100133-GU

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

DIRECT TESTIMONY

OF MITCHELL C. FANE OF ERNST & YOUNG LLP

Q. PLEASE STATE YOUR NAME, OCCUPATION AND BUSINESS ADDRESS.

A. My name is Mitchell C. Fane, a principal of Ernst & Young LLP ("Ernst & Young"), with a business address of 1401 McKinney Street, Suite 1200, Houston, TX 77010.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. I have been informed that Chesapeake Utilities Corporation ("Chesapeake"), in conjunction with Chesapeake's compliance with certain Commission reporting requirements and its application for certain regulatory approvals, believes it is necessary and required to provide the Commission with a copy of a report prepared by Ernst & Young in connection with certain valuation services performed by Ernst & Young relating to Chesapeake's acquisition of certain tangible and intangible assets from Florida Public Utilities Corporation ("FPU") as of 28 October 2009. The purpose of my testimony is to provide factual confirmation of certain facts in connection with such engagement and report.

Q. WHAT WAS THE SCOPE OF SERVICES THAT CHESAPEAKE REQUIRED FROM YOUR FIRM?

A. Chesapeake engaged Ernst & Young to provide valuation services regarding certain tangible and intangible assets acquired by Chesapeake from FPU.

Q. IS THE DOCUMENT ATTACHED HERETO AS EXHIBIT (MF-1) A TRUE AND CORRECT COPY OF THE VALUATION REPORT PREPARED AND

DELIVERED BY ERNST & YOUNG TO CHESAPEAKE IN CONNECTION WITH THE AFOREMENTIONED SERVICES.

A. Yes, the document attached hereto as Exhibit (MF-1) is a true and correct copy of the referenced valuation report (the "Report"), prepared by Ernst & Young under my supervision in connection with the aforementioned valuation services. The Report was prepared by Ernst & Young only for the internal use of Chesapeake, and it is a "restricted use" report under the standards of the American Institute of Certified Public Accountants. The Report was not prepared with the intent or understanding that it would be used or relied upon by anyone other than Chesapeake.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

EXHIBIT___(MF-1)

Ernst & Young Valuation Report

Executive Summary

Chesapeake Utilities Corporation

Executive Summary Report of
ASC 805 Valuation Analysis
Chesapeake Utilities Corporation
Acquisition of certain tangible and intangible assets from
Florida Public Utilities Company

As of 28 October 2009

Ernst & Young

Ernst & Young LLP
1401 McKinney Street
Suite 1200
Houston, TX - 77010

Tel: 713.750.1500
Fax: 713.750.1501
www.ey.com

4 March 2010

Mr. Matt Kim
Controller
Chesapeake Utilities Corporation
909 Silver Lake Blvd
Dover, DE 19904

Dear Mr. Kim:

At your request, and in accordance with our engagement letter between Chesapeake Utilities Corporation (Chesapeake or the Company) and Ernst & Young LLP (Ernst & Young) we have provided valuation services regarding certain tangible and intangible assets (the Assets) acquired by the Company from Florida Public Utilities Company (FPU or Target). The transaction (the Transaction) closed on 28 October 2009 (Valuation Date). It is our understanding that FPU operates three reporting units (Reporting Units): Regulated Natural Gas Utility and Regulated Electric Utility (collectively Regulated Reporting Units), and Unregulated Propane Gas Distribution (Unregulated Reporting Unit).

We understand that the Transaction will be accounted for by Company management (Management) as a "business combination" Pursuant to the Public Company Accounting Oversight Board's (PCAOB) Accounting Standards Codification No. 805, *Business Combinations* (ASC 805). Consequently, we understand that our recommendations of fair value will be used solely for the purpose of assisting Management in its allocation of the total purchase price among the Assets acquired from FPU for financial accounting purposes. Our recommendations should not be constructed as a fairness opinion, solvency opinion, or investment advice, and we assume no responsibility to any buyer or seller to negotiate a purchase or sale at the value set forth in the report.

The Fair Value premise has been used as the primary basis for our analysis. The services have been provided in accordance with PCAOB's Accounting Standards Codification 820 (ASC 820), *Fair Value Measurements and Disclosures*. For the purpose of this engagement, the standard/premise of value to be considered is Fair Value, which is defined in ASC 820 as:

> *"Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date."*

Our analysis reflects assumptions that would be made by market participants if these market participants were to buy or sell each identified intangible asset on an individual basis. Accordingly, we have considered the specific facts and circumstances of the Transaction to assist the Company with its identification, classification, and valuation of the intangible assets to be valued under this Fair Value premise.

Scope of services

The scope of our engagement included:

- Conduct due diligence interviews with Company and/or FPU management concerning:
  - the nature and operations of FPU, including historical financial performance
  - any existing business plans, future performance estimates or budgets for FPU
  - the assumptions underlying the business plans, estimates or budgets, as well as the risk factors that could affect planned performance of FPU

ERNST & YOUNG

- Analysis of the regulated utility industry and unregulated propane gas industry, as well as the economic and competitive environments in which FPU operates
- Analysis of the performance and market position of FPU relative to competitors and/or similar publicly-traded companies
- Use of applicable valuation methodologies in our valuation analysis including the following:
  - Discounted Cash Flow Method
  - Guideline Company Method
  - Similar Transactions Method
- Analysis of the unregulated acquired identifiable tangible assets including, but not limited to, the following (as appropriate):
  - Propane storage facilities, tank installations and 16 community systems
  - Vehicles, office furniture, fixtures and equipment
- Analysis of the unregulated acquired customer relationships
- Valuation of the business enterprise for the Reporting Units for the allocation of any goodwill
- Calculation of discount rates
- Calculation of the implied internal rate of return for the FPU Transaction on a consolidated basis
- Preparation of a narrative report (Report) for financial reporting purposes that outlines our recommendations of value, the methodologies employed and assumptions utilized in our analysis

It is our understanding that the two regulated utilities are allowed to earn a fair return based on the regulated asset value. It is our position that the Fair Value of these assets is equal to the current regulated asset value as FPU will only be able to earn a return on this regulated asset value. As a result, the Fair Value (of the ASC 980, *Regulated Operations* assets and liabilities) will equal to the current regulated asset value. Notwithstanding, we have evaluated the facts and circumstances of these assets to determine whether or not this assessment is appropriate in this case.

