized gains and losses are recorded as assets or liabilities, respectively. There were unrealized gains of \$46,000 and unrealized losses of \$182,000 at December 31, 2005 and 2004, respectively. Trading liabilities are recorded in other accrued liabilities. Trading assets are recorded in prepaid expenses and other current assets.

The Company's natural gas and propane distribution operations have entered into agreements with natural gas and propane suppliers to purchase gas for resale to their customers. Purchases under these contracts either do not meet the definition of derivatives in SFAS No. 133 or are considered "normal purchases and sales" under SFAS No. 138 and are accounted for on an accrual basis.

The propane distribution operation has entered into fair value hedges of its inventory, in order to mitigate the impact of wholesale price fluctuations. At December 31, 2005, propane distribution had entered into a put contract to protect 2.1 million gallons of propane inventory from a drop in value below the strike price of the put. The Company settled the put in January 2006, which resulted in a benefit of \$28,000.

Earnings Per Share

The calculations of both basic and diluted earnings per share from continuing operations are presented in the following chart.

<u>For the Period Ended December 31,</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Calculation of Basic Earnings Per Share from Continuing Operations:			
Income from continuing operations	\$ 10,467,614	\$ 9,549,667	\$ 10,079,483
Weighted average shares outstanding	<u>5,836,463</u>	<u>5,735,405</u>	<u>5,610,592</u>
Basic Earnings Per Share from Continuing Operations	<u>\$ 1.79</u>	<u>\$ 1.66</u>	<u>\$ 1.80</u>
Calculation of Diluted Earnings Per Share from Continuing Operations:			
Reconciliation of Numerator:			
Income from continuing operations — Basic	\$ 10,467,614	\$ 9,549,667	\$ 10,079,483
Effect of 8.25% Convertible debentures	<u>123,559</u>	<u>139,097</u>	<u>157,557</u>
Adjusted numerator — Diluted	<u>\$ 10,591,173</u>	<u>\$ 9,688,764</u>	<u>\$ 10,237,040</u>
Reconciliation of Denominator:			
Weighted shares outstanding — Basic	5,836,463	5,735,405	5,610,592
Effect of dilutive securities			
Stock options	-	1,784	1,361
Warrants	11,711	7,900	5,481
8.25% Convertible debentures	<u>144,378</u>	<u>162,466</u>	<u>184,532</u>
Adjusted denominator — Diluted	<u>5,992,552</u>	<u>5,907,555</u>	<u>5,801,966</u>
Diluted Earnings Per Share from Continuing Operations	<u>\$ 1.77</u>	<u>\$ 1.64</u>	<u>\$ 1.76</u>

Operating Revenues

Revenues for the natural gas distribution operations of the Company are based on rates approved by the various public service commissions. The natural gas transmission operation's revenues are based on rates approved by the FERC. Customers' base rates may not be changed without formal approval by these commissions; however, the regulatory authorities have granted our regulated natural gas distribution operations the ability to negotiate rates with customers that have competitive alternatives using approved methodologies. In addition, the natural gas transmission operation can negotiate rates above or below the FERC-approved tariff rates.

Chesapeake's Maryland and Delaware natural gas distribution operations each have a gas cost recovery mechanism that provides 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.

The Company charges flexible rates to the natural gas distribution's industrial interruptible customers to compete with alternative types of fuel. Based on pricing, these customers can choose natural gas or alternative types of supply. Neither the Company nor the interruptible customer is contractually obligated to deliver or receive natural gas.

The propane wholesale marketing operation records trading activity net on the Company's income statement, on a mark-to-market basis, for open contracts. The propane distribution, advanced information services and other segments record revenue in the period the products are delivered and/or services are rendered.

Certain Risks and Uncertainties

The financial statements are prepared in conformity with generally accepted accounting principles that require management to make estimates in measuring assets and liabilities and related revenues and expenses (see Notes M and N to the Consolidated Financial Statements for significant estimates). These estimates involve judgments with respect to, among other things, various future economic factors that are difficult to predict and are beyond the control of the Company; therefore, actual results could differ from those estimates.

The Company records certain assets and liabilities in accordance with SFAS No. 71. If the Company were required to terminate application of SFAS No. 71 for its regulated operations, all such deferred amounts would be recognized in the income statement at that time. This could result in a charge to earnings, net of applicable income taxes, which could be material.

FASB Statements and Other Authoritative Pronouncements

In December 2004, the FASB released a revision (“Share-Based Payment”) to SFAS No. 123 “Accounting for Stock-Based Compensation,” referred to as SFAS No. 123R. In April 2005, the SEC approved a new rule that delayed the effective date for SFAS No. 123R until the first annual period beginning after June 15, 2005. This Statement establishes financial accounting and reporting standards for stock-based employee compensation plans. Those plans include all arrangements by which employees receive shares of stock or other equity instruments of the employer or the employer incurs liabilities to employees in amounts based on the price of the employer’s stock. Examples are stock purchase plans, stock options, restricted stock and stock appreciation rights. The Company adoption of this pronouncement will not have a material impact on the financial statements.

In March 2005, the FASB issued Interpretation No. 47 (“FIN No. 47”), “Accounting for Conditional Asset Retirement Obligations” an interpretation of SFAS No. 143. FIN No. 47 clarifies that the term conditional asset retirement obligation refers to a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. The obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and (or) method of settlement. Thus, the timing and (or) method of settlement may be conditional on a future event. FIN No. 47 also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. The Company adopted FIN No. 47 in the fourth quarter of 2005. The adoption of this interpretation did not have a material impact on the company’s financial statements.

In May 2005, the FASB issued SFAS No. 154, “Accounting Changes and Error Corrections — a replacement of APB Opinion No. 20 and FASB Statement No. 3”. SFAS 154 primarily requires retrospective application to prior periods’ financial statements for the direct effects of changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. This statement applies to all voluntary changes in accounting principle and also applies to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. The statement is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The Company is required to adopt the provision of SFAS 154, as applicable, beginning in fiscal year 2006.

Reclassification of Prior Years’ Amounts

Certain prior years’ amounts have been reclassified to conform to the current year’s presentation.

B. Business Dispositions and Discontinued Operations

During 2003, Chesapeake decided to exit the water services business and sold six of its seven operations. The remaining operation was disposed of in October 2004. At December 31, 2005, Chesapeake owned one piece of property that was formerly used by a water subsidiary. That property was listed for sale at December 31, 2005 and subsequently sold in January 2006. The results of operations for all water service businesses have been reclassified to discontinued operations for all periods presented. A loss of \$52,000 and a gain of \$12,000, net of tax, were recorded for 2004 and 2003, respectively, on the sale of the water operations. The Company did not have any discontinued operations in 2005.

Operating revenues for discontinued operations were \$1.1 million and \$9.8 million for 2004 and 2003, respectively. Operating losses for discontinued operations were \$94,000 and \$917,000 for 2004 and 2003, respectively. The balance sheet included the following discontinued operations for December 31, 2004:

- Net property, plant, and equipment of \$184,000;
- Cash and other current assets were \$5,000 and \$63,000, respectively;
- Common stock, additional paid-in capital, and retained deficits were \$51,000, \$3.9 million, and \$6.5 million, respectively; and
- Due to affiliates and other current liabilities were \$2.7 million and \$45,000, respectively.

C. Segment Information

The following table presents information about the Company's reportable segments. The table excludes discontinued operations.

For the Years Ended December 31,	2005	2004	2003
Operating Revenues, Unaffiliated Customers			
Natural gas distribution and transmission	\$166,388,562	\$124,073,939	\$110,071,054
Propane	48,975,349	41,499,687	41,029,121
Advanced information services	14,121,441	12,381,815	12,476,746
Other	144,384	-	(\$9,329)
Total operating revenues, unaffiliated customers	\$229,629,736	\$177,955,441	\$163,567,592
Intersegment Revenues ⁽¹⁾			
Natural gas distribution and transmission	\$ 193,404	\$ 172,427	\$ 175,757
Propane	668	-	-
Advanced information services	18,123	45,266	100,804
Other	618,492	647,378	711,159
Total intersegment revenues	\$ 830,687	\$ 865,071	\$ 987,720
Operating Income			
Natural gas distribution and transmission	\$ 17,235,810	\$ 17,091,360	\$ 16,653,111
Propane	3,209,388	2,363,884	3,875,351
Advanced information services	1,196,544	387,193	691,909
Other and eliminations	(111,243)	127,309	359,029
Total operating income	\$ 21,530,499	\$ 19,969,746	\$ 21,579,400
Depreciation and Amortization			
Natural gas distribution and transmission	\$ 5,682,137	\$ 5,418,007	\$ 5,188,273
Propane	1,574,357	1,524,016	1,506,201
Advanced information services	122,569	138,007	190,548
Other and eliminations	189,146	177,508	204,814
Total depreciation and amortization	\$ 7,568,209	\$ 7,257,538	\$ 7,089,836
Capital Expenditures			
Natural gas distribution and transmission	\$ 28,433,671	\$ 13,945,214	\$ 9,078,043
Propane	3,955,799	3,395,190	2,244,583
Advanced information services	294,792	84,185	76,924
Other	739,079	404,941	422,789
Total capital expenditures	\$ 33,423,341	\$ 17,829,530	\$ 11,822,339

⁽¹⁾ All significant intersegment revenues are billed at market rates and have been eliminated from consolidated revenues.

At December 31,	2005	2004	2003
Identifiable Assets			
Natural gas distribution and transmission	\$225,667,049	\$184,412,301	\$170,758,784
Propane	57,344,859	47,531,106	38,359,251
Advanced information services	2,062,902	2,387,440	2,912,733
Other	10,905,065	7,379,794	7,791,796
Total identifiable assets	\$295,979,875	\$241,710,641	\$219,822,564

Chesapeake uses the management approach to identify operating segments. Chesapeake organizes its business around differences in products or services and the operating results of each segment are regularly reviewed by the Company's chief operating decision maker in order to make decisions about resources and to assess performance. The segments are evaluated based on their pre-tax operating income.

The Company's operations are all domestic. The advanced information services segment has infrequent transactions with foreign companies, located primarily in Canada, which are denominated and paid in U.S. dollars. These transactions are immaterial to the consolidated revenues.

D. Fair Value of Financial Instruments

Various items within the balance sheet are considered to be financial instruments because they are cash or are to be settled in cash. The carrying values of these items generally approximate their fair value (see Note E to the Consolidated Financial Statements for disclosure of fair value of investments). The Company's open forward and futures contracts at December 31, 2005 had a gain in fair value of \$46,000 and at December 31, 2004 had a loss in fair value of \$182,000 based on market rates. The fair value of the Company's long-term debt is estimated using a discounted cash flow methodology. The Company's long-term debt at December 31, 2005, including current maturities, had an estimated fair value of \$68.5 million as compared to a carrying value of \$63.9 million. At December 31, 2004, the estimated fair value was approximately \$74.8 million as compared to a carrying value of \$69.1 million. These estimates are based on published corporate borrowing rates for debt instruments with similar terms and average maturities.

E. Investments

The investment balances at December 31, 2005 and 2004, represent a Rabbi Trust ("the trust") associated with the Company's Supplemental Executive Retirement Savings Plan. In accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," the Company classifies these investments as trading securities. As a result of classifying them as trading securities, we are required to report the securities at their fair value, with any unrealized gains and losses included in other income. We also have an associated liability that is recorded and adjusted each month, along with other expense, for the gains and losses incurred by the trust.

F. Goodwill and Other Intangible Assets

In accordance with SFAS No. 142, goodwill is tested for impairment at least annually. In addition, goodwill of a reporting unit is tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value. The propane unit had \$674,000 in goodwill for the two years ended December 31, 2005 and 2004. Testing for 2005 and 2004 has indicated that no impairment has occurred.

The carrying value and accumulated amortization of intangible assets subject to amortization for the two years ended December 31, 2005 are as follows:

	December 31, 2005		December 31, 2004	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Customer lists	\$ 115,333	\$ 67,845	\$ 115,333	\$ 60,155
Acquisition costs	263,659	105,465	263,659	98,873
Total	\$ 378,992	\$ 173,310	\$ 378,992	\$ 159,028

Amortization of intangible assets was \$14,000 and \$15,000 for the years ended December 31, 2005 and 2004, respectively. The estimated annual amortization of intangibles is \$14,000 per year for each of the years 2006 through 2010, respectively.

G. Stockholders' Equity

The changes in the common stock shares issued and outstanding are shown in the table below:

For the Years Ended December 31,	2005	2004	2003
Common Stock shares issued and outstanding ⁽¹⁾			
Shares issued — beginning of period balance	5,778,976	5,660,594	5,537,710
Dividend Reinvestment Plan ⁽²⁾	41,175	40,993	51,125
Retirement Savings Plan	21,071	39,157	43,245
Conversion of debentures	22,609	18,616	18,788
Performance shares and options exercised ⁽³⁾	19,268	19,616	9,726
Shares issued — end of period balance ⁽⁴⁾	5,883,099	5,778,976	5,660,594
Treasury shares — beginning of period balance	(9,418)	-	-
Purchases	(4,852)	(15,316)	-
Dividend Reinvestment Plan	2,142	-	-
Retirement Savings Plan	12,031	-	-
Other issuances	-	5,898	-
Treasury Shares — end of period balance	(97)	(9,418)	-
Total Shares Outstanding	5,883,002	5,769,558	5,660,594

⁽¹⁾ 12,000,000 shares are authorized at a par value of \$0.4867 per share.

⁽²⁾ Includes shares purchased with reinvested dividends and optional cash payments.

⁽³⁾ Includes shares issued for Directors' compensation.

⁽⁴⁾ Includes 37,528, 48,175, and 47,659 shares at December 31, 2005, 2004 and 2003, respectively, held in a Rabbi Trust established by the Company relating to the Supplemental Executive Retirement Savings Plan.

In 2000 and 2001, the Company entered into agreements with an investment banker to assist in identifying acquisition candidates. Under the agreements, the Company issued warrants to the investment banker to purchase 15,000 share of Chesapeake stock in 2000 at an exercise price of \$18.00 per share and 15,000 in 2001 at an exercise price of \$18.25 per share. The warrants are exercisable during a seven-year period after the grant date. At December 31, 2005, the Company had outstanding warrants of 30,000 at an average exercise price of \$18.125 per share — 15,000 warrants expire in 2007 and the remaining 15,000 expire in 2008.

H. Long-term Debt

The outstanding long-term debt, net of current maturities, is as shown below.

<u>At December 31,</u>	<u>2005</u>	<u>2004</u>
Uncollateralized senior notes:		
7.97% note, due February 1, 2008	\$ 2,000,000	\$ 3,000,000
6.91% note, due October 1, 2010	3,636,363	4,545,454
6.85% note, due January 1, 2012	5,000,000	6,000,000
7.83% note, due January 1, 2015	16,000,000	20,000,000
6.64% note, due October 31, 2017	30,000,000	30,000,000
Convertible debentures:		
8.25% due March 1, 2014	2,254,000	2,644,000
Promissory note	100,000	-
Total Long-Term Debt	\$58,990,363	\$66,189,454

Annual maturities of consolidated long-term debt for the next five years are as follows: \$4,929,091 for 2006; \$7,656,364 for 2007; \$7,656,364 for 2008; \$6,656,364 for 2009 and \$6,656,364 for 2010.

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 2005 and 2004, debentures totaling \$385,000 and \$317,000, respectively, were converted to stock. The debentures are also redeemable for cash at the option of the holder, subject to an annual non-cumulative maximum limitation of \$200,000. During 2005, debentures totaling \$5,000 were redeemed for cash. In 2004, no debentures were redeemed for cash. At the Company's option, the debentures may be redeemed at stated amounts.

On June 29, 2005, the Company entered into an agreement in principal with Prudential Investment Management Inc. Subsequently, the Company executed a Note Agreement, dated October 18, 2005, with three institutional investors (The Prudential Insurance Company of America, Prudential Retirement Insurance and Annuity Company and United Omaha Life Insurance Company), pursuant to which the investors agreed, subject to certain conditions, to purchase from the Company \$20 million in principal of 5.5 percent Senior Notes (the "Notes") issued by the Company provided that the Company elects to effect the sale of the Notes at any time prior to January 15, 2007. The terms of the Notes will require annual principal repayments of \$2 million beginning on the fifth anniversary of the issuance of the Notes.

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 percent of total capitalization and the pro-forma fixed charge coverage ratio must be 1.5 times. The Company is in compliance with all of its debt covenants.

I. Short-term Borrowing

As of December 31, 2005, the Board of Directors ("Board") had authorized the Company to borrow up to \$50.0 million from various banks and trust companies under short-term lines of credit. As of December 31, 2005, the Company had three uncommitted and two committed, short-term bank lines of credit totaling \$65.0 million, none of which required compensating balances. Under these lines of credit, the Company had short-term debt outstanding of approximately \$35.5 million and \$5.0 million at December 31, 2005 and 2004, respectively. The annual weighted average interest rates were 4.6 percent for 2005 and 3.7 percent for 2004. The Company also had a letter of credit outstanding in the amount of \$694,000 that reduced the amounts available under the lines of credit.

J. Lease Obligations

The Company has entered into several operating lease arrangements for office space at various locations, equipment and pipeline facilities. Rent expense related to these leases was \$837,000, \$934,000 and \$1.1 million for 2005, 2004 and 2003, respectively. Future minimum payments under the Company's current lease agreements are \$646,000, \$597,000, \$466,000, \$395,000 and \$298,000 for the years of 2006 through 2010, respectively; and \$2.4 million thereafter, totaling \$4.8 million.

K. Employee Benefit Plans

Retirement Plans

Before 1999, Company employees generally participated in both a defined benefit Pension Plan and a Retirement Savings Plan. Effective January 1, 1999, the Company restructured its retirement program to compete more effectively with similar businesses. As part of this restructuring, the Company closed the defined benefit Pension Plan to new participants. Employees who participated in the defined benefit Pension Plan at that time were given the option of remaining in (and continuing to accrue benefits under) the Pension Plan or receiving an enhanced matching contribution in the Retirement Savings Plan.

Because the defined benefit Pension Plan was not open to new participants, the number of active participants in that plan decreased and is approaching the minimum number needed for the Pension Plan to maintain its tax-qualified status. To avoid jeopardizing the tax-qualified status of the Pension Plan, the Company's Board of Directors amended the defined benefit Pension Plan on September 24, 2004. To ensure that the Company continues to provide appropriate levels of benefits to the Company's employees, the Board amended the defined benefit Pension Plan and the Retirement Savings Plan, effective January 1, 2005, so that Pension Plan participants who are actively employed by the Company on that date (1) receive two additional years of benefit service credit to be used in calculating their Pension Plan benefit (subject to the Pension Plan's limit of 35 years of benefit service credit), (2) have the option to receive their Pension Plan benefit in the form of a lump sum at the time they retire, and (3) are eligible to receive the enhanced matching contribution in the Retirement Savings Plan. In addition, effective January 1, 2005, the Board amended the defined benefit Pension Plan so that participants will not accrue any additional benefits under that plan. These changes were communicated to the Company's employees during the first week of November 2004. As a result of the amendments to the Pension Plan, a gain of approximately \$172,000 (after tax) was recorded during 2004.

Defined Benefit Pension Plan

As described above, effective January 1, 2005, the defined benefit Pension Plan was frozen with respect to additional years of service or additional compensation. Benefits under the plan were based on each participant's years of service and highest average compensation, prior to the freeze. 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. The Company does not expect to be required to make any funding payments in 2006. The measurement dates for the Pension Plan were December 31, 2005 and 2004, respectively.

The following schedule summarizes the assets of the Pension Plan, by investment type, at December 31, 2005 and 2004:

<u>At December 31,</u>	<u>2005</u>	<u>2004</u>
Asset Category		
Equity securities	76.12%	72.64%
Debt securities	23.28%	12.91%
Other	0.60%	14.45%
Total	100.00%	100.00%

The investment policy of the Plan calls for an allocation of assets between equity and debt instruments with equity being 60 percent and debt at 40 percent, but allowing for a variance of 20 percent in either direction. Additionally, as changes are made to holdings, cash, money market funds or United States Treasury Bills may be held temporarily by the fund. Investments in the following are prohibited: options, guaranteed investment contracts, real estate, venture capital, private placements, futures, commodities, limited partnerships and Chesapeake stock. Additionally, short selling and margin transactions are prohibited. During 2004, Chesapeake modified its investment policy to allow the Employee Benefits Committee to reallocate investments to better match the expected life of the plan.

The following schedule sets forth the funded status of the Pension Plan at December 31, 2005 and 2004:

<u>At December 31,</u>	<u>2005</u>	<u>2004</u>
Change in benefit obligation:		
Benefit obligation — beginning of year	\$12,053,063	\$11,948,755
Service cost	-	338,352
Interest cost	645,740	690,620
Change in assumptions	388,979	573,639
Actuarial loss	28,895	220,842
Amendments	-	883,753
Effect of curtailment/settlement	-	(2,171,289)
Benefits paid	(717,056)	(431,609)
Benefit obligation — end of year	12,399,621	12,053,063
Change in plan assets:		
Fair value of plan assets — beginning of year	12,097,248	11,301,548
Actual return on plan assets	400,674	1,227,309
Benefits paid	(717,056)	(431,609)
Fair value of plan assets — end of year	11,780,866	12,097,248
Funded status	(618,755)	44,185
Unrecognized prior service cost	(34,259)	(38,958)
Unrecognized net actuarial gain	(129,739)	(850,224)
Net amount accrued	(\$782,753)	(\$844,997)
Assumptions:		
Discount rate	5.25%	5.50%
Rate of compensation increase	4.00%	4.00%
Expected return on plan assets	6.00%	7.88%

The assumptions used for the discount rate of the plan were reviewed by the Company and lowered from 5.5 percent to 5.25 percent, reflecting a reduction in the interest rates of high quality bonds and reflecting the expected life of the plan, due to the lump sum payment option. Additionally, the average expected return on plan assets for the qualified plan was lowered from 7.88 percent to 6 percent due to the adoption of a change in the investment policy that allows for a higher level of investment in bonds and a lower level of equity investments. There was no change in the assumed compensation rate increases. The accumulated benefit obligation was \$12.4 million and \$12.1 million at December 31, 2005 and 2004, respectively.

Net periodic pension costs for the defined benefit Pension Plan for 2005, 2004 and 2003 include the components as shown below:

<u>For the Years Ended December 31,</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Components of net periodic pension cost:			
Service cost	\$ 0	\$ 338,352	\$ 325,366
Interest cost	645,740	690,620	684,239
Expected return on assets	(703,285)	(869,336)	(784,476)
Amortization of:			
Transition assets	-	(11,328)	(15,104)
Prior service cost	(4,699)	(4,699)	(4,699)
Net periodic pension cost (benefit)	(\$62,244)	\$ 143,609	\$ 205,326

The following actuarial assumptions were used in calculating net periodic pension cost or benefit.

<u>For the Years Ended December 31,</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Assumptions:			
Discount rate	5.50%	5.88%	6.50%
Rate of compensation increase	4.00%	4.00%	4.50%
Expected return on plan assets	6.00%	7.88%	8.50%

Executive Excess Defined Benefit Pension Plan

The Company also sponsors an unfunded executive excess defined benefit pension plan. As noted above, this plan was frozen with respect to additional years of service and additional compensation as of December 31, 2004. Benefits under the plan were based on each participant's years of service and highest average compensation, prior to the freeze. The accumulated benefit obligation was \$2.3 million and \$2.2 million at December 31, 2005 and 2004, respectively. Accrued pension costs at December 31, 2005 include \$959,000 related to a minimum pension liability. The minimum pension liability is a component of other comprehensive income.

Net periodic pension costs for the executive excess benefit pension plan for 2005, 2004 and 2003 include the components as shown below:

<u>For the Years Ended December 31,</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Components of net periodic pension cost:			
Service cost	\$ 0	\$ 105,913	\$ 107,877
Interest cost	119,658	87,568	80,039
Amortization of:			
Prior service cost	-	2,090	2,787
Actuarial loss	49,319	21,699	18,677
Net periodic pension cost	\$ 168,977	\$ 217,270	\$ 209,380

The following schedule sets forth the status of the executive excess benefit plan:

<u>At December 31,</u>	<u>2005</u>	<u>2004</u>
Change in benefit obligation:		
Benefit obligation — beginning of year	\$ 2,162,952	\$ 1,406,190
Service cost	-	105,913
Interest cost	119,658	87,568
Actuarial loss	133,839	713,225
Amendments	-	60,000
Effect of curtailment/settlement	-	(184,844)
Benefits paid	(93,978)	(25,100)
Benefit obligation — end of year	2,322,471	2,162,952
Change in plan assets:		
Fair value of plan assets — beginning of year	-	-
Employer contributions	93,978	25,100
Benefits paid	(93,978)	(25,100)
Fair value of plan assets — end of year	-	-
Funded status	(2,322,471)	(2,162,952)
Unrecognized net actuarial loss	959,492	874,972
Net amount accrued	(\$1,362,979)	(\$1,287,980)
Assumptions:		
Discount rate	5.25%	5.50%
Rate of compensation increase	4.00%	4.00%

The assumptions used for the discount rate of the plan were reviewed by the Company and lowered from 5.5 percent to 5.25 percent, reflecting a reduction in the interest rates of high quality bonds and a reduction in the expected life of the plan. There was no change in the assumed pay rate increases. The measurement dates for the executive excess benefit plan were December 31, 2005 and 2004, respectively.

Other Post-Retirement Benefits

The Company sponsors a defined benefit post-retirement health care and life insurance plan that covers substantially all employees.

Net periodic post-retirement costs for 2005, 2004 and 2003 include the following components:

<u>For the Years Ended December 31,</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Components of net periodic post-retirement cost:			
Service cost	\$ 6,257	\$ 5,354	\$ 5,138
Interest cost	77,872	86,883	85,319
Amortization of:			
Transition obligation	27,859	27,859	27,859
Actuarial loss	88,291	78,900	66,271
Net periodic post-retirement cost	\$ 200,279	\$ 198,996	\$ 184,587

The following schedule sets forth the status of the post-retirement health care and life insurance plan :

At December 31,	2005	2004
Change in benefit obligation:		
Benefit obligation — beginning of year	\$ 1,599,280	\$ 1,471,664
Retirees	(59,152)	91,747
Fully-eligible active employees	(31,761)	22,071
Other active	26,317	13,798
Benefit obligation — end of year	\$ 1,534,684	\$ 1,599,280
Funded status	(\$1,534,684)	(\$1,599,280)
Unrecognized transition obligation	22,282	50,141
Unrecognized net actuarial loss	751,450	899,228
Net amount accrued	(\$760,952)	(\$649,911)

Assumptions:

Discount rate	5.25%	5.50%
---------------	-------	-------

The health care inflation rate for 2005 is assumed to be 8 percent for medical and 10 percent for prescription drugs. These rates are projected to gradually decrease to ultimate rates of 5 and 6 percent, respectively, by the year 2009. A one percentage point increase in the health care inflation rate from the assumed rate would increase the accumulated post-retirement benefit obligation by approximately \$204,000 as of January 1, 2006, and would increase the aggregate of the service cost and interest cost components of the net periodic post-retirement benefit cost for 2006 by approximately \$13,000. A one percentage point decrease in the health care inflation rate from the assumed rate would decrease the accumulated post-retirement benefit obligation by approximately \$169,000 as of January 1, 2006, and would decrease the aggregate of the service cost and interest cost components of the net periodic post-retirement benefit cost for 2006 by approximately \$11,000. The measurement dates were December 31, 2005 and 2004, respectively.

Estimated Future Benefit Payments

The schedule below shows the estimated future benefit payments for each of the years 2006 through 2010 and the aggregate of the next five years for each of the plans previously described.

	Defined Benefit Pension Plan ⁽¹⁾	Executive Excess Defined Benefit Pension Plan ⁽²⁾	Other Post- Retirement Benefits ⁽²⁾
2006	\$ 440,904	\$ 89,204	\$ 146,051
2007	713,051	88,490	152,321
2008	851,435	87,782	152,114
2009	1,431,421	87,080	155,098
2010	895,710	86,384	174,932
Years 2011 through 2015	4,089,216	692,464	987,030

⁽¹⁾ The pension plan is funded; therefore, benefit payments are expected to be paid out of the plan assets.

⁽²⁾ Benefit payments are expected to be paid out of the general funds of the Company.

Retirement Savings Plan

The Company sponsors a 401(k) Retirement Savings Plan, which provides participants a mechanism for making contributions for retirement savings. Each participant may make pre-tax contributions of up to 15 percent of eligible base compensation, subject to Internal Revenue Service limitations. These participants were eligible for the enhanced matching described below effective January 1, 2005.

Effective January 1, 1999, the Company began offering an enhanced 401(k) plan to all new employees, as well as existing employees that elected to no longer participate in the defined benefit plan. The Company makes matching contributions on a basis of up to six percent of each employee's pre-tax compensation for the year. The match is between 100 percent and 200 percent, based on a combination of the employee's age and years of service. The first 100 percent of the funds are matched with Chesapeake common stock. The remaining match is invested in the Company's 401(k) plan according to each employee's election options.

On December 1, 2001, the Company converted the 401(k) fund holding Chesapeake stock to an Employee Stock Ownership Plan ("ESOP").

Effective, January 1, 1999, the Company began offering a non-qualified supplemental employee retirement savings plan open to Company executives over a specific income threshold. Participants receive a cash only matching contribution percentage equivalent to their 401(k) match level. All contributions and matched funds earn interest income monthly.

The Company's contributions to the 401(k) plans totaled \$1,681,000, \$1,497,000 and \$1,444,000 for the years ended December 31, 2005, 2004 and 2003, respectively. As of December 31, 2005, there are 111,738 shares reserved to fund future contributions to the Retirement Savings Plan.

L. Executive Incentive Plans

A Performance Incentive Plan ("the Plan") adopted in 1992 and amended in April 1998 allows for the granting of performance shares, stock options and stock appreciation rights to certain officers of the Company. The Company now uses performance shares exclusively. All stock options granted in prior years were exercised as of December 31, 2005 and all stock appreciation rights ("SARs") were exercised prior to December 31, 2003.

The Plan enables participants the right to earn performance shares upon the Company's achievement of certain performance goals, as set forth in the specific agreements, and the individual's achievement of goals set annually for each executive. The Company recorded compensation expense of \$701,000, \$490,000 and \$726,000 associated with these performance shares in 2005, 2004 and 2003, respectively.

In 1997, the Company executed Stock Option Agreements for a three-year performance period ending December 31, 2000, with certain executive officers. One-half of these options became exercisable over time and the other half became exercisable if certain performance targets were achieved. SFAS No. 123 requires the disclosure of pro forma net income and earnings per share as if fair value based accounting had been used to account for the stock-based compensation costs. The assumptions used in calculating the pro forma information were: dividend yield, 4.73 percent; expected volatility, 15.53 percent; risk-free interest rate, 5.89 percent; and an expected life of four years. No options have been granted since 1997; therefore, there is no pro forma impact for 2005, 2004 or 2003. The weighted average exercise price of outstanding options was \$20.50 for all years presented. All outstanding options were exercised as of December 31, 2005.

Changes in outstanding options are shown on the chart below:

	2005		2004		2003	
	Number of shares	Option Price	Number of shares	Option Price	Number of shares	Option Price
Balance — beginning of year	17,537	\$ 20.50	29,490	\$ 20.50	41,948	\$ 20.50
Options exercised	(17,537)	\$ 20.50	(11,834)	\$ 20.50	(12,458)	\$ 20.50
Options forfeited	-		(119)	\$ 20.50	-	
Balance — end of year	-		17,537	\$ 20.50	29,490	\$ 20.50
Exercisable	-		17,537	\$ 20.50	29,490	\$ 20.50

In 2000, the Company replaced the third year of this Stock Option Agreement with Stock Appreciation Rights. The SARs were awarded based on performance with a minimum number of SARs established for each participant. During 2001 and 2000, the Company granted 10,650 and 13,150 SARs, respectively, in conjunction with the agreement. During 2003, all SARs were exercised.

