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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION 00 OCT 13 PM 12:40

RECORDS AND REPORTING

In re: Application by Chesapeake Utilities)
Corporation for Authorization to Issue Common)
Stock, Preferred Stock and Secured and/or)
Unsecured Debt and to Exceed Limitation)
Placed on Short-Term Borrowings in 2001)

001555-GU

APPLICATION BY CHESAPEAKE UTILITIES CORPORATION FOR AUTHORIZATION TO ISSUE COMMON STOCK, PREFERRED STOCK AND SECURED AND/OR UNSECURED DEBT AND TO EXCEED LIMITATION PLACED ON SHORT-TERM BORROWINGS IN 2001

Chesapeake Utilities Corporation (Chesapeake, the Company or Applicant) respectfully files this Application, pursuant to Section 366.04 (1), Florida Statutes, seeking authority to issue up to 6,000,000 shares of Chesapeake common stock; up to 1,000,000 shares of Chesapeake preferred stock; and up to $80,000,000 in secured and/or unsecured debt and to obtain authorization to exceed the limitation placed on short-term borrowings by Section 366.04, Florida Statutes, so as to issue short-term obligations in an amount not to exceed $40,000,000.

1. Name and principal business offices of Applicant:

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

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

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

and

(d) Chesapeake Utilities Corporation
Florida Division
1639 West Gulf to Lake Highway
Lecanto, Florida 33461

2. Incorporated:

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

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

Wayne L. Schiefelbein
P.O. Box 15856
Tallahassee, Florida 32317-5856
(850) 422-1013
(850) 531-0011 (Fax)

Attorney for Chesapeake Utilities Corporation

4. Capital Stock and Funded Debt:

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

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

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

(c) Amount outstanding as of June 30, 2000: 5,246,794 shares.

(d) Amount held in Treasury: None.

(e) Amount pledged by Applicant: None.

(f) Amount owned by affiliated corporations: None.

(g) Amount held in any fund: None.

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

(a) Preferred stock having par value of $.01.

(b) Amount authorized: 2,000,000 shares.

(c) Amount outstanding as of June 30, 2000: 0 shares.

(d) Amount held in Treasury: None.

(e) Amount pledged by Applicant: None.

(f) Amount owned by affiliated corporations: None.

(g) Amount held in any fund: None.

The funded indebtedness by class and series are as follows:

(a)1 8.25% Convertible Debentures due March 1, 2014 are convertible prior to maturity, unless previously redeemed, into shares of common stock of Chesapeake at a conversion price of $17.01 per share. Interest on the Debentures is payable on the first day of March and September, commencing September 1, 1989. The Debentures are redeemable at 100% of the principal amount plus accrued interest (i) on March 1 in any year, commencing in 1991, at the option of the holder and (ii) at any time within 60 days after a request on behalf of a deceased holder. At Chesapeake's option, beginning March 1, 1990, the Debentures may be redeemed in whole or in part at redemption prices declining from 107.25%, plus accrued interest. No sinking fund will be established to redeem the Debentures. As of June 30, 2000, there is a remaining balance of $3,560,000 on this issue.

(a)2 9.37% First Mortgage Sinking Fund Bonds, Series I, due December 15, 2004, issued on December 15, 1989, and secured by the Original Indenture dated as of December 1, 1959 between Chesapeake and Maryland National Bank in the principal amount of $8,200,000 bearing interest payable semi-annually with provisions for payment of interest only prior to December 15, 1991; thereafter, principal shall be payable, in addition to interest on the unpaid balance, on or before the fifteenth days of December and June in each year (a) commencing on December 15, 1991, and ending on December 15, 1999, in the sum of $260,000 and (b) commencing on June 15, 2000, and ending on June 15, 2004, in the sum of $378,000. As of June 30, 2000, there is a remaining balance of $3,402,000 on this issue.

(a)3 7.97% Unsecured Senior Notes due February 1, 2008, and issued on February 9, 1993 in the principal amount of $10,000,000 bearing interest payable semi-annually with provisions for payment of interest only prior to February 1, 1999; thereafter, principal shall be payable, in addition to interest on the unpaid balance, over ten (10) years at the rate of $1,000,000 per annum. As of June 30, 2000, there is a remaining balance of $8,000,000 on this issue.

(a)4 6.91% Unsecured Senior Notes due October 1, 2010, and issued on October 2, 1995 in the principal amount of $10,000,000 bearing interest payable quarterly with provisions for payment of interest only prior to October 1, 2000; thereafter, principal shall be payable, in addition to interest on the unpaid balance, over eleven (11) years at the rate of $909,091 per annum. As of June 30, 2000, there is a remaining balance of $10,000,000 on this issue.

(a)5 6.85% Unsecured Senior Notes due January 1, 2012 and issued on December 15, 1997 in the principal amount of $10,000,000 bearing interest payable semi-annually with provisions for payment of interest only prior to January 1, 2003; thereafter, principal shall be payable, in addition to interest on the unpaid balance, over ten (10) years at the rate of $1,000,000 per annum. As of June 30, 2000, there is a remaining balance of $10,000,000 on this issue.

(a)6 As of the filing date, the Company had three unsecured bank lines of credit. Each of these lines are for $15,000,000. For one of the $15,000,000 lines of credit, $5,000,000 of the total line can be used to guarantee letters of credit issued by Chesapeake's unregulated subsidiary, Xeron, Inc. for up to 364 days.

(b) The amounts authorized are set forth above.

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

(d) Amount held as reacquired securities: None.

(e) Amount pledged by Applicant: None.

(f) Amount owned by affiliated corporations: None.

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

5. Authorizations Requested:

Chesapeake requests authorization from the FPSC to issue up to 935,764 new shares of its common stock during 2001 for the purpose of administering Chesapeake's Retirement Savings Plan, Performance Incentive Plan, Automatic Dividend Reinvestment and Stock Purchase Plan and conversion of the Company's Convertible Debentures. The share breakdown for each specific purpose is as follows:

Number of

Shares	Purpose
150,000	Issuance pursuant to the Company's Retirement Savings Plan.
365,051	Issuance under the terms of the Company's Performance Incentive Plan.
211,424	Issuance pursuant to the Company's Automatic Dividend Reinvestment and Stock Purchase Plan.
209,289	Issuance under the terms of the Company's outstanding 8 1/4% Convertible Debentures.

Chesapeake requests FPSC authorization to issue up to $40,000,000 in secured and/or unsecured debt during 2001 for general corporate purposes including, but not limited to, working capital, retirement of short-term debt, retirement of long-term debt and capital improvements. In addition, Chesapeake expects to continue its historically aggressive acquisition program. For this purpose, Chesapeake is requesting FPSC authorization during 2001 to issue up to 5,064,236 shares of common stock and up to $40,000,000 in secured and/or unsecured debt for possible acquisitions. Due to the nature of typical cash for stock acquisitions, the $40,000,000 in secured and/or unsecured debt may be initially issued through a bridge loan in the form of notes held by banks or some similar form of short-term obligations.

For this reason, Chesapeake seeks FPSC authorization to exceed the limitation placed on short-term borrowings by Section 366.04, Florida Statutes, so as to issue short-term obligations in an amount not to exceed $40,000,000 during 2001. The bridge financing would subsequently be refinanced as unsecured long-term debt with an estimated rate of interest of up to 250 basis points above U.S. Treasury rates (or extrapolated U.S. Treasury rates) with equivalent average life.

Chesapeake is also requesting authority 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 ("Rights Agreement") adopted by the Board of Directors on August 20, 1999.

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

(a) Chesapeake's Retirement Savings Plan ("RSP") was implemented on February 1, 1977. As of June 30, 2000, the RSP had 438 participants; a total market valuation of $16,684,598; and 293,988 shares of the Company's common stock. True and correct copies of the current RSP Plan Document and Adoption Agreement have been previously filed with the FPSC as Exhibits A and B of the Application for Modification of Authority to Issue Common Stock During the Twelve Months Ending December 31, 1999, Docket No. 981213-GU, dated June 25, 1999, and are hereby incorporated by reference. Pursuant to the RSP, the first 100% of an employee's contribution, up to a maximum 6% of his/her salary, is matched by the Company in shares of Chesapeake common stock. Additional employee dollars that are matched by the Company are invested according to the respective employee's 401(k) designation. The RSP was amended at the end of 1998 to provide for a larger employer matching amount, from 60% to as much as 200%, and at the same time the Company's Pension Plan was closed off to new employees. Accordingly, as the employer matching amount has increased, so has the number of shares being issued under the RSP.

To continue to balance the composition of debt and equity, Chesapeake wants to maintain flexibility in how the RSP is funded, i.e., with new shares of its stock, buying shares on the open market, and/or a combination of both funding methods.

On June 23, 1992, the Delaware Public Service Commission issued Order No. 3425 approving the issuance of up to 100,000 new shares of Chesapeake common stock for the purpose of administering Chesapeake's RSP. Please note that this Order by the Delaware Public Service Commission is "open ended" in the sense that there is no time limit by which the approved securities need to be issued. A copy of the Order has been previously filed with the FPSC as Exhibit J of the Application for Approval of Issuance and Sale of Securities by Chesapeake Utilities Corporation, Docket No. 931112-GU, dated November 17, 1993, and is hereby incorporated by reference. On July 13, 1999, the Delaware Public Service Commission issued Order No. 5165 approving the issuance of an additional 100,000 new shares of Chesapeake common stock for the purpose of administering the RSP. Please note that this Order by the Delaware Public Service Commission is also "open ended" in the sense that there is no time limit by which approved securities need to be issued. A copy of this Order has been previously filed with the FPSC as Exhibit C of the Application by Chesapeake Utilities Corporation for Authorization to Issue Common Stock, Preferred Stock and Secured and/or Unsecured Debt and to Exceed Limitation Placed on Short-Term Borrowings in 2000, Docket No. 991631-GU, dated October 20, 1999, and is hereby incorporated by reference. Pursuant to these Orders, Chesapeake has issued 142,641 new shares of common stock for the RSP as of June 30, 2000. Thus, there remains to be issued 57,359 shares as authorized by the Delaware Public Service

Commission. Chesapeake will be seeking authorization for the issuance of an additional 300,000 shares of common stock for the RSP from the Delaware Public Service Commission before the end of 2000. In 2001 the Company expects to issue 92,641 shares of the additional 300,000 shares for which authorization is being sought.

The FPSC approved the issuance and sale of up to 105,638 shares of common stock for the Plan during 2000 by Order No. PSC-99-2477-FOF-GU, issued December 17, 1999. Chesapeake now seeks FPSC authorization to issue up to 150,000 new shares of Chesapeake common stock for the purpose of administering Chesapeake's Retirement Savings Plan during 2001, subject to Delaware Public Service Commission authorization of an additional 300,000 shares for the RSP.

(b) On May 19, 1992, the common stock shareholders of Chesapeake voted in favor of adopting the Chesapeake Utilities Corporation Performance Incentive Plan ("PIP"). On May 19, 1998, the common stock shareholders of Chesapeake approved several amendments to the PIP. A copy of the amended PIP agreement has been previously filed with the FPSC as Exhibit C of the Application for Approval of Issuance and Sale of Securities by Chesapeake Utilities Corporation, Docket No. 981213-GU, dated September 23, 1998, and is hereby incorporated by reference.

The purposes of the PIP are (1) to further the long-term growth and earnings of the Company by providing incentives and rewards to those executive officers and other key employees of the Company and its subsidiaries who are in positions in which they can contribute significantly to the achievement of that growth; (2) to encourage those employees to obtain proprietary interests in the Company and to remain as employees of the Company; and (3) to assist the Company in recruiting able management personnel.

To accomplish these objectives, the PIP authorizes the grant of nonqualified stock options, performance shares of the Company's common stock and stock appreciation rights, or any combination thereof. The PIP, as it was originally adopted by the common stock shareholders of Chesapeake in 1992, provided that over a ten year period beginning in 1992, any one or more types of awards for up to a total of 200,000 shares of Chesapeake's common stock may be granted. On June 23, 1992, the Delaware Public Service Commission issued Order No. 3425 approving the issuance of up to 200,000 new shares of Chesapeake common stock for the purpose of administering Chesapeake's PIP. Please note that this Order by the Delaware Public Service Commission is "open ended" in the sense that there is no time limit by which the approved securities need to be issued. A copy of this Order has been previously filed with the FPSC as Exhibit J of the Application for Approval of Issuance and Sale of Securities by Chesapeake Utilities Corporation, Docket No. 931112-GU, dated November 17, 1993, and is hereby incorporated by reference.

The amendments to the PIP adopted by the common stock shareholders of Chesapeake on May 19, 1998 changed the terms and provisions of the PIP as follows: (1) the aggregate number of shares of common stock subject to awards is increased from 200,000 shares to 400,000 shares; (2) the term of the PIP is extended for five years through December 31, 2006; and (3) the Board of Directors is granted greater flexibility to amend, modify or terminate the PIP, subject to shareholder approval requirements imposed by applicable law. On July 13, 1999, the Delaware

Public Service Commission issued Order No. 5165 approving the issuance of an additional 200,000 new shares of Chesapeake common stock for the purpose of administering the PIP, coinciding with these amendments. Please note that this Order by the Delaware Public Service Commission is “open ended” in the sense that there is no time limit by which approved securities need to be issued. A copy of this Order has been previously filed with the FPSC as Exhibit C of the Application by Chesapeake Utilities Corporation for authorization to issue common stock, preferred stock and secured and/or unsecured debt and to exceed limitation placed on short-term borrowings in 2000, Docket No. 991631-GU, dated October 20, 1999, and is hereby incorporated by reference.

Pursuant to the PIP, Chesapeake has issued 34,949 new shares of common stock as of June 30, 2000. Thus, there remains to be issued 365,051 shares as previously authorized by the Delaware Public Service Commission. The FPSC approved the issuance and sale of up to 372,071 shares of common stock for the PIP during 2000 by Order No. PSC-99-2477-FOF-GU, issued December 17, 1999. Chesapeake now seeks FPSC authorization to issue up to 365,051 new shares of Chesapeake common stock for the purpose of administering Chesapeake's Performance Incentive Plan during 2001. The 365,051 shares should be adequate to cover any awards granted to executives and other key officers of the Company and its subsidiaries in 2001.

(c) Chesapeake's Automatic Dividend Reinvestment and Stock Purchase Plan ("DRP") was implemented on April 27, 1989. The DRP Administrator currently has the flexibility of purchasing shares of Chesapeake common stock on the open market, using Treasury stock or issuing new common stock. The gradual issuance of new common stock enables Chesapeake to balance the composition of its capital between common stock and long-term debt. As of June 30, 2000, the DRP had 1,312 stockholder participants.

A copy of the DRP as filed on Registration Statement Form S-3 with the Securities and Exchange Commission has been previously filed with the FPSC as Exhibit D of the Application for Approval of Issuance and Sale of Securities by Chesapeake Utilities Corporation, Docket No. 961194-GU, dated October 1, 1996, and is hereby incorporated by reference. On May 23, 1989, the Delaware Public Service Commission issued Order No. 3071 approving the issuance of up to 200,000 new shares of Chesapeake common stock for the purpose of administering Chesapeake's DRP. Please note that this Order by the Delaware Public Service Commission is "open ended" in the sense that there is no time limit by which the approved securities need to be issued. A copy of this Order has been previously filed with the FPSC as Exhibit J of the Application for Approval of Issuance and Sale of Securities by Chesapeake Utilities Corporation, Docket No. 931112-GU, dated November 17, 1993, and is hereby incorporated by reference. On December 20, 1995, the Delaware Public Service Commission issued Order No. 4097 approving the issuance of an additional 300,000 new shares of Chesapeake common stock for the purpose of administering Chesapeake's DRP. Please note that this Order by the Delaware Public Service Commission is also "open ended" in the sense that there is no time limit by which the approved securities need to be issued. A copy of this Order has been previously filed with the FPSC as Exhibit E of the Application for

Approval of Issuance and Sale of Securities by Chesapeake Utilities Corporation, Docket No. 961194-GU, dated October 1, 1996, and is hereby incorporated by reference. Pursuant to the Orders above, Chesapeake has issued 288,576 new shares of common stock as of June 30, 2000. Thus, there remains to be issued 211,424 shares as authorized by the Delaware Public Service Commission. The FPSC approved the issuance and sale of up to 249,827 shares for the DRP during 2000 by Order No. PSC-99-2477-FOF-GU, issued on December 17, 1999. Chesapeake now seeks FPSC authorization to issue up to 211,424 new shares of Chesapeake common stock for the purpose of administering Chesapeake's Automatic Dividend Reinvestment and Stock Purchase Plan during 2001.

(d) On April 4, 1989, Chesapeake issued $5,000,000 in 8.25% Convertible Debentures as part of a public offering. As of June 30, 2000, $3,560,000 remained outstanding with a conversion price of $17.01 per share. Hence, the maximum number of shares of common stock that could be issued upon conversion is 209,289. A true and correct copy of the Registration Statement on Form S-2 dated February 16, 1989, as filed with the Securities and Exchange Commission, has been previously filed with the FPSC as Exhibit I of the Application for Approval of Issuance and Sale of Securities by Chesapeake Utilities Corporation, Docket No. 931112-GU, dated November 17, 1993, and is hereby incorporated by reference.

The Debentures have a conversion premium greater than the offering price of the common stock issue, no mandatory sinking fund, and became callable after one year at a premium equal to the interest rate less 1%, declining 1/2% per year thereafter. There is an optional bondholder redemption feature which allows any debenture holder to present any Debenture for redemption, at par, on the anniversary date of the issue, subject to annual limitations of $10,000 per debenture holder and $200,000 in the aggregate. These optional redemption rights began on April 1, 1991. In addition, subject to the annual limitations of $10,000 per debenture holder and $200,000 in the aggregate, Chesapeake will redeem the Debentures of deceased debenture holders within 60 days of notification. Such redemption of estate Debentures shall be made prior to other Debentures.

On February 14, 1989, the Delaware Public Service Commission issued Order No. 3040 approving the issuance of $5,000,000 in Convertible Debentures and, inherently, their potential conversion into Chesapeake common stock. Please note that this Order by the Delaware Public Service Commission is "open ended" in the sense that there is no time limit by which the approved securities need to be issued. A copy of this Order has been previously filed with the FPSC as Exhibit J of the Application for Approval of Issuance and Sale of Securities by Chesapeake Utilities Corporation, Docket No. 931112-GU, dated November 17, 1993, and is hereby incorporated by reference.