It is important to note that our scope did not include the valuation of any real property.

The attached Report, our recommendations, and our conclusions are only applicable to the specific facts and circumstances presented to us. Any summary of, or reference to, the Report or any oral presentation with respect thereto, any submission of the Report, in whole or in part, to any third party, or any reference to Ernst & Young is not permitted without our prior review and written approval. Neither our recommendations nor the Report will be used for any purpose other than as stated herein. This letter and the Report are intended solely for Chesapeake's internal purposes and are not intended to be and should not be used by any person or entity other than Chesapeake (other than as indicated herein). This Report shall not be circulated, quoted, disclosed, or distributed to, nor shall reference to such services or Report be made to any other person or entity other than Chesapeake or to appropriate legal and tax authorities or auditors.

Our valuation analysis and recommendations of value are based on historical and prospective information and financial data provided by Management and are subject to the Statement of Limiting Conditions included in Appendix A. We did not independently investigate or otherwise verify the data provided and do not express an opinion or offer any form of assurance regarding its accuracy or completeness. We understand that any projected financial information (PFI) provided is based on expectations of competitive and economic environments as they may impact the future operations of the Company, and that Management has consistently applied key assumptions during the estimation period and have not omitted any factors that may be relevant. In addition, Management understands that any such omissions or misstatements may materially affect our valuation analysis.

Ernst & Young

Valuation summary

Based on our analysis, the recommended Fair Value for the TIC of the Reporting Units and Assets of FPU as of the Valuation Date are estimated to be as follows:

Unregulated Reporting Unit
Recommended Fair Values of certain identified assets

US$ 000's Ernst & Young asset class description	Recommended Fair Value
FPU - Common / Corporate assets	
Office furniture and equipment	$63
Computer equipment	236
Motor vehicles and equipment	58
Software	148
Ancillary tank assets	45
Total Fair Value (rounded)	**$550**
FPU - Propane assets	
Improvements	$169
Office furniture and equipment	8
Computer equipment	28
Motor vehicles and equipment	741
Software	19
Propane tanks	6,130
Ancillary tank assets	1,517
Total Fair Value (rounded)	**$8,612**
FPU - Identified intangible assets	
Customer relationship - residential	$2,200
Customer relationship - commercial	1,300
Total Fair Value (rounded)	**$3,500**

Recommended Fair Values of the TIC[1] of the Reporting Units

US$ 000's Reporting unit	Recommended Fair Value
Natural Gas	$88,700
Electric	30,500
Propane Gas	8,400
Total TIC value, (rounded)	**$127,600**

The advice contained herein was not intended or written by Ernst & Young to be used, and cannot be used, by the recipient or any other taxpayer for the purpose of avoiding penalties that may be imposed under the Internal Revenue Code or applicable state or local tax laws.

We appreciate the opportunity to provide our valuation services to Chesapeake. If you have any questions or require additional information please contact Mitchell C. Fane at +1 713-750-4897 or L. Gregory Manos +1 713-750-4969.

Very truly yours,

Ernst & Young LLP

CC: Glen Hecht
Robert Ford

[1] TIC is defined as the combination of net working capital, tangible assets, and intangible assets of a continuing business. Alternatively, TIC is equal to the market value of equity plus the book value (market value, if available) of the Company's interest-bearing debt minus the value of any cash holdings.

Abbreviations

the Assets	Certain tangible and intangible assets of the Company
ASC 805	Accounting Standards Codification No. 805, *Business Combinations*
ASC 820	Accounting Standards Codification 820 (ASC 820), *Fair Value Measurements and Disclosures*
CGM	Constant Growth Model
DCF	Discounted Cash Flow
DFNWC	Debt-free Net Working Capital
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortization
Ernst & Young	Ernst & Young LLP
Fair Value	Standard of value to be used is fair value
FGM	Fading Growth Model
FPU or Target	Florida Public Utilities Company
GCM	Guideline Company Method
GDP	Gross Domestic Product
the Company or Chesapeake	Chesapeake Utilities Corporation
Management	Company management
PFI	Projected Financial Information
Regulated Reporting Units	Natural Gas and Electric FPU's reporting units
the Reporting Units	Natural Gas, Electric and Propane Gas reporting units
SOLC	Statement of Limiting Conditions
STM	Similar Transaction Method
TIC	Total Invested Capital
Unregulated Reporting Unit	Propane Gas PFU's reporting unit
US	United States
the Valuation Date	28 October 2009
WACC	Weighted Average Cost of Capital

Contents

Valuation of the reporting units 7

1. Valuation methodology 8
2. Projected financial information 12
3. Income approach 14
4. Market approach 18
5. Valuation recommendations 23

Appendices

A. Statement of limiting conditions
B. Certifications

Valuation of the reporting units

1. Valuation methodology
2. Projected financial information
3. Income approach
4. Market approach
5. Valuation recommendations

Valuation methodology

Overview

The purpose of our analysis is to provide an estimate of the Fair Value of the business enterprises of the Reporting Units for the allocation of goodwill as of the Valuation Date. The value of the business enterprises were developed first estimating the total invested capital (TIC) of the Target.