As of December 31, 2005, there were 293,481 shares reserved for issuance under the terms of the Company's Performance Incentive Plan.

M. Environmental Commitments and Contingencies

Chesapeake is subject to federal, state and local laws and regulations governing environmental quality and pollution control. These laws and regulations require the Company to remove or remedy the effect on the environment of the disposal or release of specified substances at current and former operating sites.

In 2004, Chesapeake received a Certificate of Completion for remedial work at one former gas manufacturing plant site and is currently participating in the investigation, assessment or remediation of two other former gas manufacturing plant sites. These sites are located in three different jurisdictions. The Company has accrued liabilities for three sites referred to respectively as the Dover Gas Light, Salisbury Town Gas Light and the Winter Haven Coal Gas sites. The Company is currently in discussions with the Maryland Department of the Environment ("MDE") regarding the possible responsibilities of the Company with respect to a former gas manufacturing plant site in Cambridge, Maryland.

Dover Gas Light Site

The Dover Gas Light site is a former manufactured gas plant site located in Dover, Delaware. On January 15, 2004, the Company received a Certificate of Completion of Work from the United States Environmental Protection Agency ("EPA") regarding this site. This concluded Chesapeake's remedial action obligation related to this site and relieves Chesapeake from liability for future remediation at the site, unless previously unknown conditions are discovered at the site, or information previously unknown to the EPA is received that indicates the remedial action that has been taken is not sufficiently protective. These contingencies are standard and are required by the United States in all liability settlements.

The Company has reviewed its remediation costs incurred to date for the Dover Gas Light site and has concluded that all costs incurred have been paid. The Company does not expect any future environmental expenditures for this site. Through December 31, 2005, the Company has incurred approximately \$9.7 million in costs related to environmental testing and remedial action studies at the site. Approximately \$9.9 million has been recovered through December 2005 from other parties or through rates. As of December 31, 2005, a regulatory liability of approximately \$298,000, representing the over-recovery portion of the clean-up costs, has been recorded. The over-recovery is temporary and will be refunded by the Company to customers in future rates.

Salisbury Town Gas Light Site

In cooperation with the MDE, the Company has completed remediation of the Salisbury Town Gas Light site, located in Salisbury, Maryland, where it was determined that a former manufactured gas plant had caused localized ground-water contamination. During 1996, the Company completed construction and began Air Sparging and Soil-Vapor Extraction ("AS/SVE") remediation procedures. Chesapeake has been reporting the remediation and monitoring results to the MDE on an ongoing basis since 1996. In February 2002, the MDE granted permission to permanently decommission the AS/SVE system and to discontinue all on-site and off-site well monitoring, except for one well that is being maintained for continued product monitoring and recovery. In November 2002, Chesapeake submitted a letter to the MDE requesting No Further Action ("NFA") determination. The Company has been in discussions with the MDE regarding such request and is waiting on a determination from the MDE.

The Company has adjusted the liability with respect to the Salisbury Town Gas Light site to \$2,300 at December 31, 2005. This amount is based on the estimated costs to perform limited product monitoring and recovery efforts and fulfill ongoing reporting requirements. A corresponding regulatory asset has been recorded, reflecting the Company's belief that costs incurred will be recoverable in base rates.

Through December 31, 2005, the Company has incurred approximately \$2.9 million for remedial actions and environmental studies at the Salisbury Town Gas Light site. Of this amount, approximately \$1.8 million has been recovered through insurance proceeds or in rates. The Company expects to recover the remaining costs through rates.

Winter Haven Coal Gas Site

The Winter Haven Coal Gas site is located in Winter Haven, Florida. Chesapeake has been working with the Florida Department of Environmental Protection ("FDEP") in assessing this coal gas site. In May 1996, the Company filed an Air Sparging and Soil Vapor Extraction Pilot Study Work Plan (the "Work Plan") for the Winter Haven site with the FDEP. The Work Plan described the Company's proposal to undertake an AS/SVE pilot study to evaluate the site. After discussions with the FDEP, the Company filed a modified AS/SVE Pilot Study Work Plan, the description of the scope of work to complete the site assessment activities and a report describing a limited sediment investigation performed in 1997. In December 1998, the FDEP approved the AS/SVE Pilot Study Work Plan, which the Company completed during the third quarter of 1999. In February 2001, the Company filed a Remedial Action Plan ("RAP") with the FDEP to address the contamination of the subsurface soil and ground-water in a portion of the site. The FDEP approved the RAP on May 4, 2001. Construction of the AS/SVE system was completed in the fourth quarter of 2002 and the system is now fully operational.

The FDEP has indicated that the Company may be required to remediate sediments along the shoreline of Lake Shipp, immediately west of the Winter Haven site. Based on studies performed to date, the Company objects to the FDEP's suggestion that the sediments have been contaminated and require remediation. Early estimates by the Company's environmental consultant indicate that some of the corrective measures discussed by the FDEP may cost as much as \$1 million. Given the Company's view as to the absence of ecological effects, the Company believes that cost expenditures of this magnitude are unwarranted and plans to vigorously oppose any requirements that it undertake corrective measures in the offshore sediments. Chesapeake anticipates that it will be several years before this issue is resolved. At this time, the Company has not recorded a liability for sediment remediation. The outcome of this matter cannot be predicted at this time.

The Company has accrued a liability of \$350,000 as of December 31, 2005 for the Winter Haven site. Through December 31, 2005, the Company has incurred approximately \$1.5 million of environmental costs associated with the Winter Haven site. At December 31, 2005 the Company had collected through rates \$158,000 in excess of costs incurred. A regulatory asset of approximately \$193,000, representing the uncollected portion of the estimated clean-up costs, has also been recorded. The Company expects to recover the remaining costs through rates.

Other

The Company is in discussions with the MDE regarding the possible responsibilities of the Company for remediation of a gas manufacturing plant site located in Cambridge, Maryland. The outcome of this matter cannot be determined at this time.

N. Other Commitments and Contingencies

Application of Florida Gross Receipts Tax

The Company provides natural gas supply and management services through its affiliate, Peninsula Energy Services Company, Inc. ("PESCO"), to commercial and industrial customers located in Florida. Substantially all of the natural gas purchased by PESCO's customers is sold to the customers at delivery points located outside the State of Florida and because title to the gas typically passes outside Florida, PESCO does not collect gross receipts taxes from its customers. The Company understands that the Florida Department of Revenue has alleged that other companies in the natural gas marketing industry should have collected the gross receipts tax from the purchasers of the gas under similar circumstances. On June 8, 2005, new legislation was enacted that establishes the responsibilities of regulated utilities, including Chesapeake (d/b/a/ Central Florida Gas), as well as unregulated natural gas marketers, such as PESCO, for the collection of the gross receipts tax. The law also contains amnesty provisions relating to the failure to collect gross receipts taxes on sales made prior to January 1, 2006. While the Company does not believe that it has any liability, it has prepared the required amnesty documents to be submitted to the Department of Revenue for both Chesapeake and PESCO during the fourth quarter of 2005. The Company received a conditional approval of its amnesty documents from the Florida Department of Revenue in a letter dated October 18, 2005. This conditional approval is stated in the Company's amnesty application and is expressly conditioned on those facts being accurate.

Natural Gas and Propane Supply

The Company's natural gas and propane distribution operations have entered into contractual commitments for gas from various suppliers. The contracts have various expiration dates. In November 2004, the Company renewed its contract with an energy marketing and risk management company to manage a portion of the Company's natural gas transportation and storage capacity. The contract expires March 31, 2007.

Corporate Guarantees

The Company has issued corporate guarantees to certain vendors of its propane wholesale marketing subsidiary, advanced information services subsidiary, and its Florida natural gas supply and management services subsidiary. The corporate guarantees provide for the payment of propane and natural gas purchases and office rent in the event of the subsidiary's default. The aggregate amount of the obligations guaranteed at December 31, 2005 totaled \$11.2 million, with the guarantees expiring on various dates in 2006. All payables of the subsidiaries are recorded in the Consolidated Financial Statements.

The Company has issued a letter of credit to its primary insurance company for \$694,000, which expires June 1, 2006. The letter of credit was provided as security for claims amounts below the deductibles on the Company's policies.

Other

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, results of operations or cash flows of the Company.

O. 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.

For the Quarters Ended	March 31	June 30	September 30	December 31
2005				
Operating Revenue	\$ 77,845,248	\$ 42,220,377	\$ 35,155,121	\$ 74,408,990
Operating Income	11,504,343	2,324,945	(99,149)	7,800,360
Net Income (Loss)				
From continuing operations	\$ 6,232,796	\$ 795,924	(\$693,774)	\$ 4,132,668
Net Income (Loss)	\$ 6,232,796	\$ 795,924	(\$693,774)	\$ 4,132,668
Earnings per share:				
Basic				
From continuing operations	\$ 1.08	\$ 0.14	(\$0.12)	\$ 0.70
Net Income (Loss)	\$ 1.08	\$ 0.14	(\$0.12)	\$ 0.70
Diluted				
From continuing operations	\$ 1.05	\$ 0.14	(\$0.12)	\$ 0.69
Net Income (Loss)	\$ 1.05	\$ 0.14	(\$0.12)	\$ 0.69
2004				
Operating Revenue	\$ 63,762,360	\$ 34,292,972	\$ 26,614,699	\$ 53,285,410
Operating Income	10,699,307	2,162,794	282,738	6,824,907
Net Income (Loss)				
From continuing operations	\$ 5,773,534	\$ 611,518	(\$584,171)	\$ 3,748,786
From discontinued operations	(34,335)	19,148	(72,041)	(33,672)
Net Income (Loss)	\$ 5,739,199	\$ 630,666	(\$656,212)	\$ 3,715,114
Earnings per share:				
Basic				
From continuing operations	\$ 1.01	\$ 0.11	(\$0.10)	\$ 0.65
From discontinued operations	-	-	(0.01)	(0.01)
Net Income (Loss)	\$ 1.01	\$ 0.11	(\$0.11)	\$ 0.64
Diluted				
From continuing operations	\$ 0.99	\$ 0.11	(\$0.10)	\$ 0.64
From discontinued operations	(0.01)	-	(0.01)	(0.01)
Net Income (Loss)	\$ 0.98	\$ 0.11	(\$0.11)	\$ 0.63

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

None

Item 9A. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

The Chief Executive Officer and Chief Financial Officer of the Company, with the participation of other Company officials, have evaluated the Company's "disclosure controls and procedures" (as such term is defined under Rule 13a-15(e) and 15d - 15(e) promulgated under the Securities Exchange Act of 1934, as amended) as of December 31, 2005. Based upon their evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of December 31, 2005.

Changes in Internal Controls

During the fiscal quarter of the Company ended December 31, 2005, there was no change in the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting

See Management's Report on Internal Control Over Financial Reporting in Item 8, "Financial Statements and Supplemental Data."

Item 9B. Other Information.

The Company filed a Current Report on Form 8-K, dated December 5, 2005, discussing the Compensation Committee's (the "Committee") actions on November 30, 2005, including their approval of the compensation arrangements relating to the executive officers of the Company for 2006.

On November 30, 2005, the Committee approved awards under the Company's Performance Incentive Plan to John R. Schimkaitis, President and Chief Executive Officer; Paul M. Barbas, Executive Vice President and Chief Operating Officer; and Michael P. McMasters, Senior Vice President and Chief Financial Officer. According to the terms of the awards, each executive officer is entitled to earn up to a specified number of shares of the Company's common stock ("Contingent Performance Shares") depending on the extent to which pre-established performance goals (the "Performance Goals") are achieved during the year ended December 31, 2006 (the "2006 Award Year"). In addition, any Contingent Performance Shares that are not earned by the applicable executive officer during the 2006 Award Year may be earned in 2007 or 2008, if in either of those two succeeding years cumulative pre-established Performance Goals are achieved over, respectively, the three-year period ending in that year.

On November 30, 2005, the Compensation Committee also approved awards under the Company's Performance Incentive Plan to (i) Stephen C. Thompson, Senior Vice President, and (ii) S. Robert Zola, President of Sharp Energy, Inc., a Company subsidiary, for the three-year period ending December 31, 2008. For a performance period beginning January 1, 2006 and ending December 31, 2006, each executive officer is entitled to earn, in the form of shares of restricted stock, up to 30 percent of the annual award of Contingent Performance Shares if the Company achieves certain Performance Goals. The second component consists of performance awards pursuant to which the remaining 70 percent of the annual award of Contingent Performance Shares will be earned, if certain Performance Goals for the three-year period ending December 31, 2008 for each of the respective business units for which they are individually responsible, are achieved.

Part III

Item 10. Directors and Executive Officers of the Registrant.

The information required by this Item is incorporated herein by reference to the portions of the Proxy Statement, captioned "Information Regarding the Board of Directors and Nominees," "Corporate Governance Practices and Stockholder Communications - Nomination of Directors," "Committees of the Board - Audit Committee" and "Section 16(a) Beneficial Ownership Reporting Compliance" to be filed not later than March 31, 2006 in connection with the Company's Annual Meeting to be held on May 2, 2006.

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 Part I of this Form 10-K under "Executive Officers of the Registrant."

The Company has adopted a Code of Ethics for Financial Officers, which applies to its principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. The information set forth under Item I hereof concerning the Code of Ethics for Financial Officers is incorporated herein by reference.

Item 11. Executive Compensation.

The information required by this Item is incorporated herein by reference to the portion of the Proxy Statement captioned "Director Compensation" and "Management Compensation" in the Proxy Statement to be filed not later than March 31, 2006, in connection with the Company's Annual Meeting to be held on May 2, 2006.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The information required by this Item is incorporated herein by reference to the portion of the Proxy Statement captioned "Beneficial Ownership of Chesapeake's Securities" to be filed not later than March 31, 2006 in connection with the Company's Annual Meeting to be held on May 2, 2006.

The following table sets forth information as of December 31, 2005, with respect to compensation plans of Chesapeake and its subsidiaries under which shares of Chesapeake common stock are authorized for issuance:

	(a)	(b)	(c)
	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	0 (1)		293,481 (2)
Equity compensation plans not approved by security holders	30,000 (3)	\$18.125	0
Total	30,000	\$18.125	293,481

(1) All options to purchase shares under the 1992 Performance Incentive Plan, as amended, were exercised as of 12/31/05.

(2) Includes 293,481 shares under the 1992 Performance Incentive Plan.

(3) In 2000 and 2001, the Company entered into agreements with an investment banker to assist in identifying acquisition candidates. Under the agreements, the Company issued warrants to the investment banker to purchase 15,000 shares of Chesapeake stock in 2001 at a price of \$18.25 per share and 15,000 shares in 2000 at a price of \$18.00. The warrants are exercisable during a seven-year period after the date granted.

Item 13. Certain Relationships and Related Transactions.

None

Item 14. Principal Accounting Fees and Services.

The information required by this Item is incorporated herein by reference to the portion of the Proxy Statement captioned "Fees and Services of PricewaterhouseCoopers LLP" to be filed not later than March 31, 2006, in connection with the Company's Annual Meeting to be held on May 2, 2006.

Part IV

Item 15. Exhibits, Financial Statement Schedules.

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

1. Financial Statements:
 - o Report of Independent Registered Public Accounting Firm
 - o Consolidated Statements of Income for each of the three years ended December 31, 2005, 2004 and 2003
 - o Consolidated Balance Sheets at December 31, 2005 and December 31, 2004
 - o Consolidated Statements of Cash Flows for each of the three years ended December 31, 2005, 2004 and 2003
 - o Consolidated Statements of Common Stockholders' Equity for each of the three years ended December 31, 2005, 2004 and 2003
 - o Consolidated Statements of Income Taxes for each of the three years ended December 31, 2005, 2004 and 2003
 - o Notes to Consolidated Financial Statements

2. Financial Statement Schedules — Schedule II - Valuation and Qualifying Accounts

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

(b) Reports on Form 8-K:

- Sale of LAMPS (Item 8.01)
- Earnings press release dated November 4, 2004 (Items 2.02 and 9.01)
- Compensation Committee approval of Compensation Arrangements (Item 1.01)
- Approval of Paul M. Barbas to Chief Operating Officer (Item 5.02)

(c) Exhibits:

- Exhibit 3(a) Amended Bylaws of Chesapeake Utilities Corporation, effective February 24, 2005, is incorporated herein by reference to Exhibit 3 of the Company's Annual Report on Form 10-K for the year ended December 31, 2004, File No. 001-11590.
- Exhibit 4(a) 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 million of 7.97% Unsecured Senior Notes due February 1, 2008, is incorporated herein by reference to Exhibit 4 to the Company's Annual Report on Form 10-K for the year ended December 31, 1992, File No. 0-593.
- Exhibit 4(c) Note Purchase Agreement entered into by the Company on October 2, 1995, pursuant to which the Company privately placed \$10 million of its 6.91% Senior Notes due in 2010, is not being filed herewith, in accordance with Item 601(b)(4)(iii) of Regulation S-K. The Company hereby agrees to furnish a copy of that agreement to the SEC upon request.
- Exhibit 4(d) Note Purchase Agreement entered into by the Company on December 15, 1997, pursuant to which the Company privately placed \$10 million of its 6.85% Senior Notes due 2012, is not being filed herewith, in accordance with Item 601(b)(4)(iii) of Regulation S-K. The Company hereby agrees to furnish a copy of that agreement to the SEC upon request.

- Exhibit 4(e) Note Purchase Agreement entered into by the Company on December 27, 2000, pursuant to which the Company privately placed \$20 million of its 7.83% Senior Notes due 2015, is not being filed herewith, in accordance with Item 601(b)(4)(iii) of Regulation S-K. The Company hereby agrees to furnish a copy of that agreement to the SEC upon request.
- Exhibit 4(f) Note Agreement entered into by the Company on October 31, 2002, pursuant to which the Company privately placed \$30 million of its 6.64% Senior Notes due 2017, is incorporated herein by reference to Exhibit 2 of the Company's Current Report on Form 8-K, filed November 6, 2002, File No. 001-11590.
- Exhibit 4(g) Agreement in principle between Prudential Investment Management, Inc. and Chesapeake Utilities Corporation related to the prospective purchase by Prudential of \$20 million of 5.5% Senior Notes dated June 29, 2005, is incorporated herein by reference to Exhibit 4.1 of the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2005, File No. 001-11590.
- Exhibit 4(h) Note Agreement entered into by the Company on October 18, 2005, pursuant to which the Company, on or before December 28, 2006, will privately place \$20 million of its 5.5% Senior Notes due 2020, is filed herewith as Exhibit 4.1.
- *Exhibit 10(a) Executive Employment Agreement dated January 1, 2006, by and between Sharp Energy, Inc. and S. Robert Zola, is filed herewith as Exhibit 10.1.
- *Exhibit 10(b) Form of Performance Share Agreement dated November 9, 2004, pursuant to Chesapeake Utilities Corporation Performance Incentive Plan by and between Chesapeake Utilities Corporation and each of John R. Schimkaitis, Michael P. McMasters and Paul Barbas, is incorporated herein by reference to Exhibit 10.1 of the Company's Annual Report on Form 10-K for the year ended December 31, 2004, File No. 001-11590.
- *Exhibit 10(c) Performance Share Agreement dated December 30, 2005, pursuant to Chesapeake Utilities Corporation Performance Incentive Plan by and between Chesapeake Utilities Corporation and each of John R. Schimkaitis, Paul M. Barbas and Michael P. McMasters, is filed herewith as Exhibit 10.2.
- *Exhibit 10(d) Performance Share Agreement dated December 23, 2005, pursuant to Chesapeake Utilities Corporation Performance Incentive Plan by and between Chesapeake Utilities Corporation and Stephen C. Thompson, is filed herewith as Exhibit 10.3.
- *Exhibit 10(e) Performance Share Agreement dated December 26, 2005, pursuant to Chesapeake Utilities Corporation Performance Incentive Plan by and between Chesapeake Utilities Corporation and S. Robert Zola, is filed herewith as Exhibit 10.4.
- *Exhibit 10(f) Chesapeake Utilities Corporation Cash Bonus Incentive Plan dated January 1, 2005, is incorporated herein by reference to Exhibit 10.3 of the Company's Annual Report on Form 10-K for the year ended December 31, 2004, File No. 001-11590.
- *Exhibit 10(g) Executive Officer Compensation Arrangements, filed herewith as Exhibit 10.5.
- *Exhibit 10(h) Chesapeake Utilities Corporation Directors Stock Compensation Plan, adopted in 2005, is incorporated herein by reference to the Company's Proxy Statement dated March 28, 2005 in connection with the Company's Annual Meeting held on May 5, 2005, File No. 001-11590.
- *Exhibit 10(i) Chesapeake Utilities Corporation Employee Stock Award Plan, adopted in 2005, is incorporated herein by reference to the Company's Proxy Statement dated March 28, 2005 in connection with the Company's Annual Meeting held on May 5, 2005, File No. 001-11590.
- *Exhibit 10(j) Chesapeake Utilities Corporation Performance Incentive Plan, adopted in 2005, is incorporated herein by reference to the Company's Proxy Statement dated March 28, 2005 in connection with the Company's Annual Meeting held on May 5, 2005, File No. 001-11590.
- *Exhibit 10(k) Non-Employee Director Compensation Arrangements, incorporated herein by reference to Exhibit 10.5 of the Company's Annual Report on Form 10-K for the year ended December 31, 2004, File No. 001-11590.

- Exhibit 12 Computation of Ratio of Earning to Fixed Charges, filed herewith.
- Exhibit 21 Subsidiaries of the Registrant, filed herewith.
- Exhibit 23 Consent of Independent Registered Public Accounting Firm, filed herewith.
- Exhibit 31.1 Certificate of Chief Executive Office of Chesapeake Utilities Corporation pursuant to Exchange Act Rule 13a-14(a), dated March 6, 2006, filed herewith.
- Exhibit 31.2 Certificate of Chief Financial Officer of Chesapeake Utilities Corporation pursuant to Exchange Act Rule 13a-14(a), dated March 6, 2006, filed herewith.
- Exhibit 32.1 Certificate of Chief Executive Office of Chesapeake Utilities Corporation pursuant to 18 U.S.C. Section 1350, dated March 6, 2006, filed herewith.
- Exhibit 32.2 Certificate of Chief Financial Officer of Chesapeake Utilities Corporation pursuant to 18 U.S.C. Section 1350, dated March 6, 2006, filed herewith.

* Management contract or compensatory plan or agreement.

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/ John R. Schimkaitis
John R. Schimkaitis
President and Chief Executive Officer
Date: March 6, 2006

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.

/s/ Ralph J. Adkins
Ralph J. Adkins, Chairman of the Board
and Director
Date: February 23, 2006

/s/ John R. Schimkaitis
John R. Schimkaitis, President,
Chief Executive Officer and Director
Date: March 6, 2006

/s/ Michael P. McMasters
Michael P. McMasters, Senior Vice President
and Chief Financial Officer
(Principal Financial and Accounting Officer)
Date: March 6, 2006

/s/ Richard Bernstein
Richard Bernstein, Director
Date: February 23, 2006

/s/ Thomas J. Bresnan
Thomas J. Bresnan, Director
Date: March 6, 2006

/s/ Walter J. Coleman
Walter J. Coleman, Director
Date: February 23, 2006

/s/ J. Peter Martin
J. Peter Martin, Director
Date: February 23, 2006

/s/ Joseph E. Moore, Esq.
Joseph E. Moore, Esq., Director
Date: February 23, 2006

/s/ Calvert A. Morgan, Jr.
Calvert A. Morgan, Jr., Director
Date: February 23, 2006

/s/ Rudolph M. Peins, Jr.
Rudolph M. Peins, Jr., Director
Date: February 23, 2006

/s/ Robert F. Rider
Robert F. Rider, Director
Date: February 23, 2006

Chesapeake Utilities Corporation and
 Subsidiaries
 Schedule II
 Valuation and Qualifying Accounts

For the Year Ended December 31,	Balance at Beginning of Year	Additions		Deductions (2)	Balance at End of Year
		Charged to Income	Other Accounts (1)		
Reserve Deducted From Related Assets					
Reserve for Uncollectible Accounts					
2005	\$ 610,819	\$ 632,645	\$ 158,408	\$ (540,494)	\$ 861,378
2004	\$ 682,002	\$ 505,595	\$ 103,020	\$ (679,798)	\$ 610,819
2003	\$ 659,628	\$ 660,390	\$ 10,093	\$ (648,109)	\$ 682,002

(1) Recoveries.

(2) Uncollectible accounts charged off.

CHESAPEAKE UTILITIES CORPORATION

909 Silver Lake Boulevard

Dover, Delaware 19904

NOTE AGREEMENT

\$20,000,000

5.50% Senior Notes

Table of Contents
(Not Part of Agreement)

	Page
SECTION 1. PURCHASE AND SALE OF NOTES	1
Section 1.1 Issue of Notes	1
Section 1.2 The Closing	2
Section 1.3 Expenses	2
Section 1.4 Closing Conditions	3
SECTION 2. PAYMENTS	5
Section 2.1 Required Payments	5
Section 2.2 Optional Prepayments	5
Section 2.3 Partial Payment Pro Rata	6
Section 2.4 Request for Delay of Closing Beyond December 28, 2006	6
Section 2.5 Delayed Delivery Fee	6
Section 2.6 Cancellation Fee	7
Section 2.7 No Delayed Delivery or Cancellation Fees Payable Under Certain Circumstances	7
SECTION 3. INFORMATION AS TO COMPANY	8
Section 3.1 Financial and Business Information	8
Section 3.2 Officer's Certificates	10
Section 3.3 Accountants' Certificates	10
Section 3.4 Inspection	10
SECTION 4. COMPANY BUSINESS COVENANTS	11
Section 4.1 Payment of Taxes and Claims	11
Section 4.2 Maintenance of Properties and Corporate Existence	11
Section 4.3 Payment of Notes and Maintenance of Office	12
Section 4.4 Fixed Charge Coverage Ratio	12
Section 4.5 Minimum Consolidated Net Worth	12
Section 4.6 Incurrence of Indebtedness	12
Section 4.7 Guaranties	13
Section 4.8 Liens and Encumbrances	13
Section 4.9 Restricted Payments	14
Section 4.10 Sale of Property and Subsidiary Stock	14
Section 4.11 Merger and Consolidation	15
Section 4.12 Transactions with Affiliates	16
Section 4.13 Loans, Advances and Investments	16
Section 4.14 Sale-Leaseback	16
Section 4.15 ERISA Compliance	16
Section 4.16 Use of Proceeds	17
Section 4.17 Terrorism Sanctions Regulations	17
SECTION 5. DEFAULT	17
Section 5.1 Nature of Default	17
Section 5.2 Default Remedies	19
Section 5.3 Other Remedies	19
SECTION 6. REPRESENTATIONS, COVENANTS AND WARRANTIES	20
Section 6.1 Organization, Etc.	20
Section 6.2 Financial Statements	20
Section 6.3 Actions Pending	21
Section 6.4 Outstanding Indebtedness	21
Section 6.5 Title to Properties	21
Section 6.6 Taxes	22

Section 6.7	Conflicting Agreements and Other Matters	22
Section 6.8	Offering of Notes	22
Section 6.9	ERISA	22
Section 6.10	Governmental Consent	23
Section 6.11	Environmental Compliance	23
Section 6.12	Permits and Other Operating Rights	23
Section 6.13	Disclosure	24
Section 6.14	Regulatory Status of Company; Trust Indenture Act	24
Section 6.15	Foreign Assets Control Regulations, Et.c	24
Section 6.16	First Mortgage Indenture	25

SECTION 7	INTERPRETATION OF THIS AGREEMENT	25
Section 7.1	Terms Defined	25
Section 7.2	Accounting Principles	34
Section 7.3	Directly or Indirectly	34
Section 7.4	Governing Law; Consent to Jurisdiction	34

SECTION 8	PURCHASERS' SPECIAL RIGHTS	35
Section 8.1	Note Payment	35
Section 8.2	Issue Taxes	35
Section 8.3	Registration of Notes	36
Section 8.4	Exchange of Notes	36
Section 8.5	Replacement of Notes	

SECTION 9	MISCELLANEOUS	36
Section 9.1	Notices	36
Section 9.2	Payments Due on Non-Business Days	37
Section 9.3	Reproduction of Documents	37
Section 9.4	Purchase for Investment	37
Section 9.5	Source of Funds	37
Section 9.6	Successors and Assigns	39
Section 9.7	Amendment and Waiver; Acquisition of Notes	39
Section 9.8	Duplicate Originals	40
Section 9.9	Confidential Information	40

Exhibits

Exhibit A	Form of Note	
Exhibit B-1	Form of Opinion of Company's Counsel	
Exhibit B-2	Form of Opinion of Company's Special Delaware Counsel	
Exhibit B-3	Form of Opinion of Company's Special Maryland Counsel	
Exhibit B-4	Form of Opinion of Company's Special Florida Counsel	

Schedules

Purchaser	Existing Indebtedness	
Schedule		
Schedule 4.6	Existing Liens	
Schedule 4.8	Subsidiaries	
(e)		
Schedule 6.1	List of Agreements Restricting Debt	
(a)		
Schedule 6.7	Existing Investments	
Schedule 7.1		

To the Purchasers listed in the
attached Purchaser Schedule

Ladies and Gentlemen:

Chesapeake Utilities Corporation, a Delaware corporation (the “Company”), hereby agrees with the purchasers listed in the attached Purchaser Schedule (collectively, the “Purchasers” and, individually, a “Purchaser”) as follows:

SECTION 1. PURCHASE AND SALE OF NOTES

Section 1.1 Issue of Notes.

The Company will authorize the issue of \$20,000,000 principal amount of its 5.50% Senior Notes due on the Maturity Date (the “Notes”). Each Note will bear interest on the unpaid principal balance thereof, from the date of the Note or the most recent date to which interest thereon has been paid, until the same is due and payable, at an annual rate of 5.50% (computed on the basis of a 360-day year of twelve 30-day months), payable quarterly on each Quarterly Interest Payment Date, beginning with the first Quarterly Interest Payment Date to occur after the Closing Date. The Notes will be subject to certain mandatory principal repayments prior to maturity, as provided in Section 2.1 and will mature on the Maturity Date. Payments of principal, Make Whole Amount, if any, and, to the extent permitted by law, interest not paid when due will bear interest from the date such payment was due until paid at a rate per annum from time to time equal to the greater of (i) 7.50% or (ii) the rate of interest publicly announced by JPMorgan Chase Bank from time to time in New York City as its Prime Rate. The Notes will be registered notes in the form set out in Exhibit A.

Section 1.2 The Closing.

The Company agrees to sell to each Purchaser and each Purchaser agrees to purchase from the Company, in accordance with the provisions of this Agreement, the principal amount of the Notes indicated for such Purchaser on the Purchaser Schedule attached hereto at par. The closing of the sale and purchase of the Notes will be held at 10:00 a.m. on the Closing Date, at the offices of Schiff Hardin LLP, 6600 Sears Tower, Chicago, Illinois. On the Closing Date, the Company will deliver to each Purchaser one or more Notes, as specified in the Purchaser Schedule attached hereto in the aggregate amount of each Purchaser’s purchase, dated the Closing Date and payable to such Purchaser or such Purchaser’s nominee(s), if any, listed in the Purchaser Schedule, against payment in immediately available funds. Each Purchaser’s obligations hereunder are several and not joint and no Purchaser shall have any obligation or liability to any Person for the performance or nonperformance by any other Purchaser hereunder.

Section 1.3 Expenses.