As of June 30, 2000, a cumulative $534,000 of the Convertible Debentures have been converted. The FPSC approved the issuance and sale of up to 221,811 new shares of Chesapeake common stock for the purpose of honoring conversion rights pursuant to the Company's Convertible Debentures during 2000, by Order No. PSC-99-2477-FOF-GU, issued on December 17, 1999. Chesapeake now seeks FPSC authorization to issue up to 209,289 new shares of Chesapeake common stock for the purpose of honoring these conversion rights during 2001.

(e) Chesapeake seeks FPSC authorization to issue during 2001 up to $40,000,000 in secured and/or unsecured long-term debt with an estimated rate of interest of up to 250 basis points above U.S. Treasury rates (or extrapolated U.S. Treasury rates) with equivalent average life. Proceeds from this debt issuance would be used for general corporate purposes including, but not limited to, working capital, retirement of short-term debt, retirement of long-term debt and capital improvements. The FPSC approved the issuance and sale of $40,000,000 in secured and/or unsecured long-term debt during 2000 by Order No. PSC-99-2477-FOF-GU, issued on December 17, 1999.

(f) Chesapeake seeks FPSC authorization to issue during 2001 up to 5,064,236 shares of common stock and $40,000,000 in secured and/or unsecured long-term debt with an estimated rate of interest of up to 250 basis points above U.S. Treasury rates (or extrapolated U.S. Treasury rates) with equivalent average life. This stock and debt would be used to finance Chesapeake's ongoing acquisition program of related businesses. Chesapeake expects to continue to search for growth opportunities through acquisitions which fit its long-range plan to achieve the proper mix of business activities. Financing of acquisitions will depend upon the nature and extent of potential acquisitions as well as current market and economic conditions.

The FPSC approved the issuance and sale of 5,050,653 shares of common stock and $40,000,000 in unsecured long-term debt during 2000 by Order No. PSC-99-2477-FOF-GU, issued on December 17, 1999.

(g) Chesapeake seeks FPSC authorization to issue up to 1,000,000 shares of Chesapeake preferred stock during 2001 for possible acquisitions, financing transactions, and other general corporate purposes, including potential distribution under the Company's Rights Agreement adopted by the Board of Directors on August 20, 1999. The Rights Agreement approved by the Board of Directors is designed to protect the value of the outstanding common stock in the event of an unsolicited attempt by an acquirer to take over the Company in a manner or on terms not approved by the Board of Directors. The Rights Agreement is not intended to prevent a takeover of the Company at a fair price and should not interfere with any merger or business combination approved by the Board of Directors. Copies of the Forms 8-A and 8-K filed with the Securities and Exchange Commission in conjunction with the Rights Agreement have been previously filed with the FPSC as Exhibit D of the Application by Chesapeake Utilities Corporation for Authorization to Issue Common Stock, Preferred Stock and Secured and/or Unsecured Debt and to Exceed Limitation Placed on Short-Term Borrowings in 2000, Docket No. 991631-GU, dated October 20, 1999, and are hereby incorporated by reference.

7. Lawful object and purpose:

The common stock, preferred stock and long-term debt authorized for issuance will be used for the purpose of administering Chesapeake's Retirement Savings Plan, Performance Incentive Plan, Automatic Dividend Reinvestment and Stock Purchase Plan, conversion of the Company's Convertible Debentures, financing of the Company's acquisition program and for other corporate purposes including, but not limited to the following: working capital; retirement of short-term debt; retirement of long-term debt; capital improvements; and potential distribution under the Rights Agreement. This is for a lawful object within the corporate purposes of Chesapeake and compatible with the public interest and is reasonably necessary or appropriate for such purposes.

8. Counsel:

The legality of the common stock, preferred stock and debt issuances will be passed upon by William A. Denman, Esquire, Schmittinger & Rodriguez, 414 South State Street, P.O. Box 497, Dover, Delaware 19903, who will rely on Wayne L. Schiefelbein, Esquire, P.O. Box 15856, Tallahassee, Florida 32317-5856, as to matters of Florida law.

9. Other Regulatory Agencies:

Under 26 Del. C Section 215 of the Delaware statutes, Chesapeake is regulated by the Delaware Public Service Commission and, therefore, must file a Prefiling Notice, a Notice, and an Application to obtain approval of the Delaware Commission before issuing new securities which mature more than one (1) year from the date of issuance. In addition, a Notice must be filed if Chesapeake expects to incur short-term indebtedness which exceeds ten percent of the Company's total capitalization. All necessary applications or registration statements have been or will be made as required and will be made a part of the final consummation report to the FPSC as required by Rule 25-8.009, Florida Administrative Code.

The address of the Delaware Commission is as follows:

Delaware Public Service Commission
861 Silver Lake Boulevard
Cannon Building
Dover, Delaware 19904
Attention: Bruce H. Burcat, Executive Director

10. Control or ownership:

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

11. Exhibits:

The following exhibits submitted with Applicant's Applications in Docket Nos. 991631-GU, 981213-GU, 961194-GU and 931112-GU, respectively, are incorporated in the instant Application by reference:

Docket No. 991631-GU

Exhibit C: Delaware Public Service Commission Order No. 5165 Dated July 13,1999 for the Issuance of Common Stock pursuant to Chesapeake Utilities Corporation Retirement Savings Plan (100,000 shares) and Chesapeake Utilities Corporation Performance Incentive Plan (200,000 shares).

Exhibit D: Securities and Exchange Commission Form 8-A For Registration of Certain Classes of Securities Pursuant to Section 12(B) or 12 (G) of the Securities Exchange Act of 1934
Securities and Exchange Commission Form 8-K Current Report

Docket No. 981213-GU (as amended on June 25, 1999)

Exhibit A: Chesapeake Utilities Corporation Retirement Savings Plan-Plan Document.

Exhibit B: Chesapeake Utilities Corporation Retirement Savings Plan-Adoption Agreement.

Docket No. 981213-GU

Exhibit C: Chesapeake Utilities Corporation Amended Performance Incentive Plan.

Docket No. 961194-GU

Exhibit D: Chesapeake Utilities Corporation Automatic Dividend Reinvestment and Stock Purchase Plan as filed with the Securities and Exchange Commission on Registration Statement Form S-3 dated December 1, 1995.

Exhibit E: Delaware Public Service Commission Order No. 4097 dated December 20, 1995, for the issuance of 300,000 shares pursuant to Chesapeake Utilities Corporation's Automatic Dividend Reinvestment and Stock Purchase Plan.

Docket No. 931112-GU

Exhibit I: Chesapeake Utilities Corporation Public Offering of Common Stock and Convertible Debentures as filed with the Securities and Exchange Commission on Registration Statement Form S-2 dated February 16, 1989.

Exhibit J: Orders of the Delaware Public Service Commission Authorizing the Issuance of Common Stock.

Filed herewith:

Exhibit A: Exhibit A consists of the following attachments:

A(1) Chesapeake Utilities Corporation Annual Report on Form 10-K for the year ended December 31, 1999.
A(2) Chesapeake Utilities Corporation Quarterly Report on Form 10-Q for the quarter ended June 30, 2000.

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

12. Constitutionality of Statute:

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

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

Chesapeake continues to maintain that the assertion of jurisdiction by the FPSC over its securities unconstitutionally burdens interstate commerce, particularly where the Public Service Commission of the State of Delaware has approved their issuance and sale, and/or where the securities do not create a lien or encumbrance on assets of Chesapeake's public utility operations in the State of Florida.

Florida law provides for severe penalties for any willful violation of a statute administered by the FPSC or any of its rules or orders. Secs. 350.127 (1) and 366.095, Florida Statutes. Accordingly, Chesapeake believes it must submit to FPSC jurisdiction over its securities if it is to avoid assessment of such penalties and to otherwise remain in good standing before the FPSC. It therefore files the instant Application, under protest, and without waiver of its position regarding the unconstitutionality of the statute.

PRAYER FOR RELIEF

Based on the foregoing, Chesapeake Utilities Corporation requests that the FPSC issue an Order authorizing it in 2001 to issue up to 6,000,000 shares of common stock, up to 1,000,000 shares of preferred stock, and up to $80,000,000 of secured and/or unsecured debt and authorizing it to exceed the limitation placed on short-term borrowings by Section 366.04, Florida Statutes, so as to issue up to $40,000,000 in short-term obligations.

Respectfully submitted,

Date: October 13, 2000

Wayne L. Schiefelbein

Wayne L. Schiefelbein
P.O. Box 15856
Tallahassee, Florida 32317-5856
(850) 422-1013
(850) 531-0011 (Fax)

Attorney for
Chesapeake Utilities Corporation

STATE OF DELAWARE *

*

COUNTY OF KENT * SS

BE IT REMEMBERED that on this 11th day of October, 2000, personally appeared before me, a Notary Public for the State of Delaware, Michael P. McMasters, who being by me duly sworn, did depose and say that he is Vice President, Treasurer and CFO of Chesapeake Utilities Corporation, a Delaware corporation, and that insofar as the Application of Chesapeake Utilities Corporation states facts, and insofar as those facts are within his personal knowledge, they are true; and insofar as those facts that are not within his personal knowledge, he believes them to be true, and that the exhibits accompanying this Application and attached hereto are true and correct copies of the originals of the aforesaid exhibits, and that he has executed this Application on behalf of the Company and pursuant to the authorization of its Board of Directors.

Michael P. McMasters

Michael P. McMasters
Vice President, Treasurer & CFO

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

Heidi W. Watkins

Notary Public
My Commission Expires: 10/21/01

EXHIBIT A

A(1)	Chesapeake Utilities Corporation Annual Report on Form 10-K for the year ended December 31, 1999.
A(2)	Chesapeake Utilities Corporation Quarterly Report on Form 10-Q for the quarter ended June 30, 2000.

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, 1999 Commission File Number: 001-11590

CHESAPEAKE UTILITIES CORPORATION

(Exact name of registrant as specified in its charter)

State of Delaware	**51-0064146**
(State or other jurisdiction of incorporation or organization)	(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 whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X]. No [ ].

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

As of March 27, 2000, 5,220,000 shares of common stock were outstanding. The aggregate market value of the common shares held by non-affiliates of Chesapeake Utilities Corporation, based on the last trade price on March 27, 2000, as reported by the New York Stock Exchange, was approximately $69 million.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the 2000 Annual Meeting of Stockholders are incorporated by reference in Part III.

CHESAPEAKE UTILITIES CORPORATION
FORM 10-K

YEAR ENDED DECEMBER 31, 1999

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PART I

ITEM 1. BUSINESS

(a) General Development of Business

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

Chesapeake's three natural gas distribution divisions serve approximately 39,000 residential, commercial and industrial customers in southern Delaware, Maryland's Eastern Shore and Central Florida. The Company's natural gas transmission subsidiary, Eastern Shore Natural Gas Company ("Eastern Shore"), operates a 281-mile interstate pipeline system that transports gas from various points in Pennsylvania to the Company's Delaware and Maryland distribution divisions, as well as to other utilities and industrial customers in Delaware and on the Eastern Shore of Maryland. The Company's propane distribution operation serves approximately 35,300 customers in southern Delaware and on the Eastern Shore of Maryland and Virginia. The advanced information services segment provides consulting, custom programming, training and development tools for national and international clients.

(b) Financial Information about Industry Segments

Financial information by business segment is included in Item 7 under the heading "Notes to Consolidated Financial Statements — Note C".

(c) Narrative Description of Business

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

(i) (a) Natural Gas Distribution and Transmission

General

Chesapeake distributes natural gas to approximately 39,000 residential, commercial and industrial customers in southern Delaware, the Salisbury and Cambridge, Maryland areas on Maryland's Eastern Shore, and Central Florida. These activities are conducted through three utility divisions, one division in Delaware, another in Maryland and a third division in Florida. The Company offers natural gas supply management services in the state of Florida under the name of Peninsula Energy Services Company ("PESCO").

<u>Delaware and Maryland</u>. Chesapeake's Delaware and Maryland utility divisions ("Delaware", "Maryland" or "the divisions") serve an average of approximately 29,400 customers, of which approximately 29,230 are residential and commercial customers purchasing gas primarily for heating purposes. For the year, residential and commercial customers account for approximately 53% of the volume delivered by the divisions and 69% of the divisions' revenue. The divisions' industrial customers purchase gas, primarily on an interruptible basis, for a variety of manufacturing, agricultural and other uses. Most of Chesapeake's customer growth in these divisions comes from new residential construction using gas heating equipment.

<u>Florida</u>. The Florida division distributes natural gas to an average of approximately 9,545 residential and commercial and 88 industrial customers in Polk, Osceola, Hillsborough, Gadsden, Gilchrist, Union and Citrus Counties. Currently 39 of the division's industrial customers, which purchase and transport gas on a firm and interruptible basis, account for approximately 86% of the volume delivered by the Florida division and 34% of the revenues. These customers are primarily engaged in the citrus and phosphate industries and electric cogeneration.

The Company's Florida division also provides natural gas supply management services to compete in the open access environment. Currently, 25 customers receive such services, which generated net income of $97,000 in 1999.

Eastern Shore. The Company's wholly owned transmission subsidiary, Eastern Shore, 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 to Delaware and the Eastern Shore of Maryland. Eastern Shore also provides contract storage services as well as the purchase and sale of small quantities of gas for system balancing purposes ("swing gas"). Eastern Shore's rates are subject to regulation by the Federal Energy Regulatory Commission ("FERC").

Adequacy of Resources

General. The Delaware and Maryland divisions have 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 Transco Gas Pipeline Corporation ("Transco"), Columbia Gas Transmission ("Columbia") and Columbia Gulf Transmission Company ("Gulf"). The divisions use their firm supply sources to meet a significant percentage of their projected demand requirements. In order to meet the difference between firm supply and firm demand, Delaware and Maryland obtain gas supply on the "spot market" from various other suppliers that is transported by the upstream pipelines and delivered to the divisions' interconnects with Eastern Shore, as needed. The Company believes that Delaware and Maryland's available firm and "spot market" supply is ample to meet the anticipated needs of their customers.

Delaware. Delaware's contracts with Transco include: (a) firm transportation capacity of 8,663 dekatherms ("Dt") per day, which expires in 2005; (b) firm transportation capacity of 311 Dt per day for December through February, expiring in 2006; and (c) firm storage service, providing a total capacity of 142,830 Dt, which expires in 2000, with provisions to continue from year to year thereafter, subject to six (6) months notice for termination.

Delaware's contracts with Columbia include: (a) firm transportation capacity of 852 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 2014; and (f) firm storage service, providing a peak day entitlement of 635 Dt and a total capacity of 57,139 Dt, which expires in 2017; (g) firm storage service providing a peak day entitlement of 583 Dt and a total capacity of 52,460 Dt, which expires in 2018; and (h) firm storage service providing a peak day entitlement of 583 Dt and a total capacity of 52,460 Dt, which expires in 2019. 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.

Delaware's contract with Gulf, which expires in 2004, provides firm transportation capacity of 868 Dt per day for the period November through March and 798 Dt per day for the period April through October.

Delaware's contracts with Eastern Shore include: (a) firm transportation capacity of 25,560 Dt per day for the period December through February, 24,338 Dt per day for the months of November, March and April, and 15,262 Dt per day for the period May through October, with various expiration dates ranging from 2004 to 2017; (b) firm storage capacity under Eastern Shore's Rate Schedule GSS 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 under Eastern Shore's Rate Schedule LSS providing a peak day entitlement of 580 Dt and a total capacity of 29,000 Dt, which expires in 2013; and (d) firm storage capacity under Eastern Shore's Rate Schedule LGA providing a peak day entitlement of 911 Dt and a total capacity of 5,708 Dt, which expires in 2006. Delaware's firm transportation contracts with Eastern Shore also include Eastern Shore's provision of swing transportation service. This service includes: (a) firm transportation capacity of 1,846

Dt per day on Transco's pipeline system, retained by Eastern Shore, in addition to Delaware's Transco capacity referenced earlier and (b) an interruptible storage service under Transco's Rate Schedule ESS that supports a swing supply service provided under Transco's Rate Schedule FS.

Delaware currently has contracts for the purchase of firm natural gas supply with five suppliers. These supply contracts provide the availability of a maximum firm daily entitlement of 14,200 Dt and the supplies are transported by Transco, Columbia, Gulf and Eastern Shore under Delaware's transportation contracts. The gas purchase contracts have various expiration dates and daily quantities may vary from month to month.

Maryland. Maryland's contracts with Transco include: (a) firm transportation capacity of 4,738 Dt per day, which expires in 2005; (b) firm transportation capacity of 155 Dt per day for December through February, expiring in 2006; and (c) firm storage service providing a total capacity of 33,120 Dt, which expires in 2000 with provisions to continue from year to year thereafter, subject to six months notice for termination.

Maryland'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 2014; and (e) firm storage service providing a peak day entitlement of 521 Dt and a total capacity of 46,881 Dt, which expires in 2017. Maryland'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.

Maryland's contract with Gulf, which expires in 2004, 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.

Maryland's contracts with Eastern Shore include: (a) firm transportation capacity of 13,378 Dt per day for the period December through February, 12,654 Dt per day for the months of November, March and April, and 8,093 Dt per day for the period May through October; (b) firm storage capacity under Eastern Shore's Rate Schedule GSS 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 under Eastern Shore's Rate Schedule LSS 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 under Eastern Shore's Rate Schedule LGA providing a peak day entitlement of 569 Dt and a total capacity of 3,560 Dt, which expires in 2006. Maryland's firm transportation contracts with Eastern Shore also include Eastern Shore's provision of swing transportation service. This service includes: (a) firm transportation capacity of 969 Dt per day on Transco's pipeline system, retained by Eastern Shore, in addition to Maryland's Transco capacity referenced earlier and (b) an interruptible storage service under Transco's Rate Schedule ESS that supports a swing supply service provided under Transco's Rate Schedule FS.