In a valuation of the TIC of a company, three different approaches may be employed to determine Fair Value: (i) the Income Approach, (ii) the Market Approach, and (iii) the Cost Approach. While each of these approaches is initially considered in the valuation of business enterprise value, the nature and characteristics of the company will indicate which approach, or approaches, is (are) most applicable. The appropriate method for estimating Fair Value in any given situation depends on the nature of the company under consideration and the circumstances surrounding the given situation.

Valuation methodology

Income approach

The Income Approach focuses on the income-producing capability of the identified business. The underlying premise of this approach is that the value of a business can be measured by the present worth of the net economic benefit (cash receipts less cash outlays) to be received over the life of the business. The steps followed in applying this approach include estimating the expected after-tax cash flows attributable to the business over its life and converting these after-tax cash flows to present value through "discounting." The discounting process uses a rate of return that accounts for both the time value of money and investment risk factors. Finally, the present value of the after-tax cash flows over the life of the business is summed to arrive at an indication of Fair Value.

In the valuation of a business, one methodology in the Income Approach is the DCF Method, which focuses on the expected cash flow of the subject company. In applying this method, the cash flow available for distribution is calculated for a finite period of years. Cash flow available for distribution is defined, for purposes of this analysis, as the amount of cash that could be distributed as a dividend without impairing the future profitability or operations of the subject company. The cash flow available for distribution and the terminal value (the value of the subject company at the end of the estimation period) are then discounted to present value to derive an indication of value of the company's TIC.

Valuation methodology

The Terminal Value calculation is typically based on one or both of the following models:

Constant Growth Model (CGM): The CGM assumes that cash flow available for distribution would grow beyond the discrete forecast period at a constant growth rate. The constant growth rate applied in the CGM represents the expected long-term growth rate of the reporting unit.

Fading Growth Model (FGM): In estimating future cash flows and earnings under the FGM, we are able to take into consideration the differential between the higher growth expected at end of the discrete forecast term and long-term expected growth. Accordingly, under this model, the debt-free cash flows were estimated to grow at a higher rate for a finite period of time beyond the discrete forecast period. During this period, referred as the competitive advantage period growth is expected to gradually decline from the growth expected at the end of the discrete forecast period, eventually stabilizing at the expected long-term growth rate. FGM allows for the capture of the growth that would not be otherwise accounted for should the terminal value be calculated based on a CGM.

Market approach

In the valuation of a business, the Market Approach is comprised of the Guideline Company Method (GCM) and the Similar Transaction Method (STM). The GCM focuses on comparing the subject entity to reasonably similar (or guideline) publicly traded companies. Under this method, valuation multiples are: (i) derived from the operating data of selected guideline companies, (ii) evaluated and adjusted based on the strengths and weaknesses of the subject company relative to the selected guideline companies, and (iii) applied to the operating data of the subject company to arrive at an indication of value. In the STM, consideration is given to prices paid in recent transactions that have occurred in the subject company's industry or in related industries.

In applying the GCM, valuation multiples are derived based on financial statements and stock data for the guideline companies. In order to eliminate the effects of differing capital structures among the guideline companies, valuation multiples are primarily derived on an unlevered basis. Thus, valuation multiples are derived based on TIC in addition to valuation multiples based on the market value of equity.

In applying the STM, valuation multiples maybe derived based upon financial data for the target companies for transactions that have recently occurred in the subject company's industry. Valuation multiples maybe derived based on TIC in addition to valuation multiples based on the equity purchase price.

Valuation methodology

Cost approach

In the valuation of a business, the Adjusted Net Assets Method represents one methodology employed in the Cost Approach to value. In this method, a valuation analysis is performed for a company's identified fixed, financial, and other assets. The derived aggregate value of these assets is then "netted" against the estimated value of all existing and potential liabilities, resulting in an indication of the value of the shareholders' equity. This methodology is usually not utilized when valuing a going concern business or in a situation where the going concern value is greater than the Adjusted Net Asset Value. On the other hand, it is often utilized when the Adjusted Net Asset Value is greater than the going concern.

General consideration

Each of the approaches described previously may be used to develop an indication of the TIC value of a business enterprise; however, the appropriateness of these approaches varies with the type of business being valued. For asset intensive companies, such as REITs and natural resource companies, the underlying assets are key elements in the success of the enterprise. Here, the Cost Approach and Income Approach generally provide reliable indications of value as they emphasize the current value of the assets and their long-range earning potential. For companies providing a product or service, the Income and Market Approaches would generally provide the most reliable indications of value because the value of such firms is more dependent on their ability to generate earnings than on the value of the assets used in the production process.

The valuation approach ultimately selected in our analysis is based on: (i) the nature of the operations of the company (i.e., a going concern), (ii) the availability of historical and forecasted financial data, and (iii) discussions with Management.

Adjustments to value indications

The value indications discussed above could also require modification to reflect the rights of the holder. Where the interest subject to evaluation represents control, a premium would most likely be recognized over the value of the shares on a minority basis. Where the shares are those of a closely-held company, the lack of marketability and the illiquid nature of the investment would be recognized by a discount from the indicated value derived via the various approaches, as these methods treat the interest as if it were publicly-traded. Other adjustments might also be required to recognize the existence of non-operating assets (e.g., excess real estate assets) or excess or deficient levels of working capital.