Whether or not the Notes are sold, the Company will, upon presentation to the Company of documentation in reasonable detail, pay the following expenses relating to this Agreement, including:

- (a) the cost of reproducing this Agreement and the Notes;
- (b) the reasonable fees and disbursements (including the cost of obtaining the private placement number) of the Purchasers’ special counsel;
- (c) the cost of any fees of agents, brokers or dealers or otherwise incurred in connection with the sale of the Notes pursuant to this Agreement but not with respect to any subsequent resale;
- (d) each Purchaser’s reasonable out-of-pocket expenses incurred in negotiating this Agreement;
- (e) the cost of delivering to or from any Purchaser’s home office, insured to any Purchaser’s satisfaction, the Notes purchased by any Purchaser, any Note surrendered by any Purchaser to the Company pursuant to this Agreement and any Note issued to any Purchaser in substitution or replacement for a surrendered Note; and
- (f) all costs (including reasonable fees and expenses of counsel) related to proposed or actual modifications of, or proposed or actual consents under, this Agreement.

The obligations of the Company under this Section 1.3 shall survive the payment of the Notes and the termination of this Agreement, and shall continue regardless of whether or not the Closing Date occurs and whether or not any Purchaser has purchased Notes hereunder.

Section 1.4 Closing Conditions.

Each Purchaser's obligation to purchase and pay for the Notes to be purchased by such Purchaser hereunder is subject to the satisfaction, on or before the Closing Date, of the following conditions:

(a) Certain Documents . Such Purchaser shall have received the following dated the Closing Date:

(i) The Notes to be purchased by such Purchaser.

(ii) Certified copies of the resolutions of the Board of Directors of the Company approving this Agreement and the Notes, and of all documents evidencing other necessary corporate action and governmental approvals, if any, with respect to this Agreement and the Notes.

(iii) A certificate of the Secretary or an Assistant Secretary of the Company certifying the names and true signatures of the officers of the Company authorized to sign this Agreement and the Notes and the other documents to be delivered hereunder.

(iv) Certified copies of the Certificate of Incorporation and By-laws of the Company.

(v) Good standing certificates for the Company from each of the Secretary of State of Delaware, the Secretary of State of Maryland, and the Secretary of State of Florida, dated of a recent date.

(b) Opinion of Purchasers' Special Counsel . Such Purchaser shall have received from Schiff Hardin LLP, who are acting as special counsel for the Purchasers in connection with this transaction, a favorable opinion satisfactory to the Purchasers as to such matters as the Purchasers may request.

(c) Opinion of Company's Special and Local Counsel . Such Purchaser shall have received from Covington & Burling, who are acting as special counsel for the Company in connection with this transaction, a favorable opinion satisfactory to the Purchasers substantially in the form of Exhibit B-1 hereto, from Parkowski, Guerke and Swayze, who are acting as Delaware counsel for the Company in connection with this transaction, a favorable opinion satisfactory to the Purchasers substantially in the form of Exhibit B-2 hereto, from DLA Piper Rudnick Gray US LLP, who are acting as Maryland counsel for the Company in connection with this transaction, a favorable opinion satisfactory to the Purchasers substantially in the form of Exhibit B-3 hereto, and from Rose, Sundstrom & Bentley, LLP, who are acting as Florida counsel for the Company in connection with this transaction, a favorable opinion satisfactory to the Purchasers substantially in the form of Exhibit B-4 hereto. The Company hereby directs each such counsel to deliver such opinions, agrees that the issuance and sale of any Notes will constitute a reconfirmation of such direction, and understands and agrees that each Purchaser will rely on such opinions.

(d) Representations and Warranties; No Default. The representations and warranties contained in Section 6 shall be true on and as of the Closing Date, except to the extent of changes caused by the transactions herein contemplated; there shall exist on the Closing Date no Event of Default or Default; and the Company shall have delivered to such Purchaser an Officer's Certificate, dated the Closing Date, to both such effects. The delivery of such Officer's Certificate will constitute the repeating of such representations and warranties by the Company as of the Closing Date.

(e) Purchase Permitted By Applicable Laws . The purchase of and payment for the Notes to be purchased by such Purchaser on the Closing Date on the terms and conditions herein provided (including the use of the proceeds of such Notes by the Company) shall not violate any applicable law or governmental regulation (including, without limitation, Section 5 of the Securities Act or Regulation T, U or X of the Board of Governors of the Federal Reserve System) and shall not subject such Purchaser to any tax, penalty, liability or other onerous condition under or pursuant to any applicable law or governmental regulation, and such Purchaser shall have received such certificates or other evidence as it may reasonably request to establish compliance with this condition. The order of the Florida Public Service Commission referred to in Section 6.10 shall have been obtained. The orders of the Delaware and Florida State Commissions referred to in Section 6.10 shall be satisfactory to such Purchaser and shall be final and in full force and effect on the Closing Date. No appeal, review or contest of either thereof shall be pending on the Closing Date, and, as of the Closing Date, the time for appeal or to seek review or reconsideration of such orders shall have expired. Any conditions contained in either order shall have been satisfied to such Purchaser's reasonable satisfaction. Such Purchaser and its special counsel shall have received copies of such documents and papers (including, without limitation, a certified or attested copy of such orders) as such Purchaser may reasonably request in connection therewith or as a basis for the Purchasers' special counsel's closing opinion, all in form and substance satisfactory to such Purchaser and the Purchasers' special counsel.

(f) Structuring Fee . The Company shall have paid to each Purchaser, by wire transfer of immediately available funds, such Purchaser's ratable portion (in proportion to the aggregate principal amount of the Notes to be purchased by such Purchaser) of a structuring fee in the aggregate amount, for all Purchasers, equal to (i) \$15,000, minus (ii) 50% of the amount, if any, by which the fees and disbursements of Purchasers' special counsel related to the preparation of this Agreement payable by the Company under Section 1.3(b) exceeds \$25,000 (provided that such structuring fee shall not be less than zero).

(g) Delayed Delivery Fee . The Company shall have paid to each Purchaser, by wire transfer of immediately available funds, any Delayed Delivery Fee due to such Purchaser under Section 2.5.

(h) Diversification Event . No Diversification Event shall have occurred.

(i) Proceedings . All corporate and other proceedings taken or to be taken in connection with the transactions contemplated hereby and all documents incident thereto shall be satisfactory in substance and form to such Purchaser, and such Purchaser shall have received all such counterpart originals or certified or other copies of such documents as it may reasonably request.

SECTION 2. PAYMENTS

Section 2.1 Required Payments.

(a) Until the Notes are paid in full, the Company will pay \$2,000,000 in aggregate principal amount of the Notes on each Annual Principal Amortization Date. The entire outstanding principal amount and unpaid interest thereon shall be due and payable on the Maturity Date. Prepayments on each holder's Notes under Section 2.2 shall be applied to mandatory payments on such Notes in inverse order of maturity and the Company's obligation to make the payments required by this Section 2.1 shall not be reduced by any payment pursuant to Section 2.2 . Notwithstanding the foregoing, upon any payment of less than all of the outstanding Notes pursuant to Section 2.1(b) hereof or any acquisition of any Notes by the Company or any Subsidiary or Affiliate permitted by Section 9.6(b) hereof, the principal amount of such required prepayment of the Notes becoming due under this Section 2.1 on or after the day of such payment or acquisition shall be reduced in the same proportion as the aggregate unpaid principal amount of the Notes is reduced as a result of such prepayment or purchase.

(b) If, at any time, the aggregate net book value of all assets that are used in the regulated utilities business segments of the Company and its Subsidiaries is less than 50% of Consolidated Total Assets (a " Diversification Event "), any holder of any of the Notes then outstanding may elect, at its option, by notice to the Company, to declare the outstanding Notes held by such holder to be due and payable on the next business day after the 30th day following such notice (the " Required Payment Date "). Upon such election by any holder of the Notes, the Company will pay the aggregate principal amount of such holder's Notes on the Required Payment Date, together with interest accrued to the Required Payment Date on such principal amount, and a premium equal to the Make Whole Amount, if any, applicable to such payment. Upon the occurrence of a Diversification Event, the Company shall deliver to each holder of the outstanding Notes a notice that such event has occurred and the reason or reasons for such occurrence.

Section 2.2 Optional Prepayments.

(a) At a Premium . The Company may prepay the Notes in whole or part, at any time and from time to time, in multiples of \$100,000, by payment of 100% of the principal amount then being prepaid, together with interest accrued to the date of prepayment on the principal amount being prepaid and a premium equal to the Make Whole Amount, if any, applicable to such prepayment; provided that no partial prepayment shall be in an amount less than (i) \$1,000,000 or (ii) the aggregate principal amount remaining outstanding, whichever is less.

(b) Notice of Optional Prepayment . The Company will give written notice of any optional prepayment of the Notes to each holder of Notes at least 15 but not more than 45 days before the date fixed for prepayment, specifying (1) such date (the " Prepayment Date "), and (2) the amount of principal and interest with respect to the Notes and such holder's Notes to be prepaid on such date. Any such notice of prepayment will be irrevocable. Upon the giving of such notice by the Company, the principal amount of the Notes specified in the notice, together with interest accrued to the Prepayment Date on such principal amount, and a premium equal to the Make Whole Amount, if any, applicable to such payment, shall be due and payable on the Prepayment Date, and the Company shall pay such amount on the Prepayment Date. The Company shall, on or before the day on which it gives written notice of any prepayment pursuant to Section 2.2(a) , give telephonic notice of the principal amounts of the Note to be prepaid and the prepayment date to each Purchaser which shall have designated a recipient of such notices in the Purchaser Schedule attached hereto or by notice in writing to the Company.

Section 2.3 Partial Payment Pro Rata.

If there is more than one Note outstanding, the principal amount of each required or optional partial payment of the Notes, other than a prepayment pursuant to Section 2.1(b) , will be allocated among the Notes at the time outstanding in proportion, as nearly as practicable, to the

respective outstanding principal amounts of the Notes.

Section 2.4 Request for Delay of Closing Beyond December 28, 2006.

If the Closing Date is December 28, 2006 and the Company fails to tender to any Purchaser the Notes to be purchased by such Purchaser on December 28, 2006, or any of the conditions specified in Section 1.4 shall not have been fulfilled on December 28, 2006, the Company shall, prior to 1:00 P.M., New York City local time, on December 28, 2006, notify Prudential (which notification shall be deemed received by each Purchaser) in writing whether (i) such closing of the purchase or sale of the Notes is to be rescheduled (such rescheduled date to be a Business Day not before December 29, 2006 and not later than January 15, 2007 (the “**Rescheduled Closing Date**”)) and certify to Prudential (which certification shall be for the benefit of each Purchaser) that the Company reasonably believes that it will be able to comply with the conditions set forth in Section 1.4 on such Rescheduled Closing Date and that the Company will pay the Delayed Delivery Fee in accordance with Section 2.5 or (ii) such closing is to be canceled. In the event that the Company shall fail to give the notice referred to in the preceding sentence, the Company shall be deemed to have elected that such closing is to be cancelled as of December 28, 2006. Notwithstanding anything to the contrary appearing in this Agreement, the Company may not elect to reschedule the closing on more than one occasion, unless the Purchasers shall have otherwise consented in writing.

Section 2.5 Delayed Delivery Fee.

If the closing of the purchase and sale of the Note(s) to be sold to any Purchaser is delayed for any reason beyond December 28, 2006, then, except as otherwise provided in Section 2.7, the Company will pay to such Purchaser on the Cancellation Date or actual closing date of such purchase and sale, a fee (herein called the “**Delayed Delivery Fee**”) calculated as follows:

$$(BEY - MMY) \times DTS/360 \times PA$$

where “**BEY**” means Bond Equivalent Yield, i.e., the bond equivalent yield per annum of the Notes; “**MMY**” means Money Market Yield, i.e., the yield per annum on a commercial paper investment of the highest quality selected by Prudential and having a maturity date or dates the same as, or closest to, the Rescheduled Closing Date or Rescheduled Closing Dates for such the Notes (a new alternative investment being selected by Prudential each time such closing is delayed); “**DTS**” means Days to Settlement, i.e., the number of actual days elapsed from and including December 28, 2006 to but excluding the date of such payment; and “**PA**” means Principal Amount, i.e., the principal amount of the Note for which such calculation is being made. In no case shall the Delayed Delivery Fee be less than zero. Nothing contained herein shall obligate any Purchaser to purchase any Note on any day other than the Closing Date, as the same may be rescheduled from time to time by mutual agreement of the Company and the Purchasers.

Section 2.6 Cancellation Fee.

If the Company at any time notifies Prudential in writing that the Company is canceling the closing of the purchase and sale of the Notes, if the Company is deemed to have elected pursuant to the penultimate sentence of Section 2.4 that the closing of the purchase and sale of the Notes is to be canceled, or if the Closing Date is rescheduled to a Rescheduled Closing Date pursuant to Section 2.4 but the Company fails to tender to any Purchaser the Notes to be purchased by such Purchaser on such Rescheduled Closing Date or any of the conditions specified in Section 1.4 shall not have been either fulfilled or expressly waived in writing by the Purchasers on such Rescheduled Closing Date and such closing does not occur on such Rescheduled Closing Date (the date of any such notification or deemed election or such Rescheduled Closing Date, as the case may be, being herein called the “**Cancellation Date**”), then, except as otherwise provided in Section 2.7, the Company will pay to each Purchaser on the Cancellation Date in immediately available funds an amount (the “**Cancellation Fee**”) calculated as follows:

$$PI \times PA$$

where “**PI**” means Price Increase, i.e., the quotient (expressed in decimals) obtained by dividing (a) the excess of the ask price (as determined by Prudential) of the Hedge Treasury Note(s) on the Cancellation Date over the bid price (as determined by Prudential) of the Hedge Treasury Notes(s) on June 29, 2005 by (b) such bid price; and “**PA**” has the meaning ascribed to it in Section 2.5; provided, however, the Cancellation Fee shall be no less than \$50,000. The foregoing bid and ask prices shall be as reported by TradeWeb LLC (or, if such data for any reason ceases to be available through TradeWeb LLC, any publicly available source of similar market data). Each price shall be rounded to the second decimal place. In no case shall the Cancellation Fee be less than \$50,000.

Section 2.7 No Delayed Delivery or Cancellation Fees Payable Under Certain Circumstances.

Notwithstanding the provisions of Section 2.5 or 2.6, in the event that either (i) all conditions set forth in Section 1.4 have been satisfied on the Closing Date but any Purchaser refuses to purchase the Notes to be purchased by such Purchaser hereunder, or (ii) any Purchaser refuses to purchase the Notes to be purchased by such Purchaser hereunder on the grounds that such purchase would violate any applicable law or government regulation binding on such Purchaser or subject such Purchaser to any tax, penalty, liability or other onerous

condition under or pursuant to any such applicable law or governmental regulation, no Cancellation Fee or Delayed Delivery Fee will be payable to such Purchaser.

SECTION 3. INFORMATION AS TO COMPANY

Section 3.1 Financial and Business Information.

The Company will deliver in duplicate to each Purchaser, if at the time such Purchaser or such Purchaser's nominee holds any Notes (or if such Purchaser is obligated to purchase any Notes), and to each other Institutional Holder of outstanding Notes:

(a) Quarterly Statements --as soon as practicable and in any event within sixty (60) days after the end of each of the first three quarterly fiscal periods in each fiscal year of the Company:

(i) a consolidated balance sheet of the Company and its Subsidiaries as at the end of such quarter and as at the end of the corresponding quarter in the most recently completed fiscal year and a consolidating balance sheet of the Company and its Subsidiaries as of the end of such quarter, and

(ii) consolidated statements of income, retained earnings and cash flows of the Company and its Subsidiaries for that quarter and for the portion of the fiscal year ending with such quarter, and for the corresponding periods in the prior fiscal year and consolidating statements of income, retained earnings and cash flows of the Company and its Subsidiaries for such quarter and for the portion of the fiscal year ending with such quarter,

setting forth in the statements of income for each fiscal period, the specific dollar amounts of depreciation charged, lease rental expense and interest expense on Indebtedness, accompanied by a certificate signed by a principal financial officer of the Company stating that such financial statements present fairly the financial condition of the companies being reported upon and have been prepared in accordance with generally accepted accounting principles consistently applied, with such adjustments as may be required to present fairly the financial statements therein contained; provided that if the Company is subject to the reporting requirements of the Exchange Act, the delivery to such recipients of the Company's Quarterly Report on Form 10-Q containing such information within the specified time period shall satisfy this requirement;

(b) Annual Statements --as soon as practicable and in any event within one hundred twenty (120) days after the end of each fiscal year of the Company:

(i) a consolidated and consolidating balance sheet of the Company and its Subsidiaries, as at the end of that fiscal year, and

(ii) consolidated and consolidating statements of income, retained earnings and cash flows of the Company and its Subsidiaries, for that year,

setting forth in the case of such consolidated financial statements, the figures for the previous fiscal year in comparative form, and setting forth in such statements of income, the specific dollar amounts of depreciation charged, lease rental expense, and interest expense on Indebtedness, and accompanied in the case of such consolidated financial statements by an opinion of a firm of independent public accountants of recognized national standing stating that such financial statements present fairly the results of the operations and financial condition of the companies being reported upon and have been prepared in accordance with generally accepted accounting principles consistently applied (except for changes in application in which such accountants concur); provided that if the Company is subject to the reporting requirements of the Exchange Act, the delivery to such recipients of the Company's Quarterly Report on Form 10-K containing such information within the specified time period shall satisfy this requirement;

(c) Audit Reports --promptly upon receipt thereof, one copy of each other report submitted to the Company or any Subsidiary by independent accountants in connection with any annual, interim or special audit made by them of the books of the Company or any Subsidiary;

(d) SEC and Other Reports --promptly upon their becoming available, copies of each periodic report (including Forms 8-K, 10-K, and 10-Q, proxy statement and registration statement or prospectus (other than registration statements on Form S-8 and any corresponding prospectus) relating to Securities of the Company filed with or delivered to any securities exchange, the Securities and Exchange Commission or any successor agency, and promptly upon transmission thereof, copies of such other financial statements, notices and reports, if any, as the Company or any Subsidiary shall send to its public stockholders;

(e) Annual Regulatory Reports --promptly upon their becoming available, copies of each annual report required to be filed by the Company or any Subsidiary with any of the State Commissions or with the FERC;

(f) Notice of Default or Event of Default -- immediately upon becoming aware of the existence of any Default or Event of Default, a notice describing in reasonable detail its nature and what action the affected Company or Subsidiary is taking or proposes to take with respect thereto;

(g) Notice of Claimed Default --immediately upon becoming aware that the holder of any Note or of any other evidence of Indebtedness or other Security of the Company or any Subsidiary has given notice (or taken any other action) with respect to a claimed default, breach, Default or Event of Default, a notice describing in reasonable detail the notice given (or action taken) and in reasonable detail the nature of the claimed default, breach, Default or Event of Default and what action the affected Company or Subsidiary is taking or proposes to take with respect thereto;

(h) Report on Proceedings --promptly upon the Company's making public information with respect to (1) any proposed or pending investigation of it or any Subsidiary by any governmental authority or agency, or (2) any court or administrative proceeding, which in either case involves the possibility of materially and adversely affecting the Properties, business, prospects, profits or financial condition of the Company and its Subsidiaries taken as a whole, a notice specifying its nature and the action the Company is taking with respect thereto; and

(i) Requested Information --with reasonable promptness, any other data and information which may be reasonably requested from time to time, including without limitation any information required to be made available at any time to any prospective transferee of any Notes in order to satisfy the requirements of Rule 144A under the Securities Act of 1933, as amended.

Section 3.2 Officer's Certificates.

With each set of financial statements delivered pursuant to Section 3.1(a) or 3.1(b), the Company will deliver to each Purchaser a certificate signed by its Chief Financial Officer and setting forth:

(a) Covenant Compliance --the information required in order to establish compliance with Section 4 during the period covered by the financial statements then being furnished; and

(b) Default or Event of Default --that the signer has reviewed the relevant terms of this Agreement and has made, or caused to be made, under the signer's supervision, a review of the transactions and condition of the Company and its Subsidiaries from the beginning of the period covered by the financial statements then being furnished and that the review has not disclosed the existence of any Default or Event of Default or, if a Default or Event of Default exists, describing its nature.

Section 3.3 Accountants' Certificates.

Each set of annual financial statements delivered pursuant to Section 3.1(b) will be accompanied by a certificate of the accountants who certify such financial statements, stating that, in making the audit necessary to the certification of such financial statements, they have reviewed this Agreement and obtained no knowledge of any Event of Default or Default, or, if they have obtained knowledge of any Event of Default or Default, specifying the nature and period of existence thereof.

Section 3.4 Inspection.

The Company will permit each Purchaser's representatives, while such Purchaser or such Purchaser's nominee holds any Note, and the representatives of any other Institutional Holder of the Notes to visit and inspect any of the Properties of the Company or any Subsidiary, to examine and make copies and extracts of all their books of account, records, reports and other papers, and to discuss their respective affairs, finances and accounts with their respective officers, employees with management duties and independent public accountants (and by this provision the Company authorizes said accountants to so discuss the finances and affairs of the Company and its Subsidiaries), all upon reasonable notice, at reasonable times and as often as may be reasonably requested. Any holder making any visit or inspection pursuant to this Section 3.4 shall pay its own costs and expenses thereof unless, at the time of such visit or inspection, there shall exist a Default or Event of Default, in which event the Company shall bear the costs and expenses thereof.

SECTION 4. COMPANY BUSINESS COVENANTS

The Company covenants that on and after the date of this Agreement until the Notes are paid in full:

Section 4.1 Payment of Taxes and Claims.

The Company shall, and shall cause each Subsidiary to, pay, before they become delinquent,

(a) all taxes, assessments and governmental charges or levies imposed upon it or its Property, and

(b) all claims or demands of materialmen, mechanics, carriers, warehousemen, landlords and other like Persons which, if unpaid, might result in the creation of a Lien upon its Property,

provided that items of the foregoing description need not be paid while being contested in good faith and by appropriate proceedings and provided further that adequate book reserves have been established with respect thereto and provided further that the owning company's title to, and its right to use, its Property is not materially adversely affected thereby.

Section 4.2 Maintenance of Properties and Corporate Existence.

The Company shall, and shall cause each Subsidiary to:

(a) Property --maintain its Property in good condition and make all necessary renewals, replacements, additions, betterments and improvements thereto;

(b) Insurance --maintain, with financially sound and reputable insurers, insurance with respect to its Properties and business against such casualties and contingencies, of such types (including public liability, larceny, embezzlement or other criminal misappropriation insurance) and in such amounts as is customary in the case of corporations of established reputations engaged in the same or a similar business and similarly situated;

(c) Financial Records --keep true books of records and accounts in which full and correct entries will be made of all its business transactions, and will reflect in its financial statements adequate accruals and appropriations to reserves, all in accordance with generally accepted accounting principles;

(d) Corporate Existence and Rights --do or cause to be done all things necessary (a) to preserve and keep in full force and effect its existence, rights and franchises and (b) except as provided in Section 4.10 or 4.11, to maintain each Subsidiary as a Subsidiary; and

(e) Compliance with Law --comply with all laws (including but not limited to environmental laws), ordinances, or governmental rules and regulations (including, without limitation, federal, state and local environmental laws, rules and regulations) to which it is subject and maintain any licenses, permits, franchises or other governmental authorizations necessary to the ownership of its Properties or to the conduct of its business, if the failure to so comply or the failure to so maintain might materially adversely affect the Properties, business, prospects, profits or condition (financial or otherwise) of the Company and its Subsidiaries or the ability of the Company to perform its obligations set forth in this Agreement and in the Notes.

Section 4.3 Payment of Notes and Maintenance of Office.

The Company will punctually pay or cause to be paid the principal and interest (and premium, if any) to become due in respect of the Notes according to the terms thereof and will maintain an office at the address of the Company set forth in Section 9.1 where notices, presentations and demands in respect of this Agreement or the Notes may be made upon it. Such office shall be maintained at such address until such time as the Company shall notify the holders of the Notes of a change of location of such office within such State.

Section 4.4 Fixed Charge Coverage Ratio.

The Company will, for each fiscal year of the Company, maintain Consolidated Net Earnings Available for Fixed Charges at not less than 120% of Consolidated Fixed Charges.

Section 4.5 Minimum Consolidated Net Worth.

The Company will at all times maintain Consolidated Net Worth at not less than \$50,000,000.

Section 4.6 Incurrence of Indebtedness.

The Company will not, nor will it permit any of its Subsidiaries to, create, incur, assume, become liable for, or guaranty, or permit any of its Property to become subject to, any Funded Indebtedness (and in the case of a Subsidiary, Current Indebtedness) other than:

(i) Funded Indebtedness represented by the Notes and the outstanding Indebtedness set forth in Schedule 4.6;

(ii) Unsecured Funded Indebtedness of the Company, if after giving effect thereto and to any concurrent transactions, the aggregate principal amount of outstanding secured and unsecured Funded Indebtedness of the Company and secured and unsecured Current and Funded Indebtedness of the Subsidiaries (excluding Indebtedness owed by a Subsidiary to the Company or a Wholly-Owned Subsidiary) does not exceed 65% of Total Capitalization; and

(iii) Purchase Money Indebtedness of the Company or a Subsidiary and unsecured Current or Funded Indebtedness of a Subsidiary, if after giving effect thereto and to any concurrent transactions, (a) the conditions set forth in Section 4.6(ii) are satisfied, and (b) the aggregate principal amount of outstanding Purchase Money Indebtedness of the Company and its Subsidiaries and the unsecured Current and Funded Indebtedness of the Subsidiaries, excluding Current or Funded Indebtedness owed by a Subsidiary to the Company or a Wholly-Owned Subsidiary, does not exceed 20% of Consolidated Tangible Net Worth.

Section 4.7 Guaranties.

The Company will not, and will not permit any Subsidiary to, become liable for or permit any of its Property to become subject to any Guaranty except Guaranties under which the maximum aggregate amount of Indebtedness, dividend or other obligation being guaranteed can be mathematically determined at the time of issuance. Each Guaranty permitted by this Section 4.7 must comply with the applicable requirements of Section 4.6 above.

Section 4.8 Liens and Encumbrances.

The Company will not, and will not permit any Subsidiary to, cause or permit or agree or consent to cause or permit in the future (upon the happening of a contingency or otherwise), any of its Property, whether now owned or subsequently acquired, to be subject to a Lien except:

(a) Liens securing the payment of taxes, assessments or governmental charges or levies or the demands of suppliers, mechanics, carriers, warehousemen, landlords and other like Persons, provided that payment thereof is not at the time required by Section 4.1;

(b) Liens incurred or deposits made in the ordinary course of business (i) in connection with worker's compensation, unemployment insurance, social security and other like laws, or (ii) to secure the performance of letters of credit, bids, tenders, sales contracts, leases, statutory obligations, surety, appeal and performance bonds and other similar obligations, in each case not incurred in connection with the borrowing of money, the obtaining of advances or the payment of the deferred purchase price of Property;

(c) attachment, judgment and other similar Liens arising in connection with court proceedings, provided that (i) execution and other enforcement are effectively stayed, (ii) all claims which the Liens secure are being actively contested in good faith and by appropriate proceedings, (iii) adequate book reserves have been established with respect thereto, and (iv) the owning company's right to use, its Property is not materially adversely affected thereby;

(d) Liens on Property of a Subsidiary, provided that they secure only obligations owing to the Company or a Wholly-Owned Subsidiary;

(e) the Liens existing at the date of this Agreement which are set forth in Schedule 4.8(e);

(f) Liens securing Purchase Money Indebtedness of the Company or a Subsidiary, provided (i) the incurrence of such Purchase Money Indebtedness is then permitted by Section 4.6, and (ii) after giving effect to the incurrence of such Purchase Money Indebtedness and to any concurrent transactions, the aggregate amount of outstanding Purchase Money Indebtedness of the Company and its Subsidiaries and the unsecured Current and Funded Indebtedness of the Subsidiaries (excluding Indebtedness owed by a Subsidiary to the Company or a Wholly-Owned Subsidiary) does not exceed 20% of Consolidated Tangible Net Worth; and provided further that no such Lien shall extend to or cover any Property not originally subject thereto, other than improvements to the Property originally subject thereto; and

(g) other Liens securing obligations that in the aggregate do not exceed \$100,000.

Section 4.9 Restricted Payments.

Except as provided in this Section 4.9, the Company will not, and the Company will not permit any Subsidiary to,

(a) declare or pay any dividends, either in cash or property, on any shares of capital stock of the Company (except dividends payable solely in shares of capital stock of the Company);

(b) directly or indirectly, purchase, redeem or retire any share of capital stock of the Company or any warrants, rights or options to purchase or acquire any shares of capital stock of the Company (other than shares of capital stock or warrants, rights or options to purchase or acquire shares of capital stock issued to employees, directors or agents of the Company pursuant to a benefit or compensation plan or agreement of the Company); or

(c) make any other payment or distribution, either directly or indirectly, in respect of capital stock of the Company (such declarations, payments, redemptions or retirements being called “ Restricted Payments ”).

if at the time of any such Restricted Payment and after giving effect thereto, the aggregate amount of all Restricted Payments made, paid or declared since the Closing Date would exceed the sum of (x) \$10,000,000 plus (y) 100% of Consolidated Net Income for the period beginning on January 1, 2003 and ending on the date of the proposed Restricted Payment, computed on a cumulative basis (or if Consolidated Net Income is a deficit figure for the period, then minus 100% of such deficit).

Section 4.10 Sale of Property and Subsidiary Stock.

(a) The Company will not, and will not permit any Subsidiary to, except in the ordinary course of business, sell, lease, transfer or otherwise dispose of any of its assets (not including Excluded Assets); provided that the foregoing restriction does not apply to the sale of assets for a cash consideration to a Person other than an Affiliate, if all of the following conditions are met:

(i) the amount of such assets (valued at net book value), together with all other assets of the Company and Subsidiaries previously disposed of (other than in the ordinary course of business) as permitted by this Section 4.10(a) and the assets of any Subsidiary disposed of as permitted by Section 4.10(b)(ii) during the fiscal year in which the disposition occurs does not exceed 10% of Consolidated Total Assets as of the end of the fiscal year then most recently ended; provided that assets, as so valued, may be sold in excess of 10% of Consolidated Total Assets in any fiscal year if either (1) within one year of such sale, the proceeds from the sale of such assets are used, or committed by the Company’s Board of Directors to be used, to acquire other assets of at least equivalent value and earning power, or (2) with the written consent of the holders of the Notes, the proceeds from sale of such assets are used immediately upon receipt to prepay pro rata the Notes under Section 2.2(a) hereof and other senior Funded Indebtedness of the Company; and

(ii) in the opinion of the Company’s Board of Directors, the sale is for fair value and is in the best interest of the Company; and

(iii) immediately after the consummation of the sale, and after giving effect thereto, no Default or Event of Default would exist.

(b) The Company will not, and will not permit any Subsidiary to, dispose of its investment in any Subsidiary, and the Company will not, and will not permit any Subsidiary to, issue or transfer any shares of a Subsidiary’s capital stock or any other Securities exchangeable or convertible into such Subsidiary’s stock (such stock and other Securities being called “ Subsidiary Stock ”), if the effect would be to reduce the direct or indirect proportionate interest of the Company in the outstanding Subsidiary Stock of the Subsidiary whose shares are the subject of the transaction, provided that these restrictions do not apply to (x) the issue of directors’ qualifying shares or (y) the sale for a cash consideration to a Person other than an Affiliate of the entire investment of the Company and its other Subsidiaries (i) in any Excluded Assets or (ii) in any other Subsidiary provided the Company would be permitted to dispose of all of the assets of such other Subsidiary at the time in compliance with the conditions specified in paragraphs (i), (ii) and (iii) of Section 4.10(a).

Section 4.11 Merger and Consolidation.