Maryland currently has contracts for the purchase of firm natural gas supply with four suppliers. These contracts provide the availability of a maximum firm daily entitlement of 7,540 Dt and the supplies are transported by Transco, Columbia, Gulf and Eastern Shore under Maryland's transportation contracts. The gas purchase contracts have various expiration dates and daily quantities may vary from 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, 21,458 Dt in May through September, and 27,416 Dt in October under FGT's firm transportation service FTS-1 rate schedule; (b) daily firm transportation capacity of 5,100 Dt in May through October, and 8,100 in November through April under FGT's firm transportation service FTS-2 rate schedule; and (c) daily interruptible transportation capacity of 20,000 Dt under FGT's interruptible transportation services ITS-1 rate schedule. The firm transportation contract FTS-1 expires on August 1, 2000 with the Company retaining a right of first refusal on this capacity. The firm transportation contract FTS-2 expires on March 1, 2015. Chesapeake has requested and been approved for a turnback of all but 1,000 Dt per day year round of it's FTS-2 capacity in two increments. These turnbacks coincide with the in service dates of FGT's Phase 4 Project scheduled to be in service in May 2001, and the Phase 5 Project scheduled to be in service in the second quarter of 2002. The interruptible transportation contract is effective until August 1, 2010 and month to month thereafter, unless canceled by either party with thirty days notice.

The Florida division currently receives its gas supply from various suppliers. If needed, some supply is bought on the spot market; however, the majority is bought under the terms of two firm supply contacts. The Company believes that the availability of gas supply to the Florida division is adequate under existing arrangements to meet customer's needs.

Eastern Shore. Eastern Shore has 4,916 thousand cubic feet ("Mcf") of firm transportation capacity under Rate Schedule FT under contract with Transco, which expires in 2005. Eastern Shore also has 7,046 Mcf of firm peak day entitlements and total storage capacity of 278,264 Mcf under Rate Schedules GSS, LSS and LGA, respectively, under contract with Transco. The GSS and LSS contracts expire in 2013 and the LGA contract expires in 2006.

Eastern Shore also has firm storage service under Rate Schedule FSS and firm storage transportation capacity under Rate Schedule SST under contract with Columbia. These contracts, which expire in 2004, provide for 1,073 Mcf of firm peak day entitlement and total storage capacity of 53,738 Mcf.

Eastern Shore has retained the firm transportation capacity and firm storage services described above in order to provide swing transportation 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 Company's business, including the rates for sales to all of their customers in each jurisdiction. All of Chesapeake's firm distribution rates are subject to purchased gas adjustment clauses, which match revenues with gas costs and normally allow eventual full recovery of gas costs. Adjustments under these clauses require periodic filings and hearings with the relevant regulatory authority, but do not require a general rate proceeding. Rates on interruptible sales by the Florida division are also subject to purchased gas adjustment clauses.

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 and fees Eastern Shore can charge to its transportation customers. In addition, the FERC regulates the rates Eastern Shore is charged for transportation and transmission line capacity and services provided by Transco and Columbia.

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

Regulatory Proceedings
Delaware. In September 1998, Chesapeake's Delaware division filed an application with the Delaware Public Service Commission ("DPSC") to propose certain rate design changes to its existing margin sharing mechanism which was approved in Chesapeake's last rate case. Chesapeake filed this application as an alternative to a full scale

base rate proceeding in order to provide the Company an opportunity to earn its allowed rate of return, without increasing the price of its natural gas services from the Company's last rate case in 1995.

The Company proposed certain rate design changes to its existing margin sharing mechanism in order to address the level of recovery of fixed distribution costs from the residential heating service customers and smaller commercial heating customers. Chesapeake proposed to modify the existing margin sharing thresholds to address the actual level of fixed distribution cost recovered from the residential and smaller commercial customers based on the base tariff rates established in PSC Docket No. 95-73, Phase II. Chesapeake's base tariff rates established in the last rate case were designed to recover a certain amount of fixed distribution costs in order for Chesapeake to earn its authorized rate of return. The proposal increased or decreased the existing margin sharing thresholds based on the actual level of recovery of fixed distribution costs from these respective customer classes as compared to the level which the base tariff rates were designed to recover in the last rate case.

The Company also proposed to change the existing margin sharing mechanism to take into consideration the appropriate treatment of margins achieved by the addition of new interruptible customers on the distribution system for which the Company makes additional capital investments. Chesapeake is required to include the margins achieved from its interruptible customers in its margin sharing calculation. Chesapeake does not have the opportunity to earn a return on its capital investments until base tariff rates are established in the context of a base rate proceeding. The Company proposed to exclude from the margin sharing mechanism the margins achieved from the addition of new interruptible customers in order to provide the Company a reasonable opportunity to earn its authorized rate of return until the Company's next base rate proceeding.

During October 1998, the DPSC suspended the Company's tariff filing, pending the completion of full evidentiary hearings and a final decision by the DPSC during 1999. On March 23, 1999 the Company, DPSC Staff and the Division of the Public Advocate settled all the issues in this matter. An evidentiary hearing was held on March 24, 1999 at which time the executed proposed settlement agreement was entered into the record as evidence and was supported by all the respective parties. The settlement allows the Company to increase or decrease the current margin sharing thresholds based on the actual level of recovery of fixed distribution costs from residential service heating and general service heating customers as compared to the level which the base tariff rates were designed to recover in the last rate case. Per the settlement, the Company can implement an adjustment to the margin sharing thresholds if the weather is at least 6.5% warmer or colder than normal; however, the total increase or decrease in the amount of additional gross margin that the Company will retain or credit to the firm ratepayers cannot exceed a $500,000 cap.

The Company withdrew its blanket proposal relating to the exclusion of interruptible margins from the existing margin sharing mechanism for all new or existing interruptible customers for whom the Company made a new or additional capital investment to serve the customer, with one exception. Per the settlement, the Company will exclude the interruptible margins from the existing margin sharing mechanism for one specific interruptible customer on its distribution system for whom the Company made a capital investment to serve and currently has under a contract for interruptible service. Any additional margin retained for this customer will be included in the $500,000 cap mentioned above. The DPSC issued its final approval of the proposed settlement on May 25, 1999.

Maryland. During the 1999 Maryland General Assembly legislative session, taxation of electric and gas utilities was fundamentally changed by the passage of The Electric and Gas Utility Tax Reform Act ("Tax Act"). Effective January 1, 2000, the Tax Act altered utility taxation to account for the restructuring of the electric and gas industries by either repealing and/or amending the existing Public Service Company Franchise Tax, Corporate Income Tax and Property Tax. A summary of the major modifications that affected Chesapeake's natural gas operations in Maryland are listed below.

- Applies the existing Public Service Commission Franchise Tax of 2% of gross receipts only to natural gas distribution delivery service revenues.
- Imposes a separate per unit distribution tax of $0.0042 per Ccf measured on the amount of natural gas delivered for final consumption in the State.
- Establishes credits to the per unit distribution tax based on actual consumption by industrial customers.
- Gas utility income is now subject to the Maryland State Corporate Income Tax rate of 7%, due to the elimination of the gross receipts deduction.

Chesapeake submitted a regulatory filing with the Maryland Public Service Commission ("MPSC") on December 30, 1999 to implement new tariff sheets necessary to incorporate the changes necessitated by the passage of the Tax Act. The tariff revisions (1) would implement new base tariff rates to reflect the estimated state corporate income tax liability; (2) assess the new per unit distribution franchise tax; and (3) repeal specified portions of the tariff that related to the former 2% gross receipts tax.

On January 12, 2000, the Maryland Public Service Commission ("MPSC") issued an order requiring the Company to file new tariff sheets, with an effective date of January 12, 2000, to increase its natural gas delivery service rates by $82,763 on an annual basis to recover the estimated impact of the state corporate income tax. Also as part of the MPSC order, the Company was directed to recover the new distribution franchise tax of $0.0042 per Ccf as a separate line item charge on the customers' bills. On January 14, 2000, the Company filed new natural gas tariff sheets in compliance with the MPSC order.

In 1997, the MPSC approved an order authorizing Chesapeake to implement new service offerings and rate design for services rendered on and after April 1, 1997. The approved changes included: (1) class revenue requirements and restructured sales services which provide for separate firm commercial and industrial rate schedules for general service, medium volume, large volume and high load factor customer groups; (2) unbundling of gas costs from distribution charges; (3) a new gas cost recovery mechanism, which utilizes a projected period under which the fixed cost portion of the gas rate will be forecasted on an annual basis and the commodity cost portion of the gas rate will be estimated quarterly, based on projected market prices; and (4) a new sharing agreement under which interruptible margins will continue to be shared, 90% to customers and 10% to the Company, but distribution costs incurred for incremental load additions can be recovered with carrying charges utilizing 100% of the incremental margin if the payback period is within three years.

Florida. On July 15, 1999, the Florida Division filed a Joint Petition with Tampa Electric / Peoples Gas System for approval of a territorial boundary agreement in Hillsborough, Polk and Osceola Counties. On November 10, 1999, the Florida Public Service Commission issued an order approving the terms and conditions of the agreement. The agreement included the transfer of facilities in Hillsborough County owned by Chesapeake to Peoples Gas System and the transfer of facilities in Gilchrist and Union Counties owned by Peoples Gas System to Chesapeake. The transfers were made at the depreciated book value of the facilities.

On August 19,1999, the Florida Division filed a petition with the Florida Public Service Commission for approval of a gas transportation agreement with Citrosuco North America, Inc. located in Polk County, Florida. The Florida Public Service Commission approved the agreement on October 25, 1999. The agreement provides for the Florida

Division to lease an 8-inch steel natural gas pipeline from Citrosuco and in return the Florida Division will provide natural gas service under its CTS rate schedule as a special contract.

On January 28, 2000, the Florida Division filed a request for approval of a rate increase with the Florida Public Service Commission. The Minimum Filing Requirements ("MFRs") are expected to be filed on March 31, 2000. Interim rates may go into effect approximately 60 days after the acceptance by the Florida Public Service Commission of the MFRs. The full rate case procedure is estimated to take from eight to twelve months after acceptance of the MFRs.

The Florida Public Service Commission is expected to issue a proposed rule for the unbundling of natural gas services on February 14, 2000. This rule will require all natural gas LDC's to file a tariff providing for the unbundling of service to all non-residential customers by July 1, 2000. The Florida Division intends to include this service as part of the rate case filing.

Eastern Shore. On December 9, 1999, Eastern Shore filed an application before the FERC requesting authorization for the following: (1) construct and operate approximately two miles of 16-inch mainline looping in Pennsylvania, (2) abandonment of one mile of 2-inch lateral in Delaware and Maryland and replacement of the segment with a 4-inch lateral, (3) construct and operate approximately ten miles of 6-inch mainline extension in Delaware, (4) construct and operate five delivery points on the new 6-inch mainline extension in Delaware, and (5) install certain minor auxiliary facilities at the existing Daleville compressor station in Pennsylvania. The purpose of the construction is to enable Eastern Shore to provide 7,065 Dts of additional daily firm service capacity on Eastern Shore's system. The proposed expansion targeted for completion by November 1, 2000 is estimated to cost approximately $4.2 million.

In September 1998, Eastern Shore filed an application before the FERC requesting authorization to construct and operate a total of eight miles (4.5 miles in Pennsylvania and 3.5 miles in Delaware) of 16-inch pipeline looping on Eastern Shore's existing system and to install 1,085 horsepower of additional compression at its Delaware City compressor station. The purpose of these new facilities is to enable Eastern Shore to provide 16,540 dekatherms of additional firm transportation capacity on its system for two existing customers, Delmarva Power and Light Company and Star Enterprise. The expansion was completed during the fourth quarter of 1999. The project cost was approximately $7.0 million.

In March 1998, the FERC authorized Eastern Shore to replace 2.3 miles of 6-inch pipeline with 10-inch pipeline along Route 72 and Power Road, all in conjunction with a Delaware Department of Transportation highway relocation project. In September 1998, Eastern Shore filed an amendment requesting that the FERC authorize an increase in the diameter of the previously approved 2.3-mile pipeline from 10 inches to 16 inches. This proposal was approved by the FERC in October 1998. Construction was completed during 1999.

(i) (c) Propane Distribution and 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 Company, Inc. ("Tri-County") a wholly owned subsidiary of Chesapeake. The propane marketing group consists of Xeron, Inc. ("Xeron"), a wholly owned subsidiary of Chesapeake.

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.

The Company's propane distribution operation served approximately 35,300 propane customers on the Delmarva Peninsula and delivered approximately 28 million retail and wholesale gallons of propane during 1999.

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

Propane is a form of liquefied petroleum gas which is typically extracted from natural gas or separated during the crude oil refining process. Although propane is gaseous at normal pressures, it is easily compressed into liquid form for storage and transportation. Propane is a clean-burning fuel, gaining increased recognition for its environmental superiority, safety, efficiency, transportability and ease of use relative to alternative forms of energy. Propane is sold primarily in suburban and rural areas which are not served by natural gas pipelines. Demand is typically much higher in the winter months and is significantly affected by seasonal variations, particularly the relative severity of winter temperatures, because of its use in residential and commercial heating.

Adequacy of Resources

Sharp Energy and Tri-County 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 a take-or-pay premiums) and maximum purchase provisions.

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

Xeron has no 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

Sharp Energy and Tri-County 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 local 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. 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.

Xeron competes against various marketers that may have significantly great resources and are able to obtain price or volumetric advantages over Xeron.

The Company's propane distribution and 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 $35,000,000 per occurrence, but there is no assurance that such insurance will be adequate.

(i) (d) Advanced Information Services

General

Chesapeake's advanced information services segment consists of United Systems, Inc. ("USI") a wholly owned subsidiary of the Company.

USI is based in Atlanta and primarily provides support for users of PROGRESS™, a fourth generation computer language and Relational Database Management System. USI offers consulting, training, software development "tools", web development and customer software development for its client base, which includes many large domestic and international corporations.

Competition

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

(i) (e) Other Subsidiaries

Skipjack, Inc. ("Skipjack") and Chesapeake Investment Company are wholly owned subsidiaries of Chesapeake Service Company. Skipjack owns and leases two office buildings in Dover, Delaware to affiliates of Chesapeake. Chesapeake Investment Company is a Delaware affiliated investment company.

In March 1997, in connection with the acquisition of Tri-County, the Company acquired Eastern Shore Real Estate, Inc. ("ESR"), which became a wholly owned subsidiary of Chesapeake. ESR owns and leases office buildings to affiliates and external companies.

In March 1998, the Company acquired Sam Shannahan Well Co., based in Salisbury, Maryland, doing business as Tolan Water Service ("Tolan"). Tolan was a privately owned EcoWater dealership serving 3,000 customers on the Delmarva Peninsula with divisions supporting residential, commercial and industrial water treatment.

In 1999, the Company established Sharp Water, Inc., a wholly owned subsidiary of Chesapeake, which in November 1999, acquired EcoWater Systems of Michigan, Inc., doing business as Douglas Water Conditioning, an EcoWater dealership that has serviced the Detroit, Michigan area for 11 years.

(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 is included in Item 7 under the heading "Management Discussion and Analysis — Liquidity and Capital Resources".

(iv) Employees

As of December 31, 1999, Chesapeake had 522 employees, including 331 in natural gas and propane, 102 in advanced information services and 59 in water conditioning. The remaining 30 employees are considered general and administrative and include officers of the Company, treasury, accounting, information technology, human resources and other administrative personnel. The acquisition of Douglas Water Conditioning added 28 employees.

(v) Executive Officers of the Registrant

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

Ralph J. Adkins (age 57) Mr. Adkins is Chairman of the Board of Chesapeake. He has served as Chairman of the Board since August 1997. Previously, Mr. Adkins served as Chairman of the Board and Chief Executive Officer, President and Chief Executive Officer, President and Chief Operating Officer, Executive Vice President, Senior Vice President, Vice President and Treasurer of Chesapeake. Mr. Adkins is Chairman of Chesapeake Service Company, Sharp Energy, Inc., Tri-County Gas Company, Inc., Chesapeake Investment Company, Xeron, Inc., Sam Shannahan Well Co., Sharp Water, Inc. and Eastern Shore Natural Gas Company, all wholly owned subsidiaries of Chesapeake. He has been a director of Chesapeake since 1989.

John R. Schimkaitis (age 52) Mr. Schimkaitis is President and Chief Executive Officer. He has served in this position since January 1, 1999. Mr. Schimkaitis is also Chief Executive Officer of Chesapeake Service Company, Sharp Energy, Inc., Tri-County Gas Company, Chesapeake Investment Company, Xeron, Inc., Sam Shannahan Well Co., Sharp Water, Inc. and Eastern Shore Natural Gas Company, all wholly owned subsidiaries of Chesapeake. He previously served as President and Chief Operating Officer, Executive Vice President, Chief Financial Officer, Senior Vice President, Treasurer and Assistant Secretary. From 1983 to 1986, Mr. Schimkaitis was Vice President of Cooper & Rutter, Inc., a consulting firm providing financial services to the utility and cable industries. He was appointed as a director of Chesapeake in February 1996.

Michael P. McMasters (age 41) Mr. McMasters is Vice President, Chief Financial Officer and Treasurer of Chesapeake Utilities Corporation. He has served as Vice President, Chief Financial Officer and Treasurer since December 1996. He previously served as Vice President of Eastern Shore, 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 39) Mr. Thompson is Vice President of the Natural Gas Operations, as well as Vice President of Chesapeake Utilities Corporation. He has served as Vice President since May 1997. He has served as President, Vice President, Director of Gas Supply and Marketing, Superintendent of Eastern Shore and Regional Manager for the Florida distribution Operations.

Philip S. Barefoot (age 52) Mr. Barefoot is Vice President of Chesapeake Utilities Corporation. He has served as Division Manager of the Florida Operations from 1988 to 1994. Prior to joining Chesapeake, he was employed by Peoples Natural Gas Company where he held the positions of Division Sales Manager, Division Manager and Vice President of Florence Operations.

William C. Boyles (age 42) Mr. Boyles is Vice President and Corporate Secretary of Chesapeake Utilities Corporation. Mr. Boyles has served as Corporate Secretary since 1998 and Vice President since 1997. He previously served as Director of Administrative Services, Director of Accounting and Finance, Treasurer, Assistant Treasurer and Treasury Department Manager. Prior to joining Chesapeake, he was employed as a Manager of Financial Analysis at Equitable Bank of Delaware and Group Controller at Irving Trust Company of New York.

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, Delaware; Plant City, Florida; Chincoteague and Belle Haven, Virginia; Easton and Pocomoke, Maryland; Detroit, Michigan; Houston, Texas and Atlanta, Georgia. In general, the properties of the Company are adequate for the uses for which they are employed. Capacity and utilization of the Company's facilities can vary significantly due to the seasonal nature of the natural gas and propane distribution businesses.