Valuation methodology

Selected approaches

As mentioned above, for purposes of this analysis, all three valuation approaches were considered; however, the selection of an appropriate valuation approach was dependent on: (i) the nature of the operations of the Company, (ii) the availability of historical and forecasted financial data, and (iii) discussions with Management. In our valuation of the TIC of the Regulated Reporting Units, the DCF Method of the Income Approach and GCM and STM of the Market Approach were ultimately employed. In the valuation of the TIC of the Unregulated Reporting Unit, the DCF Method of the Income Approach and GCM of the Market Approach were ultimately employed. The STM was not employed as the availability of information and the lack of transactions involving companies truly comparable to the Unregulated Reporting Unit limited our ability to perform a full comparative analysis. While we did not view the identified transactions to be sufficiently comparable for a full comparative analysis, the data provided a range of control premiums to consider in our GCM analysis.

Projected financial information

Financial projections

Management provided PFI for the fiscal years ending 31 December 2010 through 2014 and included the partial period for the 2.1 months ended 31 December 2009. Furthermore, Management provided commentary on the key assumptions underlying the projected PFI. Management has confirmed that any and all synergies included in the PFI represent market participant synergies. Based on discussions with Management and a review of the underlying assumptions underpinning the PFI, we concluded that the PFI on which our analysis was based appear to reasonably represent Management's expectations of the business going forward as of the Valuation Date. The following table summarized the PFI provided by Management and utilized in the valuation analysis.

Projected financial information

Prospective financial information for the Reporting Units

Natural Gas	For the twelve month periods ending 31 December					
US$ 000's	2009	2010	2011	2012	2013	2014
Gross margin	31,461	33,557	34,764	36,015	37,312	38,655
% Annual growth	18.3%	6.7%	3.6%	3.6%	3.6%	3.6%
EBITDA	12,984	13,460	14,644	15,139	15,703	15,915
as % of gross margin	41.3%	40.1%	42.1%	42.0%	42.1%	41.2%
EBITDA growth	55.3%	3.7%	8.8%	3.4%	3.7%	1.3%

Electric	For the twelve month periods ending 31 December					
US$ 000's	2009	2010	2011	2012	2013	2014
Gross margin	17,699	17,730	18,085	18,447	18,816	18,816
% Annual growth	4.1%	0.2%	2.0%	2.0%	2.0%	0.0%
EBITDA	7,200	7,061	7,387	7,469	7,659	7,657
as % of gross margin	40.7%	39.8%	40.8%	40.5%	40.7%	40.7%
EBITDA growth	-3.3%	-1.9%	4.6%	1.1%	2.5%	0.0%

Propane Gas	For the twelve month periods ending 31 December					
US$ 000's	2009	2010	2011	2012	2013	2014
Gross margin	7,268	7,403	7,758	8,130	8,520	8,929
% Annual growth	-3.8%	1.9%	4.8%	4.8%	4.8%	4.8%
EBITDA	2,347	2,094	2,360	2,498	2,642	2,684
as % of gross margin	32.3%	28.3%	30.4%	30.7%	31.0%	30.1%
EBITDA growth	7.8%	-10.8%	12.7%	5.8%	5.8%	1.6%

Income approach

DCF method

Our valuation analysis of the Reporting Units employed the DCF Method. The DCF Method explicitly recognizes that the value of a business enterprise is equal to the present value of the cash flows that are expected to be available for distribution to the equity and/or debt holders of the business. In the valuation of a business enterprise, indications of value are developed by discounting future net cash flows available for distribution to their present worth at a rate that reflects both the current return requirements of the market and the risks inherent in the specific investment.

Cash flow is an important element in the financial management of a business enterprise. The ability of an enterprise to generate cash inflows, meet cash requirements, and provide for related financial and investing activities is an important factor in the valuation of that enterprise. More specifically, cash inflows include earnings, increases in debt principal, sales of assets, and reductions of net working capital. Cash outflows include repayment of debt principal, investments in assets, and additions to working capital.

We performed our DCF analysis on a debt-free basis; i.e., interest expense was excluded from the estimated future expenses and debt principal repayments were excluded from the cash flow calculations. The effect of excluding interest expense and debt principal repayments from the calculation of free cash flow is to provide a value indication for the TIC of the business. In addition, interest income was excluded from the estimated cash flow calculations.

A multi-year DCF model was developed to derive a TIC value indication. The sum of the present values of the discrete cash flow available for distribution and the terminal value provided an indication of value for TIC.

Cash flow adjustments

Depreciation

Based on information provided by Management, the estimated tax depreciation expense for the Reporting Units was based on the half year MACRS convention, the net utility balance as of the Valuation Date, and the forecasted capital expenditures. Since depreciation is a non-cash expense, it was added back to the after-tax debt-free net income in order to arrive at debt-free cash flow. The following chart illustrates the half year MACRS utilized in the depreciation calculations:

Income approach

Half year MACRS

Half year MACRS	Natural Gas	Electric	Propane Gas
Existing net utility balance	11.0	13.0	5.0
Forecasted capital additions	15.0	15.0	7.0

Capital expenditures
Capital expenditures for fiscal years ending 31 December 2009 through 2014 were estimated for the Reporting Units. Common capital expenditures were allocated to the Reporting Units based on the projected capital expenditures of each Reporting Unit and environmental clean-up costs were allocated to the Natural Gas reporting Unit. To arrive at debt-free cash flow, the projected capital expenditures were subtracted from after-tax debt-free net income. Based on discussion with Management, normalized capital expenditures were projected to be $5.0 million, $4.0 million, and $1.0 million for Regulated Natural Gas, Regulated Electric, and Unregulated Propane Gas, respectively. Per Management, there has always been a historical spread of approximately $1.0 million between Natural Gas and Electric.