The Company will not, and will not permit any Subsidiary to, be a party to any merger or consolidation or sell, lease or otherwise transfer all or substantially all of its Property, provided that the Company may merge or consolidate with, or sell substantially all of its assets to, another corporation if all of the following conditions are met:

(i) the surviving or acquiring corporation is organized under the laws of the United States or a jurisdiction thereof,

(ii) the surviving or acquiring corporation, if not the Company, expressly and unconditionally assumes in writing the covenants and obligations to be performed by the Company under the Notes and this Agreement, such assumption to be in a form acceptable to the holder or holders of not less than 66-2/3% in principal amount of all Notes at the time

outstanding, and

(iii) the surviving or acquiring corporation could, immediately after giving effect to the transaction, incur at least \$1.00 of additional Funded Indebtedness pursuant to Section 4.6(ii) , and at the time of such transaction and immediately after giving effect thereto, no Default or Event of Default shall have occurred and be continuing; and

provided , further , that any Subsidiary may merge or consolidate with or into the Company or any other Subsidiary so long as (x) immediately after giving effect to the transaction, the Company can incur at least \$1.00 of additional Funded Indebtedness consistent with Section 4.6(ii), (y) at the time of such transaction and immediately after giving effect thereto, no Default or Event of Default shall have occurred and be continuing, and (z) in any merger or consolidation involving the Company, the Company shall be the surviving or continuing corporation.

Section 4.12 Transactions with Affiliates.

The Company will not, and will not permit any Subsidiary to, enter into any transaction (including the purchase, sale or exchange of Property or the rendering of any service) with any Affiliate except in the ordinary course of and pursuant to the reasonable requirements of such Company's or Subsidiary's business and upon fair and reasonable terms which are at least as favorable to the Company or the Subsidiary as would be obtained in a comparable arm's-length transaction with a non-Affiliate.

Section 4.13 Loans, Advances and Investments.

The Company will not, and will not permit any Subsidiary to, make or permit to remain outstanding any investment in any Property or own, purchase or acquire any stock, obligations or securities of, or any other interest in, or make any capital contribution to, or make or permit to remain outstanding any loan or advance to, any Person, (herein collectively referred to as "Investments") except that the Company or a Subsidiary may make or permit to remain outstanding Permitted Investments.

Section 4.14 Sale-Leaseback.

Without the written consent of the holder or holders of not less than 66-2/3% in principal amount of all Notes at the time outstanding, neither the Company nor any Subsidiary will sell and lease back (whether or not under a Financing Lease) any Property.

Section 4.15 ERISA Compliance.

(a) The Company will not permit the present value of all employee benefits vested under all Defined Benefit Plans maintained by the Company and its Subsidiaries, determined as of the end of any Defined Benefit Plan year, to exceed the present value of the assets allocable to such vested benefits as of such date of determination;

(b) All assumptions and methods used to determine the actuarial valuation of vested employee benefits under Defined Benefit Plans and the present value of assets of Defined Benefit Plans shall be reasonable in the good faith judgment of the Company and shall comply with all requirements of law, provided , however , that for purposes of the foregoing the Company shall be entitled to rely upon the independent actuaries for its Defined Benefit Plans; and

(c) The Company will not permit at any time, and will not permit any Subsidiary at any time to permit, any Pension Plan maintained by it to:

(i) engage in any "prohibited transaction" as such term is defined in section 4975 of the Code or described in section 406 of ERISA;

(ii) incur any "accumulated funding deficiency" as such term is defined in section 302 of ERISA, whether or not waived; or

(iii) terminate under circumstances which could result in the imposition of a Lien on the Property of the Company or any Subsidiary pursuant to section 4068 of ERISA.

Section 4.16 Use of Proceeds.

Neither the Company nor any Subsidiary owns or has any present intention of acquiring any "margin stock" as defined in Regulation U (12 CFR Part 221) of the Board of Governors of the Federal Reserve System (herein called "margin stock"). The proceeds of sale of the Notes will be used to refinance outstanding short-term debt previously used to fund capital expenditures and for general corporate purposes, including to fund capital expenditures. None of such proceeds will be used, directly or indirectly, for the purpose, whether immediate,

incidental or ultimate, of purchasing or carrying any margin stock or for the purpose of maintaining, reducing or retiring any indebtedness which was originally incurred to purchase or carry any stock that is currently a margin stock or for any other purpose which might constitute this transaction a "purpose credit" within the meaning of such Regulation U. Neither the Company nor any agent acting on its behalf has taken or will take any action which might cause this Agreement or the Notes to violate Regulation T, Regulation U or any other regulation of the Board of Governors of the Federal Reserve System or to violate the Exchange Act, in each case as in effect now or as the same may hereafter be in effect.

Section 4.17 Terrorism Sanctions Regulations.

The Company will not and will not permit any Subsidiary to (a) become a Person described or designated in the Specially Designated Nationals and Blocked Persons List of the Office of Foreign Assets Control or in Section 1 of the Anti-Terrorism Order or (b) knowingly engage in any dealings or transactions with any such Person.

SECTION 5. DEFAULT

Section 5.1 Nature of Default.

An "Event of Default" shall exist if any of the following occurs and is continuing:

(a) Principal, Premium or Interest Payments --failure to pay principal or Make Whole Amount on any Note on or before the date the payment is due, or failure to pay interest on any Note on or before the fifth day after the payment is due;

(b) Breach of Particular Covenants --failure to comply with any covenant contained in Sections 4.4 through 4.11 or Section 4.14, 4.15 or 4.17 ;

(c) Other Breaches --failure to comply with any other provision of this Agreement, which continues for more than 30 days after it first becomes known to the chief executive officer, president, chief financial officer or treasurer of the Company;

(d) Default on Indebtedness or Other Security -- failure by the Company or any Subsidiary to make one or more payments due on aggregate indebtedness exceeding \$1,000,000; or any event, other than the giving of a notice of voluntary prepayment, shall occur or any condition shall exist, the effect of which event or condition is to cause (or permit one or more Persons to cause) more than \$1,000,000 of aggregate indebtedness or other Securities of the Company or any Subsidiary to become due before its (or their) stated maturity or before its (or their) regularly scheduled dates of payment;

(e) Involuntary Bankruptcy Proceedings, Etc. --a custodian, receiver, liquidator or trustee of the Company or any Subsidiary, or of any of the Property of either, is appointed or takes possession and such appointment or possession remains in effect for more than 60 days; or the Company or any Subsidiary generally fails to pay its debts as they become due; or the Company or any Subsidiary is adjudicated bankrupt or insolvent; or an order for relief is entered under the Federal Bankruptcy Code against the Company or any Subsidiary; or any of the Property of either is sequestered by court order and the order remains in effect for more than 60 days; or a petition is filed against the Company or any Subsidiary under any bankruptcy, reorganization, arrangement, insolvency, readjustment of debt, dissolution or liquidation law of any jurisdiction, whether now or subsequently in effect, and is not dismissed within 60 days after filing;

(f) Voluntary Bankruptcy Proceedings, Etc. --the Company or any Subsidiary files a voluntary petition in bankruptcy or seeking relief under any provision of any bankruptcy, reorganization, arrangement, insolvency, readjustment of debt, dissolution or liquidation law of any jurisdiction, whether now or subsequently in effect; or consents to the filing of any petition against it under any such law; or consents to the appointment of or taking possession by a custodian, receiver, trustee or liquidator of the Company, or a Subsidiary, or of all or any part of the Property of either; or makes an assignment for the benefit of its creditors;

(g) Warranties or Representations --any warranty, representation or other statement by or on behalf of the Company contained in this Agreement or in any document, certificate or instrument furnished in compliance with or in reference to this Agreement shall prove to have been false or misleading in any material respect on the date as of which it was made; or

(h) Undischarged Final Judgments --a final judgment for the payment of money is outstanding against one or more of the Company and its Subsidiaries and has been outstanding for more than 60 days from the date of its entry and has not been discharged in full or effectively stayed.

Section 5.2 Default Remedies.

(a) Acceleration --If an Event of Default of the type described in Sections 5.1(e) or 5.1(f) shall occur, the entire outstanding

principal amount of the Notes shall automatically become due and payable, without the taking of any action on the part of any holder of the Notes or any other Person and without the giving of any notice with respect thereto. If an Event of Default of the type described in Section 5.1(a) exists, any holder of Notes may, at its option, exercise any right, power or remedy permitted by law, including the right, by notice to the Company, to declare the Notes held by such holder to be immediately due and payable. If any other Event of Default exists, the holder or holders of at least 66-2/3% in outstanding principal amount of the Notes (exclusive of Notes owned by the Company, Subsidiaries and Affiliates) may, at its or their option, exercise any right, power or remedy permitted by law, including the right, by notice to the Company, to declare all the outstanding Notes to be immediately due and payable. Upon each such acceleration, the principal of the Notes declared due or automatically becoming due shall be immediately payable, together with all accrued interest and the Make Whole Amount, if any, applicable thereto, and the Company will immediately make payment, without any presentment, demand, protest or other notice of any kind, all of which are hereby expressly waived.

No course of dealing or delay or failure to exercise any right on the part of any holder of the Notes shall operate as a waiver of such right or otherwise prejudice such holder's rights, powers or remedies. The Company will pay or reimburse the holders of the Notes for all costs and expenses (including reasonable attorneys' fees) incurred by them in collecting any sums due on the Notes or in otherwise enforcing any of their rights.

(b) Annulment of Acceleration --In the event of each declaration or automatic acceleration pursuant to Section 5.2(a), the holder or holders of at least 75% of the outstanding principal amount of the Notes (exclusive of Notes owned by the Company, Subsidiaries and Affiliates) may annul such declaration or automatic acceleration and its consequences if no judgment or decree has been entered for the payment of any amount due pursuant to such declaration or automatic acceleration and if all sums payable under the Notes and under this Agreement (except any principal or interest on the Notes which has become payable solely by reason of such declaration or automatic acceleration) shall have been duly paid.

Section 5.3 Other Remedies.

If any Event of Default or Default shall occur and be continuing, the holder of any Note may proceed to protect and enforce its rights under this Agreement and such Note by exercising such remedies as are available to such holder in respect thereof under applicable law, either by suit in equity or by action at law, or both, whether for specific performance of any covenant or other agreement contained in this Agreement or in aid of the exercise of any power granted in this Agreement. No remedy conferred in this Agreement upon any Purchaser or any other holder of any Note is intended to be exclusive of any other remedy, and each and every such remedy shall be cumulative and shall be in addition to every other remedy conferred herein or now or hereafter existing at law or in equity or by statute or otherwise.

SECTION 6. REPRESENTATIONS, COVENANTS AND WARRANTIES

The Company represents, covenants and warrants as follows:

Section 6.1 Organization, Etc.

(a) Due Organization, Foreign Qualifications, Stock Ownership . The Company is a corporation duly organized and existing in good standing under the laws of the State of Delaware, and is qualified to do business and is in good standing in the States of Florida and Maryland, which are the only jurisdictions where the ownership by it of property or the nature of the business conducted by it makes such qualification necessary. Each Subsidiary of the Company is duly organized and existing in good standing under the laws of the jurisdictions in which it is incorporated. Neither the ownership by any Subsidiary of property or the nature of the business conducted by any Subsidiary requires any Subsidiary to be qualified to do business in any jurisdiction in which it is not already qualified to do business. The names of the Subsidiaries of the Company and the jurisdiction of incorporation of such (i) as of the date of this Agreement are listed on Schedule 6.1(a) hereto, and (ii) as of the date upon when this representation is repeated as provided in Section 1.4(d), as such Schedule may have been updated by the delivery by the Company to the Purchasers of an updated version thereof on or before such date.

(b) Power and Authority. The Company and each of its Subsidiaries has all requisite corporate power to conduct their respective businesses as currently conducted and as currently proposed to be conducted. The Company has all requisite corporate power to execute, deliver and perform its obligations under this Agreement and the Notes. The execution, delivery and performance of the obligations of the Company under this Agreement and the Notes have been duly authorized by all requisite corporate action on the part of the Company. The Company has duly executed and delivered this Agreement, and this Agreement constitutes the legal, valid and binding obligation of the Company, enforceable against the Company in accordance with its terms subject, as to enforceability, to applicable laws relating to bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditor's rights generally and subject to general principles of equity. As of the Closing Date, the Company shall have duly executed and delivered the Notes being issued on such Closing Date, and such Notes shall be the legal, valid and binding obligations of the Company enforceable against the Company in accordance with their terms subject, as to enforceability, to applicable laws relating to bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditor's rights generally and subject to general principles of equity.

Section 6.2 Financial Statements.

The Company has furnished each Purchaser with the following financial statements, identified by a principal financial officer of the Company: (i) a consolidated balance sheet of the Company and its Subsidiaries as at December 31 in each of the five fiscal years of the Company most recently completed prior to the date as of which this representation is made or repeated as provided in Section 1.4(d) (other than fiscal years completed within 90 days prior to such date for which audited financial statements have not been released) and consolidated statements of income, stockholders' equity and cash flows of the Company and its Subsidiaries for each such year, accompanied by the opinion thereon of PricewaterhouseCoopers, L.L.P. (or, in the case of financial statements delivered subsequent to the date of this Agreement, accompanied by the opinion thereon of a registered public accounting firm of national standing); and (ii) a consolidated balance sheet of the Company and its Subsidiaries as at the end of each quarterly period ended after December 30, 2004 and prior to the date this representation is made or repeated as provided in Section 1.4(d) (other than quarterly periods completed within 45 days prior to such date for which financial statements have not been released) and consolidated statements of income, stockholders' equity and cash flows for the year-to-date periods ended on each such date, prepared by the Company. Such financial statements (including any related schedules and/or notes) are true and correct in all material respects (subject, as to interim statements, to changes resulting from audits and year-end adjustments), have been prepared in accordance with generally accepted accounting principles consistently followed throughout the periods involved and show all liabilities, direct and contingent, of the Company and its Subsidiaries required to be shown in accordance with such principles. The balance sheets fairly present the condition of the Company and its Subsidiaries as at the dates thereof, and the statements of income, stockholders' equity and cash flows fairly present the results of the operations of the Company and its Subsidiaries and their cash flows for the periods indicated. There has been no material adverse change in the business, condition (financial or otherwise) or operations of the Company and its Subsidiaries taken as a whole since December 31, 2004.

Section 6.3 Actions Pending.

Except as disclosed in the Company's Form 10-K most recently filed with the Securities and Exchange Commission before the date of this Agreement or subsequent Forms 10-Q or Forms 8-K filed with the Securities and Exchange Commission before the date of this Agreement, there is no action, suit, investigation or proceeding pending or, to the knowledge of the Company, threatened against the Company or any of its Subsidiaries, or any properties or rights of the Company or any of its Subsidiaries, by or before any court, arbitrator or administrative or governmental body not covered by insurance which could reasonably be expected to result in any material adverse change in the business, condition (financial or otherwise) or operations of the Company and its Subsidiaries taken as a whole.

Section 6.4 Outstanding Indebtedness.

Neither the Company nor any of its Subsidiaries has outstanding any Indebtedness except as permitted by Section 4.6. There does not exist any default under the provisions of any instrument evidencing such Debt or of any agreement relating thereto.

Section 6.5 Title to Properties.

The Company has and each of its Subsidiaries has good and marketable title to its respective real properties (other than properties which it leases) and good title to all of its other respective properties and assets, including the properties and assets reflected in the balance sheet as of December 31, 2004 referred to in Section 6.2 (other than properties and assets disposed of in the ordinary course of business), subject to no Lien of any kind except Liens permitted by Section 4.8. All leases necessary in any material respect for the conduct of the respective businesses of the Company and its Subsidiaries are valid and subsisting and are in full force and effect.

Section 6.6 Taxes.

The Company has and each of its Subsidiaries has filed all federal, state and other income tax returns which, to the knowledge of the officers of the Company, are required to be filed, and each has paid all taxes as shown on such returns and on all assessments received by it to the extent that such taxes have become due, except such taxes as are being contested in good faith by appropriate proceedings for which adequate reserves have been established in accordance with generally accepted accounting principles.

Section 6.7 Conflicting Agreements and Other Matters.

Neither the execution nor delivery of this Agreement or the Notes, nor the offering, issuance and sale of the Notes, nor fulfillment of nor compliance with the terms and provisions hereof and of the Notes will conflict with, or result in a breach of the terms, conditions or provisions of, or constitute a default under, or result in any violation of, or result in the creation of any Lien upon any of the properties or assets of the Company or any of its Subsidiaries pursuant to, the charter or by-laws of the Company or any of its Subsidiaries, any award of any arbitrator or any agreement (including any agreement with stockholders), instrument, order, judgment, decree, statute, law, rule or regulation to which the Company or any of its Subsidiaries is subject. Neither the Company nor any of its Subsidiaries is a party to, or otherwise subject to

any provision contained in, any instrument evidencing Indebtedness of the Company or such Subsidiary, any agreement relating thereto or any other contract or agreement (including its charter) which limits the amount of, or otherwise imposes restrictions on the incurring of, Debt of the Company of the type to be evidenced by the Notes except as set forth in the agreements listed in Schedule 6.7 attached hereto.

Section 6.8 Offering of Notes.

Neither the Company nor any agent acting on its behalf has, directly or indirectly, offered the Notes or any similar security of the Company for sale to, or solicited any offers to buy the Notes or any similar security of the Company from, or otherwise approached or negotiated with respect thereto with, any Person other than institutional investors, and neither the Company nor any agent acting on its behalf has taken or will take any action which would subject the issuance or sale of the Notes to the provisions of Section 5 of the Securities Act or to the provisions of any securities or Blue Sky law of any applicable jurisdiction.

Section 6.9 ERISA.

No accumulated funding deficiency (as defined in section 302 of ERISA and section 412 of the Code), whether or not waived, exists with respect to any Pension Plan (other than a Multiemployer Plan). No liability to the Pension Benefit Guaranty Corporation has been or is expected by the Company or any ERISA Affiliate to be incurred with respect to any Pension Plan (other than a Multiemployer Plan) by the Company, any Subsidiary or any ERISA Affiliate which is or would be materially adverse to the business, condition (financial or otherwise) or operations of the Company and its Subsidiaries taken as a whole. Neither the Company, any Subsidiary nor any ERISA Affiliate has incurred or presently expects to incur any withdrawal liability under Title IV of ERISA with respect to any Multiemployer Plan which is or would be materially adverse to the business, condition (financial or otherwise) or operations of the Company and its Subsidiaries taken as a whole. The execution and delivery of this Agreement and the issuance and sale of the Notes will be exempt from, or will not involve any transaction which is subject to, the prohibitions of section 406 of ERISA and will not involve any transaction in connection with which a penalty could be imposed under section 502(i) of ERISA or a tax could be imposed pursuant to section 4975 of the Code. The representation by the Company in the next preceding sentence is made in reliance upon and subject to the accuracy of each Purchaser's representation in Section 9.5.

Section 6.10 Governmental Consent.

Neither the nature of the Company or of any Subsidiary, nor any of their respective businesses or properties, nor any relationship between the Company or any Subsidiary and any other Person, nor any circumstance in connection with the offering, issuance, sale or delivery of the Notes is such as to require any authorization, consent, approval, exemption or other action by or notice to or filing with any court or administrative or governmental body, including, without limitation, the Maryland State Commission, (other than routine filings after the date of closing with the Securities and Exchange Commission and/or state Blue Sky authorities, if any) in connection with the execution and delivery of this Agreement, the offering, issuance, sale or delivery of the Notes or fulfillment of or compliance with the terms and provisions hereof or of the Notes, other than (a) Order No. 6708 of the Public Service Commission of the State of Delaware entered in PSC Docket No. 05-290 dated September 6, 2005, which order has been duly issued, is final and in full force and effect, no appeal, review or contest thereof is pending and the time for appeal or to seek review or reconsideration thereof has expired, and (b) an order of the Florida Public Service Commission. The Company has delivered to each Purchaser true and complete copies of such order of the Public Service Commission of the State of Delaware and, prior to the Closing Date, the Company will have delivered to each Purchaser a true and complete copy of such order of Florida Public Service Commission.

Section 6.11 Environmental Compliance

Except as disclosed in the Company's Form 10-K most recently filed with the Securities and Exchange Commission before the date of this Agreement or subsequent Forms 10-Q or Forms 8-K filed with the Securities and Exchange Commission before the date of this Agreement, the Company and its Subsidiaries and all of their respective properties and facilities have complied at all times and in all respects with all federal, state, local and regional statutes, laws, ordinances and judicial or administrative orders, judgments, rulings and regulations relating to protection of the environment except, in any such case, where failure to comply would not reasonably be expected to result in a material adverse effect on the business, condition (financial or otherwise) or operations of the Company and its Subsidiaries taken as a whole.

Section 6.12 Permits and Other Operating Rights.

The Company and each of its Subsidiaries has all such valid and sufficient franchises, licenses, permits, operating rights, certificates of convenience and necessity, other authorizations from federal, state, regional, municipal and other local regulatory bodies or administrative agencies or other governmental bodies having jurisdiction over the Company or any of its Subsidiaries or any of its respective properties, easements and rights-of-way as are necessary for the ownership, operation and maintenance of its respective businesses and respective properties, subject to minor exceptions and deficiencies which do not materially affect its business and operations considered as a whole or any material part thereof, and neither the Company nor any of its Subsidiaries is in violation of any thereof in any material respect.

Section 6.13 Disclosure.

Neither this Agreement nor any other document, certificate or statement furnished to any Purchaser by or on behalf of the Company in connection herewith contains any untrue statement of a material fact or omits to state a material fact necessary in order to make the statements contained herein and therein not misleading. There is no fact peculiar to the Company or any of its Subsidiaries which materially adversely affects or in the future may (so far as the Company can now foresee) materially adversely affect the business, property or assets, or financial condition of the Company or any of its Subsidiaries taken as a whole and which has not been set forth in this Agreement or in the other documents, certificates and statements furnished to each Purchaser by or on behalf of the Company prior to the date hereof in connection with the transactions contemplated hereby.

Section 6.14 Regulatory Status of Company; Trust Indenture Act.

The Company is not an "investment company" or a company "controlled" by an "investment company," within the meaning of the Investment Company Act of 1940, as amended. The Company is not a "holding company" or a "subsidiary company" or an "affiliate" of a "holding company" within the meaning of the Public Utility Holding Company Act of 1935, as amended, or the Energy Policy Act of 2005, and is not a "public utility" within the meaning of the Federal Power Act, as amended. By purchasing the Notes, no Purchaser will be (a) a "public utility company," a "holding company" or an "affiliate" of a "holding company" or a "subsidiary company" of a "holding company" within the meaning of the Public Utility Holding Company Act of 1935, as amended, or the Energy Policy Act of 2005, (b) a "transmitting utility" or an "electric utility" within the meaning of the Federal Power Act, as amended, (c) a "public utility" or an "electric utility" under Delaware law, Florida law, Maryland law or the law of any other state or (d) subject to the jurisdiction of the Federal Energy Regulatory Commission, the Public Service Commission of the State of Delaware, the Public Service Commission of the State of Florida or any other commission or person in any other state.

Section 6.15. Foreign Assets Control Regulations, Etc.

(a) The use of the proceeds of the sale of the Notes by the Company hereunder will not violate the Trading with the Enemy Act, as amended, or any of the foreign assets control regulations of the United States Treasury Department (31 CFR, Subtitle B, Chapter V, as amended) or any enabling legislation or executive order relating thereto.

(b) Neither the Company nor any Subsidiary (i) is a Person described or designated in the Specially Designated Nationals and Blocked Persons List of the Office of Foreign Assets Control or in Section 1 of the Anti-Terrorism Order or (ii) to its knowledge, engages in any dealings or transactions with any such Person. The Company and its Subsidiaries are in compliance, in all material respects, with the USA Patriot Act.

(c) No part of the proceeds from the sale of the Notes hereunder will be used, directly or indirectly, for any payments to any governmental official or employee, political party, official of a political party, candidate for political office, or anyone else acting in an official capacity, in order to obtain, retain or direct business or obtain any improper advantage, in violation of the United States Foreign Corrupt Practices Act of 1977, as amended.

Section 6.16. First Mortgage Indenture.

No Bonds are outstanding. The First Mortgage Indenture has been terminated and discharged and no further Bonds may be issued thereunder.

SECTION 7. INTERPRETATION OF THIS AGREEMENT

Section 7.1 Terms Defined.

As used in this Agreement (including Exhibits and Schedules), the following terms have the respective meanings set forth below or in the Section indicated. Unless the context otherwise requires, (a) words denoting the singular number only shall include the plural and vice versa and (b) references to a gender shall include all genders.

Affiliate --means a Person (other than a Subsidiary) (1) which directly or indirectly controls, or is controlled by, or is under common control with, the Company, (2) which owns 5% or more of the Voting Stock of the Company or (3) 5% or more of the Voting Stock (or in the case of a Person which is not a corporation, 5% or more of the equity interest) of which is owned by the Company or a Subsidiary. The term "control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of Voting Stock, by contract or otherwise.

Agreement --means this Note Agreement dated as of October 18, 2005 between the Company and each Purchaser (including Exhibits

and Schedules), as amended or modified from time to time.

Annual Principal Amortization Dates --means (i) if the Closing Date is prior to December 28, 2006, then the dates which are the 5th, 6th, 7th, 8th, 9th, 10th, 11th, 12th and 13th annual anniversary dates of the Closing Date, or (ii) if the Closing Date is on or after December 28, 2006, then December 28, 2011, December 28, 2012, December 28, 2013, December 28, 2014, December 28, 2015, December 28, 2016, December 28, 2017, December 28, 2018 and December 28, 2019.

Anti-Terrorism Order --means Executive Order No. 13,224 of September 24, 2001, Blocking Property and Prohibiting Transactions with Persons Who Commit, Threaten to Commit or Support Terrorism, 66 U.S. Fed. Reg. 49, 079 (2001), as amended.

Bonds --has the meaning that was specified in the First Mortgage Indenture.

Business Day --means any day other than a Saturday, a Sunday or a day on which commercial banks in New York City are required or authorized to be closed.

Called Principal --means, with respect to any Note, the principal of such Note that is to be prepaid pursuant to Section 2.2(a) or is declared to be due and payable pursuant to Section 2.1(b) or 5.2(a), as the context requires.

Cancellation Date -- Section 2.6.

Cancellation Fee -- Section 2.6.

Closing Date --means (i) except as otherwise provided in clause (ii) of this definition, the Business Day prior to December 28, 2006 specified as the "Closing Date" in a notice given to the Purchasers by the Company no less than 10 Business Days prior to and no more than 25 Business Days prior to the date so specified in such notice as the Closing Date, or (ii) if (a) the Company has provided a notice of a Closing Date pursuant to clause (i) of this definition but the Company fails to tender to any Purchaser the Notes to be purchased by such Purchaser on such Closing Date or any of the conditions specified in Section 1.4 shall not have been fulfilled on such Closing Date, or (b) the Company has not provided a notice of a Closing Date pursuant to clause (i) of this definition prior to November 29, 2006, then December 28, 2006, or, if the closing of the purchase and sale of the Notes is rescheduled pursuant to Section 2.4, the Rescheduled Closing Date. The Company may give only one notice pursuant to clause (i) of this definition and any additional notices that may be given by the Company shall be ineffective.

Code --means the Internal Revenue Code of 1986, as amended.

Confidential Information --means information delivered to any Purchaser by or on behalf of the Company or any Subsidiary in connection with the transactions contemplated by or otherwise pursuant to this Agreement that is proprietary in nature and that was clearly marked or labeled or otherwise adequately identified when received by such Purchaser as being confidential information of the Company or such Subsidiary, provided that such term does not include information that (a) was publicly known or otherwise known to such Purchaser prior to the time of such disclosure, (b) subsequently becomes publicly known through no act or omission by such Purchaser or any person acting on such Purchaser's behalf, (c) otherwise becomes known to such Purchaser other than through disclosure by the Company or any Subsidiary or (d) constitutes financial statements delivered to such Purchaser under Section 3.1 that are otherwise publicly available.

Company --Preamble.

Consolidated Fixed Charges --for any period, means the net amount deducted, in determining Consolidated Net Income for such period, for interest on Indebtedness and lease rental expense of the Company and its Subsidiaries.

Consolidated Net Earnings Available for Fixed Charges --for any period, means Consolidated Net Income for such period plus the net amount deducted in the determination thereof for (i) interest on Indebtedness, (ii) lease rental expense and (iii) income taxes.

Consolidated Net Income --for any period, means the gross revenue of the Company and its Subsidiaries determined on a consolidated basis minus all proper expenses (including income taxes) determined on a consolidated basis for such period, but in any event excluding:

- (1) any gain or loss on the sale of Investments or fixed assets, and any taxes on such excluded gain or loss;
- (2) any proceeds from life insurance;
- (3) any portion of the net earnings of any Subsidiary which for any reason is unavailable to pay dividends to the Company or any other Subsidiary;

- (4) any gain arising from any write-up or reappraisal of assets;
- (5) any deferred or other credit representing the excess of equity of an acquired Person over the amount invested by the Company and its Subsidiaries in such Person;
- (6) any gain arising from the acquisition of any Securities of the Company or any Subsidiary;
- (7) net earnings of any Person (other than a Subsidiary) in which the Company or any Subsidiary has an ownership interest unless those net earnings have actually been received by the Company or the Subsidiary in the form of cash distributions or, to the extent of their fair market value, in the form of any other freely transferable Property; and
- (8) earnings of any Person accrued prior to the date it becomes a Subsidiary or its assets are acquired by the Company or a Subsidiary.

Consolidated Net Worth --means as of any date, the sum of the amounts that would be shown on a consolidated balance sheet of the Company and its Subsidiaries at such date for (i) capital stock, (ii) capital surplus and (iii) retained earnings.

Consolidated Tangible Net Worth --means as of any date Consolidated Net Worth at such date minus the amount at which any assets other than Tangible Assets would be shown on a consolidated balance sheet of the Company and its Subsidiaries at such date.

Consolidated Total Assets --means as of any date the aggregate amount at which the assets of the Company and its Subsidiaries would be shown on a consolidated balance sheet at such date.

Current Indebtedness --with respect to any Person, means all liabilities for borrowed money and all liabilities secured by any Lien existing on Property owned by that Person (whether or not those liabilities have been assumed) which, in either case, are payable on demand or within one year from their creation, plus the aggregate amount of Guaranties by that Person of all such liabilities of other Persons, except:

- (1) any liabilities which are renewable or extendible at the option of the debtor to a date more than one year from the date of creation thereof; and
- (2) any liabilities which, although payable within one year, constitute principal payments on indebtedness expressed to mature more than one year from the date of its creation.

Default --means an event or condition which will, with the lapse of time or the giving of notice or both, become an Event of Default.

Defined Benefit Plan --means a plan (within the meaning of section 4001(a)(15) of ERISA) that is covered by Title IV of ERISA.

Delayed Delivery Fee -- Section 2.5 .

Discounted Value --means, with respect to the Called Principal of any Note, the amount obtained by discounting all Remaining Scheduled Payments with respect to such Called Principal from their respective scheduled due dates to the Settlement Date with respect to such Called Principal, in accordance with accepted financial practice and at a discount factor (as converted to reflect the periodic basis on which interest on such Note is payable, if interest is payable other than on a semi-annual basis) equal to the Reinvestment Yield with respect to such Called Principal.

Diversification Event -- Section 2.1(b) .

Energy Policy Act of 2005 --means the Energy Policy Act of 2005.

ERISA --means the Employee Retirement Income Security Act of 1974, as amended.

ERISA Affiliate -- shall mean any corporation which is a member of the same controlled group of corporations as the Company within the meaning of section 414(b) of the Code, or any trade or business which is under common control with the Company within the meaning of section 414(b) of the Code.

Event of Default -- Section 5.1 .

Exchange Act --means the Securities Exchange Act of 1934, as amended.

Excluded Assets -- means (i) each of the following Subsidiaries or the assets of any of the following Subsidiaries: Sharp Water, Inc.; Sam Shannahan Well Co., Inc.; Sharp Water of Minnesota, Inc.; Sharp Water of Idaho, Inc.; BravePoint, Inc.; Skipjack, Inc.; Eastern Shore Real Estate, Inc.; aQuality Company, Inc.; Peninsula Pipeline Company, Inc.; Peninsula Energy Services Company, Inc.; and OnSight Energy LLC and (ii) any Subsidiary that the Company may create or acquire after the date hereof which is not (x) a "public utility company," a "holding company" or an "affiliate" of a "holding company" or a "subsidiary company" of a "holding company" within the meaning of the Public Utility Holding Company Act of 1935, as amended, or the Energy Policy Act of 2005 or (y) a "transmitting utility" within the meaning of the Federal Power Act, as amended.