(b) Tolan Water Service

The Company owns and operates a resin regeneration facility in Salisbury, Maryland to serve approximately 3,000 exchange tank and meter water customers.

(c) Natural Gas Distribution

Chesapeake owns over 645 miles of natural gas distribution mains (together with related service lines, meters and regulators) located in its Delaware and Maryland service areas and 547 miles of such mains (and related equipment) in its Central Florida service areas. Chesapeake also owns facilities in Delaware and Maryland for propane-air injection during periods of peak demand. Portions of the properties constituting Chesapeake's distribution system are encumbered pursuant to Chesapeake's First Mortgage Bonds.

(d) Natural Gas Transmission

Eastern Shore owns approximately 281 miles of transmission lines extending from Parkesburg, Pennsylvania to Salisbury, Maryland. Eastern Shore also owns three compressor stations located in Delaware City, Delaware; Daleville, Pennsylvania and Bridgeville, Delaware. The Delaware City compressor facility and associated piping are needed to stabilize capacity on Eastern Shore's system as a result of steadily declining inlet pressures at the Hockessin interconnect with Transco. The Daleville station is used to increase Columbia supply pressures to match Transco supply pressures, and to increase Eastern Shore's pressures in order to serve Eastern Shore's firm customers' demands, including those of Chesapeake's Delaware and Maryland divisions. The Bridgeville station is being used to provide increased pressures required to meet demands on the system.

(e) Propane Distribution and Marketing

Sharpgas and Tri-County own bulk propane storage facilities with an aggregate capacity of approximately 1.8 million gallons at 31 plant facilities in Delaware, Maryland and Virginia, located on real estate they either own or lease. Xeron has no physical storage facilities or equipment to transport propane.

ITEM 3. LEGAL PROCEEDINGS

(a) General

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

(b) Environmental

Dover Gas Light Site

In 1984, the State of Delaware notified the Company that they had discovered contamination on a parcel of land it purchased in 1949 from Dover Gas Light Company, a predecessor gas company. The State also asserted that the Company was the responsible party for any clean-up and prospective environmental monitoring of the site. The Delaware Department of Natural Resources and Environmental Control ("DNREC") and Chesapeake conducted subsequent investigations and studies in 1984 and 1985. Soil and ground-water contamination associated with the operations of the former manufactured gas plant ("MGP"), the Dover Gas Light Company, were found on the property.

In February 1986, the State of Delaware entered into an agreement ("the 1986-Agreement") with Chesapeake whereby Chesapeake reimbursed the State for its costs to purchase an alternate property for construction of its Family Court Building and the State agreed to never construct on the property of the former manufactured gas plant.

In October 1989, the Environmental Protection Agency ("EPA") listed the Dover Gas Light Site ("site") on the National Priorities List under the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA" or

"Superfund"). EPA named both the State of Delaware and the Company as potentially responsible parties ("PRPs") for the site.

The EPA issued a clean-up remedy for the site through a Record of Decision ("ROD") dated August 16, 1994. The remedial action selected by the EPA in the ROD addressed the ground-water and soil. The ground-water remedy included a combination of hydraulic containment and natural attenuation. The soil remedy included complete excavation of the former MGP property. The ROD estimated the costs of the selected remediation of ground-water and soil at $2.7 million and $3.3 million, respectively.

In May 1995, EPA issued an order to the Company under section 106 of CERCLA (the "Order"), which required the Company to implement the remedy described in the ROD. The Order was also issued to General Public Utilities Corporation, Inc. ("GPU"), which both EPA and the Company believe is liable under CERCLA. Other PRPs, such as the State of Delaware, were not ordered to perform the ROD. Although notifying EPA of its objections to the Order, the Company agreed to comply. GPU informed EPA that it did not intend to comply with the Order and to this date has not complied with the EPA Order.

The Company performed field studies and investigations during 1995 and 1996 to further characterize the extent of contamination at the site. In April 1997, the EPA issued a fact sheet stating that the EPA was considering a modification to the soil remedy that would take into account the site's future land use restrictions, which prohibited future development on the site. The EPA proposed a soil remediation that included some on-site excavation of contaminated soils and use of institutional controls; EPA estimated the cost of its proposed soil remedy at $5.7 million. Additionally, the fact sheet acknowledged that the soil remedy described in the ROD would cost $10.5 million, instead of the $3.3 million estimated in the ROD, making the overall remedy cost $13.2 million ($10.5 million to perform the soil remedy and $2.7 million to perform the ground-water remediation).

In June 1997, the Company submitted a supplement to the focused feasibility study, which proposed an alternative soil remedy that would take into account the 1986-Agreement between Chesapeake and the State restricting future development at the site. On December 16, 1997, the EPA issued a ROD Amendment to modify the soil remedy to include: (1) excavation and off-site thermal treatment of the contents of the former subsurface gas holders; (2) implementation of soil vapor extraction; (3) pavement of the parking lot and (4) use of institutional controls restricting future development on the site. The overall clean-up cost of the site was estimated at $4.2 million ($1.5 million for soil remediation and $2.7 million for ground-water remediation) as compared to the ROD cleanup estimate of $13.2 million ($10.5 million for soil remediation and $2.7 million for ground-water remediation).

During the fourth quarter of 1998, the Company completed the field work associated with the remediation of the gas holders (a major component of the soil remediation). During the first quarter of 1999, the Company submitted reports to the EPA documenting the gas holder remedial activities and requesting closure of the gas holder remedial project. In April 1999, the EPA approved the closure of the gas holder remediation project, certified that all performance standards for the project were met and no additional work was needed for that phase of the soil remediation. The gas holder remediation project was completed at a cost of $550,000.

During 1999, the Company completed the construction of the soil vapor extraction system (another major component of the soil remediation) and continued with the ongoing operation of the system at a cost of $250,000. Over the next twelve to eighteen months the Company expects to complete the soil vapor extraction portion of the soil remediation, initiate final construction of a parking lot and proceed with a ground-water remedial program.

The Company's independent consultants have prepared preliminary cost estimates of two potentially acceptable alternatives to complete the ground-water remediation activities at the site. The costs range from a low of $390,000 in capital and $37,000 per year of operating costs for 30 years for natural attenuation to a high of $3.3 million in capital and $1.0 million per year in operating costs to operate a pump-and-treat / ground-water containment system. The pump-and-treat / ground-water containment system is intended to contain the MGP contaminants to allow the ground-water outside of the containment area to naturally attenuate. The operating cost estimate for the containment system is dependent upon the actual ground-water quality and flow conditions. The EPA has also requested that the Company submit a design for a limited ground-water containment system that is estimated to cost $2.8 million in capital and $600,000 per year in operating costs. The EPA has requested that the design be submitted in enough time to allow the EPA to approve it by July 14, 2000. The Company continues to believe that a ground-water containment system is not necessary for the MGP contaminants, that there is insufficient information to design an overall ground-water containment program and that natural attenuation is the appropriate remedial action for the MGP wastes.

The Company cannot predict what the EPA will require for the overall ground-water program, and accordingly, has accrued $2.1 million at December 31, 1999 for the Dover site, as well as a regulatory asset for an equivalent amount. Of this amount, $1.5 million is for ground-water remediation and $600,000 is for the remaining soil remediation. The $1.5 million represents the low end of the ground-water remedy estimates described above.

In March 1995, the Company commenced litigation against the State of Delaware for contribution to the remedial costs being incurred to implement the ROD. In December of 1995, this case was dismissed without prejudice based on a settlement agreement between the parties (the "Settlement"). Under the Settlement, the State agreed to: reaffirm its 1986-Agreement with Chesapeake not to construct on the MGP property and support the Company's proposal to reduce the soil remedy for the site; contribute $600,000 toward the cost of implementing the ROD and reimburse the EPA for $400,000 in oversight costs. The Settlement is contingent upon a formal settlement agreement between EPA and the State of Delaware. Upon satisfaction of all conditions of the Settlement, the litigation will be dismissed with prejudice.

In June 1996, the Company initiated litigation against GPU for response costs incurred by Chesapeake and a declaratory judgment as to GPU's liability for future costs at the site. In August 1997, the United States Department of Justice also filed a lawsuit against GPU seeking a Court Order to require GPU to participate in the site clean-up, pay penalties for GPU's failure to comply with the EPA Order, pay EPA's past costs and a declaratory judgment as to GPU's liability for future costs at the site. In November 1998, Chesapeake's case was consolidated with the United States' case against GPU. A case management order has been set with a trial scheduled for February 2001. At this time, management cannot predict the outcome of the litigation or the amount of proceeds to be received, if any.

The Company is currently engaged in investigations related to additional parties who may be PRPs. Based upon these investigations, the Company will consider filings lawsuits against these other PRPs. The Company expects continued negotiations with PRPs in an attempt to resolve these matters.

Management believes that in addition to the $600,000 expected to be contributed by the State of Delaware under the Settlement, the Company will be equitably entitled to contribution from other responsible parties for a portion of the remedial costs. The Company expects that it will be able to recover actual costs incurred (exclusive of carrying costs), which are not recovered from other responsible parties, through the ratemaking process in accordance with the existing environmental cost recovery rider provisions described below.

Through December 31, 1999, the Company has incurred approximately $7.4 million in costs relating to environmental testing and remedial action studies. In 1990, the Company entered into settlement agreements with a number of insurance companies resulting in proceeds to fund actual environmental costs incurred over a five to seven-year period. In 1995, the Delaware Public Service Commission, authorized recovery of all unrecovered environmental costs incurred by a means of a rider (supplement) to base rates, applicable to all firm service customers. The costs, exclusive of carrying costs, would be recovered through a five-year amortization offset by the associated deferred tax benefit. The deferred tax benefit is simply the carrying cost savings associated with the timing of the deduction of environmental costs for tax purposes as opposed to financial reporting purposes. Each year an environmental surcharge rate is calculated to become effective December 1. The surcharge or rider rate is based on the amortization of expenditures through September of the filing year plus amortization of expenses from previous years. The advantage of the rider is that it is not necessary to file a rate case every year to recover expenses incurred. Through December 31, 1999, the unamortized balance and amount of environmental costs not included in the rider; effective January 1, 2000 were $2.5 million and $679,000, respectively. With the rider mechanism established, it is management's opinion that these costs and any future cost, net of the deferred income tax benefit, will be recoverable in rates.

Salisbury Town Gas Light Site

In cooperation with the Maryland Department of the Environment ("MDE"), the Company completed assessment of the Salisbury manufactured gas plant site, determining that there was localized ground-water contamination. During 1996, the Company completed construction and began Air Sparging and Soil-Vapor Extraction remediation procedures. Chesapeake has been reporting the remediation and monitoring results to the MDE on an ongoing basis since 1996.

The estimated cost of the remaining remediation is approximately $100,000 per year for operating expenses for a period of two years and capital costs of $50,000 to shut down the remediation process in year 2. Based on these estimated costs, the Company adjusted both its liability and related regulatory asset to $240,000 on December 31, 1999, to cover the Company's projected remediation costs for this site. Through December 31, 1999, the Company has incurred approximately $2.7 million for remedial actions and environmental studies. Of this amount, approximately $901,000 of incurred costs have not been recovered through insurance proceeds or received ratemaking treatment. Chesapeake will apply for the recovery of these and any future costs in the next base rate filing with the Maryland Public Service Commission.

Winter Haven Coal Gas Site

Chesapeake has been working with the Florida Department of Environmental Protection ("FDEP") in assessing a coal gas site in Winter Haven, Florida. In May 1996, the Company filed an Air Sparging and Soil Vapor Extraction Pilot Study Work Plan for the Winter Haven site with the FDEP. The Work Plan described the Company's proposal to undertake an Air Sparging and Soil Vapor Extraction ("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. Chesapeake has reported the results of the Work Plan to the FDEP for further discussion and review. It is not possible to determine what remedial action will be required by FDEP or the cost of such remediation.

The Company has recovered all environmental costs incurred to date, approximately $765,000, through rates charged to customers. Additionally, the Florida Public Service Commission has allowed the Company to continue to recover amounts for future environmental costs that might be incurred. At December 31, 1999, Chesapeake had received $505,000 related to future costs, which might be incurred.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED SECURITY HOLDER MATTERS

(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 1999 and 1998 were as follows:

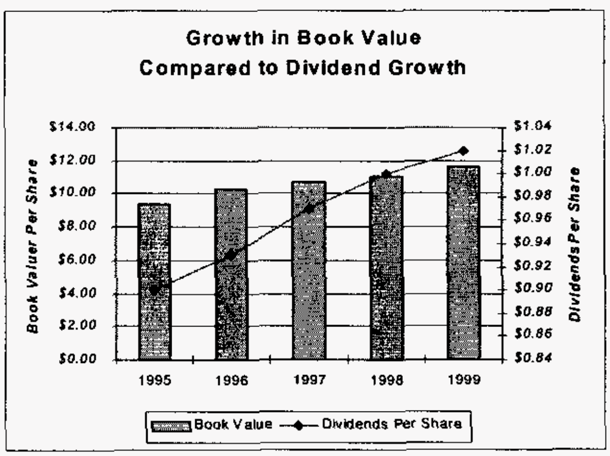
	Quarter Ended	High	Low	Close	Dividends Declared Per Share
1999					
	March 31	**$19.5000**	**$15.8750**	**$16.0625**	**$0.2500**
	June 30	**18.8750**	**14.8750**	**18.5625**	**0.2500**
	September 30	**19.8125**	**17.1875**	**17.2500**	**0.2600**
	December 31	**19.6250**	**17.1250**	**18.3750**	**0.2600**
1998					
	March 31	$20.5000	$18.2500	$18.3750	$0.2500
	June 30	18.5000	17.1250	17.6250	0.2500
	September 30	18.5000	16.5000	17.9375	0.2500
	December 31	18.5000	17.0000	18.9375	0.2500

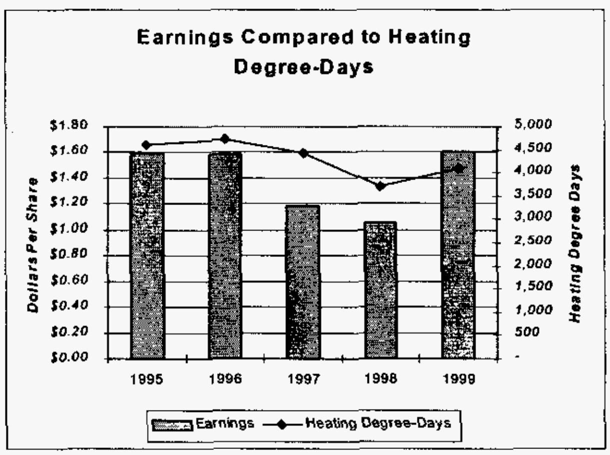
Indentures to the long-term debt of the Company and its subsidiaries contain a restriction that the Company cannot, until the retirement of its Series I Bonds, pay any dividends after December 31, 1988 which exceed the sum of $2,135,188 plus consolidated net income recognized on or after January 1, 1989. As of December 31, 1998, the amounts available for future dividends permitted by the Series I covenant are $17.6 million.

At December 31, 1999, there were approximately 2,212 shareholders of record of the Common Stock.

ITEM 6. SELECTED FINANCIAL DATA

For the Years Ended December 31,	1999	1998	1997	1996	1995
	(dollars in thousands except stock data)				
Operating					
Operating revenues	**$ 230,863**	$ 183,569	$ 222,489	$ 260,102	$ 235,285
Operating income	**$ 10,669**	$ 8,441	$ 8,666	$ 10,099	$ 9,962
Net income	**$ 8,271**	$ 5,303	$ 5,868	$ 7,782	$ 7,696
Balance Sheet					
Gross property, plant and equipment	**$ 172,088**	$ 152,991	$ 144,251	$ 134,001	$ 120,746
Net property, plant and equipment	**$ 117,663**	$ 104,266	$ 99,879	$ 94,014	$ 85,055
Total assets	**$ 166,968**	$ 145,234	$ 145,719	$ 155,786	$ 130,998
Long-term debt, net of current maturities	**$ 33,777**	$ 37,597	$ 38,226	$ 28,984	$ 31,619
Total stockholders' equity	**$ 60,165**	$ 56,356	$ 53,656	$ 50,699	$ 45,587
Capital expenditures	**$ 25,917**	$ 12,650	$ 13,471	$ 15,399	$ 12,887
Common Stock					
Earnings per share:					
Basic	**$ 1.61**	$ 1.05	$ 1.18	$ 1.58	$ 1.59
Diluted	**$ 1.57**	$ 1.04	$ 1.16	$ 1.55	$ 1.56
Average shares outstanding	**5,144,449**	5,060,328	4,972,086	4,912,136	4,836,430
Number of registered shareholders	**2,212**	2,271	2,178	2,213	2,098
Cash dividends per share	**$ 1.02**	$ 1.00	$ 0.97	$ 0.93	$ 0.90
Book value per share	**$ 11.60**	$ 11.06	$ 10.72	$ 10.26	$ 9.38
Common equity/Total capitalization	**64.04%**	59.98%	58.40%	63.63%	59.05%
Return on average equity	**14.20%**	9.64%	11.25%	16.16%	18.58%
Number of Employees					
Natural gas and propane	**331**	322	307	263	256
Advanced information services	**102**	81	63	49	55
Corporate and other	**89**	53	27	26	24
Total	**522**	456	397	338	335





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

Business Description

Chesapeake Utilities Corporation is a diversified utility company engaged in natural gas distribution and transmission, propane distribution and wholesale marketing and advanced information services.

Liquidity and Capital Resources

Chesapeake's capital requirements reflect the capital-intensive nature of its business and are attributable principally to the construction program 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 1999, net cash provided by operating activities was $16.6 million, cash used by investing activities was $22.9 million and cash provided by financing activities was $6.1 million. Based upon anticipated cash requirements in 2000, the Company may refinance its short-term debt and capital requirements through the issuance of long-term debt. The timing of such an issuance is dependent upon the nature of the securities involved as well as current market and economic conditions.

The Board of Directors has authorized the Company to borrow up to $35.0 million from various banks and trust companies. As of December 31, 1999, Chesapeake had four unsecured bank lines of credit, totaling $36.0 million, for short-term cash needs to meet seasonal working capital requirements and to temporarily fund portions of its capital expenditures. The outstanding balances of short-term borrowing at December 31, 1999 and 1998 were $23.0 million and $11.6 million, respectively. In 1999 and 1998, Chesapeake used cash provided by operations and short-term borrowing to fund capital expenditures. The increase in the short-term borrowing balance of $11.4 million was primarily due to capital expenditures during 1999.