Pension contributions
FPU's pension fund is currently operating at a shortfall and Management presented pension contributions for fiscal years ending 31 December 2009 through 2014 for FPU. To arrive at debt-free cash flow, the projected pension contributions were subtracted from after-tax debt-free net income. Based on conversations with Management, FPU expects to have pension contributions in the foreseeable future for the Reporting Units. The pension contributions are estimated to be approximately half of the fiscal year 2014 pension contributions.

Balance sheet assumptions
Debt-free net working capital (DFNWC), defined as current assets less cash and non-interest bearing liabilities, was estimated based on a review of the Reporting Units required levels of working capital, a three-year analysis of the Reporting Units from fiscal year ended 31 December 2006 through 2008, as well as discussions with Management. Based on this analysis, we selected a normalized DFNWC requirement of gross margin for the Reporting Units. This normalized level of DFNWC excludes notes receivable and other investments, which are considered non-operating assets. Notes receivable represents receivables from the 2003 sale of FPU's water asset with the interest of 4.34%.

ERNST & YOUNG

Income approach

Income statement assumptions

An effective income tax rate of 37.6% was utilized in the analysis and was based on the income tax rate utilized in Management's deal model, which was FPU's estimated stand alone effective income tax rate. The 37.6% rate was selected as a proxy of the effective income tax rate of a market participant.

Terminal value

To attribute value to the cash flows for the years beyond the forecast period, a terminal value increment representing the potentially perpetual life of the company must be added to the discrete cash flow calculations to indicate the total Fair Value of the business enterprise. The existence of the ongoing potential of the business enterprise value at the end of the projection period is recognized by capitalizing normalized forecasted cash flows one year beyond the discrete forecast period by an appropriate capitalization rate into perpetuity.

Based on discussions with Management, the Natural Gas reporting unit's normalized debt-free EBITDA was based on the last three budget periods (average fiscal years 2012 through 2014). This was Management's way to compensate for aggressive or conservative budgeting in the out-years, which could untimely lead them into a rate case situation. The Electric and Propane Gas reporting unit's normalized debt-free EBITDA was based on the last period of the discrete period, fiscal year 2014.

In calculating a terminal value, the CGM and FGM were considered; however, the CGM was relied upon as it was more appropriate based on the pattern of cash flow growth relative to the long-term sustainable base rate of growth.

Constant growth model

In applying the CGM, the debt-free cash flow available for distribution in the terminal year (CF_t) is calculated and then divided by the discount rate (WACC) minus the estimated terminal growth rate (g). The terminal growth rate applied in the CGM is equivalent to the expected long-term growth rate of the Company.

$$\text{Terminal Year Value} = (CF_t) \div (WACC - g)$$

The long-term growth potential was considered through an analysis of the historical financial statements, industry analysis, local inflation and GDP growth estimates, and conversations with Management. An expected long-term growth rate of 2.0% was ultimately used to estimate the Regulated Reporting Units and 1.5% for the Unregulated Reporting Unit's debt-free cash flows into perpetuity.

Income approach

Discount rates

For purposes of estimating the Fair Value of the TIC for the Reporting Units for the allocation of goodwill, we computed the WACCs for the Reporting Units. The discount rate for the Regulated Reporting Units and Unregulated Reporting Unit were 9.0% and 11.0%, respectively, and were ultimately used to discount the Reporting Units' forecasted future cash flows to the present.

Valuation recommendation - Income Approach

After discounting the future cash flows associated with the discrete period, terminal period, and depreciation carry forward to their present value, and added cash, other investments, and notes receivable that were on the balance sheets as of the Valuation Date, we computed the value of TIC for the Reporting Units. Based on the procedures described, analysis summarized, and valuation methodologies employed, the recommended Fair Values for the TIC of the Reporting Units derived by the Income Approach, as of 28 October 2009, are estimated to be as follows:

Recommended Fair Values of the TIC of the Reporting Units - Income Approach (DCF Method)

Income Approach - DCF Method US$ 000's	Natural Gas	Electric	Propane Gas
Sum of cash flow, discrete periods	19,497	3,072	2,206
Add: Present value of terminal year	60,397	20,437	5,490
Add: Present value of depreciation carry-forward	1,655	(685)	(193)
Add: Cash and cash equivalents	185	124	67
Add: Other investments	8	5	1
Add: Notes receivable	3,292	2,038	470
Total invested capital	**85,034**	**24,990**	**8,041**

Market approach

Guideline company method

In the GCM, valuation multiples were calculated based on operating and market priced data from guideline publicly traded companies. The GCM provides an indication of value by relating the TIC or equity of the guideline companies to operating data (revenue and/or earning), then applying such valuation multiples to the business enterprise being valued. The valuation multiples derived from public guideline companies provide an indication of how much a knowledgeable investor in the marketplace would be willing to pay for a non-controlling marketable equity interest in a company. These valuation multiples were then applied to the operating data of the Reporting Units to arrive at an indication of a marketable value.

Guideline company selection

In the application of the GCM, it was necessary to develop a global list of companies that could be considered similar to the Reporting Units of FPU. Although it is clear that no two companies are entirely alike, the only restrictive requirement imposed by the GCM is that the companies selected as guideline companies engaged in the same or a similar line of business, or have business or financial risks comparable to those of the company being valued. Several sources of data were used to compile this global list or universe of potentially similar companies. The primary sources used to produce this universe included (i) OneSource Global Business Browser database and (ii) S&P's Industry Surveys. From a list of eligible companies, the selection was narrowed based primarily on business description and sources of revenue. The selected guideline companies utilized in our GCM analysis were the same guideline companies that were used to develop our market participant WACC for the Reporting Units.