FERC --means the Federal Energy Regulatory Commission or a successor thereto.

Financing Lease --means any lease which is shown or is required to be shown in accordance with generally accepted accounting principles as a liability on a balance sheet of the lessee thereunder.

Financing Lease Obligation --means the obligation of the lessee under a Financing Lease. The amount of a Financing Lease Obligation at any date is the amount at which the lessee's liability under the Lease would be required to be shown on its balance sheet at such date.

First Mortgage Indenture --means the Indenture formerly in effect dated as of December 1, 1959, between Chesapeake Utilities Corporation and Fidelity-Baltimore National Bank, Trustee, as amended and supplemented.

Funded Indebtedness --with respect to any Person, means without duplication:

- (1) its liabilities for borrowed money, other than Current Indebtedness;
- (2) liabilities secured by any Lien existing on Property owned by the Person (whether or not those liabilities have been assumed);
- (3) the aggregate amount of Guaranties by the Person, other than Guaranties which constitute Current Indebtedness; and
- (4) its Financing Lease Obligations.

Guaranty --with respect to any Person, means all guaranties of, and all other obligations which in effect guaranty, any indebtedness, dividend or other obligation of any other Person (the "primary obligor") in any manner (except any indebtedness or other obligation of any Subsidiary or any Funded Indebtedness of the Company), including obligations incurred through an agreement, contingent or otherwise, by such Person:

- (1) to purchase such indebtedness or obligation or any Property constituting security therefor;
- (2) to advance or supply funds
 - (A) for the purchase or payment of such indebtedness or obligation, or
 - (B) to maintain working capital or any balance sheet or income statement condition;
 - (C) to lease Property, or to purchase Securities or other Property or services, primarily for the purpose of assuring the owner of such indebtedness or obligation of the ability of the primary obligor to make payment of the indebtedness or obligation; or
 - (D) otherwise to assure the owner of such indebtedness or obligation, or the primary obligor, against loss;

but excluding endorsements in the ordinary course of business of negotiable instruments for deposit or collection.

The amount of any Guaranty shall be deemed to be the maximum amount for which such Person may be liable, upon the occurrence of any contingency or otherwise, under or by virtue of the Guaranty.

Hedge Treasury Note(s) --means, with respect to any Note, the United States Treasury Note or Notes whose duration (as determined

by Prudential) most closely matches the duration of such Note.

Indebtedness --means Current Indebtedness and Funded Indebtedness.

Institutional Holder --means a "qualified institutional buyer" as defined in Regulation 230.144A issued pursuant to the Securities Act of 1933, as amended.

Investments -- Section 4.13.

Lien --means any interest in Property securing an obligation owed to, or a claim by, a Person other than the owner of the Property, whether the interest is based on common law, statute or contract (including the security interest lien arising from a mortgage, encumbrance, pledge, conditional sale or trust receipt or a lease, consignment or bailment for security purposes). The term "Lien" shall not include minor reservations, exceptions, encroachments, easements, rights-of-way, covenants, conditions, restrictions and other minor title exceptions affecting Property, provided that they do not constitute security for a monetary obligation. For the purposes of this Agreement, the Company or a Subsidiary shall be deemed to be the owner of any Property which it has acquired or holds subject to a Financing Lease or a conditional sale agreement or other arrangement pursuant to which title to the Property has been retained by or vested in some other Person for security purposes, and such retention or vesting shall be deemed to be a Lien.

Make Whole Amount --means, with respect to any Note, an amount equal to the excess, if any, of the Discounted Value of the Called Principal of such Note over the sum of (i) such Called Principal plus (ii) interest accrued thereon as of (including interest due on) the Settlement Date with respect to such Called Principal. The Make Whole Amount shall in no event be less than zero.

Maturity Date --means (i) if the Closing Date is prior to December 28, 2006, then the date which is the 14th annual anniversary date of the Closing Date, or (ii) if the Closing Date is on or after December 28, 2006, then December 28, 2020.

Notes -- Section 1.1.

Pension Plan --means any "employee pension benefit plan" (as such term is defined in Section 3 of ERISA) maintained by the Company and its Related Persons, or in which employees of the Company or any Related Person are entitled to participate, as from time to time in effect.

Permitted Investments --means:

- (1) Investments in any Person outstanding on the date hereof, which are set forth in Schedule 7.1 hereto;
- (2) Investments in any Person which is or would immediately thereafter become a Subsidiary or a division of the Company or a Subsidiary, whether by acquisition of stock, indebtedness, other obligation or Security, or by loan, Guaranty, advance, capital contribution, or otherwise;
- (3) Investments in cash equivalent short-term investments maturing within one year of acquisition;
- (4) Investments in mutual funds which invest only in either money market securities or direct obligations of the United States of America or any of its agencies, or obligations fully guaranteed by the United States of America, which mature within three years from the date acquired;
- (5) Investments in related industries;
- (6) Direct obligations of the United States of America or any of its agencies, or obligations fully guaranteed by the United States of America, provided that such obligations mature within one year from the date acquired;
- (7) Negotiable certificates of deposit maturing within one year from the date acquired and issued by a bank or trust company organized under the laws of the United States or any of its states, and having capital, surplus and undivided profits aggregating at least \$100,000,000;
- (8) commercial paper rated A-1 or better by Standard & Poor's Corporation on the date of acquisition and maturing not more than 270 days from the date of creation thereof; and
- (9) other investments in an aggregate amount not in excess of 20% of Consolidated Net Worth at any one time.

Person --means an individual, partnership, corporation, limited liability company, trust or unincorporated organization, and a government or a governmental agency or political subdivision.

Prepayment Date -- Section 2.2(b) .

Process Agent -- Section 7.4 .

Property --means any interest in any kind of property or asset, whether real, personal or mixed, or tangible or intangible.

Prudential --means Prudential Investment Management, Inc.

PTE -- Section 9.5 .

Purchaser --Preamble.

Purchase Money Indebtedness --means Indebtedness of the Company which is secured by a Lien on Property of the Company which either existed at the time of the original acquisition of the Property by the Company or was granted or retained in connection with the acquisition or improvement of the Property by the Company in order to facilitate the financing of such acquisition or improvement.

Quarterly Interest Payment Date --means (i) if the Closing Date is prior to December 28, 2006, then each date which is a numerically corresponding date of the Closing Date in each 3rd month anniversary of the Closing Date in each year (provided that if there is no such numerically corresponding date in any such 3rd month, then the last date of such 3rd month), or (ii) if the Closing Date is on or after December 28, 2006, then each March 28, June 28, September 28 and December 28 in each year.

Reinvestment Yield --means, with respect to the Called Principal of any Note, 0.50% over the yield to maturity implied by (i) the yields reported as of 10:00 a.m. (New York City local time) on the Business Day next preceding the Settlement Date with respect to such Called Principal for actively traded U.S. Treasury securities having a maturity equal to the Remaining Average Life of such Called Principal as of such Settlement Date on the display designated as "Page PX1" on the Bloomberg Financial Services Screen (or such other display as may replace Page PX1 on the Bloomberg Financial Services Screen or, if Bloomberg Financial Services shall cease to report such yields or shall cease to be the customary source of information for calculating make-whole amounts on privately placed notes, then such source as is then the customary source of such information), or if such yields shall not be reported as of such time or the yields reported as of such time shall not be ascertainable, (ii) the Treasury Constant Maturity Series yields reported, for the latest day for which such yields shall have been so reported as of the Business Day next preceding the Settlement Date with respect to such Called Principal, in Federal Reserve Statistical Release H.15 (519) (or any comparable successor publication) for actively traded U.S. Treasury securities having a constant maturity equal to the Remaining Average Life of such Called Principal as of such Settlement Date. Such implied yield shall be determined, if necessary, by (a) converting U.S. Treasury bill quotations to bond equivalent yields in accordance with accepted financial practice and (b) interpolating linearly between yields reported for various maturities. The Reinvestment Yield shall be rounded to that number of decimal places as appears in the coupon of the applicable Note.

Related Person --means any Person (whether or not incorporated) which is under common control with the Company within the meaning of section 414(c) of the Internal Revenue Code of 1986, as amended, or of section 4001(b) of ERISA.

Remaining Average Life --means, with respect to the Called Principal of any Note, the number of years (calculated to the nearest one-twelfth year) obtained by dividing (i) such Called Principal into (ii) the sum of the products obtained by multiplying (a) each Remaining Scheduled Payment of such Called Principal (but not of interest thereon) by (b) the number of years (calculated to the nearest one-twelfth year) which will elapse between the Settlement Date with respect to such Called Principal and the scheduled due date of such Remaining Scheduled Payment.

Remaining Scheduled Payments --means, with respect to the Called Principal of any Note, all payments of such Called Principal and interest thereon that would be due on or after the Settlement Date with respect to such Called Principal if no payment of such Called Principal were made prior to its scheduled due date.

Required Payment Date -- Section 2.1(b) .

Rescheduled Closing Date -- Section 2.4 .

Restricted Payments -- Section 4.9 .

Security --shall have the same meaning as in Section 2(1) of the Securities Act of 1933, as amended.

Settlement Date --means, with respect to the Called Principal of any Note, the date on which such Called Principal is to be prepaid pursuant to Section 2.2(a) or is declared to be due and payable pursuant to Section 2.1(b) or 5.2(a) , as the context requires.

Source -- Section 9.5 .

State Commissions --means the Delaware, Florida and Maryland public utilities commissions or other bodies which regulate the rates of the Company or its Subsidiaries as a natural gas distribution company or otherwise.

Subsidiary --means any corporation organized under the laws of any State of the United States of America, which conducts the major portion of its business in and makes the major portion of its sales to Persons located in the United States of America, and not less than 80% of the total combined voting power of all classes of Voting Stock, and 80% of all other equity securities, of which shall, at the time as of which any determination is being made, be owned by the Company either directly or through Subsidiaries.

Subsidiary Stock -- Section 4.10 .

Tangible Assets --means all assets except:

- (1) deferred assets, other than prepaid insurance and prepaid taxes;
- (2) patents, copyrights, trademarks, trade names, franchises, good will, experimental expense and other similar intangibles;
- (3) treasury stock;
- (4) unamortized debt discount and expense; and
- (5) assets located and notes and receivables due from obligors domiciled outside the United States of America or Canada.

Total Capitalization --means at any date, the aggregate amount at that date, as determined on a consolidated basis, of the Funded Indebtedness of the Company and its Subsidiaries, plus Consolidated Net Worth.

USA Patriot Act --means United States Public Law 107-56, Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism (USA PATRIOT ACT) Act of 2001, as amended from time to time, and the rules and regulations promulgated thereunder from time to time in effect.

Voting Stock --means Securities, the holders of which are ordinarily, in the absence of contingencies, entitled to elect the corporate directors (or Persons performing similar functions).

Wholly-Owned Subsidiary --means any Subsidiary whose financial results are consolidated with the financial results of the Company, and all of the equity Securities of which (except director's qualifying shares) are owned by the Company and/or one or more Wholly-Owned Subsidiaries of the Company.

Section 7.2 Accounting Principles.

The character or amount of any asset or liability or item of income or expense required to be determined under this Agreement and each consolidation or other accounting computation required to be made under this Agreement, shall be determined or made in accordance with generally accepted accounting principles at the time in effect, to the extent applicable, except where such principles are inconsistent with the requirements of this Agreement.

Section 7.3 Directly or Indirectly.

Where any provision in this Agreement refers to any action which any Person is prohibited from taking, the provision shall be applicable whether the action is taken directly or indirectly by such Person, including actions taken by, or on behalf of, any partnership in which such Person is a general partner and all liabilities of such partnerships shall be considered liabilities of such Person under this Agreement.

Section 7.4 Governing Law; Consent to Jurisdiction.

This Agreement shall be construed and enforced in accordance with, and the rights of the parties shall be governed by, the law of the State of New York. The Company irrevocably agrees that any legal action or proceeding with respect to this Agreement or the Notes may be brought in the courts of the State of New York or any court of the United States of America located in the State of New York, and, by execution and delivery of this Agreement, the Company accepts for itself, generally and unconditionally, and agrees to submit to the jurisdiction of each of the above-mentioned courts and irrevocably waives, to the fullest extent permitted by law, any objection which it may now or later have based on venue or *forum non conveniens* with respect to any action instituted therein. The Company hereby irrevocably appoints Corporation Service Company (the "Process Agent"), with an office on the date hereof at 80 State Street, 6th Floor, Albany, New York 12207-2543, United States, as its agent to receive, on the Company's behalf and on behalf of the Company's property, service of copies of the summons and complaint and any other process which may be served in any such action or proceeding. Such service may be made by mailing or delivering a copy of such process to the Company in care of the Process Agent at the Process Agent's above address, and the Company hereby irrevocably authorizes and directs the Process Agent to accept such service on its behalf.

SECTION 8. PURCHASERS' SPECIAL RIGHTS

Section 8.1 Note Payment.

The Company agrees that, so long as any Purchaser shall hold any Note, it will make payments of principal of, interest on and any Make Whole Amount payable with respect to such Note, which comply with the terms of this Agreement, by wire transfer of immediately available funds for credit (not later than 12:00 noon, New York City time, on the date due) to the account or accounts as specified in the Purchaser Schedule attached hereto or such other account or accounts in the United States as any Purchaser may designate in writing, notwithstanding any contrary provision herein or in any Note with respect to the place of payment. Each Purchaser agrees that, before disposing of any Note, such Purchaser will make a notation thereon (or on a schedule attached thereto) of all principal payments previously made thereon and of the date to which interest thereon has been paid. The Company agrees to afford the benefits of this paragraph 8.1 to any transferee of any Note which shall have made the same agreement as made in this paragraph 8.1.

Section 8.2 Issue Taxes.

The Company will pay all issuance, stamp and similar taxes in connection with the issuance and sale of the Notes to the Purchasers and in connection with any modification of the Notes and will save each Purchaser harmless against any and all liabilities relating to such taxes. The obligations of the Company under this Section 8.2 shall survive the payment of the Notes and the termination of this Agreement.

Section 8.3 Registration of Notes.

The Company will cause to be kept a register for the registration and transfer of the Notes. The names and addresses of the holders of the Notes, and all transfers of and the names and addresses of the transferees of any of the Notes, will be registered in the register. The Person in whose name any Note is registered shall be deemed and treated as the owner thereof for all purposes of this Agreement, and the Company shall not be affected by any notice or knowledge to the contrary.

Section 8.4 Exchange of Notes.

Upon surrender of any Note to the Company, the Company, upon request, will execute and deliver at its expense (except as provided below), new Notes, in denominations of at least \$1,000,000 (or, if less, the outstanding principal amount of the surrendered Note), in an aggregate principal amount equal to the outstanding principal amount of the surrendered Note. Each new Note (a) shall be payable to any Person as the surrendering holder may request and (b) shall be dated and bear interest from the date to which interest has been paid on the surrendered Note or dated the date of the surrendered Note if no interest has been paid thereon. The Company may require payment of a sum sufficient to cover any stamp tax or governmental charge imposed in respect of any transfer.

Section 8.5 Replacement of Notes.

Upon receipt by the Company of evidence reasonably satisfactory to it (provided that if the holder of the Note is an Institutional Holder, its own certification shall be deemed to be satisfactory evidence) of the ownership of and the loss, theft, destruction or mutilation of any Note and

(a) in the case of loss, theft or destruction, of indemnity reasonably satisfactory to it (provided that if the holder of the Note is an Institutional Holder, its own agreement of indemnity shall be deemed to be satisfactory), or

(b) in the case of mutilation, upon surrender and cancellation of the Note,

the Company at its expense will execute and deliver a new Note, dated and bearing interest from the date to which interest has been paid on the lost, stolen, destroyed or mutilated Note or dated the date of the lost, stolen, destroyed or mutilated Note if no interest has been paid thereon.

SECTION 9. MISCELLANEOUS

Section 9.1 Notices.

(a) All notices, requests, demands or other communications under this Agreement or under the Notes will be in writing and will be given by telecopy, telex, first class registered or certified mail (postage prepaid) or personal delivery:

(i) if to Prudential or any holder of any Note, in the manner provided in the Purchaser Schedule or in any other manner as Prudential or such holder may have most recently advised the Company in writing, or

(ii) if to the Company, at its address shown at the beginning of this Agreement, or at any other address as it may have most recently furnished in writing to Prudential and each Purchaser and to all other holders of the Notes.

(b) Notice shall be deemed to be given upon the receipt thereof at the notice address specified.

Section 9.2 Payments Due on Non-Business Days.

Anything in this Agreement or the Note to the contrary notwithstanding, any payment of principal of or interest on any Note that is due on a date other than a Business Day shall be made on the next succeeding Business Day.

Section 9.3 Reproduction of Documents.

This Agreement and all related documents, including (a) consents, waivers and modifications which may subsequently be executed, (b) documents received by each Purchaser at the closing of each Purchaser's purchase of the Notes (except the Notes themselves), and (c) financial statements, certificates and other information previously or subsequently furnished to any Purchaser, may be reproduced by any Purchaser by any photographic, photostatic, microfilm, micro-card, miniature photographic or other similar process and any Purchaser may destroy any original document so reproduced. The Company agrees and stipulates that any such reproduction shall, to the extent permitted by applicable law, be admissible in evidence as the original itself in any judicial or administrative proceeding (whether or not the original is in existence and whether or not the reproduction was made by any Purchaser in the regular course of business) and that any enlargement, facsimile or further reproduction of the reproduction shall likewise be admissible in evidence.

Section 9.4 Purchase for Investment.

Each Purchaser represents to the Company that such Purchaser (i) is a "qualified institutional buyer" as defined by Rule 144A and (ii) is purchasing the Notes for its own account for investment or for resale under Rule 144A under the Securities Act of 1933, as amended, and with no present intention of distributing or reselling any of the Notes, but without prejudice to such Purchaser's right at all times to sell or otherwise dispose of all or part of the Notes under an effective registration statement under the Securities Act of 1933, as amended, or under a registration exemption available under that Act.

Section 9.5 Source of Funds.

Each Purchaser represents to the Company that at least one of the following statements is an accurate representation as to each source of funds (a "Source") to be used by such Purchaser to pay the purchase price of the Notes to be purchased by it hereunder:

(a) the Source is an "insurance company general account" (as that term is defined in the United States Department of Labor's Prohibited Transaction Exemption ("PTE") 95-60) in respect of which the reserves and liabilities (as defined by the annual statement for life insurance companies approved by the National Association of Insurance Commissioners (the "NAIC Annual Statement")) for the general account contract(s) held by or on behalf of any employee benefit plan together with the amount of the reserves and liabilities for the general account contract(s) held by or on behalf of any other employee benefit plans maintained by the same employer (or affiliate thereof as defined in PTE 95-60) or by the same employee organization in the general account do not exceed 10% of the total reserves and liabilities of the general account (exclusive of separate account liabilities) plus surplus as set forth in the NAIC Annual Statement filed with such Purchaser's state of domicile; or

(b) the Source is a separate account that is maintained solely in connection with such Purchaser's fixed contractual obligations under which the amounts payable, or credited, to any employee benefit plan (or its related trust) that

has any interest in such separate account (or to any participant or beneficiary of such plan (including any annuitant)) are not affected in any manner by the investment performance of the separate account; or

(c) the Source is either (i) an insurance company pooled separate account, within the meaning of PTE 90-1, or (ii) a bank collective investment fund, within the meaning of the PTE 91-38 and, except as disclosed by such Purchaser to the Company in the writing most recently delivered pursuant to this clause (c) before the date the Company's representation in Section 6.9 is being made or repeated, no employee benefit plan or group of plans maintained by the same employer or employee organization beneficially owns more than 10% of all assets allocated to such pooled separate account or collective investment fund; or

(d) the Source constitutes assets of an "investment fund" (within the meaning of Part V of PTE 84-14 (the "QPAM Exemption")) managed by a "qualified professional asset manager" or "QPAM" (within the meaning of Part V of the QPAM Exemption), no employee benefit plan's assets that are included in such investment fund, when combined with the assets of all other employee benefit plans established or maintained by the same employer or by an affiliate (within the meaning of Section V(c)(1) of the QPAM Exemption) of such employer or by the same employee organization and managed by such QPAM, exceed 20% of the total client assets managed by such QPAM, the conditions of Part I(c) and (g) of the QPAM Exemption are satisfied, neither the QPAM nor a person controlling or controlled by the QPAM (applying the definition of "control" in Section V(e) of the QPAM Exemption) owns a 5% or more interest in the Company and (i) the identity of such QPAM and (ii) the names of all employee benefit plans whose assets are included in such investment fund have been disclosed to the Company in writing pursuant to this clause (d); or

(e) the Source constitutes assets of a "plan(s)" (within the meaning of Section IV of PTE 96-23 (the "INHAM Exemption")) managed by an "in-house asset manager" or "INHAM" (within the meaning of Part IV of the INHAM Exemption), the conditions of Part I(a), (g) and (h) of the INHAM Exemption are satisfied, neither the INHAM nor a person controlling or controlled by the INHAM (applying the definition of "control" in Section IV(h) of the INHAM Exemption) owns a 5% or more interest in the Company and (i) the identity of such INHAM and (ii) the name(s) of the employee benefit plan(s) whose assets constitute the Source have been disclosed to the Company in writing pursuant to this clause (e); or

(f) the Source is a governmental plan; or

(g) the Source is one or more employee benefit plans, or a separate account or trust fund comprised of one or more employee benefit plans, each of which has been identified to the Company in writing pursuant to this clause (g); or

(h) the Source does not include assets of any employee benefit plan, other than a plan exempt from the coverage of ERISA.

As used in this Section 9.5, the terms "**employee benefit plan**", "**governmental plan**", and "**separate account**" shall have the respective meanings assigned to such terms in Section 3 of ERISA.

Section 9.6 Successors and Assigns.

This Agreement shall inure to the benefit of and be binding upon the successors and assigns of each of the parties except that each Purchaser's obligations to purchase the Notes (as provided in Section 1.2) shall be a right which is personal to the Company and such right shall not be transferable or assignable by the Company to any other Person (including successors at law) whether voluntarily or involuntarily. The provisions of this Agreement are intended to be for the benefit of all holders, from time to time, of the Notes, and shall be enforceable by any holder, whether or not an express assignment of rights under this Agreement has been made by any Purchaser or any Purchaser's successor or assign.

Section 9.7 Amendment and Waiver; Acquisition of Notes.

(a) **Amendment and Waiver** . This Agreement may be amended, and the observance of any term of this Agreement may be waived, with (and only with) the written consent of the Company and the holders of at least 66-2/3% of the outstanding principal amount of the Notes (exclusive of Notes then owned by the Company, Subsidiaries and Affiliates), provided that no amendment or waiver of any of the provisions of Sections 1, 6 and 8 shall be effective as to any holder of the Notes unless consented to by such holder in writing, and provided further , that no amendment or waiver shall, without the written consent of the holders of all the outstanding Notes, (1) subject to Section 5.2 (b) , change the amount or time of any prepayment, payment of principal or premium or the rate or time of payment of interest, (2) amend Section 5 , or (3) amend this Section 9.7(a) . Executed or complete and correct copies of any amendment or waiver effected pursuant to the provisions of this Section 9.7(a) shall be delivered by the Company to each holder of outstanding Notes promptly following the date on which

the same shall become effective.

(b) Acquisition of Notes . The Company will not, and will cause each Subsidiary and, insofar as it is within its power to do so, each Affiliate not to, directly or indirectly, acquire or make any offer to acquire any Notes unless the Company or such Subsidiary or Affiliate shall contemporaneously offer to acquire Notes, pro rata, from all holders of the Notes and upon the same terms. Any Notes acquired by the Company, any Subsidiary or any Affiliate shall not be considered outstanding for any purpose under this Agreement.

Section 9.8 Duplicate Originals.

Two or more duplicate originals of this Agreement may be signed by the parties, each of which shall be an original but all of which together shall constitute one and the same instrument.

Section 9.9 Confidential Information.

Each Purchaser shall maintain the confidentiality of such Confidential Information in accordance with procedures adopted by such Purchaser in good faith to protect confidential information of third parties delivered to such Purchaser, provided that such Purchaser may deliver or disclose Confidential Information to (a) its directors, officers, employees, agents, attorneys and affiliates (to the extent such disclosure reasonably relates to the administration of the investment represented by its Notes), (b) its financial advisors and other professional advisors who agree to hold confidential the Confidential Information substantially in accordance with the terms of this Section 9.9, (c) any other holder of any Note, (d) any Institutional Holder to which it sells or offers to sell such Note or any part thereof or any participation therein (if such Person has agreed in writing prior to its receipt of such Confidential Information to be bound by the provisions of this Section 9.9), (e) any Person from which it offers to purchase any security of the Company (if such Person has agreed in writing prior to its receipt of such Confidential Information to be bound by the provisions of this Section 9.9), (f) any federal or state regulatory authority having jurisdiction over such Purchaser, (g) the National Association of Insurance Commissioners or the Securities Valuation Office of the National Association of Insurance Commissioners (or any successor to such Office) or, in each case, any similar organization, or any nationally recognized rating agency that requires access to information about such Purchaser's investment portfolio, or (h) any other Person to which such delivery or disclosure may be necessary or appropriate (w) to effect compliance with any law, rule, regulation or order applicable to such Purchaser, (x) in response to any subpoena or other legal process, (y) in connection with any litigation to which such Purchaser is a party or (z) if an Event of Default has occurred and is continuing, to the extent such Purchaser may reasonably determine such delivery and disclosure to be necessary or appropriate in the enforcement or for the protection of the rights and remedies under such Purchaser's Notes and this Agreement. Each holder of a Note, by its acceptance of a Note, will be deemed to have agreed to be bound by and to be entitled to the benefits of this Section 9.9 as though it were a party to this Agreement. On reasonable request by the Company in connection with the delivery to any holder of a Note of information required to be delivered to such holder under this Agreement or requested by such holder (other than a holder that is a party to this Agreement or its nominee), such holder will enter into an agreement with the Company embodying the provisions of this Section 9.9.

[Signatures Follow]

If this Agreement is satisfactory to each Purchaser, please so indicate by signing the acceptance at the foot of a counterpart of this Agreement and return a counterpart to the Company, whereupon this Agreement will become binding between us in accordance with its terms.

Very truly yours,

CHESAPEAKE UTILITIES CORPORATION

By:

Name:

Title:

Accepted:

**THE PRUDENTIAL INSURANCE COMPANY
OF AMERICA**

By:

Vice President

**PRUDENTIAL RETIREMENT INSURANCE
AND ANNUITY COMPANY**

By: Prudential Investment Management, Inc.,

as investment manager

By:

Vice President

UNITED OF OMAHA LIFE INSURANCE COMPANY

By: Prudential Private Placement Investors, L.P.

(as Investment Advisor)

By: Prudential Private Placement Investors, Inc.

(as its General Partner)

By:

Vice President

PURCHASER SCHEDULE

Chesapeake Utilities Corporation

5.50% Senior Notes

	Aggregate Principal Amount of Notes to be Purchased	Note Denomination(s)
THE PRUDENTIAL INSURANCE COMPANY OF AMERICA	\$12,450,000	\$6,000,000 \$6,450,000

- (1) All payments on account of Notes held by such purchaser shall be made by wire transfer of immediately available funds for credit to:

Account No.: P86188 (please do not include spaces) (in the case of payments on account of the Note originally issued in the principal amount of \$6,000,000)

Account No.: P86189 (please do not include spaces) (in the case of payments on account of the Note originally issued in the principal amount of \$6,450,000)

JPMorgan Chase Bank
New York, NY
ABA No.: 021-000-021

Each such wire transfer shall set forth the name of the Company, a reference to "5.50% Senior Notes, Security No. INV00925, PPN _____" and the due date and application (as among principal, interest and Make-Whole Amount) of the payment being made.

- (2) Address for all notices relating to payments:

The Prudential Insurance Company of America
c/o Investment Operations Group
Gateway Center Two, 10th Floor
100 Mulberry Street
Newark, NJ 07102-4077

Attention: Manager, Billings and Collections

- (3) Address for all other communications and notices:

The Prudential Insurance Company of America
c/o Prudential Capital Group
2200 Ross Avenue, Suite 4200E
Dallas, TX 75201

Attention: Managing Director

- (4) Recipient of telephonic prepayment notices:

Manager, Trade Management Group

Telephone: (973) 367-3141

Facsimile: (800) 224-2278

(5) Address for Delivery of Notes:

Send physical security by nationwide overnight delivery service to:

Prudential Capital Group
2200 Ross Avenue, Suite 4200E
Dallas, TX 75201

Attention: Thomas P. Donahue
Telephone: (214) 720-6202

(6) Tax Identification No.: 22-1211670

PRUDENTIAL RETIREMENT INSURANCE AND ANNUITY COMPANY

Aggregate Principal Amount of Notes to be Purchased	Note Denomination(s)
\$4,000,000	\$4,000,000

- (1) All payments on account of Notes held by such purchaser shall be made by wire transfer of immediately available funds for credit to:

JP Morgan Chase Bank
New York, NY
ABA No. 021000021
Account No. P86327 (please do not include spaces)

Each such wire transfer shall set forth the name of the Company, a reference to "5.50% Senior Notes, Security No. INV00925, PPN _____" and the due date and application (as among principal, interest and Make-Whole Amount) of the payment being made.

- (2) Address for all notices relating to payments:

Prudential Retirement Insurance and Annuity Company
c/o Prudential Investment Management, Inc.
Private Placement Trade Management
PRIAC Administration
Gateway Center Four, 7th Floor
100 Mulberry Street
Newark, NJ 07102

Telephone: (973) 802-8107
Facsimile: (800) 224-2278

- (3) Address for all other communications and notices:

Prudential Retirement Insurance and Annuity Company
c/o Prudential Capital Group
2200 Ross Avenue, Suite 4200E
Dallas, TX 75201

Attention: Managing Director

- (4) Address for Delivery of Notes:

Send physical security by nationwide overnight delivery service to:

Prudential Capital Group
2200 Ross Avenue, Suite 4200E
Dallas, TX 75201

Attention: Thomas P. Donahue
Telephone: (214) 720-6202

- (5) Tax Identification No.: 06-1050034

UNITED OF OMAHA LIFE INSURANCE COMPANY

Aggregate
Principal
Amount of Notes
to be Purchased

\$3,550,000

Note
Denomination(s)

\$3,550,000

- (1) All principal, interest and Make-Whole Amount payments on account of Notes held by such purchaser shall be made by wire transfer of immediately available funds for credit to:

JPMorgan Chase Bank
ABA No. 021-000-021
Private Income Processing

For credit to:
United of Omaha Life Insurance Company
Account No. 900-9000200
a/c: G09588

Each such wire transfer shall set forth the name of the Company, a reference to "5.50% Senior Notes, PPN ___" and the due date and application (as among principal, interest and Make-Whole Amount) of the payment being made.

- (2) All payments, other than principal, interest or Make-Whole Amount, on account of Notes held by such purchaser shall be made by wire transfer of immediately available funds for credit to:

JPMorgan Chase Bank
ABA No. 021-000-021
Account No. G09588
Account Name: United of Omaha Life Insurance Co.

Each such wire transfer shall set forth the name of the Company, a reference to "5.50% Senior Notes, PPN ___" and the due date and application (e.g., type of fee) of the payment being made.

- (3) Address for all notices relating to payments:

JPMorgan Chase Bank
14201 Dallas Parkway - 13th Floor
Dallas, TX 75254-2917

Attn: Income Processing - G. Ruiz
a/c: G09588

- (4) Address for all other communications and notices:

Prudential Private Placement Investors, L.P.
Gateway Center 3, 18th Floor
100 Mulberry Street
Newark, NJ 07102

Attention: Albert Trank, Managing Director
Telephone: (973) 802-8608
Facsimile: (973) 367-3234

(5) Address for Delivery of Notes:

(a) Send physical security by nationwide overnight delivery service to:

JPMorgan Chase Bank

4 New York Plaza

Ground Floor Receive Window

New York, NY 10004

Please include in the cover letter accompanying the Notes a reference to the Purchaser's account number (United of Omaha Life Insurance Company; Account Number: G09588).