During 1999, 1998 and 1997, capital expenditures were approximately $25.1 million, $12.0 million and $12.4 million, respectively. The increase in capital expenditures from 1998 to 1999, was primarily due to the expansion of both the Company's natural gas transmission pipeline and its Florida natural gas distribution system, as well as the acquisition of EcoWater Systems of Michigan. Chesapeake has budgeted $23.0 million for capital expenditures during 2000. This amount includes $17.2 million for natural gas distribution and transmission, $4.1 million for propane distribution and marketing, $400,000 for advanced information services and $1.3 million for general plant. The natural gas distribution expenditures are for expansion and improvement of facilities. Natural gas transmission expenditures are for improvement and expansion of the pipeline system to increase the level of service provided to existing customers and to provide service to customers in the City of Milford, Delaware. 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. Expenditures for general plant include building improvements, computer software and hardware. Financing for the 2000 capital expenditure program is expected to be provided from short-term borrowing, cash provided by operating activities and the potential issuance of long-term debt. The capital expenditure program is subject to continuous review and modification. Actual capital expenditures may vary from the above estimates due to a number of factors including acquisition opportunities, changing economic conditions, customer growth in existing areas, regulation and new growth opportunities.

Chesapeake has budgeted $1.2 million for environmental related expenditures during 2000 and expects to incur additional expenditures in future years, a portion of which may need to be financed through external sources (see Note L to the Consolidated Financial Statements). Management does not expect such financing to have a material adverse effect on the financial position or capital resources of the Company.

Capital Structure

As of December 31, 1999, common equity represented 64.0 percent of permanent capitalization, compared to 60.0 percent in 1998 and 58.4 percent in 1997. Including short-term borrowing, capitalization would be 51.5 percent, 53.4 percent and 53.9 percent. 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 achievement of these objectives will provide benefits to customers and creditors, as well as to the Company's investors.

Financing Activities

During the past two years, the Company has utilized debt and equity financing for the purpose of funding capital expenditures and acquisitions.

Chesapeake exchanged 25,000 shares of its common stock to acquire Sam Shannahan Well Co., Inc., operating as Tolan Water Service ("Tolan"), on March 31, 1998. Tolan provides water conditioning and treatment services and equipment to residential, commercial and industrial customers on the Delmarva Peninsula. All of the outstanding common stock of Xeron, Inc. ("Xeron") was acquired by Chesapeake on May 29, 1998 in exchange for 475,000 shares of the Company's common stock. Xeron markets propane to large independent oil and petrochemical companies, resellers and southeastern retail propane companies. Each of these business combinations was accounted for as a pooling of interests.

During 1999 and 1998, Chesapeake repaid approximately $1.5 million and $1.1 million of long-term debt, respectively.

In connection with its Automatic Dividend Reinvestment and Stock Purchase Plan, Chesapeake issued 36,319, 32,925 and 32,169 shares of common stock during the years of 1999, 1998 and 1997, respectively.

Results of Operations

Net income for 1999 was $8.3 million as compared to $5.3 million for 1998 and $5.9 million for 1997. The increase in net income for 1999 reflected improved pre-tax operating income for each of the Company's three business segments. The natural gas and propane segments each benefited from increased deliveries related to customer growth, averaging more than 4 percent in 1999, combined with cooler temperatures. Based on heating degree-days, temperatures for 1999 were 10 percent cooler than 1998, but still 11 percent warmer than normal. The natural gas segment also benefited from an increase in transportation services. Pre-tax operating income for the advanced information services segment increased due to additional consulting projects and product sales. Net income for 1999 includes an after-tax gain of $863,000 on the sale of the Company's investment in Florida Public Utilities Company (see Note E to the Consolidated Financial Statements). Net income for 1998 includes an after-tax gain of $750,000 from the restructuring of the Company's retirement benefit plans (see Note J to the Consolidated Financial Statements).

The decline in net income from 1997 to 1998 is primarily related to warmer temperatures, partially offset by the after-tax gain on the restructuring of the Company's retirement plans. Based on heating degree-days, temperatures for 1998 were 16 percent warmer than 1997 and 19 percent warmer than normal.

PRE-TAX OPERATING INCOME (in thousands)

For the Years Ended December 31,	1999	1998	Increase (decrease)	1998	1997	Increase (decrease)
Business Segment:						
Natural gas distribution and transmission	$ 10,300	$ 8,814	$ 1,486	$ 8,814	$ 9,219	$ (405)
Propane distribution and marketing	2,627	971	1,656	971	1,158	(187)
Advanced information services	1,470	1,316	154	1,316	1,046	270
Other and Eliminations	446	522	(76)	522	671	(149)
Total Pre-tax Operating Income	$ 14,843	$ 11,623	$ 3,220	$ 11,623	$ 12,094	$ (471)

Natural Gas Distribution and Transmission

Pre-tax operating income increased $1.5 million from 1998 to 1999. The increase was a result of a $3.3 million increase in gross margin offset by a $1.8 million increase in operating expenses. The principle factors responsible for this increase in gross margin were:

- higher levels of firm transportation services provided on a limited-term basis, combined with the 1999 expansion;
- customer growth of 5.1 percent, primarily residential and commercial; and
- greater deliveries due to temperatures in 1999 which were 10 percent cooler than 1998.

These factors were offset somewhat by a decline in margins earned on volumes sold and transported to industrial customers in the Florida service territory.

The customer growth and cooler temperatures resulted in an 11 percent increase in volumes delivered to residential and commercial customers. Under normal temperatures and customer usage, the 5.1 percent customer growth is estimated to generate an additional margin of $870,000 on an annual basis.

In 1998, the Company restructured its retirement benefit plans ("the benefit restructuring"), resulting in a one-time reduction of $1.2 million in pension expenses. Exclusive of the benefit restructuring, operating expenses increased by $1.0 million, or 4.7 percent. The principle costs that contributed to higher operating expenses were depreciation, compensation, marketing and benefits.

NATURAL GAS GROSS MARGIN SUMMARY (in thousands)

For the Years Ended December 31,	1999	1998	Increase (decrease)	1998	1997	Increase (decrease)
Gross Margin:						
Sales	**$ 26,310**	$ 25,186	$ 1,124	$ 25,186	$ 25,322	$ (136)
Transportation	**5,793**	3,969	1,824	3,969	4,284	(315)
Marketing	**207**	174	33	174	185	(11)
Non-gas sales	**540**	187	353	187	116	71
Total Gross Margin	**$ 32,850**	$ 29,516	$ 3,334	$ 29,516	$ 29,907	$ (391)

The $405,000 reduction in pre-tax operating income from 1997 to 1998 was primarily the result of a reduction in gross margin, as indicated in the preceding table. The reduction in gross margin was due to a reduction in transportation and sales revenues. Deliveries to residential and commercial customers decreased by 12 percent, after taking into account customer growth of 4 percent. This reduction in deliveries was due to temperatures which were 19 percent warmer than normal and 16 percent warmer than 1997. Also contributing to the decline in gross margin was an 11 percent reduction in volumes delivered to industrial customers located in the Florida service territory.

Operating expenses for 1998 were higher primarily in the areas of marketing, legal fees, building rent, pipeline system maintenance, depreciation and amortization. These increases were substantially offset by decreases in compensation and those due to the benefit restructuring.

Propane Distribution and Marketing

Pre-tax operating income for 1999 was $2.6 million compared to $1.0 million for 1998. This increase of $1.6 million was the result of a $1.9 million increase in gross margin, offset by an increase in operating expenses of $300,000. Gross margin was higher due to the following:

- gallons delivered by the distribution operation increased by 11 percent;
- margin earned per gallon sold by the distribution operation increased by 6.4 percent; and
- wholesale marketing margins earned increased by 28 percent.

The increase in gallons delivered by the distribution operation was directly related to temperatures which were 10 percent cooler than 1998 coupled with a 3.4 percent growth in customers. During 1999, marketing revenues increased by $35 million or 44 percent while margins increased $360,000. Wholesale marketing is a high volume, low margin business. Operating expenses increased in 1999; primarily in the areas of incentive compensation, marketing and benefits costs. The Company estimates that the warm temperatures experienced in 1999 reduced pre-tax operating income by approximately $1.2 million.

In May 1998, the Company acquired Xeron, Inc., a wholesale marketer of propane, expanding Chesapeake's propane operations (see Note B to the Consolidated Financial Statements). The pre-tax operating income contribution of the propane distribution and marketing segment declined by $187,000 from 1997 to 1998 due to a decrease in gross margin which was partially offset by a decline in operating expenses. Exclusive of the Company's benefit restructuring, pre-tax operating income decreased $463,000 or 40 percent. The propane distribution operation was negatively affected by the warmer temperatures experienced in 1998, resulting in a decline in sales volumes of 8.2 percent, after taking into account a 2.9 percent increase in customer growth. Somewhat offsetting this volume-related decline in margin was an increase of 6.5 percent in the margin earned per gallon delivered as compared to the prior year. In addition, the lack of volatility in the wholesale propane market resulted in a reduction to propane marketing margins due to fewer gallons being marketed. During 1998, marketing revenues declined by $18.1 million or 18 percent while margins declined by $250,000 or 16 percent. Operating expenses declined primarily due to incentive compensation, pension expense and administrative fees associated with the pension plan.

The Company estimates that the warm temperatures experienced in 1998 reduced pre-tax operating income by approximately $1.9 million when compared to normal temperatures. In addition, margins during 1998 were lower than historical norms, further reducing pre-tax operating income by approximately $1.6 million.

Advanced Information Services

The results of the advanced information services segment consisted primarily of those of United Systems, Inc. ("USI"). Pre-tax operating income for 1999 increased $154,000 or 12 percent over 1998. This increase was the result of revenue growth of $3.2 million or 31, resulting in a gross margin increase of $1.3 million or 24 percent. The majority of revenue growth is due to increased web-related products and services. The increase in costs were primarily in the areas of compensation, marketing and uncollectible accounts.

Exclusive of the Company's benefit restructuring, pre-tax operating income contributed by USI increased 15 percent or $156,000 from 1997 to 1998. Gross margin increased $1.5 million, or 38 percent, due to increases in traditional Progress-based consulting.

Income Taxes

The increase in pre-tax operating income and recognition of accumulated deferred income tax timing differences at the 35 percent federal rate were the primary reasons for the $992,000 increase in operating income taxes from 1998 to 1999. Offsetting these increases was a $238,000 reduction in the income tax accrual due to a reassessment of known tax exposures. Income taxes decreased from 1997 to 1998 due to the reduction in pre-tax operating income. This was partially offset by a one-time expense to establish the deferred income tax liability in connection with the 1997 acquisition of Tri-County Gas Company, Inc.

Other

Non-operating income was $1,068,000, $241,000 and $545,000 for the years 1999, 1998 and 1997, respectively. In 1999, the Company recognized a pre-tax gain of $1,415,000, or $863,000 after tax, on the sale of Chesapeake's investment in Florida Public Utilities Company (see Note E to the Consolidated Financial Statements). Exclusive of this transaction, non-operating income for 1999 was $205,000. The resulting decrease from 1998 was primarily due to a reduction in interest income. The decrease in non-operating income from 1997 to 1998 is primarily attributable to pre-tax gains of $452,000 on the sale of fixed assets included in 1997. Also contributing to the 1998 decline is a reduction in interest income of $100,000 from 1997 to 1998.

Regulatory Activities

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

In 1999, the Company requested and received approval from the Delaware Public Service Commission to adjust its interruptible margin sharing mechanism in order to address the level of recovery of fixed distribution costs from residential and small commercial heating customers during the twelve month period of August 1 to July 31. The Company is now allowed to increase or decrease the current margin sharing thresholds based on the actual level of recovery of fixed distribution costs from heating customers as compared to the level which the base tariff rates were designed to recover. Starting in August 1999, the Company can implement an adjustment to the margin sharing thresholds if the weather is at least 6.5 percent warmer or colder than normal. The total increase or decrease in the amount of additional gross margin that the Company will retain or credit to the firm ratepayers cannot exceed a $500,000 cap during the twelve-month period ending in July of each year. Any credits to firm ratepayers will be processed through the interruptible margin sharing mechanism. The Company expects to file for a similar ratemaking adjustment with the Maryland Public Service Commission ("MPSC") during 2000.

During the 1999 Maryland General Assembly legislative session, taxation of electric and gas utilities was changed by the passage of The Electric and Gas Utility Tax Reform Act ("Tax Act"). Effective January 1, 2000, the Tax Act altered utility taxation to account for the restructuring of the electric and gas industries by either repealing and/or amending the existing Public Service Company Franchise Tax, Corporate Income Tax and Property Tax. Prior to this Tax Act, the State of Maryland allowed utilities a credit to their income tax liability for Maryland gross receipts taxes paid during the year. The modification eliminates the gross receipts tax credit. Chesapeake filed and received approval from the MPSC to increase its natural gas delivery service rates by $83,000 on an annual basis to recover the estimated impact of the Tax Act.

Chesapeake plans to file for a base rate increase with the Florida Public Service Commission during the second quarter of 2000. Interim rates are expected to be put into effect, subject to refund, in the second or third quarter of 2000.

Environmental Matters

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

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 G 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 was $36.4 million at December 31, 1999 as compared to a fair value of $36.3 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 is exposed to changes in interest rates as a result of financing through its issuance of fixed-rate long-term debt. 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 propane 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 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 respective party. The wholesale propane 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 marketing operation is subject to commodity price risk on its open positions to the extent that NGL market prices 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 to market 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, 1999 is shown below. All of the contracts mature during 2000.

At December 31, 1999	Quantity in gallons	Estimated Market Prices	Weighted Average Contract Prices
Forward Contracts			
Sale	9,954,000	$.3350 — $.5250	$0.4412
Purchase	8,064,000	$.3250 — $.5200	$0.4121
Futures Contracts			
Purchase	2,730,000	$.4207 — $.4350	$0.4229

Estimated market prices and weighted average contract prices are in dollars per gallon.

The Year 2000

Chesapeake has not experienced any problems related to the year 2000 date rollover or the year 2000 leap year issue; however, all date related problems may not yet have become apparent. While Chesapeake believes its efforts to date have successfully addressed the potential problems, there can be no assurance until the passage of time, that no future problems will occur, including date related problems with respect to Chesapeake's third party business partners. The costs incurred in addressing the year 2000 issues have been immaterial.

Competition

Historically, the Company's natural gas operations have successfully competed with other forms of energy such as electricity, oil and propane. The principal competitive factors have been price, and to a lesser extent, accessibility. The natural gas distributions 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 remain depressed relative to the price of natural gas. However, oil prices as well as the prices of other fuels are subject to change at any time for a variety of reasons;

therefore, there is always uncertainty in the continuing competition among natural gas and other fuels. In order to address this uncertainty, the Company uses flexible pricing arrangements on both the supply and sales side of its business to maximize sales volumes. As a result of the Company's transmission segment's conversion to open access, the Company has shifted from providing competitive sales service to providing transportation and contract storage services.

The Company's natural gas distribution operations located in Maryland and Delaware began offering transportation services to certain industrial customers during 1998 and 1997, respectively. With transportation services now available on the Company's distribution systems, the Company is competing with third party suppliers to sell gas to industrial customers. The distribution operations can be in competition with the interstate transmission company if the distribution customer is located close to the transmission company's pipeline. The customers at risk are usually large volume commercial and industrial customers with the financial resources and capability to bypass the distribution operations. In certain situations, the distribution operations may adjust services and rates for these customers to retain their business. The Company expects to expand the availability of transportation services to additional distribution customers in the future. The Florida distribution operation has been open to certain industrial customers since 1994. The Company established a natural gas brokering and supply operation in Florida to compete for these customers.

The propane distribution operation competes with several other propane distributors in its service territories, primarily on the basis of service and price. Changes are occurring rapidly in the advanced information services segment, which could adversely affect the markets for the Company's services. In addition, both the propane and advanced information services businesses face significant competition from a number of larger competitors with substantially greater resources available to them than those of the Company.

Inflation

Inflation affects the cost of labor, products and services required for operation, maintenance and capital improvements. While the impact of inflation has lessened 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.

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. These statements relate to such topics as customer growth, increases in revenues or margins, regulatory approvals, market risk associated with the Company's propane marketing operation, 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. These factors include, among other things:

- the temperature sensitivity of the natural gas and propane businesses;
- the wholesale price of propane and market movements in these prices;
- the effects of competition on both unregulated and regulated businesses;
- the effect of changes in federal, state or local legislative requirements;
- the ability of the Company's new and planned facilities to generate expected revenues; and
- the Company's ability to obtain the rate relief requested from utility regulators and the timing of that rate relief.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Information related to 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

REPORT OF INDEPENDENT ACCOUNTANTS

To the Stockholders of Chesapeake Utilities Corporation

In our opinion, the consolidated financial statements listed in the accompanying index appearing under item 14(a)(1) of this Form 10-K present fairly, in all material respects, the financial position of Chesapeake Utilities Corporation and its subsidiaries at December 31, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1999, in conformity with accounting principles generally accepted in the United States. In addition, in our opinion, the consolidated financial statement schedule listed in the index appearing under item 14(a)(2) of this Form 10-K presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. The financial statements and the 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 auditing standards generally accepted in the United States which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 the opinion expressed above.