Control premium

We have adjusted the guideline company valuation multiples to include a control premium. In our analysis of an applicable control premium, we have considered premiums paid in individual transactions within the Regulated Natural Gas, Regulated Electric, and Unregulated Propane Gas industries as extracted from the Mergerstat database, which tracks merger and acquisition activity. Based on a sample of selected premiums paid in relevant transactions that occurred over the last five years, we have applied a 20.0%, 25.0%, and 25.0% premium to the guideline companies trading prices in determining market value of equity on a controlling basis for the Natural Gas, Electric, and Propane Gas reporting units, respectively.

Market approach

Market valuation multiples

Based on the 2010E and 2011E EBITDA as of the Valuation Date for the guideline companies, the valuation multiples of TIC to EBITDA were calculated and relied upon to develop indications of value for the Reporting Units. The GCM was based on the EBITDA indication of value because EBITDA is often considered the best financial measure for transactional comparisons when companies are looking to determine value of potential targets. Our valuation multiple selection process was impacted by the following:

- Median valuation multiples served as an initial benchmark in determining the appropriate valuation multiples to utilize within the valuation analysis;
- Consideration was given to the Reporting Unit's EBITDA growth and EBITDA margins in comparison to the guideline companies; and
- Risk, growth, size, and profitability adjustments to the calculated valuation multiples were also considered as another input in determining the appropriate valuation multiple to use within the valuation analysis.

The Reporting Units' 2010E and 2011E EBITDA were multiplied by the calculated valuation multiples (TIC to EBTDA) to arrive at indicated TIC values for each time period.

Valuation recommendation – Market Approach (GCM)

For the Reporting Units, the 2010 and 2011 TIC to EBITDA value indications were equally weighted. Based on the procedures described, analysis summarized, and valuation methodologies employed, the recommended Fair Values for the TIC of the Reporting Units derived from the GCM, as of 28 October 2009, are estimated to be as follows:

Market approach

Recommended Fair Values of the TIC of the Reporting Units – Market Approach (GCM)

Market Approach - GCM US$ 000's	Natural Gas	Electric	Propane Gas
2010 EBITDA multiple	8.0x	7.5x	5.0x
Financial measure (2010 EBITDA)	13,460	7,061	2,094
Calculated TIC	**107,677**	**52,960**	**10,471**
2011 EBITDA multiple	7.0x	7.0x	4.0x
Financial measure (2011 EBITDA)	14,644	7,387	2,360
Calculated TIC	**102,507**	**51,709**	**9,441**
Value weighting			
2010 EBITDA multiple	50.0%	50.0%	50.0%
2011 EBITDA multiple	50.0%	50.0%	50.0%
Weighted value of TIC	**105,092**	**52,335**	**9,956**
Add: Cash	185	124	67
Indicated TIC value	**105,277**	**52,458**	**10,024**

Similar transaction method

The STM follows the same basic methodology as the GCM. However, instead of deriving valuation multiples from market prices at which shares of publically traded companies are trading, valuation multiples are calculated based on prices paid in recent transactions that have occurred in the industries or in related industries to the Reporting Units. These valuation multiples are then applied to the operating data of the Reporting Units to arrive at indications of value.

A number of completed transactions within the Natural Gas, Electric, and Propane Gas industries were indentified for comparability based on criteria similar to that used in selecting the guideline companies. Several transactions were subsequently eliminated from the list due to differences in transaction size, capital structure, business description, and/or lack of published or available information.

Market approach

TIC to EBITDA valuation multiples, representing a controlling marketable interest, were calculated for the similar transaction company as of the effective transaction completion date based on the best available information. The STM inherently reflects a controlling marketable interest in a target company since the price paid for the acquired target company already includes a premium for control.

Market valuation multiples
Based on the EBITDA of the similar companies' transactions, TIC to EBITDA valuation multiples were calculated and applied to the regulated Reporting Unit's 2010 and 2011 EBITDA to develop indications of Fair Value for Natural Gas and Electric. Our valuation multiple selection process was impacted after reviewing the risk, growth, size, and profitability of the similar companies compared to the Natural Gas and Electric reporting units.

Valuation recommendation – Market Approach (STM)
For the Regulated Reporting Units, the 2010 and 2011 TIC to EBITDA indication of value were equally weighted. For the Unregulated Reporting Unit, the STM was not applied as the availability and lack of transactions involving targets truly comparable to the Unregulated Reporting Unit limited our ability to perform a full comparative analysis. While we did not view the identified transactions to be sufficiently comparable for a full comparative analysis; the data provided a range of control premiums to consider in our GCM analysis. Based on the procedures described, analysis summarized, and valuation methodologies employed, the recommended Fair Values for the TIC of the Regulated Reporting Units derived from the STM, as of 28 October 2009, are estimated to be as follows:

Market approach

Recommended Fair Values of the TIC of the Reporting Units – Market Approach (STM)

Market Approach - STM US$ 000's	Natural Gas	Electric
2010 EBITDA multiple	7.5x	7.5x
Financial measure (2010 EBITDA)	13,460	7,061
Calculated TIC	**100,947**	**52,960**
2011 EBITDA multiple	7.0x	7.0x
Financial measure (2011 EBITDA)	14,644	7,387
Calculated TIC	**102,507**	**51,709**
Value weighting		
2010 EBITDA multiple	50.0%	50.0%
2011 EBITDA multiple	50.0%	50.0%
Weighted value of TIC	**101,727**	**52,335**
Add: Cash	185	124
Indicated TIC value	**101,912**	**52,458**

Valuation recommendation

Valuation recommendation
Both the Income and Market Approaches were applied, and both approaches provide indications of Fair Value of the Reporting Units. In the final determination of Fair Value, however, greater weight was given to the DCF method of the Income Approach and lesser weight to the GCM and STM of the Market Approach. Weights were determined as appropriate based on consideration that the Income Approach more accurately assesses the specific growth prospects and risks of the Reporting Units.