(b) Send copy by nationwide overnight delivery service to:

Prudential Capital Group

Gateway Center 4

100 Mulberry, 7th Floor

Newark, NJ 07102

Attention: Trade Management, Manager

Telephone: (973) 367-3141

(6) Tax Identification No.: 47-0322111

EXHIBIT A

[FORM OF NOTE]

CHESAPEAKE UTILITIES CORPORATION

5.50% Senior Note due _____ [Insert the Maturity Date]

No. R- _____ PPN _____

\$ _____ [Date]

CHESAPEAKE UTILITIES CORPORATION, a Delaware corporation (the "Company"), for value received, hereby promises to pay to _____ or registered assigns the principal sum of _____ Dollars (\$ _____) on _____ [Insert the Maturity Date]; and to pay interest (computed on the basis of a 360-day year of twelve 30-day months) on the unpaid principal balance hereof from the date of this Note at the rate of 5.50% per annum, quarterly on the ___ day of _____, _____, _____ and _____ [Insert Quarterly Interest Payment Dates] in each year, commencing on the first such date after the date hereof, until the principal amount hereof shall become due and payable; and to pay on demand interest on any overdue principal (including any overdue prepayment of principal) and premium, if any, and (to the extent permitted by applicable law) on any overdue payment of interest, at a rate per annum from time to time equal to the greater of (i) 7.50% or (ii) the rate of interest publicly announced by JPMorgan Chase Bank, or its successor, from time to time in New York City as its Prime Rate.

Subject to Section 8.1 of the Note Agreement referred to below, payments of principal, premium, if any, and interest shall be made in such coin or currency of the United States of America as at the time of payment is legal tender for the payment of public and private debts by check mailed and addressed to the registered holder hereof at the address shown in the register maintained by the Company for such purpose, or, at the option of the holder hereof, in such manner and at such other place in the United States of America as the holder hereof shall have designated to the Company in writing.

This Note is one of an issue of Notes of the Company issued in an aggregate principal amount limited to \$20,000,000 pursuant to the Company's Note Agreement dated as of October 18, 2005 between the Company and the respective Purchasers named therein and is entitled to the benefits thereof. As provided in such Agreement, this Note is subject to prepayment, in whole or in part, with a premium as specified in said Agreement. The Company agrees to make required payments on account of said Notes in accordance with the provisions of said Agreement.

This Note is a registered Note and is transferable only by surrender hereof at the principal office of the Company in Dover, Delaware, duly endorsed or accompanied by a written instrument of transfer duly executed by the registered holder of this Note or his attorney duly authorized in writing.

Under certain circumstances, as specified in said Agreement, the principal of this Note may be declared due and payable in the manner and with the effect provided in said Agreement.

This Note and said Agreement are governed by and construed in accordance with New York law.

CHESAPEAKE UTILITIES CORPORATION

(CORPORATE SEAL)

By:

Name:

Title:



[COVINGTON & BURLING]

[Closing Date]

[Purchasers]

Ladies and Gentlemen:

We have acted as special counsel for Chesapeake Utilities Corporation, a Delaware corporation (the "Company"), in connection with the Note Agreement, dated as of October 18, 2005, between the Company and each of you (the "Note Agreement"), pursuant to which the Company has issued to each of you on the date hereof its 5.50% Senior Notes due _____ in the aggregate principal amount of \$20,000,000. Unless otherwise defined herein, capitalized terms used herein have the respective meanings specified in the Note Agreement. This letter is being delivered to each of you pursuant to Section 1.4(c) of the Note Agreement.

In rendering the opinions set forth herein, we have reviewed (i) the Note Agreement, (ii) the Notes and (iii) such corporate records, certificates and other documents, and such questions of law, as we have deemed necessary or appropriate for the purposes of this opinion.

We have assumed that all signatures are genuine (other than, in the case of the Note Agreement and the Notes, those of the Company), that all documents submitted to us as originals are authentic and that all copies of documents submitted to us conform to the originals. We also have assumed:

(i) as to factual matters, the accuracy of the warranties and representations contained in the Note Agreement, including the representations of the Purchasers in Section 9.4 of the Note Agreement and in the certificates delivered by officers of the Company pursuant to Section 1.4(d) of the Note Agreement;

(ii) that any authorization, consent, approval, exemption or other action by, or notice to or filing with, any court, administrative or governmental body that is required for the execution and delivery of the Note Agreement and the Notes or the consummation of the transactions contemplated thereby in accordance with the terms thereof (other than to the extent addressed in paragraph 6 below) has been duly obtained or made or shall be timely and duly obtained or made;

(iii) that, other than to the extent addressed in paragraph 7 below, the execution and delivery of the Note Agreement and the Notes, the offering, issuance and sale of the Notes and the consummation by the Company of the transactions contemplated in the Note Agreement and the Notes in accordance with the terms thereof do not violate or contravene any statute, law, rule or regulation or any judgment, order, decree or permit issued by any court, arbitrator or governmental or regulatory authority; and

(iv) that the Note Agreement is a binding and enforceable agreement of each party thereto other than the Company.

We have made no investigation for the purpose of verifying these assumptions.

Where statements in this opinion are qualified by the expression "known to us," such statements refer to the actual knowledge, but not constructive or imputed knowledge, of the attorneys in our firm who have given substantive attention to the transaction that is the subject of this opinion, without any representation or implication that any inquiry has been made with respect to such statements.

Based on the foregoing, and subject to the qualifications and assumptions set forth herein, we are of the opinion that, insofar as the law of the State of New York, the Delaware General Corporation Law (the "DGCL") and the Federal law of the United States of America are concerned:

1. The Company is a corporation duly incorporated, validly existing and in good standing under the laws of the State of Delaware.
2. The Company has the corporate power and authority to execute, deliver and perform its obligations under the Note Agreement and the Notes.

3. The Note Agreement and the Notes have been duly authorized by all requisite corporate action and duly executed and delivered by authorized officers of the Company and constitute the valid and binding obligations of the Company, enforceable against the Company in accordance with their terms, subject to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium, and other similar laws of general applicability relating to or affecting creditors' rights and to general equity principles.

4. It is not necessary in connection with the offer, issuance, sale and delivery of the Notes to the Purchasers under the circumstances contemplated by the Note Agreement to register the Notes under the Securities Act of 1933, as amended, or to qualify an indenture in respect of the Notes under the Trust Indenture Act of 1939, as amended.

5. Neither the issuance and the sale of the Notes by the Company nor the use of the proceeds thereof as described in the Note Agreement violates Regulation X of the Board of Governors of the Federal Reserve System or will cause any of the Purchasers to violate Regulation T or U of the Board of Governors of the Federal Reserve System to the extent any of them may be subject thereto.

6. No consent, approval, authorization or other action by or filing with any governmental agency or instrumentality of the State of New York or the United States of America or under the DGCL is required on the part of the Company for the execution and delivery of the Note Agreement and the Notes or for the consummation by the Company of the transactions contemplated thereby, or the performance of its obligations thereunder, in accordance with the terms thereof.

7. The execution and delivery of the Note Agreement and the Notes, the offering, issuance and sale of the Notes and the consummation by the Company of the transactions contemplated thereby, and the performance of its obligations thereunder, in accordance with the terms thereof (i) do not violate the DGCL, any New York or Federal statute, law, rule or regulation to which the Company is subject, or the usury laws of the State of New York or (ii) do not conflict with, breach the terms, conditions or provisions of, or constitute a default under, violate, or result in the creation of any Lien upon any of the properties or assets of the Company pursuant to (A) the Certificate of Incorporation or Bylaws of the Company or (B) any of the instruments or agreements listed on Schedule 6.7 of the Note Agreement.

The foregoing opinion is subject to the following qualifications:

(a) We express no opinion as to:

- (i) waivers of the rights to object to venue or other rights or benefits bestowed by operation of law;
- (ii) provisions for liquidated damages and penalties, penalty interest and interest on interest, it being understood that the provisions of Section 2.2 and 5.2 of the Note Agreement are not excluded under this clause (ii);
- (iii) provisions purporting to require a prevailing party in a dispute to pay attorneys' fees and expenses, or other costs, to a non-prevailing party;
- (iv) provisions purporting to supersede equitable principles, including provisions requiring amendments and waivers to be in writing;
- (v) provisions purporting to make a party's determination conclusive; or
- (vi) exclusive jurisdiction or venue provisions.

(b) We express no opinion with regard to (i) any state securities or Blue Sky laws, (ii) any commodities, insurance or tax laws or (iii) the Employee Retirement Income Security Act of 1974, or any comparable state laws.

(c) Except as addressed in paragraphs 5 and 7(i), we express no opinion as to any legal requirements or restrictions applicable to the Purchasers.

(d) Our opinions in paragraphs 6 and 7(i) above are limited to laws and regulations normally applicable to transactions of the type contemplated by the Note Agreement and do not extend to laws or regulations relating to, or to licenses, permits, approvals and filings necessary for, the conduct of the business of the Company or any of its subsidiaries, including, without limitation, any environmental laws or regulations.

We are members of the bars of the District of Columbia and the State of New York. We do not express any opinion herein on any laws other than the laws of the State of New York, the DGCL and the Federal law of the United States.

This letter is given solely for your benefit as Purchasers of Notes and for the benefit of any other person or entity to whom you may transfer any of the Notes. It may not be relied upon by any other person or entity and, except with respect to regulatory authorities exercising jurisdiction over any of you (which shall be deemed to include the National Association of Insurance Commissioners), this opinion may not be disclosed to any other person or entity without our written consent.

Very truly yours,

[PARKOWSKI, GUERKE & SWAYZE, P.A.]

[Closing Date]

[Purchasers]

Ladies and Gentlemen:

We have acted as special Delaware counsel for Chesapeake Utilities Corporation (the "Company") in connection with the Note Agreement, dated as of October 18, 2005, between the Company and each of you (the "Note Agreement"), pursuant to which the Company has issued to each of you today 5.50% Senior Notes due _____ of the Company in the aggregate principal amount of \$20,000,000. All terms used herein that are defined in the Note Agreement have the respective meanings specified in the Note Agreement. This letter is being delivered to each of you in satisfaction of the condition set forth in Section 1.4(c) of the Note Agreement and with the understanding that each of you is purchasing the Notes in reliance on the opinions expressed herein.

In this connection, we have examined such certificates of public officials, certificates of officers of the Company and copies certified to our satisfaction of corporate documents and records of the Company and of other papers, and have made such other investigations, as we have deemed relevant and necessary as a basis for our opinion hereinafter set forth. We have relied upon such certificates of public officials and of officers of the Company with respect to the accuracy of material factual matters contained therein which were not independently established. With respect to the opinion expressed in paragraph 3 below, we have also relied upon the representations made by each of you in Sections 9.4 and 9.5 of the Note Agreement.

Based on the foregoing, it is our opinion that:

- a. The Company has the corporate power and authority to carry on the business as now being conducted.
- b. The execution and delivery of the Note Agreement and the Notes, the offering, issuance and sale of the Notes and fulfillment of and compliance with the respective provisions of the Note Agreement and the Notes will not require any authorization, consent, approval, exemption or other action by or notice to or filing with any Delaware court, Delaware administrative or Delaware governmental body (other than the State of Delaware Public Service Commission and routine filings after the date hereof with the Securities and Exchange Commission and/or State Blue Sky authorities) pursuant to, any Delaware applicable law (including any securities or Blue Sky law), statute, rule or regulation of the State of Delaware. The Public Service Commission of the State of Delaware has duly entered Order No. 6708 in PSC Docket No. 05-290 dated September 6, 2005, such Order is final and in full force and effect, no appeal, review or contest thereof is pending, and no further action by the Public Service Commission of the State of Delaware is a requirement to execution and delivery of the Note Agreement or the Notes or the offering, issuance or sale of the Notes or the fulfillment of compliance with the requisite provisions of the Note Agreement and the Notes.

Our opinions may not be relied upon by any person or entity other than each of you, transferees of each of you and Schiff Hardin LLP, your special counsel, in connection with the matters referred to herein.

Our opinions are limited to the laws of the State of Delaware.

Sincerely yours,

PARKOWSKI, GUERKE & SWAYZE, P.A.

BY:

William A. Denman, Esq.

DLA Piper Rudnick Gray Cary US LLP

The Marbury Building
6225 Smith Avenue
Baltimore, Maryland 21209-3600
T 410.580.3000
F 410.580.3001
W www.dlapiper.com

Marta D. Harting
marta.harting@piperrudnick.com
T 410.580.4171 **F** 410.580.3794

[Closing Date]

[Purchasers]

Ladies and Gentlemen:

We have acted as special Maryland regulatory counsel for Chesapeake Utilities Corporation (the "Company") in connection with the Note Agreement, dated as of October 18, 2005, between the Company and each of you (the "Note Agreement"), pursuant to which the Company has issued to each of you today 5.50% Senior Notes due _____ of the Company in the aggregate principal amount of \$20,000,000. All terms used herein that are defined in the Note Agreement have the respective meanings specified in the Note Agreement. This letter is being delivered to each of you with the understanding that each of you is purchasing the Notes in reliance on the opinions expressed herein.

Based on the foregoing and assuming approval of the subject transaction by the Delaware Public Service Commission in PSC Docket No. _____, it is our opinion that:

The execution and delivery of the Note Agreement and the Notes, the offering, issuance and sale of the Notes and fulfillment of and compliance with the respective provisions of the Note Agreement and the Notes do not require any authorization, consent, approval, exemption or other action by or notice to or filing with any Maryland state administrative or governmental body, including, without limitation, the Public Service Commission of Maryland, pursuant to any applicable law (including any securities or Blue Sky law), statute, rule, regulation or other requirement of the State of Maryland.

Our opinion may not be relied upon by any person or entity other than each of you, transferees of each of you and Schiff Hardin LLP your special counsel in connection with the matters referred to herein, and neither this opinion nor this opinion letter may be circulated, quoted, or relied upon by any other person for any other purpose without prior written consent (except to regulatory authorities having jurisdiction over you, including the National Association of Insurance Commissioners).

Very truly yours,

Marta D. Harting

MDH/vc

[ROSE, SUNDSTROM & BENTLEY, LLP]

[Closing Date]

[Purchasers]

Ladies and Gentlemen:

We have acted as special Florida counsel for Chesapeake Utilities Corporation (the "Company") in connection with the Note Agreement, dated as of October 18, 2005, between the Company and each of you (the "Note Agreement"), pursuant to which the Company has issued to each of you today 5.50% Senior Notes due _____ of the Company in the aggregate principal amount of \$20,000,000. All terms used herein that are defined in the Note Agreement have the respective meanings specified in the Note Agreement. This letter is being delivered to each of you in satisfaction of the condition set forth in Section 1.4(c) of the Note Agreement and with the understanding that each of you is purchasing the Notes in reliance on the opinions expressed herein.

In this connection, we have examined such certificates of public officials, certificates of officers of the Company and copies certified to our satisfaction of corporate documents and records of the Company and of other papers, and have made such other investigations, as we have deemed relevant and necessary as a basis for our opinion hereinafter set forth. We have relied upon such certificates of public officials and of officers of the Company with respect to the accuracy of material factual matters contained therein which were not independently established.

Based on the foregoing, it is our opinion that:

- a. The Company is qualified to do business and is in good standing under the laws of the State of Florida.
- b. The execution and delivery of the Note Agreement and the Notes, the issuance and sale of the Notes and fulfillment of and compliance with the respective provisions of the Note Agreement and the Notes will not require any authorization, consent, approval, exemption or other action by or notice to or filing with any court, administrative or governmental body (other than the Public Service Commission of the State of Florida) pursuant to any applicable law, statute, rule or regulation of the State of Florida. The Public Service Commission of the State of Florida has duly entered Order No. _____ dated _____, which order is final and in full force and effect, no appeal, review or contest thereof is pending and the time for appeal or to seek review or reconsideration thereof has expired and no further action by the Public Service Commission of the State of Florida is a requirement to execution and delivery of the Note Agreement or the Notes or the issuance or sale of the Notes or the fulfillment of compliance with the requisite provisions of the Note Agreement and the Notes.

Our opinion may not be relied upon by any person or entity other than each of you, transferees of each of you and Schiff Hardin LLP your special counsel in connection with the matters referred to herein.

Our opinion is limited to the laws of the State of Florida.

Sincerely,

EXISTING INDEBTEDNESS

The Existing Indebtedness of the Company and Subsidiaries as of June 30, 2005 is as follows:

Funded Debt:

\$ 2,463,000 8.25% Convertible Debentures, Due March 1, 2014
\$ 3,000,000 7.97% Senior Unsecured Notes, due February 1, 2008
\$ 5,454,545 6.91% Senior Unsecured Note, due October 1, 2010
\$ 7,000,000 6.85% Senior Unsecured Note, due January 1, 2012
\$ 20,000,000 7.83% Senior Unsecured Note, due January 1, 2015
\$ 30,000,000 6.64% Senior Unsecured Notes, due October 31, 2017
\$ 120,000 Promissory Note of Sharp Energy

Current Debt:

\$ 0 Short-term borrowing under line of credit agreements
with Bank of America
\$ 0 Short-term borrowing under line of credit agreements
with PNC Bank
\$ 0 Short-term borrowing under line of credit agreement
with Wilmington Trust

EXISTING LIENS

The Liens of Property of the Company and Subsidiaries as of June 30, 2005 (other than Liens of the types described in clauses (i) through (iv) of Section 4.8(a)) and the obligations secured thereby are as follows:

None.

SUBSIDIARIES

<u>Subsidiary</u>	<u>Jurisdiction of Incorporation</u>
Chesapeake Utilities Corporation	Delaware
Eastern Shore Natural Gas Company	Delaware
Skipjack, Inc.	Delaware
Sharpgas, Inc.	Delaware
BravePoint, Inc.	Georgia
Sharp Energy, Inc.	Delaware
Chesapeake Investment Company	Delaware
Chesapeake Service Company	Delaware
Tri-County Gas Co., Inc.	Maryland
Eastern Shore Real Estate, Inc.	Maryland
Sam Shannahan Well Co., Inc.	Maryland
Xeron, Inc.	Mississippi
Sharp Water, Inc.	Delaware
Sharp Water of Minnesota, Inc.	Delaware
Sharp Water of Idaho, Inc.	Delaware
AQuality Company, Inc.	Delaware
Peninsula Pipeline Company, Inc.	Delaware
OnSight Energy, LLC	Delaware
Peninsula Energy Services Company, Inc.	Delaware

LIST OF AGREEMENTS RESTRICTING DEBT

The contracts or agreements of the Company or a Subsidiary which restrict the right of ability of the Company to issue the Notes or to perform its obligation under the Agreement are as follows:

- a. 8.25% Convertible Debentures, due March 1, 2014.
 - b. 7.97% Senior Unsecured Notes, due February 1, 2008, by and between Chesapeake Utilities Corporation, Massachusetts Mutual Life Insurance Company and Massachusetts Mutual Life Pension Insurance Company.
 - c. 6.91% Senior Unsecured Note, due October 1, 2010, by and between Chesapeake Utilities Corporation and Prudential Insurance Company of America.
 - d. 6.85% Senior Unsecured Note, due January 1, 2012, by and between Chesapeake Utilities Corporation and Swanbird and Company.
 - e. 7.83% Senior Unsecured Note, due January 1, 2015, by and between Chesapeake Utilities Corporation and Pacific Life Insurance Company.
 - f. 6.64% Senior Unsecured Notes, due October 31, 2017, by and between Chesapeake Utilities Corporation, The State Life Insurance Company, Massachusetts Mutual Life Insurance Company, C.M. Life Insurance Company, American United Life Insurance Company and Pioneer Mutual Life Insurance Company.
 - g. \$10,000,000 Committed Line of Credit for short-term borrowing, by and between Chesapeake Utilities Corporation and PNC Bank.
 - h. \$5,000,000 Committed Line of Credit for short-term borrowing, by and between Chesapeake Utilities Corporation and Bank of America.
-

EXISTING INVESTMENTS

The outstanding Investments of the Company and Subsidiaries as of June 30, 2005, are as follows:

- 1) Rabbi Trust - Investment of \$335,000 associated with the acquisition of Xeron, Inc.
- 2) Rabbi Trust - 401(k) Supplemental Executive Retirement Plan of \$1,247,000.

EXECUTIVE EMPLOYMENT AGREEMENT

AN EXECUTIVE EMPLOYMENT AGREEMENT ("Agreement") dated this 1st day of January, 2006, by and between Sharp Energy, Inc., a Delaware corporation (the "Company"), and S. Robert Zola ("Executive").

WITNESSETH:

WHEREAS, the Company is currently obtaining the benefit of Executive's services as a full-time executive employee in the capacity of President;

WHEREAS, the Company's Board of Directors (the "Board") has authorized the Company to agree to provide for Executive's con-tinued employment pursuant to the terms of this Agreement; and

WHEREAS, Executive is willing, in consideration of the covenants hereinafter provided, to continue to be employed by the Company in the capacity of President and to render services incident to such position during the term of this Agreement.

NOW, THEREFORE, in consideration of the mutual promises and covenants contained herein, the Company and Executive hereby agree as follows:

1. Employment. The Company agrees to employ Executive, and Executive agrees to accept employment, as an executive officer of the Company in the capacity of President, with such reasonable duties and responsibilities as are consistent with the By-laws of the Company as of the date hereof, including, but not limited to, establishing policies and procedures and managing the data processing, human resources, communication and other administrative areas of the Company.

2. Term.

(a) Term of Agreement. The term of this Agreement ("Term") shall be the Initial Term (as defined in Paragraph 2(b) hereof), and, if applicable, the Extended Term (as defined in Paragraph 2(c) hereof).

(b) Initial Term. Subject to Paragraph 2(c) hereof, the Initial Term of this Agreement shall extend for one (1) year commencing on the date of this Agreement.

(c) Extended Term. Upon the occurrence of a Change in Control (as defined in Paragraph 2(d) hereof), the Initial Term shall end and the Term of this Agreement shall thereupon automatically be extended, commencing on the date of such Change in Control, for the shorter of three (3) years or the period until Executive attains the earliest age, if any, at which his compulsory retirement is permitted under section 12(c) of the Age Discrimination in Employment Act of 1967, as amended, 29 U.S.C. § 631(c), or its successor (such extended three-year or shorter term constituting the "Extended Term").

(d) Change In Control. For the purposes of this Agreement, Change in Control shall mean a change in the control of the Company during the Term of this Agreement, which shall be deemed to have occurred if:

(i) The registration of the Company's voting securities under the Securities Exchange Act of 1934, as amended (the "1934 Act"), terminates or the Company shall have fewer than 300 stockholders of record; or

(ii) any person or group (within the meaning of Sections 13(d) and 14(d) of the 1934 Act), other than the Company or any of its majority-controlled subsidiaries, becomes the beneficial owner (within the meaning of Rule 13d-3 under the 1934 Act) of 30 percent or more of the combined voting power of the Company's then outstanding voting securities; or

(iii) a tender offer or exchange offer (other than an offer by the Company or a majority-con-trolled subsidiary), pursuant to which 30 percent or more of the combined voting power of the company's then outstanding voting securities was purchased, expires; or

(iv) the stockholders of the Company approve an agreement to merge or consolidate with another corporation (other than a majority-controlled subsidiary of the Company) unless the stockholders of the Company immediately before the merger or consolidation are to own more than 70 percent of the combined voting power of the resulting entity's voting securities; or

(v) the Company's stockholders approve an agreement (including, without limitation, a plan of liquidation) to sell or otherwise dispose of all or substantially all of the business or assets of the Company; or

(vi) during any period of two consecutive years, individuals who, at the beginning of such period, constituted the Board cease for any reason to constitute at least a majority thereof, unless the election or the nomination for election by the Company's stockholders of each new director was approved by a vote of at least two-thirds of the directors then still in office who were directors at the beginning of the period; or

(vii) the acquisition of direct or indirect beneficial ownership of more than 15 percent of the Company's then outstanding voting securities by any person or group is approved over the formal objection of the

Company by the Securities and Exchange Commission pursuant to Section 9 of the Public
Utility Holding Company Act of 1935, as amended.

However, no Change in Control shall be deemed to have occurred by reason of any event involving a transaction in which Executive, or a group of persons or entities with which Executive acts in concert, acquires, directly or indirectly, more than 30 percent of the common stock or the business or assets of the Company; any event involving or arising out of a proceeding under Title 11 of the United States Code (or the provisions of any future United States bankruptcy law), an assignment for the benefit of creditors or an insolvency proceeding under state or local law; or any event constituting approval by the Company's stockholders of a merger or consolidation if a majority of the group consisting of the President and Vice Presidents of the Company who are parties to agreements conferring rights upon a Change in Control shall have agreed in writing prior to such approval that approval shall be deemed not to constitute a Change in Control.

3. Time. Executive agrees to devote all reasonable full time and best efforts for the benefit of the Company and any subsidiary of the Company, and not to serve any other business enterprise or organization in any capacity during the Term hereof without the prior written consent of the Company, which consent shall not be unreasonably withheld.

4. Office.

(a) Initial Term. During the Initial Term, the Company shall elect Executive as its President of Sharp Energy, Inc.

(b) Extended Term. During the Extended Term of this Agreement:

(i) Executive shall hold and perform an office with the responsibility, importance and scope within the Company at least equal to that of the office described and contemplated in Paragraph 1 hereof; and

(ii) Executive's office shall be located in Salisbury, Maryland, and Executive shall not be required, without his written consent, to change his office location or to be absent therefrom on business for more than 60 working days in any year.

5. Compensation.

(a) Initial Term. The Company shall compensate Executive for his services hereunder during the Initial Term at a rate of \$130,000 per annum, payable in equal semi-monthly installments, or such greater or lesser amount as the Board may determine ("Base Compensation"). The Base Compensation rate shall be reviewed annually and may be increased or decreased from time to time.

(b) Extended Term. During the Extended Term, the Company shall compensate Executive for his services hereunder at a rate per annum, payable in equal semi-monthly installments, equal to his Base Compensation at the time the Extended Term commences, increased:

(i) effective on each anniversary of the date of this Agreement during the Extended Term by an amount equal to the product of such Base Compensation times the increase in the preceding calendar year of the Consumer Price Index for Urban Wage Earners and Clerical Workers for the Philadelphia metropolitan region as reported by the U.S. Department of Labor (or, if such index is no longer reported, the corresponding increase in a comparable index); and

(ii) by such additional amounts as the Board may determine from time to time based, in part, on an annual review of Executive's compensation.

6. Expenses. During the Term of this Agreement, the Company shall pay all necessary and reasonable business expenses incurred by Executive on behalf of the Company in the course of his employment hereunder, including, without limitation, expenses incurred in the conduct of the Company's business while away from his domicile and expenses for travel, meals, lodging, entertainment and related expenses that are for the benefit of the Company.

7. Other Benefits.

(a) Executive shall be entitled to participate in all profit-sharing, insurance, medical and retirement benefit plans, together with vacation and other employee benefits of the Company, now in effect or as hereafter amended or established, in which the Company executive employees are permitted to participate. The Executive's participation shall be in accordance with the terms and provisions of such plans.

(b) The Company shall furnish Executive with a suitable office, necessary administrative support and customary furniture and furnishings for such office. The Company further agrees that Executive shall have the use of a Company-owned or Company-leased and Company-maintained automobile, new every three years, of a kind and model appropriate to his position with the Company.

(c) Nothing in this Agreement shall preclude the Company from amending or terminating any employee benefit plan or practice, but, it being the intent of the parties that the Executive shall continue to be entitled during the Extended Term to benefits and perquisites as set forth in Paragraphs 7(a) and 7(b) hereof at least equal to those attached to his position on the date of this Agreement, nothing in this Agreement shall operate as, or be construed to authorize, a reduction during the Extended Term without Executive's written consent in the level of such benefits or perquisites as in effect on the date of a Change in Control. If and to the extent that such benefits or perquisites are not payable or provided to Executive under any such plan or practice by reason of an amendment thereto or termination thereof during the Extended Term, the Company shall pay or provide such benefits or perquisites to Executive.

8. Termination.

(a) Termination for Cause. This Agreement and Executive's employment hereunder may be terminated by the Company at any time for Cause. In the event of termination for Cause, the Executive shall not be entitled to any severance benefits under this agreement. During the Initial Term, Cause shall be as the Board may reasonably determine. During the Extended Term, termination of this Agreement and the Executive's employment shall be deemed to have been for Cause only if it shall have been the result of:

(i) conduct by Executive that constitutes a felony under the laws of the United States or a state in which

Executive works or resides;

(ii) an act or acts of dishonesty by Executive resulting or intended to result directly or indirectly in material gain to or personal enrichment of Executive at the Company's expense;

(iii) a deliberate and intentional refusal by Executive during the Extended Term (except by reason of incapacity due to illness or accident) to comply with the provisions of Paragraph 1 hereof, provided that such breach shall have resulted in demonstrably material injury to the Company and the Executive shall have failed to remedy such breach within thirty days after notice from the Secretary of the Company demanding that the Executive remedy such breach; or

(iv) the engagement in conduct by Executive that is materially injurious to the Company if such conduct was undertaken without good faith and the reasonable belief that such conduct was in the best interest of the Company.

(b) Termination During Extended Term. During the

Extended Term of this Agreement, the term "Termination" shall mean:

(i) Termination by the Company of Executive's employment; or

(ii) Termination by Executive of his employment following the occurrence of any of the following events:

(A) Failure to elect or reelect Executive to, or removal of Executive from, the office or offices set forth in Paragraph 1 hereof, or the Board if Executive shall have been a member of the Board immediately prior to a Change in Control of the Company;

(B) Executive's good-faith determination that there has been a significant change in the nature or scope of his authorities, powers, functions, duties or responsibilities attached to the positions contemplated in Paragraph 1 hereof or a reduction in his compensation as provided in Paragraph 5 hereof or his benefits as provided in Paragraph 7, which change or reduction is not remedied within thirty days after notice to the Company by Executive;

(C) Any other breach by the Company of any provision of this Agreement (including, without limitation, relocation of Executive in violation of Paragraph 4(b) hereof), which breach is not remedied within thirty days after notice to the Company by Executive; or

(D) The liquidation, dissolution, consolidation or merger of the Company or transfer of all or a significant portion of its assets unless a successor or successors (by merger, consolidation or otherwise) to which all or a significant portion of its assets has been transferred shall have assumed all duties and obligations of the Company under this Agreement;

provided that in any event set forth in this Paragraph 8(b)(ii), Executive shall have elected to terminate his employment under this Agreement upon not less than forty (40) and not more than ninety (90) days' notice to the Board, attention of the Secretary, given, except in the case of a continuing breach, within three calendar months after (1) failure to be so elected or reelected, or such removal, (2) expiration of the 30-day cure period with respect to such event, or (3) the closing date of such liquidation, dissolution, consolidation, merger or transfer of assets.

An election by Executive to terminate his employment under the provisions of this Paragraph shall not be deemed a voluntary termination of employment by Executive for the purpose of this Agreement or any plan or practice of the Company.