PricewaterhouseCoopers LLP

PRICEWATERHOUSECOOPERS LLP
Washington, D.C.
February 11, 2000

Consolidated Statements of Income

For the Years Ended December 31,	1999	1998	1997
Operating Revenues	$ 230,863,123	$ 183,568,795	$ 222,489,264
Cost of Sales	176,731,255	136,226,618	175,377,647
Gross Margin	54,131,868	47,342,177	47,111,617
Operating Expenses			
Operations	26,460,042	23,462,709	23,500,217
Maintenance	1,858,861	2,123,456	2,068,114
Depreciation and amortization	6,721,661	6,109,202	5,475,417
Other taxes	4,248,900	4,024,129	3,974,097
Income taxes	4,173,670	3,181,599	3,427,308
Total operating expenses	43,463,134	38,901,095	38,445,153
Operating Income	10,668,734	8,441,082	8,666,464
Other Income			
Gain on sale of investment	1,415,343	-	-
Interest income	99,753	188,394	288,339
Other income, net	63,930	97,005	533,704
Income taxes	(510,577)	(44,145)	(276,888)
Total other income	1,068,449	241,254	545,155
Income Before Interest Charges	11,737,183	8,682,336	9,211,619
Interest Charges			
Interest on long-term debt	2,793,712	2,966,043	2,387,641
Interest on short-term borrowing	551,937	254,033	764,536
Amortization of debt expense	117,966	123,335	119,401
Other	2,582	36,339	72,429
Total interest charges	3,466,197	3,379,750	3,344,007
Net Income	$ 8,270,986	$ 5,302,586	$ 5,867,612
Earnings Per Share of Common Stock:			
Basic	$ 1.61	$ 1.05	$ 1.18
Diluted	$ 1.57	$ 1.04	$ 1.16

Consolidated Statements of Comprehensive Income

For the Years Ended December 31,	1999	1998	1997
Net Income	$ 8,270,986	$ 5,302,586	$ 5,867,612
Unrealized gain on marketable securities, net of income taxes	-	566,472	258,274
Total Comprehensive Income	$ 8,270,986	$ 5,869,058	$ 6,125,886

See accompanying notes

Consolidated Balance Sheets

At December 31,	1999	1998
Assets		
Property, Plant and Equipment		
Natural gas distribution and transmission	$ 132,929,885	$ 117,232,506
Propane distribution and marketing	28,679,766	27,287,807
Advanced information services	1,460,411	1,087,910
Other plant	9,017,458	7,382,965
Total property, plant and equipment	172,087,520	152,991,188
Less: Accumulated depreciation and amortization	(54,424,105)	(48,725,412)
Net property, plant and equipment	117,663,415	104,265,776
Investments, at fair market value	595,644	4,165,194
Current Assets		
Cash and cash equivalents	2,357,173	2,598,084
Accounts receivable (less allowance for uncollectibles of $475,592 and $302,513 in 1999 and 1998, respectively)	21,699,128	14,861,255
Materials and supplies, at average cost	2,407,214	1,728,513
Propane inventory, at average cost	2,754,401	1,787,038
Storage gas prepayments	2,211,084	2,152,605
Underrecovered purchased gas costs	1,236,914	1,552,265
Income taxes receivable	76,628	344,311
Deferred income taxes	727,799	-
Prepaid expenses	1,499,910	1,596,595
Total current assets	34,970,251	26,620,666
Deferred Charges and Other Assets		
Environmental regulatory assets	2,340,000	2,700,000
Environmental expenditures	3,574,888	3,418,166
Other deferred charges and intangible assets	7,823,597	4,063,811
Total deferred charges and other assets	13,738,485	10,181,977
Total Assets	$ 166,967,795	$ 145,233,613

See accompanying notes

At December 31,	1999	1998
Capitalization and Liabilities		
Capitalization		
Stockholders' equity		
Common stock	$ **2,524,018**	$ 2,479,019
Additional paid-in capital	**25,782,824**	24,192,188
Retained earnings	**31,857,732**	28,892,384
Unearned compensation related to restricted stock award	-	(71,041)
Accumulated other comprehensive income	-	863,344
Total stockholders' equity	**60,164,574**	56,355,894
Long-term debt, net of current maturities	**33,776,909**	37,597,000
Total capitalization	**93,941,483**	93,952,894
Current Liabilities		
Current maturities of long-term debt	**2,665,091**	520,000
Short-term borrowing	**23,000,000**	11,600,000
Accounts payable	**16,849,061**	11,070,642
Refunds payable to customers	**779,508**	636,153
Accrued interest	**581,649**	553,444
Dividends payable	**1,347,784**	1,273,446
Deferred income taxes	-	56,100
Other accrued liabilities	**4,626,785**	3,754,231
Total current liabilities	**49,849,878**	29,464,016
Deferred Credits and Other Liabilities		
Deferred income taxes	**13,877,284**	13,260,282
Deferred investment tax credits	**711,987**	766,802
Environmental liability	**2,340,000**	2,700,000
Accrued pension costs	**1,544,963**	1,536,304
Other liabilities	**4,702,200**	3,553,315
Total deferred credits and other liabilities	**23,176,434**	21,816,703
Commitments and Contingencies		
(Notes L and M)		
Total Capitalization and Liabilities	$ **166,967,795**	$ 145,233,613

See accompanying notes

Consolidated Statements of Cash Flows

For the Years Ended December 31,	1999	1998	1997
Operating Activities			
Net Income	$ **8,270,986**	$ 5,302,586	$ 5,867,612
Adjustments to reconcile net income to net operating cash:			
Depreciation and amortization	**7,509,841**	6,864,063	6,168,777
Investment tax credit adjustments	**(54,815)**	(54,815)	(54,815)
Deferred income taxes, net	**385,104**	1,711,510	1,437,206
Mark-to-market adjustments	**65,076**	(242,757)	1,144,966
Employee benefits	**8,659**	(801,898)	(238,826)
Employee compensation from lapsing of stock restrictions	**71,041**	119,845	173,643
Other, net	**212,711**	(171,619)	(286,147)
Changes in assets and liabilities:			
Accounts receivable, net	**(6,902,950)**	1,797,425	10,914,969
Other current assets	**(1,607,857)**	630,202	1,368,006
Other deferred charges	**1,205,748**	215,119	(623,138)
Accounts payable, net	**5,778,418**	(5,327,048)	(12,525,992)
Refunds payable to customers	**143,356**	279,112	3,307
Overrecovered purchased gas costs	**315,351**	121,123	518,781
Other current liabilities	**1,196,643**	584,559	(2,193,548)
Net cash provided by operating activities	**16,597,312**	11,027,407	11,674,801
Investing Activities			
Property, plant and equipment expenditures, net	**(25,128,670)**	(12,021,735)	(12,370,932)
Sale (purchase) of investments	**2,189,312**	(500,000)	(36,167)
Net cash used by investing activities	**(22,939,358)**	(12,521,735)	(12,407,099)
Financing Activities			
Common stock dividends, net of amounts reinvested of $456,962, $421,382 and $385,605 in 1999, 1998 and 1997, respectively	**(4,774,338)**	(4,340,687)	(3,846,264)
Issuance of stock — Dividend Reinvestment Plan optional cash	**187,369**	188,564	167,337
Issuance of stock — Retirement Savings Plan	**816,306**	466,759	404,297
Net borrowing (repayment) under line of credit agreements	**11,400,000**	3,999,990	(5,134,990)
Proceeds from issuance of long-term debt	**-**	-	9,929,711
Repayment of long-term debt	**(1,528,202)**	(1,051,390)	(3,098,455)
Net cash provided (used) by financing activities	**6,101,135**	(736,764)	(1,578,364)
Net Decrease)in Cash and Cash Equivalents	**(240,911)**	(2,231,092)	(2,310,662)
Cash and Cash Equivalents at Beginning of Year	**2,598,084**	4,829,176	7,139,838
Cash and Cash Equivalents at End of Year	$ **2,357,173**	$ 2,598,084	$ 4,829,176
Supplemental Disclosure of Cash Flow Information			
Cash paid for interest	$ **3,409,070**	$ **3,490,993**	$ 3,243,981
Cash paid for income tax	$ **4,413,155**	$ **2,670,580**	$ 3,500,160

See accompanying notes

Consolidated Statements of Stockholders' Equity

For the Years Ended December 31,	1999	1998	1997
Common Stock			
Balance — beginning of year	$ **2,479,019**	$ 2,435,142	$ 2,403,978
Dividend Reinvestment Plan	**17,530**	16,240	15,398
Retirement Savings Plan	**22,489**	12,663	11,305
Conversion of debentures	**4,201**	3,115	4,461
Performance shares	**779**	11,859	-
Balance — end of year	**2,524,018**	2,479,019	2,435,142
Additional Paid-in Capital			
Balance — beginning of year	**24,192,188**	22,581,463	21,507,577
Dividend Reinvestment Plan	**626,801**	593,706	529,453
Retirement Savings Plan	**793,817**	454,096	392,992
Conversion of debentures	**142,597**	105,736	151,441
Performance shares	**27,421**	457,187	-
Balance — end of year	**25,782,824**	24,192,188	22,581,463
Retained Earnings			
Balance — beginning of year	**28,892,384**	28,533,145	27,113,764
Net income	**8,270,986**	5,302,586	5,867,612
Cash dividends — Chesapeake	**(5,305,638)**	**(4,943,347)**	(4,341,964)
Cash dividends — Pooled companies	-	-	(106,267)
Balance — end of year	**31,857,732**	28,892,384	28,533,145
Unearned Compensation			
Balance — beginning of year	**(71,041)**	(190,886)	(364,529)
Amortization of prior years' awards	**71,041**	119,845	173,643
Balance — end of year	-	(71,041)	(190,886)
Accumulated Other Comprehensive Income			
Net of income tax expense of approximately $552,000 and $190,000 in 1998 and 1997, respectively	-	863,344	296,872
Total Stockholders' Equity	$ **60,164,574**	$ 56,355,894	$ 53,655,736

See accompanying notes

Consolidated Statements of Income Taxes

For the Years Ended December 31,	1999	1998	1997
Current Income Tax Expense			
Federal	**$ 3,948,746**	$ 1,553,839	$ 2,076,235
State	**807,214**	307,654	442,563
Investment tax credit adjustments, net	**(54,815)**	(54,815)	(54,815)
Total current income tax expense	**4,701,145**	1,806,678	2,463,983
Deferred Income Tax Expense [1]			
Property, plant and equipment	**734,765**	887,175	1,335,802
Deferred gas costs	**(124,576)**	(111,416)	(204,170)
Pensions and other employee benefits	**(153,697)**	546,237	(19,508)
Unbilled revenue	**(45,290)**	(16,198)	(104,632)
Contributions in aid of construction	**(160,971)**	(104,003)	(33,028)
Environmental expenditures	**97,480**	415,845	249,417
Other [2]	**(364,609)**	(198,574)	16,332
Total deferred income tax expense	**(16,898)**	1,419,066	1,240,213
Total Income Tax Expense	**$ 4,684,247**	$ 3,225,744	$ 3,704,196
Reconciliation of Effective Income Tax Rates			
Federal income tax expense at 34%	**4,404,779**	$ 2,899,632	$ 3,254,412
State income taxes, net of federal benefit	**553,444**	363,041	399,213
Acquisition of subchapter S Corporation [3]	**-**	-	317,821
Other [2]	**(273,976)**	(36,929)	(267,250)
Total Income Tax Expense	**$ 4,684,247**	$ 3,225,744	$ 3,704,196
Effective income tax rate	**36.2%**	37.8%	38.7%

At December 31,	1999	1998
Deferred Income Taxes		
Deferred income tax liabilities:		
Property, plant and equipment	**$ 14,002,355**	$ 13,222,141
Environmental costs	**1,477,380**	1,358,443
Deferred gas costs	**439,146**	546,391
Other	**476,476**	1,077,008
Total deferred income tax liabilities	**16,395,357**	16,203,983
Deferred income tax assets:		
Unbilled revenue	**1,053,863**	984,510
Pension and other employee benefits	**980,878**	884,286
Self insurance	**687,158**	625,602
State operating loss carryforwards	**-**	72,041
Other	**523,973**	321,162
Total deferred income tax assets	**3,245,872**	2,887,601
Deferred Income Taxes Per Consolidated Balance Sheet	**$ 13,149,485**	$ 13,316,382

[1] Includes $39,000, $156,000 and $208,000 of deferred state income taxes for the years 1999, 1998 and 1997, respectively.
[2] 1999 includes a $238,000 tax benefit associated with the adjustment to deferred income taxes for known tax exposures, offset by a $78,000 charge to adjust deferred income taxes to the 35% federal income tax rate.
[3] Accounted for as a pooling of interests (see Note B to the Consolidated Financial Statements).

See accompanying notes

A. Summary of Accounting Policies

Nature of Business

Chesapeake Utilities Corporation (the "Company") is engaged in natural gas distribution to approximately 39,000 customers located in central and southern Delaware, Maryland's Eastern Shore and Florida. The Company's natural gas transmission subsidiary operates a 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 Delaware and the Eastern Shore of Maryland. The Company's propane distribution and marketing segment provides distribution service to approximately 35,300 customers in central and southern Delaware, the Eastern Shore of Maryland and Virginia, and markets propane to a number of large independent oil and petrochemical companies, resellers and propane distribution companies in the southeastern United States. The advanced information services segment provides consulting, custom programming, training, development tools and website development for national and international clients.

Principles of Consolidation

The Consolidated Financial Statements include the accounts of the Company and its wholly owned subsidiaries. Investments in all entities in which the Company owns more than 20 percent but less than 50 percent, are accounted for by the equity method. 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 ("Eastern Shore") is an open access pipeline and is subject to regulation by the Federal Energy Regulatory Commission ("FERC"). The Company's 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 distribution and marketing and advanced information services 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 propane segment are recorded at cost. The costs of repairs and minor replacements are charged to income as incurred and the costs of major renewals and betterments are capitalized. Upon retirement or disposition of utility property, the recorded cost of removal, net of salvage value, is charged to accumulated depreciation. Upon retirement or disposition of non-utility property, the gain or loss, net of salvage value, is charged to income. The provision for depreciation is computed using the straight-line method at rates which will amortize the unrecovered cost of depreciable property over the estimated useful life. Depreciation and amortization expenses are provided at an annual rate for each segment. Average rates for the past three years were 4 percent for natural gas distribution and transmission, 5 percent for propane distribution and marketing, 18 percent for advanced information services and 7 percent for general plant.

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 are considered cash equivalents.

Environmental Regulatory Assets

Environmental regulatory assets represent amounts related to environmental liabilities for which cash expenditures have not been made. As expenditures are incurred, the environmental liability is reduced along with the environmental regulatory asset. These amounts, awaiting ratemaking treatment, are recorded to either environmental expenditures as an asset or accumulated depreciation as cost of removal. Environmental expenditures are amortized and/or recovered through a rider to base rates in accordance with the ratemaking treatment granted in each jurisdiction.

Other Deferred Charges and Intangible Assets

Other deferred charges include discount, premium and issuance costs associated with long-term debt and rate case expenses. These costs are deferred, then amortized over the original lives of the respective debt issues. Gains and losses on the reacquisition of debt are amortized over the remaining lives of the original issuances. Rate case expenses are deferred, then amortized over periods approved by the applicable regulatory authorities.

Intangible assets are associated with the acquisition of non-utility companies and are amortized on a straight-line basis over a weighted average period of fourteen years. Gross intangibles and the net unamortized balance at December 31, 1999 were $7.1 million and $5.6 million, respectively. Gross intangibles and the net unamortized balance at December 31, 1998 were $2.8 and $1.6 million, respectively.

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 and tax bases of assets and liabilities and are measured using current effective income tax rates. The portion 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, the Company's propane 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, and changes in market price are recognized as gains or losses in the period of change. The resulting unrealized gains and losses are recorded as assets or liabilities, respectively. At December 31, 1999 and 1998, the unrealized gains were $142,000 and $207,000, respectively.

Operating Revenues

Revenues for the natural gas distribution operations of the Company are based on rates approved by the various public service commissions. Customers' base rates may not be changed without formal approval by these commissions. With the exception of the Company's Florida division, the Company recognizes revenues from meters read on a monthly cycle basis. This practice results in unbilled and unrecorded revenue from the cycle date through month-end. The Florida division recognizes revenues based on services rendered and records an amount for gas delivered but not yet billed.

Chesapeake's 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 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 customer is contractually obligated to deliver or receive natural gas.

The natural gas transmission operation became an open access pipeline on November 1, 1997 with revenues based on rates approved by FERC. Before open access, only portions of the operation's revenues were based on FERC-approved rates.

The propane distribution operation records revenues on either an "as delivered" or a "metered" basis depending on the customer type. The propane marketing operation calculates revenues daily on a mark-to-market basis for open contracts.

Earnings Per Share

The calculations of both basic and diluted earnings per share are presented below.

For the Years Ended December 31,	1999	1998	1997
Calculation of Basic Earnings Per Share:			
Net Income	$ 8,270,986	$ 5,302,586	$ 5,867,612
Weighted Average Shares Outstanding	5,144,449	5,060,328	4,972,089
Basic Earnings Per Share	$ 1.61	$ 1.05	$ 1.18
Calculation of Diluted Earnings Per Share:			
Reconciliation of Numerator:			
Net Income — basic	$ 8,270,986	$ 5,302,586	$ 5,867,612
Effect of 8.25% Convertible debentures	188,982	193,666	204,070
Adjusted numerator — diluted	$ 8,459,968	$ 5,496,252	$ 6,071,682
Reconcilation of Denominator:			
Weighted Shares Outstanding — basic	5,144,449	5,060,328	4,972,089
Effect of 8.25% Convertible debentures	220,732	226,203	238,357
Effect of stock options	11,875	12,245	38,462
Adjusted denominator — diluted	5,377,056	5,298,776	5,248,908
Diluted Earnings per Share	$ 1.57	$ 1.04	$ 1.16

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 L and M to the Consolidated Financial Statements for significant estimates). These estimates involve judgements 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 Statement of Financial Accounting Standards ("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 would result in a charge to earnings, net of applicable income taxes, which could be material.

FASB Statements and Other Authoritative Pronouncements

In 1998, the Financial Accounting Standards Board ("FASB") issued SFAS No. 133, establishing accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. This statement does not allow retroactive application to financial statements for prior periods. Chesapeake will adopt the requirements of this standard in the first quarter of 2001, as required. The Company believes that adoption of this statement will not have a material impact on the Company's financial position or results of operations.

Restatement and Reclassification of Prior Years' Amounts

Certain prior years' amounts have been reclassified to conform to current year presentation.

B. Business Combinations

In November 1999, Chesapeake acquired EcoWater Systems of Michigan, Inc., operating as Douglas Water Conditioning ("Douglas"). Douglas is an EcoWater dealership that has served the Detroit, Michigan area for 11 years. The acquisition was accounted for as a purchase and the Company's financial results include the results of operations of Douglas from the date of acquisition to December 31, 1999, which were not material.

In May 1998, Chesapeake acquired all of the outstanding common stock of Xeron, Inc., based in Houston, Texas for 475,000 shares of Chesapeake common stock. Xeron markets propane to large independent oil and petrochemical companies, resellers and southeastern retail propane companies. The transaction was accounted for as a pooling of interests.