Based on the procedures described, analysis summarized, and valuation methodologies employed, the recommended Fair Values for the TIC of the Reporting Units, as of 28 October 2009, are estimated to be as follows:

Recommended Fair Values of the TIC of the Reporting Units

Natural Gas Approach / method	TIC	Weight (%)	Weighted value US$ 000's
Income - DCF	85,034	80.0%	68,027
Market - GCM	105,277	10.0%	10,528
Market - STM	101,912	10.0%	10,191
Concluded TIC value, (rounded)			**88,700**
Electric Approach / method	TIC	Weight (%)	Weighted value US$ 000's
Income - DCF	24,990	80.0%	19,992
Market - GCM	52,458	10.0%	5,246
Market - STM	52,458	10.0%	5,246
Concluded TIC value, (rounded)			**30,500**
Propane Approach / method	TIC	Weight (%)	Weighted value US$ 000's
Income - DCF	8,041	80.0%	6,433
Market - GCM	10,024	20.0%	2,005
Market - STM	n/a	n/a	n/a
Concluded TIC value, (rounded)			**8,400**

Valuation recommendation

Our valuation analysis was based on the information and financial data provided by the Company and other relevant sources and is subject to the attached Certifications and Statement of Limiting Conditions (SOLC). We did not independently investigate or otherwise verify that data provided and do not express an opinion or offer any other form of assurance regarding its accuracy and completeness. We understand that any financial information provided by the Company was based on the expectation of Management with respect to the future performance of the FPU.

The advice contained herein was not intended or written by Ernst & Young to be used, and cannot be used, by the recipient or any other taxpayer for the purposes of avoiding penalties that may be imposed under the Internal Revenue Code or applicable state or local tax law.

Appendix A

Statement of limiting conditions

Statement of limiting conditions

1. Nothing has come to our attention to cause us to believe that the facts and data set forth in this Report are not correct.

2. Provision of valuation recommendations and considerations of the issues described herein are areas of regular valuation practice for which we believe that we have, and hold ourselves out to the public as having, substantial knowledge and experience. The services provided are limited to such knowledge, experience, and do not represent audit, advisory or tax-related services that may otherwise be provided by Ernst & Young. Notwithstanding this limitation, the advice contained herein was not intended or written by Ernst & Young to be used, and cannot be used, by the recipient or any other taxpayer for the purpose of avoiding penalties that may be imposed under the Internal Revenue Code or applicable state or local tax laws.

3. No investigation of the title to the subject company and subject assets has been made, and the owner's claim to the subject company and subject assets is assumed to be valid. To the extent that Ernst & Young's services include any analysis of assets, properties or business interests, Ernst & Young assumes no responsibility for matters of legal description or title, and Ernst & Young shall be entitled to make the following assumptions: (i) title is good and marketable, (ii) there exist no liens or encumbrances, (iii) there is full compliance with all applicable Federal, state, local and national regulations and laws (including, without limitation, usage, environmental, zoning and similar laws and/or regulations), and (iv) all required licenses, certificates of occupancy, consents, or legislative or administrative authority from any Federal, state, local, or national government, private entity or organization have been or can be obtained or renewed for any use on which Ernst & Young services are to be based.

4. This Report has been prepared solely for the purpose stated, and may not be used for any other purpose. Neither this Report nor any portions hereof may be copied or disseminated through advertising, public relations, news, sales, Securities and Exchange Commission disclosure documents or any other public (or private) media without the express prior written approval of Ernst & Young.

5. The recommendations of Fair Value contained herein are not intended to represent the values of the subject Assets at any time other than the effective date that is specifically stated in this Report. Changes in market conditions could result in recommendations of value substantially different from those presented at the stated effective date. We assume no responsibility for changes in market conditions or for the inability of the owner to locate a purchaser of the subject Assets at the values stated herein.

Statement of limiting conditions

6. No responsibility is assumed for information furnished by others, including Management, and such information is believed to be reliable.

7. In the course of our analysis, we were provided with written information, oral information, and/or data in electronic form, related to the structure, operation, and financial performance of the subject company and subject assets. We have relied upon this information in our analyses and in the preparation of this Report and have not independently verified its accuracy or completeness.

8. Certain historical financial data used in our valuation were derived from audited and/or unaudited financial statements and are the responsibility of management. The financial statements may include disclosures required by generally accepted accounting principles. We have not independently verified the accuracy or completeness of this data provided and do not express an opinion or offer any form of assurance regarding its accuracy or completeness.

9. The estimates of cash flow data provided by the Company and included herein are solely for use in the valuation analysis and are not intended for use as forecasts or projections of future operations. We have not performed an examination or compilation of the accompanying cash flow data in accordance with standards prescribed by the AICPA, and, accordingly, do not express an opinion or offer any form of assurance on the accompanying cash flow data or their underlying assumptions. Furthermore, there will usually be differences between estimated and actual results because events and circumstances frequently do not occur as expected, and those differences may be material.

10. We assume no responsibility for any financial and tax reporting judgments, which are appropriately those of Management. It is our understanding that Management accepts responsibility for any financial statement and tax reporting issues with respect to the assets covered by our analysis, and for the ultimate use of our Report.

11. Ernst & Young is not required to furnish additional work or services, or to give testimony, or be in attendance in court with reference to the assets, properties, or business interest in question or to update any report, recommendation, analysis, conclusion or other document relating to its services for any events or circumstances unless arrangements reasonably acceptable to Ernst & Young have been separately agreed with the Company.