(c) Payment Upon Termination During Extended Term. In the event of a Termination of this Agreement during the Extended Term hereof for any reason other than Cause or Executive's death, the Company shall, subject to Paragraph 9 hereof, pay to Executive (or, in the event of his death following the Termination, his legal representative) in cash within thirty (30) days after the date of such Termination (the "Termination Date"):

(i) An amount equal to the product of multiplying the monthly rate of Base Compensation to which Executive was entitled under Paragraph 5(b) hereof on the day immediately prior to the Termination Date by the lesser of (A) twelve (12) months or (B) the number of months remaining in the Term of this Agreement (the shorter of such periods constituting the "Covered Period");

(ii) An amount equal to the present value of the additional benefits that would have been paid Executive under the Company's retirement plans if he had continued to be employed pursuant to this Agreement during the Covered Period and the retirement plans had continued during such period without change from the date of the Change in Control;

(iii) For each share of Company stock subject to a stock option that was awarded to Executive under a Company stock option plan, was held by Executive on the day immediately prior to his Termination Date, was not exercisable on that date but would have become exercisable during the Covered Period if Executive's employment with the Company had continued during that period, an amount equal to the excess of (A) the daily average closing price for a share of the Company's stock on the New York Stock Exchange, or such other national securities exchange on which such stock may be listed, during the 30-day period ending upon the date of the Change in Control, or, if higher, during the 30-day period ending upon the Termination Date (adjusted as appropriate for any changes in the capital structure of the Company) over (B) the option price for a share of the Company's stock subject to the option; and

(iv) An amount equal to the aggregate of the Company's contributions to the Company's savings plan in respect of Executive that were not vested on the day immediately prior to the Termination Date but that would have been vested at the end of the Covered Period if Executive had remained employed by the Company for the duration of that period.

For purposes of calculating the present value specified in Paragraph 8(c)(ii), the discount rate shall equal the PBGC interest rate for immediate annuities, as provided in 29 C.F.R. Part 4044, Appendix B, Table II or its successor, in effect for a valuation date coinciding with the Termination Date. If that rate should no longer be published, the discount rate shall be such closely comparable interest rate as the Company may reasonably determine.

(d) Payment Upon Termination During Initial Term . In the event that the Company terminates this Agreement during, or elects pursuant to Paragraph 17 hereof not to renew this Agreement at the end of, the Initial Term hereof for any reason other than Cause or Executive's death, the Company shall continue to pay to Executive (or in the event of his death following such termination, his legal representative) his Base Compensation under Paragraph 5(a) hereof, at the semi-monthly rate in effect immediately prior to the date of such termination ("Termination Date"), for a period of six months following the Termination Date.

9. Maximum Payment Upon Termination . Notwithstanding any other provision of this Agreement, if the Company should determine, in consultation with tax advisors satisfactory to Executive, that any amount payable to Executive pursuant to Paragraph 8 of this Agreement during the Extended Term, either alone or in conjunction with any payments or benefits to or on behalf of Executive pursuant to this Agreement or otherwise, would not be deductible by the Company, in whole or in part, for federal income tax purposes by reason of section 280G of the Internal Revenue Code or its successor, then the aggregate amount payable to Executive pursuant to Paragraph 8 shall be reduced to the largest amount that, in the opinion of such tax advisors, the Company could pay Executive under Paragraph 8 without any part of that amount being nondeductible by the Company as a result of Section 280G or its successor.

10. Mitigation . Executive shall not be required to mitigate the amount of any payment provided for in this Agreement either by seeking other employment or otherwise. The amount of any payment provided for herein shall not be reduced by any remuneration that Executive may earn from employment with another employer or otherwise following his Termination Date.

11. Noncompetition Covenant . For a period of one year following the Termination Date and, if Executive has given a notice pursuant to Paragraph 8(b)(ii) hereof, for a period of 15 months following the giving of such notice, Executive shall assist no individual or entity other than the Company to acquire any entity with respect to which a proposal to acquire was presented to the Board prior to the beginning of the period.

12. Indemnification . The Company shall indemnify Executive to the fullest extent permitted by applicable Delaware law (as may be amended from time to time), including the advance of expenses permitted therein.

13. Performance . The failure of either party to this Agreement to insist upon strict performance of any provision hereof shall not constitute a waiver of its rights subsequently to insist upon strict performance of such provision or any other provision of this Agreement.

14. Non-Assignability . Neither party shall have the right to assign this Agreement or any rights or obligations hereunder without the consent of the other party.

15. Invalidity . If any provisions of this Agreement shall be found to be invalid by any court of competent jurisdiction, such finding shall not affect the remaining provisions of this Agreement, all of the which shall remain in full force and effect.

16. Arbitration and Legal Fees . In the event of any dispute regarding a refusal or failure by the Company to make payments or provide benefits hereunder for any reason, Executive shall have the right, in addition to all other rights and remedies provided by law, to arbitration of such dispute under the rules of the American Arbitration Association, which right shall be invoked by serving upon the Company a notice to arbitrate, stating the place of arbitration, within ninety (90) days of receipt of notice in any form (including, without limitation, failure by the Company to respond to a notice from Executive within thirty (30) days) that the Company is withholding or proposes to withhold payments or provisions of benefits. In the event of any such dispute, whether or not Executive exercises his right to arbitration, if it shall ultimately be determined that the Company's refusal or failure to make payments or provide benefits hereunder was wrongful or otherwise inconsistent with the terms of this Agreement, the Company shall indemnify and hold harmless Executive from and against any and all expenses incurred in connection with such determination, including legal and other fees and expenses. Without limitation of or by the foregoing, the Company shall, within ten (10) days after notice from Executive, provide Executive with an irrevocable letter of credit in the amount of \$100,000 from a bank satisfactory to Executive against which Executive may draw to pay legal fees and other fees and expenses in connection with any attempt by Executive to enforce any of his rights under this Agreement during the Extended Term. Said letter of credit shall not expire before ten (10) years following the date of this Agreement.

17. Renewal . If the Initial Term of this Agreement expires without there having been a Change in Control, this Agreement shall be renewed, as of the day following such expiration, unless, during the period beginning 90 days prior and ending 30 days prior to such day, either the Company or Executive shall have given notice to the other that this Agreement will not be renewed. If this Agreement is renewed as provided under this Paragraph, the new Agreement shall be identical to this Agreement (except insofar as the Company and Executive may otherwise agree in writing) except that the date of the new Agreement shall be as of the day following the expiration of the Initial Term of this Agreement.

18. Successors . This Agreement shall be binding upon and inure to the benefit of the Executive (and his personal representative), the Company and any successor organization or organizations that shall succeed to substantially all of the business and property of the Company, whether by means of merger, consolidation, acquisition of substantially all of the assets of the Company or otherwise, including by operation of law.

19. Set-off . The Company shall have no right of set-off or counterclaim in respect of any claim, debt or obligation against any payments or benefits provided for in this Agreement.

20. Amendments . No Amendment to this Agreement shall be effective unless in writing and signed by both the Company and Executive.

21. Governing Law . This Agreement shall be interpret-ed and enforced in accordance with the laws of the State of Delaware.

22. Notices . Unless otherwise stated herein, all notices hereunder shall be in writing and shall be deemed to be given when personally delivered or mailed by United States registered or certified mail, postage prepaid, to, if to the Company, 909 Silver Lake Boulevard, Dover, Delaware 19904, and, if to Executive, the last address therefore shown on the records of the Company. Either the Company or Executive may, by notice to the other, designate an address other than the foregoing for the receipt of subsequent notices.

23. Withholding . The Company may withhold from any amounts payable to Executive hereunder all federal, state, city or other taxes that the Company may reasonably deter-mine are required to be withheld pursuant to any applicable law or regulation.

24. Nature of Payments Upon Termination . All payments to Executive pursuant to Paragraphs 8 and 9 of this Agree-ment shall be considered as liquidated damages or, in the case of certain payments pursuant to Paragraph 8(d), as severance payments in consideration of Executive's past services to the Company, and no such payment shall be regarded as a penalty to the Company.

25. Acknowledgment . The parties hereto each acknowl-edge that each has read this Agreement and understand same and that each enters into this Agreement freely and voluntarily.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

SHARP ENERGY, INC.

[CORPORATE SEAL]

By: _____
Chairman

ATTEST:

Secretary

EXECUTIVE

PERFORMANCE SHARE AGREEMENT

pursuant to the

**CHESAPEAKE UTILITIES CORPORATION
PERFORMANCE INCENTIVE PLAN**

AGREEMENT dated as of December 30, 2005, and entered into, in duplicate, by and between Chesapeake Utilities Corporation, a Delaware corporation (the "Company"), and [name of executive - each of John R. Schimkaitis, Paul M. Barbas and Michael P. McMasters] (the "Grantee") who resides at [address of executive].

WITNESSETH that:

WHEREAS, the Chesapeake Utilities Corporation Performance Incentive Plan (the "Plan"), to be effective January 1, 2006, has been duly adopted by action of the Company's Board of Directors (the "Board") on February 24, 2005 and by its shareholders on May 5, 2005; and

WHEREAS, the Committee of the Board of Directors of the Company referred to in the Plan (the "Committee") has determined that it is in the best interests of the Company to grant the Performance Share Award described herein pursuant to the Plan; and

WHEREAS, the shares of the Common Stock of the Company ("Shares") that are subject to this Agreement, when added to the other shares of Common Stock that are subject to awards granted under the Plan, do not exceed the total number of shares of Common Stock with respect to which awards are authorized to be granted under the Plan;

NOW, THEREFORE, it is hereby covenanted and agreed by and between the Company and the Grantee as follows:

Section 1. Performance Share Award

The Company hereby grants to the Grantee a Performance Share Award for the year ending December 31, 2006 (the "Award Year"). As more fully described herein, the Grantee may earn a maximum total of [number of shares - 9,600 for John R. Schimkaitis, 6,820 for Paul M. Barbas and 5,120 for Michael P. McMasters] Shares (the "Contingent Performance Shares") upon the Company's achievement of the Performance Goals set forth in Section 2. Alternatively, the Grantee may elect to receive [number of shares - 2,400 for John R. Schimkaitis, 1,705 for Paul M. Barbas and 1,280 for Michael P. McMasters] Shares (the "Forfeitable Performance Shares"), as detailed in Section 3, in lieu of receiving any Contingent Performance Shares. The Forfeitable Performance Shares shall be subject to forfeiture conditions, as set forth in Section 3(c).

Section 2. Contingent Performance Shares

- (a) As soon as practicable after the Company's independent auditors have certified the Company's financial statements for the Award Year, the Committee shall determine for purposes of this Agreement the Company's (1) earnings growth ("EG"), (2) achievement of established milestones and objectives under the Company's long-term strategic plan ("SP"), and (3) Shareholder Value as of the end of the Award Year. The EG, SP and Shareholder Value shall be determined by the Committee in accordance with the terms of the Plan and this Agreement based on financial results reported to shareholders in the Company's annual reports and shall be subject to adjustment by the Committee for extraordinary events during the Award Year. The Committee shall promptly notify the Grantee of its determination.
- (b) The Grantee may earn up to [number of shares - 9,600 for John R. Schimkaitis, 6,820 for Paul M. Barbas and 5,120 for Michael P. McMasters] Contingent Performance Shares (the "Maximum Award") as follows:

- (1) The performance measured for Shareholder Value will be the value of \$10,000 invested in the Company stock compared to a Utility Index. If the Company's performance exceeds the Utility Index, the Grantee will be eligible to earn up to 30% of the Maximum Award for the Award Year. If the value of \$10,000 invested for the Award Year does not exceed the Utility Index for the Award Year, the Grantee shall not earn any Contingent Performance Shares under this Paragraph (b)(1).

- (2) The performance measured for EG will be based upon achieving a growth in earnings per share of 3% to 5% for the award year. If the Company earnings per share for 2006 is equal to or exceeds [pre-determined target 1], the Grantee is eligible to

earn 25% of the maximum award. If the earnings per share is equal to or greater than [pre-determined target 2], the Grantee is eligible to earn an additional 15% of the maximum award but in no event shall the Grantee earn more than 40% of the maximum award under this paragraph (b) (2). If any of the award under this paragraph is unearned in the current year, the Grantee is eligible to earn those shares, if the accumulative earnings per share for 2005 to 2007 equals or exceeds [pre-determined accumulative target].

(3) The performance measured for SG will be based upon execution of the Company's long-term strategic plan, assuming attainment of pre-authorized milestones and objectives as established by the Compensation Committee. If the long-term strategy is executed, the Grantee will be eligible to earn 30% of the Maximum Award. After approval from the Company's Board of Directors, if the long-term strategic plan is not executed, the Grantee shall not earn any Contingent Performance Shares under this paragraph (b) (3).

(c) Contingent Performance Shares that are earned by the Grantee pursuant to this Section 2 shall be issued promptly, without payment of consideration by the Grantee, within 2 ½ months of the end of the Award Year. The Grantee shall have the right to vote the Contingent Performance Shares and to receive the dividends distributable with respect to such Shares on and after, but not before, the date on which the Grantee is recorded on the Company's ledger as holder of record of the Contingent Performance Shares (the "Issue Date"). If, however, the Grantee receives Shares as part of any dividend or other distribution with respect to the Contingent Performance Shares, such Shares shall be treated as if they are Contingent Performance Shares, and such Shares shall be subject to all of the terms and conditions imposed by this Section 2.

(d) Sale, transfer, pledge, or hypothecation of the Contingent Performance Shares shall be prohibited for a period of three (3) years after the Issue Date (the "Limitation Period"), and the Performance Shares shall bear a restrictive legend to that effect. Any attempt to dispose of Contingent Performance Shares in contravention of this Agreement shall be ineffective. Upon expiration of the Limitation Period, the transfer restrictions imposed by this Section shall expire, and new certificates representing the Contingent Performance Shares, without the restrictive legend described in this paragraph (d), shall be issued, subject to the provisions of paragraph (e) of this Section 2.

(e) The Performance Shares will be not registered for resale under the Securities Act of 1933 or the laws of any state except when and to the extent determined by the Board pursuant to a resolution. Until a registration statement is filed and becomes effective, however, transfer of the Contingent Performance Shares after expiration of the Limitation Period shall require the availability of an exemption from such registration, and prior to the issuance of new certificates, the Company shall be entitled to take such measures as it deems appropriate (including but not limited to obtaining from the Grantee an investment representation letter and/or further legending the new certificates) to ensure that the Contingent Performance Shares are not transferred in the absence of such exemption.

(f) In the event of a Change in Control, as defined in the Plan, during the Award Year, the Grantee shall earn at least the Maximum Award of Contingent Performance Shares set forth in this Section 2, as if all employment and performance criteria were satisfied, without any pro ration based on the proportion of the Award Year that has expired as of the date of such Change in Control.

(g) If, during the Award Year, the Grantee is separated from employment, Contingent Performance Shares shall be deemed earned or forfeited as follows:

(1) Upon voluntary termination by the Grantee (other than for retirement at age 65 or as accepted by the Committee) or termination by the Company for failure of job performance or other just cause as determined by the Committee, all unearned Contingent Performance Shares shall be forfeited immediately;

(2) If the Grantee separates from employment by reason of death or total and permanent disability (as determined by the Committee), the number of Contingent Performance Shares that would otherwise have been earned at the end of the Award Year shall be reduced by pro rating such Contingent Performance Shares based on the proportion of the Award Year during which the Grantee was employed by the Company, unless the Committee determines that the Contingent Performance Shares shall not be so reduced;

(3) Retirement of the Grantee at age 65 or as accepted by the Committee shall not affect the Contingent Performance Shares, which shall continue to be earned through the remainder of the Award Year, as set forth above.

(h) The Grantee shall be solely responsible for any federal, state and local taxes of any kind imposed in connection with the delivery of Contingent Performance Shares. Prior to the transfer of any Contingent Performance Shares to the Grantee, the Grantee shall remit to the Company an amount sufficient to satisfy any federal, state, local and other withholding tax requirements. The Grantee may elect to have all or part of any withholding tax obligation satisfied by having the Company withhold Shares otherwise deliverable to the Grantee as Contingent Performance Shares, unless the Committee determines otherwise by resolution. If the Grantee fails to make such payments or election, the Company and its subsidiaries shall, to the extent permitted by law, have the right to deduct from any payments of any kind otherwise due to the Grantee any taxes required by law to be withheld with respect to the Contingent Performance Shares.

Section 3. Forfeitable Performance Shares

(a) In lieu of earning Contingent Performance Shares, the Grantee may elect to receive [number of shares - 2,400 for John R. Schimkaitis, 1,705 for Paul M. Barbas and 1,280 for Michael P. McMasters] Forfeitable Performance Shares, irrespective of whether the Company meets any Performance Goals. The Grantee must make any such election on or before September 30, 2006, and the election must be made in writing, in a manner prescribed by the Committee. Once made, the election is irrevocable. If a Grantee makes such an election, he shall not receive any Contingent Performance Shares under this Agreement.

(b) Any Forfeitable Performance Shares received by the Grantee pursuant to this Section 3 shall be issued as promptly as possible after December 31, 2006, without payment of consideration by the Grantee. The Grantee shall have the right to vote the Forfeitable Performance Shares and to receive the dividends distributable with respect to such Shares on and after, but not before, the date on which the Grantee is recorded on the Company's ledger as holder of record of the Forfeitable Performance Shares (the "Issue Date"). If, however, the Grantee receives Shares as part of any dividend or distribution with respect to the Forfeitable Performance Shares, such Shares shall be treated as if they are Forfeitable Performance Shares, and such Shares shall be subject to all of the terms and conditions imposed by this Section 3.

(c) The Forfeitable Performance Shares shall be subject to the following restrictions:

(1) Sale, transfer, pledge or hypothecation of the Forfeitable Performance Shares shall be prohibited for a period of three (3) years after the Issue Date (the "Restriction Period"), and the certificates evidencing the Forfeitable Performance Shares shall bear an appropriate restrictive legend that refers to the terms, conditions, and restrictions set forth in this Agreement. Any attempt to dispose of Forfeitable Performance Shares in contravention of this Agreement shall be ineffective. Upon expiration of the Restriction Period, the transfer restrictions imposed by this Section shall expire, and new certificates representing the Forfeitable Performance Shares, without the restrictive legend described in this paragraph (c)(1), shall be issued, subject to the provisions of paragraph (f) of this Section 3.

(2) If, during the Restriction Period, the Grantee separates from employment for any reason other than death, normal retirement, total and permanent disability (as determined by the Committee), or involuntary termination without cause (as determined by the Committee), all Forfeitable Performance Shares shall be forfeited immediately.

(d) All restrictions under paragraph (c) of this Section 3 shall immediately expire on the earliest of: (A) the Grantee's separation from employment because of death, total and permanent disability (as determined by the Committee), or involuntary termination without cause (as determined by the Committee), (B) a Change in Control, as defined in the Plan, or (C) the end of the Restriction Period.

(e) If, after the Grantee has made an election to receive Forfeitable Performance Shares pursuant to Section 3(a), a Change in Control, as defined in the Plan, occurs during the Award Year, the Grantee shall receive at least the total number of Forfeitable Performance Shares due under this Agreement, without any pro ration based on the proportion of the Award Year that has expired as of the date of such Change in Control. Pursuant to Section 3(d), such Shares shall not be subject to any of the restrictions imposed by this Section.

(f) The Forfeitable Performance Shares shall be not registered for resale under the Securities Act of 1933 or the laws of any state except when and to the extent determined by the Board pursuant to a resolution. Until a registration statement is filed and becomes effective, however, transfer of the Forfeitable Performance Shares after expiration of the Restriction Period shall require the availability of an exemption from such registration, and prior to the issuance of new certificates, the Company shall be entitled to take such measures as it deems appropriate (including but not limited to obtaining from the Grantee an investment representation letter and/or further legending the new certificates) to ensure that the Forfeitable Performance Shares are not transferred in the absence of such exemption.

(g) The Grantee shall be solely responsible for any federal, state and local taxes of any kind imposed in connection with receipt of the Forfeitable Performance Shares:

(1) The Grantee agrees that, no later than the date that the restrictions set forth in Section 3(c) lapse, he shall remit to the Company an amount sufficient to satisfy any federal, state, local and other withholding tax requirements.

(2) The Grantee may elect to have all or part of any withholding tax obligation satisfied by having the Company withhold Shares otherwise deliverable to the Grantee in connection with the Award of Restricted Stock, unless the Committee determines otherwise by resolution.

(3) If the Grantee properly elects, within 30 days of the Issue Date, to include in gross income for federal income tax purposes an amount equal to the fair market value of the Forfeitable Performance Shares, he shall make arrangements satisfactory to the Committee to remit in the year of issue an amount sufficient to satisfy any federal, state, local and other withholding tax

requirements with respect to such Forfeitable Performance Shares.

(4) If the Grantee fails to make satisfactory arrangements to meet all withholding tax obligations, the Company and its subsidiaries shall, to the extent permitted by law, have the right to deduct from any payments of any kind otherwise due to the Grantee any taxes required by law to be withheld with respect to the Forfeitable Performance Shares.

Section 4. Additional Conditions to Issuance of Shares

Each transfer of Contingent Performance Shares or Forfeitable Performance Shares (together, the "Award Shares") shall be subject to the condition that if at any time the Committee shall determine, in its sole discretion, that it is necessary or desirable as a condition of, or in connection with, transfer of Award Shares (i) to satisfy withholding tax or other withholding liabilities, (ii) to effect the listing, registration or qualification on any securities exchange or under any state or federal law of any Shares deliverable in connection with such exercise, or (iii) to obtain the consent or approval of any regulatory body, then in any such event such transfer shall not be effective unless such withholding, listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Company.

Section 5. Adjustment of Shares

(a) If the Company shall become involved in a merger, consolidation or other reorganization, whether or not the Company is the surviving corporation, any right to earn Contingent Performance Shares or to elect to receive Forfeitable Performance Shares shall be deemed a right to earn or to elect to receive the consideration into which the Shares represented by the Contingent Performance Shares or by the Forfeitable Performance Shares would have been converted under the terms of the merger, consolidation or other reorganization. If the Company is not the surviving corporation, the surviving corporation (the "Successor") shall succeed to the rights and obligations of the Company under this Agreement.

(b) If any subdivision or combination of Shares or any stock dividend, capital reorganization or recapitalization occurs after the adoption of the Plan, the Committee shall make such proportionate adjustments as are appropriate to the number of Contingent Performance Shares to be earned and/or to the number of Forfeitable Performance Shares to be received in order to prevent the dilution or enlargement of the rights of the Grantee.

Section 6. No Right to Employment

Nothing contained in this Agreement shall be deemed by implication or otherwise to confer upon the Grantee any right to continued employment by the Company or any affiliate of the Company.

Section 7. Notice

Any notice to be given hereunder by the Grantee shall be sent by mail addressed to Chesapeake Utilities Corporation, 909 Silver Lake Boulevard, Dover, Delaware 19904, for the attention of the Committee, c/o the Secretary, and any notice by the Company to the Grantee shall be sent by mail addressed to the Grantee at the address of the Grantee shown on the first page hereof. Either party may, by notice given to the other in accordance with the provisions of this Section, change the address to which subsequent notices shall be sent.

Section 8. Assumption of Risk

It is expressly understood and agreed that the Grantee assumes all risks incident to any change hereafter in the applicable laws or regulations or incident to any change in the market value of the Award Shares.

Section 9. Terms of Plan

This Agreement is entered into pursuant to the Plan (a copy of which has been delivered to the Grantee). This Agreement is subject to all of the terms and provisions of the Plan, which are incorporated into this Agreement by reference, and the actions taken by the Committee pursuant to the Plan. In the event of a conflict between this Agreement and the Plan, the provisions of the Plan shall govern. All determinations by the Committee shall be in its sole discretion and shall be binding on the Company and the Grantee.

Section 10. Governing Law; Amendment

This Agreement shall be governed by, and shall be construed and administered in accordance with, the laws of the State of Delaware (without regard to its choice of law rules) and the requirements of any applicable federal law. This Agreement may be modified or amended only by a writing signed by the parties hereto.

Section 11. Terms of Agreement

This Agreement shall remain in full force and effect and shall be binding on the parties hereto for so long as any Award Shares issued to the Grantee under this Agreement continue to be held by the Grantee.

IN WITNESS WHEREOF, the Company has caused this Agreement to be executed in its corporate name, and the Grantee has executed the same in evidence of the Grantee's acceptance hereof, upon the terms and conditions herein set forth, as of the day and year first above written.

CHESAPEAKE UTILITIES CORPORATION

By: _____

[name of executive], Grantee

PERFORMANCE SHARE AGREEMENT

pursuant to the

**CHESAPEAKE UTILITIES CORPORATION
PERFORMANCE INCENTIVE PLAN**

AGREEMENT dated as of December 23, 2005, and entered into, in duplicate, by and between Chesapeake Utilities Corporation, a Delaware corporation (the "Company"), and Stephen C. Thompson (the "Grantee") who resides [address of executive].

WITNESSETH that:

WHEREAS, the Chesapeake Utilities Corporation Performance Incentive Plan (the "Plan"), to be effective January 1, 2006, has been duly adopted by action of the Company's Board of Directors (the "Board") on February 24, 2005 and by its shareholders on May 5, 2005; and

WHEREAS, the Committee of the Board of Directors of the Company referred to in the Plan (the "Committee") has determined that it is in the best interests of the Company to grant the Performance Share Award described herein pursuant to the Plan; and

WHEREAS, the shares of the Common Stock of the Company ("Shares") that are subject to this Agreement, when added to the other shares of Common Stock that are subject to awards granted under the Plan, do not exceed the total number of shares of Common Stock with respect to which awards are authorized to be granted under the Plan;

NOW, THEREFORE, it is hereby covenanted and agreed by and between the Company and the Grantee as follows:

Section 1. Performance Share Award

The Company hereby grants to the Grantee a Performance Share Award for the year ending December 31, 2006 (the "Award Year") and the three years ending December 31, 2008 (the "Award Period"). As more fully described herein, the Grantee may earn a maximum total of 9,600 Shares (the "Contingent Performance Shares") upon the Company's achievement of the Performance Goals set forth in Section 2. Alternatively, the Grantee may elect to receive 2,400 Shares (the "Forfeitable Performance Shares"), as detailed in Section 3, in lieu of receiving any Contingent Performance Shares. The Forfeitable Performance Shares shall be subject to forfeiture conditions, as set forth in Section 3(c).

Section 2. Contingent Performance Shares

- (a) As soon as practicable after the Company's independent auditors have certified the Company's financial statements for the Award Year, the Committee shall determine for purposes of this Agreement the Company's (1) Shareholder Value and (2) earnings growth ("EG") as of the end of the Award Year. The Shareholder Value and EG shall be determined by the Committee in accordance with the terms of the Plan and this Agreement based on financial results reported to shareholders in the Company's annual reports and shall be subject to adjustment by the Committee for extraordinary events during the Award Year. The Committee shall promptly notify the Grantee of its determination.

- (b) The Grantee may earn up to 960 Contingent Performance Shares for each Award Year (the "Annual Award") of the Award Period, as follows:

(1) The performance measured for Shareholder Value will be the value of \$10,000 invested in the Company stock compared to a Utility Index. If the Company's performance exceeds the Utility Index, the Grantee will be eligible for the Annual Award. If the value of \$10,000 invested for each Award Year does not exceed the Utility Index for the respective Award Year, the Grantee shall not earn any Contingent Performance Shares under this Paragraph (b)(1).

- (c) The Grantee may earn up to 6,720 Contingent Performance Shares at the end of the Award Period (the "Three-Year Award") as follows, subject to the restrictions specified in Section 3(a), and further described in Section 2(c)(2) below:

- (1) The performance measured for EG will be based upon the Company's regulated natural gas operations achieving

at least 90% of the average allowed pre-tax return on investment ("target return on investment"). If the Company's regulated operations achieve the target return on investment over the Award Period, the Grantee will be eligible for the Three-Year Award. If the target return on investment is not achieved in the Company's regulated natural gas operations, the Grantee shall not earn any Contingent Performance Shares under this Paragraph (c)(1).

(2) If the Grantee is eligible to receive the Three-Year Award, but has received Forfeitable Performance Shares for 2006 and/or 2007, the number of Contingent Performance Shares awarded at the end of the Award Period shall equal 6,720 less any Forfeitable Performance Shares received.

(d) Contingent Performance Shares that are earned by the Grantee pursuant to this Section 2 shall be issued promptly, without payment of consideration by the Grantee, within 2 ½ months of the end of the Award Year. The Grantee shall have the right to vote the Contingent Performance Shares and to receive the dividends distributable with respect to such shares on and after, but not before, the date on which the Grantee is recorded on the Company's ledger as holder of record of the Contingent Performance Shares (the "Issue Date"). If, however, the Grantee receives Shares as part of any dividend or other distribution with respect to the Contingent Performance Shares, such Shares shall be treated as if they are Contingent Performance Shares, and such Shares shall be subject to all of the terms and conditions imposed by this Section 2.

(e) Sale, transfer, pledge, or hypothecation of the Contingent Performance Shares shall be prohibited for a period of three (3) years after the Issue Date (the "Limitation Period"), and the Performance Shares shall bear a restrictive legend to that effect. Any attempt to dispose of Contingent Performance Shares in contravention of this Agreement shall be ineffective. Upon expiration of the Limitation Period, the transfer restrictions imposed by this Section shall expire, and new certificates representing the Contingent Performance Shares, without the restrictive legend described in this paragraph (d), shall be issued, subject to the provisions of paragraph (e) of this Section 2.

(f) The Performance Shares will be not registered for resale under the Securities Act of 1933 or the laws of any state except when and to the extent determined by the Board pursuant to a resolution. Until a registration statement is filed and becomes effective, however, transfer of the Contingent Performance Shares after expiration of the Limitation Period shall require the availability of an exemption from such registration, and prior to the issuance of new certificates, the Company shall be entitled to take such measures as it deems appropriate (including but not limited to obtaining from the Grantee an investment representation letter and/or further legending the new certificates) to ensure that the Contingent Performance Shares are not transferred in the absence of such exemption.

(g) In the event of a Change in Control, as defined in the Plan, during the Award Period, the Grantee shall earn at least the Maximum Award of Contingent Performance Shares set forth in this Section 2, as if all employment and performance criteria were satisfied, without any pro ration based on the proportion of the Award Period that has expired as of the date of such Change in Control.

(h) If, during the Award Period, the Grantee is separated from employment, Contingent Performance Shares shall be deemed earned or forfeited as follows:

(1) Upon voluntary termination by the Grantee (other than for retirement at age 65 or as accepted by the Committee) or termination by the Company for failure of job performance or other just cause as determined by the Committee, all unearned Contingent Performance Shares shall be forfeited immediately;

(2) If the Grantee separates from employment by reason of death or total and permanent disability (as determined by the Committee), the number of Contingent Performance Shares that would otherwise have been earned at the end of the Award Period shall be reduced by pro rating such Contingent Performance Shares based on the proportion of the Award Period during which the Grantee was employed by the Company, unless the Committee determines that the Contingent Performance Shares shall not be so reduced;

(3) Retirement of the Grantee at age 65 or as accepted by the Committee shall not affect the Contingent Performance Shares, which shall continue to be earned through the remainder of the Award Period, as set forth above.

(i) The Grantee shall be solely responsible for any federal, state and local taxes of any kind imposed in connection with the delivery of Contingent Performance Shares. Prior to the transfer of any Contingent Performance Shares to the Grantee, the Grantee shall remit to the Company an amount sufficient to satisfy any federal, state, local and other withholding tax requirements. The Grantee may elect to have all or part of any withholding tax obligation satisfied by having the Company withhold Shares otherwise deliverable to the Grantee as Contingent Performance Shares, unless the Committee determines otherwise by resolution. If the Grantee fails to make such payments or election, the Company and its subsidiaries shall, to the extent permitted by law, have the right to deduct from any payments of any kind otherwise due to the Grantee any taxes required by law to be withheld with respect to the Contingent Performance Shares.

(a) In lieu of earning Contingent Performance Shares, the Grantee may elect to receive 2,400 Forfeitable Performance Shares, irrespective of whether the Company meets any Performance Goals. For each of the three years of the Award Period, the Grantee may elect to receive 800 Forfeitable Performance Shares per year. The Grantee must make any such election on or before September 30, of the respective year, and the election must be made in writing, in a manner prescribed by the Committee. Once made, the election is irrevocable. If a Grantee makes such an election, he shall not receive any Contingent Performance Shares under this Agreement.