In March 1998, Chesapeake acquired Sam Shannahan Well Co., Inc., operating as Tolan Water Service, in exchange for 25,000 shares of Chesapeake common stock. Tolan provides water conditioning and treatment services and equipment to residential, commercial and industrial customers on the Delmarva Peninsula. This transaction was accounted for as a pooling of interests.

The 1998 acquisitions of Xeron, Inc. and Tolan Water Service required prior periods Consolidated Financial Statements to be restated to include the combined results of operations, financial position and cash flows. All material intercompany transactions have been eliminated in consolidation.

C. Segment Information

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 following table presents information about the Company's reportable segments.

For the Years Ended December 31,	1999	1998	1997
Operating Revenues, Unaffiliated Customers			
Natural gas distribution and transmission	$ **75,395,245**	$ 68,583,445	$ 88,105,336
Propane distribution and marketing	**139,304,246**	102,872,909	125,159,336
Advanced information services	**13,531,261**	10,330,703	7,636,407
Other	**2,632,371**	1,781,738	1,588,185
Total operating revenues, unaffiliated customers	$ **230,863,123**	$ 183,568,795	$ 222,489,264
Intersegment Revenues [1]			
Natural gas distribution and transmission	$ **45,730**	$ 40,253	$ 17,830
Propane distribution and marketing	**-**	-	52,230
Advanced information services	**-**	-	149,602
Other	**650,985**	634,032	523,007
Total intersegment revenues	$ **696,715**	$ 674,285	$ 742,669
Operating Income Before Income Taxes			
Natural gas distribution and transmission	$ **10,300,455**	$ 8,814,125	$ 9,219,619
Propane distribution and marketing	**2,627,123**	971,215	1,157,543
Advanced information services	**1,469,958**	1,316,158	1,045,912
Other	**404,491**	461,174	637,971
Total	**14,802,027**	11,562,672	12,061,045
Eliminations	**40,377**	60,009	32,727
Total operating income before income taxes	$ **14,842,404**	$ 11,622,681	$ 12,093,772
Depreciation and Amortization			
Natural gas distribution and transmission	$ **4,762,285**	$ 4,381,338	$ 3,968,912
Propane distribution and marketing	**1,399,685**	1,334,414	1,214,918
Advanced information services	**268,082**	183,553	122,081
Other	**291,609**	209,897	169,506
Total depreciation and amortization	$ **6,721,661**	$ 6,109,202	$ 5,475,417
Capital Expenditures			
Natural gas distribution and transmission	$ **17,853,885**	$ 10,018,491	$ 9,528,884
Propane distribution and marketing	**2,168,269**	1,544,992	2,820,166
Advanced information services	**372,501**	246,153	273,351
Other	**5,522,615**	840,186	848,680
Total capital expenditures	$ **25,917,270**	$ 12,649,822	$ 13,471,081
Identifiable Assets, at December 31,			
Natural gas distribution and transmission	$ **117,024,633**	$ 102,618,587	$ 103,514,152
Propane distribution and marketing	**31,888,633**	27,526,019	31,831,616
Advanced information services	**2,585,865**	2,304,609	1,751,192
Other	**15,468,664**	12,784,398	8,621,863
Total identifiable assets	$ **166,967,795**	$ 145,233,613	$ 145,718,823

[1] All significant intersegment revenues have been eliminated from 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, 1999 and December 31, 1998 had a fair value of $142,000 and $207,000, respectively 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, 1999, including current maturities, had an estimated fair value of $36.3 million as compared to a carrying value of $36.4 million. At December 31, 1998, the estimated fair value was approximately $41.6 million as compared to a carrying value of $38.1 million. These estimates are based on published corporate borrowing rates for debt instruments with similar terms and average maturities.

E. Investments

The investment balance at December 31, 1999 consists primarily of a Rabbi Trust associated with the acquisition of Xeron, Inc. The Company has classified this investment as a trading security, which requires all gains and losses to be recorded into earnings.

In November 1999, Chesapeake finalized the sale of its investment in Florida Public Utilities Company ("FPU") for $16.50 per share. Chesapeake recognized a gain on the sale of $1,415,000 pre-tax or $863,000 after-tax. The Company had a 7.3 percent ownership interest in the common stock of FPU which had been classified as an available for sale security. This classification required that all unrealized gains and losses be excluded from earnings and be reported net of income tax as a separate component of stockholders' equity. At December 31, 1998, the market value had exceeded the aggregate cost basis of the Company's portfolio by $1,552,000 pre-tax and $487,000 after-tax, respectively.

F. Common Stock and Additional Paid-in Capital

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

For the Years Ended December 31,	1999	1998	1997
Common Stock: Shares issued and outstanding (1)			
Balance — beginning of year	**5,093,788**	5,004,078	4,939,515
Dividend Reinvestment Plan (2)	**36,319**	32,925	32,169
Sale of stock to the Company's Retirement Savings Plan	**46,208**	26,018	23,228
Conversion of debentures	**8,631**	6,401	9,166
Performance shares	**1,600**	24,366	-
Balance — end of year	**5,186,546**	5,093,788	5,004,078

(1) 12,000,000 shares are authorized at a par value of $.4867 per share.

(2) Includes dividends and reinvested optional cash payments.

G. Long-term Debt

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

At December 31,	1999	1998
First mortgage sinking fund bonds:		
9.37% Series I, due December 15, 2004	$ 3,024,000	$ 3,780,000
Uncollateralized senior notes:		
7.97% note, due February 1, 2008	8,000,000	10,000,000
6.91% note, due October 1, 2010	9,090,909	10,000,000
6.85% note, due January 1, 2012	10,000,000	10,000,000
Convertible debentures:		
8.25% due March 1, 2014	3,662,000	3,817,000
Total long-term debt	$ 33,776,909	$ 37,597,000

Annual maturities of consolidated long-term debt for the next five years are as follows: $2,665,091 for the years 2000 through 2002, and $3,665,091 thereafter.

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 1999, debentures totaling $147,000 were converted. The debentures are redeemable at the option of the holder, subject to an annual non-cumulative maximum limitation of $200,000 in the aggregate. At the Company's option, the debentures may be redeemed at the stated amounts.

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, the times interest earned ratio must be at least 2.5 and the Company cannot, until the retirement of its Series I bonds, pay any dividends after December 31, 1988 which exceed the sum of $2,135,188 plus consolidated net income recognized on or after January 1, 1989. As of December 31, 1999, the amounts available for future dividends permitted by the Series I covenant approximated $17.6 million.

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

H. Short-term Borrowings

The Board of Directors has authorized the Company to borrow up to $35.0 million from various banks and trust companies. As of December 31, 1999, the Company had four unsecured bank lines of credit totaling $36.0 million, none of which required compensating balances. Under these lines of credit, the Company had short-term debt outstanding of $23.0 million and $11.6 million at December 31, 1999 and 1998, respectively, with weighted average interest rates of 5.51 percent and 5.56 percent, respectively.

I. Lease Obligations

The Company has entered several operating lease arrangements for office space at various locations and pipeline facilities. Rent expense related to these leases was $357,000, $309,000 and $343,000 for 1999, 1998 and 1997, respectively. Future minimum payments under the Company's current lease agreements are $511,000, $468,000, $390,000, $340,000 and $314,000 for the years of 2000 through 2004, respectively; and $692,000 thereafter, totaling $2.7 million.

J. Employee Benefit Plans

Pension Plan

In December 1998, the Company restructured the employee benefit plans to be competitive with those in similar industries. Chesapeake offered existing participants of the defined benefit plan the option to remain in the existing plan or receive a one-time payout and enroll in an enhanced retirement savings plan. Chesapeake closed the defined benefit plan to new participants, effective December 31, 1998. Based on the election options selected by the employees, the Company reduced its accrued pension liability to $1,283,088. As a result of the change in the accrued liability, the Company recorded a curtailment gain of $1,224,298 in 1998. Benefits under the plan are based on each participant's years of service and highest average compensation. The Company's funding policy provides that payments to the trustee shall be equal to the minimum funding requirements of the Employee Retirement Income Security Act of 1974.

The following schedule sets forth the funded status of the pension plan at December 31, 1999 and 1998:

At December 31,	1999	1998
Change in benefit obligation:		
Benefit obligation at beginning of year	$ **12,187,885**	$ 11,534,355
Service cost	**400,921**	838,177
Interest cost	**688,198**	803,727
Effect of curtailment	**(16,369)**	(1,224,298)
Change in discount rate	**(896,201)**	952,552
Actuarial loss (gain)	**263,562**	(384,492)
Benefits paid [1]	**(4,386,001)**	(332,136)
Benefit obligation at end of year	**8,241,995**	12,187,885
Change in plan assets:		
Fair value of plan assets at beginning of year	**14,585,169**	13,592,699
Actual return on plan assets	**(13,774)**	1,324,606
Benefits paid [1]	**(4,386,001)**	(332,136)
Fair value of plan assets at end of year	**10,185,394**	14,585,169
Funded Status	**1,943,399**	2,397,284
Unrecognized transition obligation	**(96,267)**	(111,371)
Unrecognized prior service cost	**(62,453)**	(67,152)
Unrecognized net gain	**(2,956,318)**	(3,501,849)
Accrued pension cost	$ **(1,171,639)**	$ (1,283,088)
Assumptions:		
Discount rate	**7.50%**	6.75%
Rate of compensation increase	**4.75%**	4.75%
Expected return on plan assets	**8.50%**	8.50%

[1] Benefits paid in 1999 include $4 million in one-time payments related to the restructuring of the pension plan.

Net periodic pension costs for the defined pension benefit plan for 1999, 1998 and 1997 include the following components:

For the Years Ended December 31,	1999	1998	1997
Components of net periodic pension cost:			
Service cost	$ **400,921**	$ 838,177	$ 680,192
Interest cost	**688,198**	803,727	732,188
Expected return on assets	**(1,046,254)**	(1,149,754)	(898,037)
Amortization of:			
Transition assets	**(15,104)**	(15,104)	(15,104)
Prior service cost	**(4,699)**	(4,699)	(4,699)
Actuarial gain	**(118,142)**	(143,622)	(88,900)
Net periodic pension (benefit) cost	**(95,080)**	328,725	405,640
Curtailment gain	**-**	(1,224,298)	-
Total pension (benefit) cost accruals	$ **(95,080)**	$ (895,573)	$ 405,640

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 IRS limitations. For participants still covered by the defined benefit pension plan, the Company makes a contribution matching 60 percent or 100 percent of each participant's pre-tax contributions based on the participant's years of service, not to exceed 6 percent of the participant's eligible compensation for the plan year.

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 6 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 is matched with Chesapeake common stock. The remaining match is invested in the Company's 401(k) plan according to each employee's election options.

Effective, January 1, 1999 the Company offers a non-qualified supplemental employee retirement savings plan open to Company executives over a specific income threshold. Each participant receives a cash only matching contribution percentage equivalent to their 401(k) match level. All contributions and matched funds earn interest income monthly. This Plan is not funded externally.

The Company's contributions to the 401(k) plans totaled $1,066,000, $495,000 and $404,000 for the years ended December 31, 1999, 1998 and 1997, respectively. As of December 31, 1999, there are 84,148 shares reserved to fund future contributions to the Retirement Savings Plan.

Other Post-retirement Benefits

The Company sponsors a defined benefit post-retirement health care and life insurance plan that covers substantially all natural gas and corporate employees. The Company had deferred approximately $126,000, which represented the difference between the Maryland division's SFAS No. 106 expense and its actual pay-as-you-go cost. The amount is being amortized over five years starting in 1995. The unamortized balance was $25,028 at December 31, 1999.

Net periodic post-retirement costs for 1999, 1998 and 1997 include the following components:

For the Years Ended December 31,	1999	1998	1997
Components of net periodic post-retirement cost:			
Service cost	$ **3,322**	$ 3,361	$ 3,287
Interest cost	**55,023**	59,321	60,221
Amortization of:			
Transition obligation	**27,859**	27,859	27,859
Actuarial loss	**3,130**	6,071	1,554
Net periodic post-retirement cost	**89,334**	96,612	92,921
Amounts amortized	**25,254**	25,254	25,254
Total post-retirement cost accruals	$ **114,588**	$ 121,866	$ 118,175

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

At December 31,		1999		1998
Change in benefit obligation:				
Benefit obligation at beginning of year	$	**887,060**	$	868,899
Retirees		**(19,169)**		14,236
Fully-eligible active employees		**(59,211)**		674
Other active		**(20,148)**		3,251
Benefit obligation at end of year	$	**788,532**	$	887,060
Funded Status	$	**(788,532)**	$	(887,060)
Unrecognized transition obligation		**189,436**		217,295
Unrecognized net loss		**23,329**		165,160
Accrued post-retirement cost	$	**(575,767)**	$	(504,605)
Assumptions:				
Discount rate		**7.50%**		6.75%

The health care inflation rate for 1999 is assumed to be 8.5 percent. This rate is projected to gradually decrease to an ultimate rate of 5 percent by the year 2008. 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 $97,327 as of January 1, 2000, and would increase the aggregate of the service cost and interest cost components of the net periodic post-retirement benefit cost for 2000 by approximately $7,474.

K. Executive Incentive Plans

The Performance Incentive Plan ("the Plan") adopted in 1992 provides for the granting of stock options to certain officers of the Company over a 10-year period. The Plan provides participants an option to purchase shares of the Company's common stock, exercisable in cumulative installments of up to one-third on each anniversary of the commencement of the award period. The Plan also enables participants the right to earn performance shares upon the Company's achievement of certain performance goals as set forth in the specific agreements associated with particular options and/or performance shares.

The Company has executed Stock Option Agreements for a three-year performance period ending December 31, 2000 with certain executive officers. One-half of these options become exercisable over time and the other half become exercisable if certain performance targets are achieved. Chesapeake also executed Performance Share Agreements for the same period with certain other executive officers. Each year participants are eligible to earn a maximum number of performance shares equal to one-third of the total number of performance shares granted, based on the Company's achievement of certain performance goals. The Company recorded compensation expense of $131,000 and $49,000 associated with these performance shares in 1999 and 1998, respectively.

In November 1994, the Company executed Tandem Stock Option and Performance Share Agreements ("Agreements") with certain executive officers. During the three-year period ended December 31, 1997, the performance goals set forth in the Agreements were achieved. Following the approval of the Board of Directors on February 27, 1998, the Company issued 44,081 performance shares. At that time, 44,906 stock options expired. The Company recorded $416,000 to recognize the compensation expense associated with these performance shares in 1997.

Changes in outstanding options were as follows:

	1999		1998		1997	
	Number of shares	Option Price	Number of shares	Option Price	Number of shares	Option Price
Balance — beginning of year	**163,637**	**$12.75 — $20.50**	208,543	$12.625 — $20.50	113,051	$12.625 — $12.75
Options granted					95,492	$20.50
Options expired			(44,906)	$12.625		
Balance — end of year	**163,637**	**$12.75 — $20.50**	163,637	$12.75 — $20.50	208,543	$12.625 — $20.50
Exercisable	**85,735**	**$12.75 — $20.50**	68,145	$12.75	98,083	$12.625 — $12.75

In December 1997, the Company granted stock options to certain executive officers of the Company. As required by Statement of Financial Accounting Standards No. 123, the pro forma information as if fair value based accounting had been used to account for the stock-based compensation costs is shown below.

For the Years Ended December 31,	1999	1998	1997
Pro forma Net Income	$ **8,230,868**	$ 5,262,468	$ 5,864,269
Pro forma Earnings Per Share:			
Basic	$ **1.60**	$ 1.04	$ 1.18
Diluted	$ **1.57**	$ 1.03	$ 1.16
Assumptions:			
Dividend yield	**4.73%**	4.73%	4.73%
Expected volatility	**15.53%**	15.53%	15.53%
Risk-free interest rate	**5.89%**	5.89%	5.89%
Expected lives	**4 years**	4 years	4 years

L. Environmental Commitments and Contingencies

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

With respect to the Dover Gas Light site, the Company and General Public Utilities Corporation, Inc. ("GPU") have been ordered by the Environmental Protection Agency ("EPA") to fund or implement the EPA's Record of Decision ("ROD") on the appropriate remedial activities to be performed, which include both soil and ground-water remedies.

During 1999, the Company completed the first phase of the soil remediation process at that site at a cost of $550,000. Over the next twelve to eighteen months, the Company expects to complete the remaining phases of soil remediation and initiate the ground-water remedial activities.

The Company's independent consultants have prepared preliminary estimates of the costs of two potentially acceptable alternatives to complete the ground-water remediation activities at the site. The costs to remediate the ground-water range from a low of $390,000 in capital and $37,000 per year of operating costs for 30 years for natural attenuation; to a high of $3.3 million in capital and $1.0 million per year in operating costs to operate a pump-and-treat / ground-water containment system. The pump-and-treat / ground-water containment system is intended to contain the manufactured gas plant ("MGP") contaminants to allow the ground-water outside of the containment area to naturally attenuate. The operating cost estimate for the pump-and-treat containment system is dependent upon the actual ground-water quality and flow conditions at the site. The EPA has also requested that the Company submit a design for a pump-and-treat / ground-water containment system that is estimated to cost $2.8 million in capital and $600,000 per year in operating costs. The EPA has requested that the design be submitted in enough time to allow the EPA to approve it by July 14,

2000. The Company continues to believe that a ground-water pump-and-treat system is not necessary for the MGP contaminants, that there is insufficient information to design an overall ground-water containment program and that natural attenuation is the appropriate remedial action for the MGP wastes.

Chesapeake cannot predict the ground-water remediation that the EPA will require; therefore, the Company has accrued $2.1 million at December 31, 1999 for the Dover site and has recorded a regulatory asset for an equivalent amount. Of this amount, $1.5 million is for ground-water remediation and $600,000 is for the remaining soil remediation. The $1.5 million represents the low end of the ground-water remedy estimates described above.

The Company initiated litigation against one of the other potentially responsible parties for contribution to the remedial costs incurred by Chesapeake in connection with complying with the ROD. At this time, management cannot predict the outcome of the litigation or the amount of proceeds to be received, if any. Management believes that the Company will be equitably entitled to contribution from other responsible parties for a portion of the expenses to be incurred in connection with the remedies selected in the ROD. The Company expects that it will be able to recover actual costs incurred, which are not recovered from other responsible parties, exclusive of associated carrying costs, through the ratemaking process in accordance with environmental cost recovery rider provisions currently in effect.