12. This Report does not comprise a Comprehensive Written Business Valuation Report as described in BVS-III, by the Business Valuation Committee of the ASA and approved by the ASA Board of Governors. Sections consisting of historical financial analyses and the economic and industry analyses have been omitted from this presentation. Where applicable, the data underlying these sections will be retained in the working papers and will be made available upon written request.

13. With respect to our analysis, our work did not include an analysis of the potential impact of any unexpected sharp rise or decline in local or general financial market or economic conditions or technological changes.

14. Disclosure of the contents of this Report is governed by the Bylaws and Regulations of the Appraisal Institute and the Uniform Standards of Professional Appraisal Practice of the Appraisal Foundation. Possession of this Report or a copy thereof, or any part thereof, does not carry with it the right of publication, nor may it be used by anyone but the party for whom it has been prepared without the prior written consent and approval of Ernst & Young.

15. The Americans with Disabilities Act (ADA) became effective 26 January 1992. We have not made a compliance survey and analysis of this property to determine whether or not it is in conformity with the various detailed requirements of the ADA. It is possible that a compliance survey of the property, together with a detailed analysis of the requirements of the ADA, could reveal that the property is not in compliance with one or more of the requirements of the Act. If so, this fact could have a negative effect upon the value of the property. Since we have no direct evidence relating to this issue, we did not consider possible noncompliance with the requirements of the ADA in estimating the value of the property.

16. We have not performed an audit, review or compilation in accordance with standards established by the AICPA on any historical or prospective financial information, which may be included in the accompanying Report. Accordingly, we do not express any opinion or any other form of assurance on such information.

17. Ernst & Young shall not assume any responsibility for identifying structural conditions of property. No analysis will be made of the subsurface or the hazardous waste conditions, if any. Our services shall not take into consideration the possibility of the existence of toxic substances, hazardous or contaminated conditions, or underground storage tanks, nor the costs associated with remediating such substances or conditions. Ernst & Young is not qualified to detect, and shall not be responsible for detecting, such substance or conditions.

18. Ernst & Young's liability to the Company, regardless of whether such liability is based on breach of contract, tort, strict liability, breach of warrants, failure of essential purpose or otherwise, under this Agreement or with respect to the services shall be limited to the amount actually paid by the Company to Ernst & Young under this Agreement. If Ernst & Young is working on a multi-phase engagement for the Company, Ernst & Young's liability shall be limited to the amount paid to Ernst & Young for the particular phase that gives rise to the liability.

Appendix B

Certifications

Certifications

Certification – Chesapeake Utilities Corporation

The undersigned hereby certify that the members of our engagement team have no direct or indirect financial interest in the property that is the subject of this assignment, nor do they have any direct or indirect personal interest with respect to the property or parties involved in the assignment. Some of the undersigned individuals have personally interviewed management of the subject company and performed a site visit to the subject company. Neither our employment nor our compensation in connection with the report is in any way contingent on the recommendations reached or value estimated, and this report sets forth all of the assumptions and limiting conditions affecting the analysis, value, and recommendations contained herein. This report is intended to have been prepared in conformity with, and is subject to, the requirements of the Principles of Appraisal Practice and Code of Ethics of the Business Valuation Standards of the ASA; the USPAP as set forth by the ASB of the Appraisal Foundation; and the Code of Ethics and Standards of Professional Conduct of the CFA Institute. All Senior Members, Fellows, and Life Members of the ASA who have participated in the preparation of this report are either in compliance with the mandatory recertification requirements of the ASA or are exempt from those requirements. No person other than the undersigned or those acknowledged below prepared the analysis, value, or recommendations set forth in this report; and, to the best of our knowledge and belief, the statements of fact contained in this report are true and correct.

L. Gregory Manos

L. Gregory Manos
Valuation Senior Manager

Review appraisers:

Mitch Fane

Mitchell C. Fane, CFA, ASA
Principal
American Society of Appraisers
Accredited Senior Appraiser, Business Valuation
Valuation

R. Gregory Morris

R. Gregory Morris, ASA
Executive Director
American Society of Appraisers
Accredited Senior Appraiser, Business

Contributing appraisers:
Hemant B. Chhajwani
Fabio A. Leal

Scott F. Reddy, CFA
Natasha Gandhi

Certifications

Certification for personal property asset valuation
The undersigned hereby certify that the members of our engagement team have no direct or indirect financial interest in the property that is the subject of this assignment, nor do they have any direct or indirect personal interest with respect to the property or parties involved in the assignment. Some of the undersigned individuals have personally interviewed management of the subject company and/or performed a site visit to the subject company. Neither our employment nor our compensation in connection with the report is in any way contingent on the recommendations reached or values estimated, and this report sets forth all of the assumptions and limiting conditions affecting the analysis, values, and recommendations contained herein. This report is intended to have been prepared in conformity with, and is subject to, the requirements of the Principles of Appraisal Practice and Code of Ethics of the Business Valuation Standards of the ASA; the USPAP as set forth by the ASB of the Appraisal Foundation; and the Code of Ethics and Standards of Professional Conduct of the CFA Institute. All Senior Members, Fellows, and Life Members of the ASA who have participated in the preparation of this report are either in compliance with the mandatory recertification requirements of the ASA or are exempt from those requirements. No person other than the undersigned or those acknowledged below prepared the analysis, values, or recommendations set forth in this report; and, to the best of our knowledge and belief, the statements of fact contained in this report are true and correct.

Adam D. Hill

Adam D. Hill, ASA
Senior Manager
American Society of Appraisers
Accredited Senior Appraiser
Machinery and Technical Specialties

Jon S. Mason
Executive Director

Review Appraisers:

Robert J. Stall

Robert J. Stall, ASA
Principal
American Society of Appraisers
Accredited Senior Appraiser
Machinery and Technical Specialties