(b) Any Forfeitable Performance Shares received by the Grantee pursuant to this Section 3 shall be issued as promptly as possible after December 31, of the year the respective election is made, without payment of consideration by the Grantee. The Grantee shall have the right to vote the Forfeitable Performance Shares and to receive the dividends distributable with respect to such Shares on and after, but not before, the date on which the Grantee is recorded on the Company's ledger as holder of record of the Forfeitable Performance Shares (the "Issue Date"). If, however, the Grantee receives Shares as part of any dividend or distribution with respect to the Forfeitable Performance Shares, such Shares shall be treated as if they are Forfeitable Performance Shares, and such Shares shall be subject to all of the terms and conditions imposed by this Section 3.

(c) The Forfeitable Performance Shares shall be subject to the following restrictions:

(1) Sale, transfer, pledge or hypothecation of the Forfeitable Performance Shares shall be prohibited for a period of three (3) years after the Issue Date (the "Restriction Period"), and the certificates evidencing the Forfeitable Performance Shares shall bear an appropriate restrictive legend that refers to the terms, conditions, and restrictions set forth in this Agreement. Any attempt to dispose of Forfeitable Performance Shares in contravention of this Agreement shall be ineffective. Upon expiration of the Restriction Period, the transfer restrictions imposed by this Section shall expire, and new certificates representing the Forfeitable Performance Shares, without the restrictive legend described in this paragraph (c)(1), shall be issued, subject to the provisions of paragraph (f) of this Section 3.

(2) If, during the Restriction Period, the Grantee separates from employment for any reason other than death, normal retirement, total and permanent disability (as determined by the Committee), or involuntary termination without cause (as determined by the Committee), all Forfeitable Performance Shares shall be forfeited immediately.

(d) All restrictions under paragraph (c) of this Section 3 shall immediately expire on the earliest of: (A) the Grantee's separation from employment because of death, total and permanent disability (as determined by the Committee), or involuntary termination without cause (as determined by the Committee), (B) a Change in Control, as defined in the Plan, or (C) the end of the Restriction Period.

(e) If, after the Grantee has made an election to receive Forfeitable Performance Shares pursuant to Section 3(a), a Change in Control, as defined in the Plan, occurs during the Award Period, the Grantee shall receive at least the total number of Forfeitable Performance Shares due under this Agreement, without any pro ration based on the proportion of the Award Period that has expired as of the date of such Change in Control. Pursuant to Section 3(d), such Shares shall not be subject to any of the restrictions imposed by this Section.

(f) The Forfeitable Performance Shares shall be not registered for resale under the Securities Act of 1933 or the laws of any state except when and to the extent determined by the Board pursuant to a resolution. Until a registration statement is filed and becomes effective, however, transfer of the Forfeitable Performance Shares after expiration of the Restriction Period shall require the availability of an exemption from such registration, and prior to the issuance of new certificates, the Company shall be entitled to take such measures as it deems appropriate (including but not limited to obtaining from the Grantee an investment representation letter and/or further legending the new certificates) to ensure that the Forfeitable Performance Shares are not transferred in the absence of such exemption.

(g) The Grantee shall be solely responsible for any federal, state and local taxes of any kind imposed in connection with receipt of the Forfeitable Performance Shares:

(1) The Grantee agrees that, no later than the date that the restrictions set forth in Section 3(c) lapse, he shall remit to the Company an amount sufficient to satisfy any federal, state, local and other withholding tax requirements.

(2) The Grantee may elect to have all or part of any withholding tax obligation satisfied by having the Company withhold Shares otherwise deliverable to the Grantee in connection with the Award of Restricted Stock, unless the Committee determines otherwise by resolution.

(3) If the Grantee properly elects, within 30 days of the Issue Date, to include in gross income for federal income tax purposes an amount equal to the fair market value of the Forfeitable Performance Shares, he shall make arrangements satisfactory to the Committee to remit in the year of issue an amount sufficient to satisfy any federal, state, local and other withholding tax requirements with respect to such Forfeitable Performance Shares.

(4) If the Grantee fails to make satisfactory arrangements to meet all withholding tax obligations, the Company and

its subsidiaries shall, to the extent permitted by law, have the right to deduct from any payments of any kind otherwise due to the Grantee any taxes required by law to be withheld with respect to the Forfeitable Performance Shares.

Section 4. Additional Conditions to Issuance of Shares

Each transfer of Contingent Performance Shares or Forfeitable Performance Shares (together, the "Award Shares") shall be subject to the condition that if at any time the Committee shall determine, in its sole discretion, that it is necessary or desirable as a condition of, or in connection with, transfer of Award Shares (i) to satisfy withholding tax or other withholding liabilities, (ii) to effect the listing, registration or qualification on any securities exchange or under any state or federal law of any Shares deliverable in connection with such exercise, or (iii) to obtain the consent or approval of any regulatory body, then in any such event such transfer shall not be effective unless such withholding, listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Company.

Section 5. Adjustment of Shares

(a) If the Company shall become involved in a merger, consolidation or other reorganization, whether or not the Company is the surviving corporation, any right to earn Contingent Performance Shares or to elect to receive Forfeitable Performance Shares shall be deemed a right to earn or to elect to receive the consideration into which the Shares represented by the Contingent Performance Shares or by the Forfeitable Performance Shares would have been converted under the terms of the merger, consolidation or other reorganization. If the Company is not the surviving corporation, the surviving corporation (the "Successor") shall succeed to the rights and obligations of the Company under this Agreement.

(b) If any subdivision or combination of Shares or any stock dividend, capital reorganization or recapitalization occurs after the adoption of the Plan, the Committee shall make such proportionate adjustments as are appropriate to the number of Contingent Performance Shares to be earned and/or to the number of Forfeitable Performance Shares to be received in order to prevent the dilution or enlargement of the rights of the Grantee.

Section 6. No Right to Employment

Nothing contained in this Agreement shall be deemed by implication or otherwise to confer upon the Grantee any right to continued employment by the Company or any affiliate of the Company.

Section 7. Notice

Any notice to be given hereunder by the Grantee shall be sent by mail addressed to Chesapeake Utilities Corporation, 909 Silver Lake Boulevard, Dover, Delaware 19904, for the attention of the Committee, c/o the Secretary, and any notice by the Company to the Grantee shall be sent by mail addressed to the Grantee at the address of the Grantee shown on the first page hereof. Either party may, by notice given to the other in accordance with the provisions of this Section, change the address to which subsequent notices shall be sent.

Section 8. Assumption of Risk

It is expressly understood and agreed that the Grantee assumes all risks incident to any change hereafter in the applicable laws or regulations or incident to any change in the market value of the Award Shares.

Section 9. Terms of Plan

This Agreement is entered into pursuant to the Plan (a copy of which has been delivered to the Grantee). This Agreement is subject to all of the terms and provisions of the Plan, which are incorporated into this Agreement by reference, and the actions taken by the Committee pursuant to the Plan. In the event of a conflict between this Agreement and the Plan, the provisions of the Plan shall govern. All determinations by the Committee shall be in its sole discretion and shall be binding on the Company and the Grantee.

Section 10. Governing Law; Amendment

This Agreement shall be governed by, and shall be construed and administered in accordance with, the laws of the State of Delaware (without regard to its choice of law rules) and the requirements of any applicable federal law. This Agreement may be modified or amended only by a writing signed by the parties hereto.

Section 11. Terms of Agreement

This Agreement shall remain in full force and effect and shall be binding on the parties hereto for so long as any Award Shares issued to the Grantee under this Agreement continue to be held by the Grantee.

IN WITNESS WHEREOF, the Company has caused this Agreement to be executed in its corporate name, and the Grantee has executed the same in evidence of the Grantee's acceptance hereof, upon the terms and conditions herein set forth, as of the day and year first above written.

CHESAPEAKE UTILITIES CORPORATION

By: _____

Stephen C. Thompson, Grantee

PERFORMANCE SHARE AGREEMENT

pursuant to the

**CHESAPEAKE UTILITIES CORPORATION
PERFORMANCE INCENTIVE PLAN**

AGREEMENT dated as of December 26, 2005, and entered into, in duplicate, by and between Chesapeake Utilities Corporation, a Delaware corporation (the "Company"), and S. Robert Zola (the "Grantee") who resides at [address of executive].

WITNESSETH that:

WHEREAS, the Chesapeake Utilities Corporation Performance Incentive Plan (the "Plan"), to be effective January 1, 2006, has been duly adopted by action of the Company's Board of Directors (the "Board") on February 24, 2005 and by its shareholders on May 5, 2005; and

WHEREAS, the Committee of the Board of Directors of the Company referred to in the Plan (the "Committee") has determined that it is in the best interests of the Company to grant the Performance Share Award described herein pursuant to the Plan; and

WHEREAS, the shares of the Common Stock of the Company ("Shares") that are subject to this Agreement, when added to the other shares of Common Stock that are subject to awards granted under the Plan, do not exceed the total number of shares of Common Stock with respect to which awards are authorized to be granted under the Plan;

NOW, THEREFORE, it is hereby covenanted and agreed by and between the Company and the Grantee as follows:

Section 1. Performance Share Award

The Company hereby grants to the Grantee a Performance Share Award for the year ending December 31, 2006 (the "Award Year") and the three years ending December 31, 2008 (the "Award Period"). As more fully described herein, the Grantee may earn a maximum total of 9,600 Shares (the "Contingent Performance Shares") upon the Company's achievement of the Performance Goals set forth in Section 2. Alternatively, the Grantee may elect to receive 2,400 Shares (the "Forfeitable Performance Shares"), as detailed in Section 3, in lieu of receiving any Contingent Performance Shares. The Forfeitable Performance Shares shall be subject to forfeiture conditions, as set forth in Section 3(c).

Section 2. Contingent Performance Shares

- (a) As soon as practicable after the Company's independent auditors have certified the Company's financial statements for the Award Year, the Committee shall determine for purposes of this Agreement the Company's (1) Shareholder Value and (2) earnings growth ("EG") as of the end of the Award Year. The Shareholder Value and EG shall be determined by the Committee in accordance with the terms of the Plan and this Agreement based on financial results reported to shareholders in the Company's annual reports and shall be subject to adjustment by the Committee for extraordinary events during the Award Year. The Committee shall promptly notify the Grantee of its determination.
- (b) The Grantee may earn up to 960 Contingent Performance Shares for each Award Year (the "Annual Award") of the Award Period, as follows:
 - (1) The performance measured for Shareholder Value will be the value of \$10,000 invested in the Company stock compared to a Utility Index. If the Company's performance exceeds the Utility Index, the Grantee will be eligible for the Annual Award. If the value of \$10,000 invested for each Award Year does not exceed the Utility Index for the respective Award Year, the Grantee shall not earn any Contingent Performance Shares under this Paragraph (b)(1).
- (c) The Grantee may earn up to 6,720 Contingent Performance Shares at the end of the Award Period (the "Three-Year Award") as follows, subject to the restrictions specified in Section 3(a), and further described in Section 2(c)(2) below:

(1) The performance measured for earnings growth will be based upon the Company's Delmarva propane distribution operation generating at least the target level of earnings, before interest expense and income taxes ("target EBIT"), over the Award Period. If the Delmarva propane distribution operation achieves the target EBIT, the Grantee will be eligible for the Three-Year Award. If the target EBIT in the Company's Delmarva propane distribution operation is not achieved for the Award Period, the Grantee will not be eligible to any Contingent Performance Shares under this Paragraph (c)(1).

(2) If the Grantee is eligible to receive the Three-Year Award, but has received Forfeitable Performance Shares for 2006 and/or 2007, the number of Contingent Performance Shares awarded at the end of the Award Period shall equal 6,720 less any Forfeitable Performance Shares received.

(d) Contingent Performance Shares that are earned by the Grantee pursuant to this Section 2 shall be issued promptly, without payment of consideration by the Grantee, within 2 ½ months of the end of the Award Year. The Grantee shall have the right to vote the Contingent Performance Shares and to receive the dividends distributable with respect to such shares on and after, but not before, the date on which the Grantee is recorded on the Company's ledger as holder of record of the Contingent Performance Shares (the "Issue Date"). If, however, the Grantee receives Shares as part of any dividend or other distribution with respect to the Contingent Performance Shares, such Shares shall be treated as if they are Contingent Performance Shares, and such Shares shall be subject to all of the terms and conditions imposed by this Section 2.

(e) Sale, transfer, pledge, or hypothecation of the Contingent Performance Shares shall be prohibited for a period of three (3) years after the Issue Date (the "Limitation Period"), and the Performance Shares shall bear a restrictive legend to that effect. Any attempt to dispose of Contingent Performance Shares in contravention of this Agreement shall be ineffective. Upon expiration of the Limitation Period, the transfer restrictions imposed by this Section shall expire, and new certificates representing the Contingent Performance Shares, without the restrictive legend described in this paragraph (d), shall be issued, subject to the provisions of paragraph (e) of this Section 2.

(f) The Performance Shares will be not registered for resale under the Securities Act of 1933 or the laws of any state except when and to the extent determined by the Board pursuant to a resolution. Until a registration statement is filed and becomes effective, however, transfer of the Contingent Performance Shares after expiration of the Limitation Period shall require the availability of an exemption from such registration, and prior to the issuance of new certificates, the Company shall be entitled to take such measures as it deems appropriate (including but not limited to obtaining from the Grantee an investment representation letter and/or further legending the new certificates) to ensure that the Contingent Performance Shares are not transferred in the absence of such exemption.

(g) In the event of a Change in Control, as defined in the Plan, during the Award Period, the Grantee shall earn at least the Maximum Award of Contingent Performance Shares set forth in this Section 2, as if all employment and performance criteria were satisfied, without any pro ration based on the proportion of the Award Period that has expired as of the date of such Change in Control.

(h) If, during the Award Period, the Grantee is separated from employment, Contingent Performance Shares shall be deemed earned or forfeited as follows:

(1) Upon voluntary termination by the Grantee (other than for retirement at age 65 or as accepted by the Committee) or termination by the Company for failure of job performance or other just cause as determined by the Committee, all unearned Contingent Performance Shares shall be forfeited immediately;

(2) If the Grantee separates from employment by reason of death or total and permanent disability (as determined by the Committee), the number of Contingent Performance Shares that would otherwise have been earned at the end of the Award Period shall be reduced by pro rating such Contingent Performance Shares based on the proportion of the Award Period during which the Grantee was employed by the Company, unless the Committee determines that the Contingent Performance Shares shall not be so reduced;

(3) Retirement of the Grantee at age 65 or as accepted by the Committee shall not affect the Contingent Performance Shares, which shall continue to be earned through the remainder of the Award Period, as set forth above.

(i) The Grantee shall be solely responsible for any federal, state and local taxes of any kind imposed in connection with the delivery of Contingent Performance Shares. Prior to the transfer of any Contingent Performance Shares to the Grantee, the Grantee shall remit to the Company an amount sufficient to satisfy any federal, state, local and other withholding tax requirements. The Grantee may elect to have all or part of any withholding tax obligation satisfied by having the Company withhold Shares otherwise deliverable to the Grantee as Contingent Performance Shares, unless the Committee determines otherwise by resolution. If the Grantee fails to make such payments or election, the Company and its subsidiaries shall, to the extent permitted by law, have the right to deduct from any payments of any kind otherwise due to the Grantee any taxes required by law to be withheld with respect to the Contingent Performance Shares.

(a) In lieu of earning Contingent Performance Shares, the Grantee may elect to receive 2,400 Forfeitable Performance Shares, irrespective of whether the Company meets any Performance Goals. For each of the three years of the Award Period, the Grantee may elect to receive 800 Forfeitable Performance Shares per year. The Grantee must make any such election on or before September 30, of the respective year, and the election must be made in writing, in a manner prescribed by the Committee. Once made, the election is irrevocable. If a Grantee makes such an election, he shall not receive any Contingent Performance Shares under this Agreement.

(b) Any Forfeitable Performance Shares received by the Grantee pursuant to this Section 3 shall be issued as promptly as possible after December 31, of the year the respective election is made, without payment of consideration by the Grantee. The Grantee shall have the right to vote the Forfeitable Performance Shares and to receive the dividends distributable with respect to such Shares on and after, but not before, the date on which the Grantee is recorded on the Company's ledger as holder of record of the Forfeitable Performance Shares (the "Issue Date"). If, however, the Grantee receives Shares as part of any dividend or distribution with respect to the Forfeitable Performance Shares, such Shares shall be treated as if they are Forfeitable Performance Shares, and such Shares shall be subject to all of the terms and conditions imposed by this Section 3.

(c) The Forfeitable Performance Shares shall be subject to the following restrictions:

(1) Sale, transfer, pledge or hypothecation of the Forfeitable Performance Shares shall be prohibited for a period of three (3) years after the Issue Date (the "Restriction Period"), and the certificates evidencing the Forfeitable Performance Shares shall bear an appropriate restrictive legend that refers to the terms, conditions, and restrictions set forth in this Agreement. Any attempt to dispose of Forfeitable Performance Shares in contravention of this Agreement shall be ineffective. Upon expiration of the Restriction Period, the transfer restrictions imposed by this Section shall expire, and new certificates representing the Forfeitable Performance Shares, without the restrictive legend described in this paragraph (c)(1), shall be issued, subject to the provisions of paragraph (f) of this Section 3.

(2) If, during the Restriction Period, the Grantee separates from employment for any reason other than death, normal retirement, total and permanent disability (as determined by the Committee), or involuntary termination without cause (as determined by the Committee), all Forfeitable Performance Shares shall be forfeited immediately.

(d) All restrictions under paragraph (c) of this Section 3 shall immediately expire on the earliest of: (A) the Grantee's separation from employment because of death, total and permanent disability (as determined by the Committee), or involuntary termination without cause (as determined by the Committee), (B) a Change in Control, as defined in the Plan, or (C) the end of the Restriction Period.

(e) If, after the Grantee has made an election to receive Forfeitable Performance Shares pursuant to Section 3(a), a Change in Control, as defined in the Plan, occurs during the Award Period, the Grantee shall receive at least the total number of Forfeitable Performance Shares due under this Agreement, without any pro ration based on the proportion of the Award Period that has expired as of the date of such Change in Control. Pursuant to Section 3(d), such Shares shall not be subject to any of the restrictions imposed by this Section.

(f) The Forfeitable Performance Shares shall be not registered for resale under the Securities Act of 1933 or the laws of any state except when and to the extent determined by the Board pursuant to a resolution. Until a registration statement is filed and becomes effective, however, transfer of the Forfeitable Performance Shares after expiration of the Restriction Period shall require the availability of an exemption from such registration, and prior to the issuance of new certificates, the Company shall be entitled to take such measures as it deems appropriate (including but not limited to obtaining from the Grantee an investment representation letter and/or further legending the new certificates) to ensure that the Forfeitable Performance Shares are not transferred in the absence of such exemption.

(g) The Grantee shall be solely responsible for any federal, state and local taxes of any kind imposed in connection with receipt of the Forfeitable Performance Shares:

(1) The Grantee agrees that, no later than the date that the restrictions set forth in Section 3(c) lapse, he shall remit to the Company an amount sufficient to satisfy any federal, state, local and other withholding tax requirements.

(2) The Grantee may elect to have all or part of any withholding tax obligation satisfied by having the Company withhold Shares otherwise deliverable to the Grantee in connection with the Award of Restricted Stock, unless the Committee determines otherwise by resolution.

(3) If the Grantee properly elects, within 30 days of the Issue Date, to include in gross income for federal income tax purposes an amount equal to the fair market value of the Forfeitable Performance Shares, he shall make arrangements satisfactory to the Committee to remit in the year of issue an amount sufficient to satisfy any federal, state, local and other withholding tax requirements with respect to such Forfeitable Performance Shares.

(4) If the Grantee fails to make satisfactory arrangements to meet all withholding tax obligations, the Company and its subsidiaries shall, to the extent permitted by law, have the right to deduct from any payments of any kind otherwise due to the Grantee any taxes required by law to be withheld with respect to the Forfeitable Performance Shares.

Section 4. Additional Conditions to Issuance of Shares

Each transfer of Contingent Performance Shares or Forfeitable Performance Shares (together, the "Award Shares") shall be subject to the condition that if at any time the Committee shall determine, in its sole discretion, that it is necessary or desirable as a condition of, or in connection with, transfer of Award Shares (i) to satisfy withholding tax or other withholding liabilities, (ii) to effect the listing, registration or qualification on any securities exchange or under any state or federal law of any Shares deliverable in connection with such exercise, or (iii) to obtain the consent or approval of any regulatory body, then in any such event such transfer shall not be effective unless such withholding, listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Company.

Section 5. Adjustment of Shares

(a) If the Company shall become involved in a merger, consolidation or other reorganization, whether or not the Company is the surviving corporation, any right to earn Contingent Performance Shares or to elect to receive Forfeitable Performance Shares shall be deemed a right to earn or to elect to receive the consideration into which the Shares represented by the Contingent Performance Shares or by the Forfeitable Performance Shares would have been converted under the terms of the merger, consolidation or other reorganization. If the Company is not the surviving corporation, the surviving corporation (the "Successor") shall succeed to the rights and obligations of the Company under this Agreement.

(b) If any subdivision or combination of Shares or any stock dividend, capital reorganization or recapitalization occurs after the adoption of the Plan, the Committee shall make such proportionate adjustments as are appropriate to the number of Contingent Performance Shares to be earned and/or to the number of Forfeitable Performance Shares to be received in order to prevent the dilution or enlargement of the rights of the Grantee.

Section 6. No Right to Employment

Nothing contained in this Agreement shall be deemed by implication or otherwise to confer upon the Grantee any right to continued employment by the Company or any affiliate of the Company.

Section 7. Notice

Any notice to be given hereunder by the Grantee shall be sent by mail addressed to Chesapeake Utilities Corporation, 909 Silver Lake Boulevard, Dover, Delaware 19904, for the attention of the Committee, c/o the Secretary, and any notice by the Company to the Grantee shall be sent by mail addressed to the Grantee at the address of the Grantee shown on the first page hereof. Either party may, by notice given to the other in accordance with the provisions of this Section, change the address to which subsequent notices shall be sent.

Section 8. Assumption of Risk

It is expressly understood and agreed that the Grantee assumes all risks incident to any change hereafter in the applicable laws or regulations or incident to any change in the market value of the Award Shares.

Section 9. Terms of Plan

This Agreement is entered into pursuant to the Plan (a copy of which has been delivered to the Grantee). This Agreement is subject to all of the terms and provisions of the Plan, which are incorporated into this Agreement by reference, and the actions taken by the Committee pursuant to the Plan. In the event of a conflict between this Agreement and the Plan, the provisions of the Plan shall govern. All determinations by the Committee shall be in its sole discretion and shall be binding on the Company and the Grantee.

Section 10. Governing Law; Amendment

This Agreement shall be governed by, and shall be construed and administered in accordance with, the laws of the State of Delaware (without regard to its choice of law rules) and the requirements of any applicable federal law. This Agreement may be modified or amended only by a writing signed by the parties hereto.

Section 11. Terms of Agreement

This Agreement shall remain in full force and effect and shall be binding on the parties hereto for so long as any Award Shares issued to the Grantee under this Agreement continue to be held by the Grantee.

IN WITNESS WHEREOF, the Company has caused this Agreement to be executed in its corporate name, and the Grantee has executed the same in evidence of the Grantee's acceptance hereof, upon the terms and conditions herein set forth, as of the day and year first above written.

CHESAPEAKE UTILITIES CORPORATION

By: _____

S. Robert Zola, Grantee

EXECUTIVE OFFICER COMPENSATION ARRANGEMENTS

The following table sets forth for each named executive officer of Chesapeake Utilities Corporation ("Chesapeake") (which officers were determined by reference to Item 402(a)(3) of SEC Regulation S-K based on 2005 compensation) information concerning determinations made with respect to the compensation paid or payable for services in all capacities to Chesapeake and its subsidiaries, which compensation decisions may be deemed the entry into or the amendment of a material contract within the meaning of Item 601(b)(10) of SEC Regulation S-K. These decisions consisting of (i) the establishment of the executive's base salary for 2006, (ii) the determination of the executive's annual bonus for 2005 under the Cash Bonus Incentive Plan, (iii) the establishment of the executive's 2006 target cash bonus (as a percentage of salary) under the Cash Bonus Incentive Plan, (iv) determination of the executive's restricted stock award for 2005 under the Performance Incentive Plan and (v) the establishment of the executive's target restricted stock award for a performance cycle ending December 31, 2006 under the Performance Incentive Plan.

Name and Principal Position	2006 Base Salary	2005 Cash Bonus	2006 Cash Bonus Target ⁽¹⁾	2005	2006
				Restricted Stock Awards ⁽³⁾	Restricted Stock Awards Target ⁽⁴⁾
John R. Schimkaitis, President, CEO and Director	\$ 360,000	\$ 134,703	40%	8,400	9,600
Paul M. Barbas, Executive Vice President and COO	\$ 290,000	\$ 81,032	35%	4,480	6,820
Michael P. McMasters, Sr. Vice President and CFO	\$ 246,000	\$ 76,947	30%	4,480	5,120
Stephen C. Thompson, Sr. Vice President	\$ 243,000	\$ 55,202	25%	7,680	3,200 ⁽⁵⁾
S. Robert Zola, President, Sharp Energy, Inc.	\$ 135,000	\$ 28,456	30% ⁽²⁾	7,680	3,200 ⁽⁵⁾

⁽¹⁾ Up to 150% of this cash bonus target can be earned to the extent certain performance targets are achieved. The performance targets are based upon the following performance criteria: (i) earnings per share, (ii) pretax return on average investment of the Company's regulated natural gas operations and (iii) earnings before interest and taxes of the Company's Delmarva propane distribution operations.

⁽²⁾ Mr. Zola has an additional cash bonus arrangement under which he can earn a cash bonus equal to 10% of actual propane distribution net income in excess of the upper end of a target income range.

⁽³⁾ Represents the shares of Chesapeake stock awarded to each executive for 2005 under the Performance Incentive Plan.

⁽⁴⁾ Represents a target restricted share award granted to each executive under the Performance Incentive Plan for the performance period ending December 31, 2006. Messrs. Schimkaitis, Barbas and McMasters can earn up to 100% of the target restricted stock award to the extent the following performance criteria are attained: (i) earnings growth based on the achievement of targeted measures of earnings for the Company's regulated natural gas operations, Delmarva propane distribution operations, and overall corporate results, (ii) growth in non-regulated investments based upon the achievement of established milestones and objectives under the Company's long-term strategic plan, and (iii) shareholder value as measured by the performance of the Company's stock price (including the reinvestment of dividends), in relationship to an index of industry peers.

⁽⁵⁾ For 2006, Messrs. Thompson and Zola can earn up to 960 shares of restricted stock, contingent upon Chesapeake achieving specified performance goals relative to the Industry Peer Group relating to stockholder value performance. Mr. Thompson is also entitled to earn 2,240 shares of restricted stock if the Company's natural gas segment achieves at least 90% of the target pre-tax return on investment over the three-year period January 1, 2006 to December 31, 2008. Mr. Zola is also entitled to earn 2,240 shares of restricted stock if the Company's propane distribution income exceeds the income target for the three-year period January 1, 2006 to December 31, 2008.

Chesapeake Utilities Corporation
Ratio of Earnings to Fixed Charges

For the Years Ended December 31,	2005	2004	2003
Income from continuing operations	\$10,467,614	\$ 9,549,667	\$10,079,483
Add:			
Income taxes	6,312,016	5,701,090	6,032,445
Portion of rents representative of interest factor	278,846	309,446	351,445
Interest on indebtedness	5,077,693	5,206,723	5,616,756
Amortization of debt discount and expense	55,802	61,422	89,155
Earnings as adjusted	\$22,191,971	\$20,828,348	\$22,169,284
Fixed Charges			
Portion of rents representative of interest factor	\$ 278,846	\$ 309,446	\$ 351,445
Interest on indebtedness	5,077,693	5,206,723	5,616,756
Amortization of debt discount and expense	55,802	61,422	89,155
Fixed Charges	\$ 5,412,341	\$ 5,577,591	\$ 6,057,356
Ratio of Earnings to Fixed Charges	4.10	3.73	3.66

Chesapeake Utilities Corporation
Subsidiaries of the Registrant

Subsidiaries	State Incorporated
aQuality Company, Inc	Delaware
Eastern Shore Natural Gas Company	Delaware
Sharp Energy, Inc.	Delaware
Chesapeake Service Company	Delaware
Xeron, Inc.	Mississippi
Sam Shannahan Well Company, Inc.	Maryland
Sharp Water, Inc.	Delaware
OnSight Energy, LLC	Delaware
Peninsula Energy Services Company, Inc.	Delaware
Peninsula Pipeline Company, Inc.	Delaware

Subsidiaries of Sharp Energy, Inc.	State Incorporated
Sharpgas, Inc.	Delaware
Tri-County Gas Co., Incorporated	Maryland

Subsidiaries of Chesapeake Service Company	State Incorporated
Skipjack, Inc.	Delaware
BravePoint, Inc.	Georgia
Chesapeake Investment Company	Delaware
Eastern Shore Real Estate, Inc.	Maryland

Subsidiaries of Sharp Water, Inc.	State Incorporated
Sharp Water of Idaho, Inc.	Delaware
Sharp Water of Minnesota, Inc.	Delaware

Consent of Independent Registered Public Accounting Firm

We hereby consent to the incorporation by reference in the Registration Statement on Form S-3 (Nos. 333-63381 and 333-121524) and Form S-8 (Nos. 333-01175 , 333-94159, 333-124646, 333-124694 and 333-124717) of Chesapeake Utilities Corporation of our report dated March 6, 2006 relating to the consolidated financial statements, financial statement schedule, management's assessment of the effectiveness of internal control over financial reporting and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Boston, Massachusetts

March 6, 2006

**CERTIFICATE PURSUANT TO RULE 13A-14(A)
UNDER THE SECURITIES EXCHANGE ACT OF 1934**

I, John R. Schimkaitis, certify that:

I have reviewed this annual report on Form 10-K of Chesapeake Utilities Corporation;

Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:

- a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
- b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
- c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluations; and
- d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

- a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 6, 2006

/s/ John R. Schimkaitis
John R. Schimkaitis
President and Chief Executive Officer

**CERTIFICATE PURSUANT TO RULE 13A-14(A)
UNDER THE SECURITIES EXCHANGE ACT OF 1934**

I, Michael P. McMasters, certify that:

I have reviewed this annual report on Form 10-K of Chesapeake Utilities Corporation;

Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:

- a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
- b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
- c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluations; and
- d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

- a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 6, 2006

/s/ Michael P. McMasters
Michael P. McMasters
Senior Vice President and Chief Financial Officer

Certificate of Chief Executive Officer

of

Chesapeake Utilities Corporation

(pursuant to 18 U.S.C. Section 1350)

I, John R. Schimkaitis, President and Chief Executive Officer of Chesapeake Utilities Corporation, certify that, to the best of my knowledge, the Annual Report on Form 10-K of Chesapeake Utilities Corporation ("Chesapeake") for the year ended December 31, 2005, filed with the Securities and Exchange Commission on the date hereof (i) fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and (ii) the information contained therein fairly presents, in all material respects, the financial condition and results of operations of Chesapeake.

/s/ John R. Schimkaitis

John R. Schimkaitis

March 6, 2006

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Chesapeake Utilities Corporation and will be retained by Chesapeake Utilities Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

Certificate of Chief Financial Officer

of

Chesapeake Utilities Corporation

(pursuant to 18 U.S.C. Section 1350)

I, Michael P. McMasters, Senior Vice President and Chief Financial Officer of Chesapeake Utilities Corporation, certify that, to the best of my knowledge, the Annual Report on Form 10-K of Chesapeake Utilities Corporation ("Chesapeake") for the year ended December 31, 2005, filed with the Securities and Exchange Commission on the date hereof (i) fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and (ii) the information contained therein fairly presents, in all material respects, the financial condition and results of operations of Chesapeake.

/s/ Michael P. McMasters

Michael P. McMasters

March 6, 2006

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Chesapeake Utilities Corporation and will be retained by Chesapeake Utilities Corporation and furnished to the Securities and Exchange Commission or its staff upon request.