In cooperation with the Maryland Department of the Environment ("MDE"), the Company is engaged in remediation procedures at the Salisbury site. In addition, the Company reports the remediation and monitoring results to the MDE. The Company has established a liability with respect to the Salisbury site of $240,000 as of December 31, 1999. This amount is based on the estimated operating costs of the remediation facilities for over the next two years and capital costs to shut down the remediation procedures in 2001. A corresponding regulatory asset has been recorded, reflecting the Company's belief that costs incurred will be recoverable in base rates.

The third site is located in the state of Florida and is currently being evaluated. At this time, no estimate of liability can be made. The Company continues to collect proceeds from our Florida ratepayers to fund future expenditures. At December 31, 1999, the Company has collected $505,000 in excess of costs incurred.

It is management's opinion that any unrecovered current costs and any other future costs associated with any of the three sites incurred will be recoverable through future rates or sharing arrangements with other responsible parties.

M. Other Commitments and Contingencies

Natural Gas Supply

The Company's natural gas distribution operations have entered into contractual commitments for daily entitlements of natural gas from various suppliers. The contracts have various expiration dates.

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 of the Company.

N. 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.

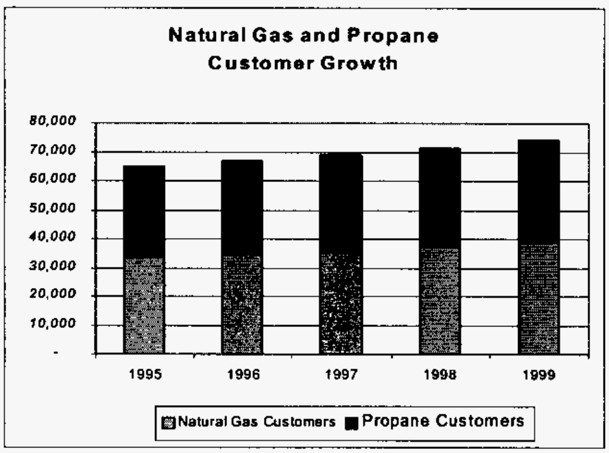
For the Quarters Ended	March 31	June 30	September 30	December 31
1999				
Operating Revenue	$ 55,644,264	$ 46,842,724	$ 56,525,775	$ 71,850,360
Operating Income	5,756,996	1,542,298	22,293	3,347,147
Net Income [1]	4,942,983	796,103	(784,981)	3,316,881
Earnings per share:				
Basic	$ 0.97	$ 0.16	$ (0.15)	$ 0.64
Diluted	$ 0.93	$ 0.16	$ (0.15)	$ 0.62
1998				
Operating Revenue	$ 60,169,102	$ 43,594,944	$ 36,231,924	$ 43,572,825
Operating Income	4,744,218	962,101	(459,965)	3,194,728
Net Income [2]	4,000,602	263,751	(1,266,498)	2,304,731
Earnings per share:				
Basic	$ 0.80	$ 0.05	$ (0.25)	$ 0.45
Diluted	$ 0.77	$ 0.05	$ (0.25)	$ 0.44

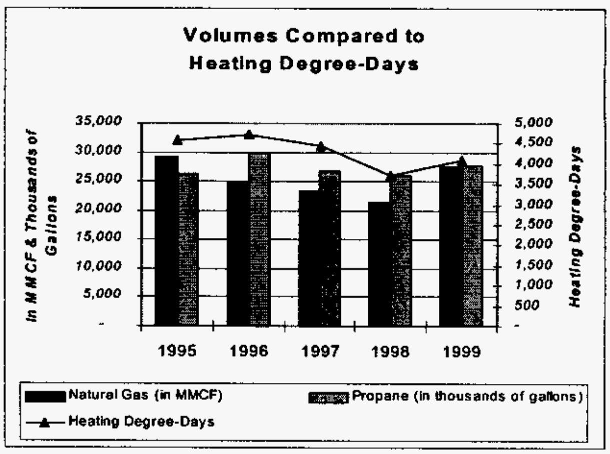
[1] Results for the fourth quarter of 1999 reflect a gain on the sale of investments of $863,000, net of income tax expense. See Note E to the Consolidated Financial Statements.

[2] Results for the fourth quarter of 1998 reflect a pension plan curtailment gain of approximately $750,000, net of income tax expense.

For the Years Ended December 31,	1999	1998	1997	1996	1995
Revenues (in thousands)					
Natural gas					
Residential	$ 19,969	$ 19,274	$ 21,540	$ 18,256	$ 14,857
Commercial	15,241	15,243	16,557	14,339	11,383
Industrial	19,109	15,953	22,625	28,546	36,898
Sale for resale	11,736	11,683	23,010	24,481	12,459
Transportation	8,454	6,120	4,212	3,369	2,993
Other	886	310	161	1,102	515
Total natural gas revenues	75,395	68,583	88,105	90,093	79,105
Propane distribution and marketing	139,304	102,873	125,159	161,812	147,596
Other	16,164	12,113	9,225	8,197	8,584
Total revenues	$ 230,863	$ 183,569	$ 222,489	$ 260,102	$ 235,285
Volumes					
Natural gas deliveries (in MMCF)					
Residential	1,805	1,636	1,753	1,987	1,686
Commercial	2,023	1,907	2,113	2,059	1,792
Industrial	2,793	3,115	5,975	7,553	13,622
Sale for resale	1,461	1,194	1,200	1,065	990
Transportation	19,301	13,548	12,231	12,138	11,131
Total natural gas deliveries	27,383	21,400	23,272	24,802	29,221
Propane distribution (in thousands of gallons)	27,788	25,979	26,682	29,975	26,184
Customers					
Natural gas					
Residential	34,245	32,473	31,277	30,349	29,285
Commercial	4,527	4,416	4,288	4,151	4,030
Industrial (1)	254	236	229	210	212
Sale for resale (1)	3	3	3	3	3
Total natural gas customers	39,029	37,128	35,797	34,713	33,530
Propane distribution	35,267	34,113	33,123	31,961	31,115
Total customers	74,296	71,241	68,920	66,674	64,645
Other					
Heating degree-days	4,082	3,704	4,430	4,717	4,594
Heating degree-days (10-year average)	4,444	4,579	4,596	4,586	4,564

(1) Includes transportation customers.





ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information pertaining to the Directors of the Company is incorporated herein by reference to the Proxy Statement, under "Information Regarding the Board of Directors and Nominees", Section 16(a) Beneficial Ownership Reporting Compliance" to be filed on or before May 1, 2000 in connection with the Company's Annual Meeting to be held on May 16, 2000.

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."

ITEM 11. EXECUTIVE COMPENSATION

This information is incorporated herein by reference to the Proxy Statement, under "Management Compensation Committee Interlocks and Insider Participation", to be filed on or before May 1, 2000 in connection with the Company's Annual Meeting to be held on May 16, 2000.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

This information is incorporated herein by reference to the Proxy Statement, under "Certain Transactions", dated and to be filed on or before May 1, 2000 in connection with the Company's Annual Meeting to be held on May 16, 2000.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

This information is incorporated herein by reference to the Proxy Statement, under "Beneficial Ownership of the Company's Securities", dated and to be filed on or before March 30, 2000 in connection with the Company's Annual Meeting to be held on May 16, 2000.

PART IV

ITEM 14. FINANCIAL STATEMENTS, FINANCIAL STATEMENT SCHEDULES, EXHIBITS AND REPORTS ON FORM 8-K

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

1. Financial Statements:
   - Accountants' Report dated February 11, 2000 of PricewaterhouseCoopers LLP, Independent Accountants
   - Consolidated Statements of Income for each of the three years ended December 31, 1999, 1998 and 1997
   - Consolidated Balance Sheets at December 31, 1999 and December 31, 1998
   - Consolidated Statements of Cash Flows for each of the three years ended December 31, 1999, 1998 and 1997
   - Consolidated Statements of Common Stockholders' Equity for each of the three years ended December 31, 1999, 1998 and 1997
   - Consolidated Statements of Income Taxes for each of the three years ended December 31, 1999, 1998 and 1997
   - 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:

None

(c) Exhibits:

Exhibit 2(a)	Agreement and Plan of Merger by and between Chesapeake Utilities Corporation and Tri-County Gas Company, Inc., filed on the Company's Form 8-K, File No. 001-11590 on January 13, 1997, is incorporated herein by reference.
Exhibit 3(a)	Amended Certificate of Incorporation of Chesapeake Utilities Corporation is incorporated herein by reference to Exhibit 3.1 of the Company's Quarterly Report on Form 10-Q for the period ended June 30, 1998, File No. 001-11590.
Exhibit 3(b)	Amended Bylaws of Chesapeake Utilities Corporation, effective August 20, 1999, are incorporated herein by reference to Exhibit 3 of the Company's Registration Statement on Form 8-A, File No. 001-11590, filed August 24, 1999.
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 Commission 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 Commission upon request.
Exhibit 10(a)	Service Agreement dated November 1, 1989, by and between Transcontinental Gas Pipe Line Corporation and Eastern Shore Natural Gas Company, is incorporated herein by reference to Exhibit 10 to the Company's Annual Report on Form 10-K for the year ended December 31, 1989, File No. 0-593.
Exhibit 10(b)	Service Agreement dated November 1, 1989, by and between Columbia Gas Transmission Corporation and Eastern Shore Natural Gas Company, is incorporated herein by reference to Exhibit 10 to the Company's Annual Report on Form 10-K for the year ended December 31, 1989, File No. 0-593.
Exhibit 10(c)	Service Agreement for General Service dated November 1, 1989, by and between Florida Gas Transmission Company and Chesapeake Utilities Corporation, is incorporated herein by reference to Exhibit 10 to the Company's Annual Report on Form 10-K for the year ended December 31, 1990, File No. 0-593.
Exhibit 10(d)	Service Agreement for Preferred Service dated November 1, 1989, by and between Florida Gas Transmission Company and Chesapeake Utilities Corporation, is incorporated herein by reference to Exhibit 10 to the Company's Annual Report on Form 10-K for the year ended December 31, 1990, File No. 0-593.
Exhibit 10(e)	Service Agreement for Firm Transportation Service dated November 1, 1989, by and between Florida Gas Transmission Company and Chesapeake Utilities Corporation, is incorporated herein by reference

to Exhibit 10 to the Company's Annual Report on Form 10-K for the year ended December 31, 1990, File No. 0-593.

Exhibit 10(f)	Form of Service Agreement for Interruptible Sales Services dated May 11, 1990, by and between Florida Gas Transmission Company and Chesapeake Utilities Corporation, is incorporated herein by reference to Exhibit 10 to the Company's Annual Report on Form 10-K for the year ended December 31, 1990, File No. 0-593.
Exhibit 10(g)	Interruptible Transportation Service Agreement dated February 23, 1990, by and between Florida Gas Transmission Company and Chesapeake Utilities Corporation, is incorporated herein by reference to Exhibit 10 to the Company's Annual Report on Form 10-K for the year ended December 31, 1990, File No. 0-593.
Exhibit 10(h)	Interruptible Transportation Service Agreement dated November 30, 1990, by and between Florida Gas Transmission Company and Chesapeake Utilities Corporation, is incorporated herein by reference to Exhibit 10 to the Company's Annual Report on Form 10-K for the year ended December 31, 1990, File No. 0-593.
*Exhibit 10(i)	Executive Employment Agreement dated March 26, 1997, by and between Chesapeake Utilities Corporation and each Ralph J. Adkins and John R. Schimkaitis is incorporated herein by reference to Exhibit 10 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 1997, File No. 001-11590.
*Exhibit 10(j)	Form of Performance Share Agreement dated January 1, 1998, pursuant to Chesapeake Utilities Corporation Performance Incentive Plan by and between Chesapeake Utilities Corporation and each of Ralph J. Adkins and John R. Schimkaitis is incorporated herein by reference to Exhibit 10 of the Company's Annual Report on Form 10-K for the year ended December 31, 1997, File No. 001-11590.
*Exhibit 10(k)	Form of Performance Share Agreement dated January 1, 2000, pursuant to Chesapeake Utilities Corporation Performance Incentive Plan by and between Chesapeake Utilities Corporation and each of Ralph J. Adkins and John R. Schimkaitis, filed herewith.
*Exhibit 10(l)	Chesapeake Utilities Corporation Cash Bonus Incentive Plan dated January 1, 1992, is incorporated herein by reference to Exhibit 10 to the Company's Annual Report on Form 10-K for the year ended December 31, 1991, File No. 0-593.
*Exhibit 10(m)	Chesapeake Utilities Corporation Performance Incentive Plan dated January 1, 1992, is incorporated herein by reference to the Company's Proxy Statement dated April 20, 1992, in connection with the Company's Annual Meeting held on May 19, 1992.
*Exhibit 10(n)	Form of Stock Option Agreement dated January 1, 1998, pursuant to Chesapeake Utilities Corporation Performance Incentive Plan by and between Chesapeake Utilities Corporation and each of Michael P. McMasters, Stephen C. Thompson, William C. Boyles, Philip S. Barefoot, Jeremy D. West, William P. Schneider and James R. Schneider, is incorporated herein by reference to Exhibit 10 of the Company's Annual Report on Form 10-K for the year ended December 31, 1997, File No. 001-11590.
*Exhibit 10(o)	Form of Stock Option Agreement dated January 1, 2000, pursuant to Chesapeake Utilities Corporation Performance Incentive Plan by and between Chesapeake Utilities Corporation and each of William C. Boyles, Philip S. Barefoot, Thomas A. Geoffroy, James R. Schneider and William P. Schneider, filed herewith.
*Exhibit 10(p)	Directors Stock Compensation Plan adopted by Chesapeake Utilities Corporation in 1995 is incorporated herein by reference to the Company's Proxy Statement dated April 17, 1995 in connection with the Company's Annual Meeting held in May 1995.
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 Accountants, filed herewith.

* Management contract or compensatory plan or agreement.

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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 16, 2000

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: March 16, 2000

/S/ JOHN R. SCHIMKAITIS
John R. Schimkaitis, President, Chief Executive Officer and Director
Date: March 16, 2000

/S/ MICHAEL P. MCMASTERS
Michael P. McMasters, Vice President, Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer)
Date: March 16, 2000

/S/ RICHARD BERNSTEIN
Richard Bernstein, Director
Date: March 16, 2000

/S/ WALTER J. COLEMAN
Walter J. Coleman, Director
Date: March 16, 2000

/S/ JOHN W. JARDINE, JR.
John W. Jardine, Jr., Director
Date: March 16, 2000

/S/ RUDOLPH M. PEINS, JR.
Rudolph M. Peins, Jr., Director
Date: March 16, 2000

/S/ ROBERT F. RIDER
Robert F. Rider, Director
Date: March 16, 2000

/S/ JEREMIAH P. SHEA
Jeremiah P. Shea, Director
Date: March 16, 2000

/S/ WILLIAM G. WARDEN, III
William G. Warden, III, Director
Date: March 16, 2000

Chesapeake Utilities Corporation and Subsidiaries
Schedule II
Valuation and Qualifying Accounts

For the Year Ended December 31,	Balance at Beginning of Year	Additions: Charged to Income	Additions: Other Accounts [1]	Deductions [2]	Balance at End of Year
Reserve Deducted From Related Assets					
Reserve for Uncollectible Accounts					
1999	$ 302,513	$ 306,651	$ 74,877	$ (359,165)	$ 324,876
1998	$ 331,775	$ 280,391	$ 57,759	$ (367,412)	$ 302,513
1997	$ 392,412	$ 203,624	$ 68,038	$ (332,299)	$ 331,775

[1] Recoveries.

[2] Uncollectible accounts charged off.

Chesapeake Utilities Corporation and Subsidiaries
Exhibit 12
Ratio of Earnings to Fixed Charges

For the Years Ended December 31,	1999	1998	1997
Income from continuing operations	$ **8,270,986**	$ 5,302,586	$ 5,867,612
Add:			
Income taxes	**4,684,247**	3,225,744	3,704,196
Portion of rents representative of interest factor	**162,278**	130,717	167,029
Interest on indebtedness	**3,348,231**	3,256,415	3,224,606
Amortization of debt discount and expense	**117,966**	123,335	119,401
Earnings as adjusted	$ **16,583,708**	$ 12,038,797	$ 13,082,844
Fixed Charges			
Portion of rents representative of interest factor	$ **162,278**	$ 130,717	$ 167,029
Interest on indebtedness	**3,348,231**	3,256,415	3,224,606
Amortization of debt discount and expense	**117,966**	123,335	119,401
Fixed Charges	$ **3,628,475**	$ 3,510,467	$ 3,511,036
Ratio of Earnings to Fixed Charges	**4.57**	3.43	3.73

Chesapeake Utilities Corporation
Exhibit 21
Subsidiaries of the Registrant

Subsidiaries	State Incorporated
Eastern Shore Natural Gas Company	Delaware
Sharp Energy, Inc.	Delaware
Chesapeake Service Company	Delaware
United Systems, Inc.	Georgia
Tri-County Gas Co., Incorporated	Maryland
Eastern Shore Real Estate	Maryland
Xeron, Inc.	Mississippi
Sam Shannahan Well Company, Inc.	Maryland
Sharp Water, Inc.	Delaware

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

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

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

Subsidiaries of Sharp Water, Inc.	State Incorporated
EcoWater Systems of Michigan, Inc.	Michigan

CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the incorporation by reference in the Prospectuses of Chesapeake Utilities Corporation on Form S-2 (File No. 33-26582), Form S-3 (File Nos. 33-28391, 33-64671, 333-37165, 333-64757, 333-63381 and 333-94159) and Form S-8 (File No. 33-301175) of our report dated February 11, 2000 on our audits of the consolidated financial statements and the consolidated financial statement schedules of Chesapeake Utilities Corporation as of December 31, 1999 and 1998 and for each of the three years in the period ended December 31, 1999 included in this Annual Report on Form 10-K.

PricewaterhouseCoopers LLP

PRICEWATERHOUSECOOPERS LLP
Washington, D.C.
March 28, 2000

Upon written request, Chesapeake will provide, free of charge, a copy of any exhibit to the 1999 Annual Report on Form 10-K not included in this document.

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended: June 30, 2000

OR

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

For the transition period from ______ to ______

Commission File Number: 001-11590

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

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

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)

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

Common Stock, par value $.4867 — 5,246,794 shares issued as of June 30, 2000.

TABLE OF CONTENTS

Item 1. Financial Statements

Chesapeake Utilities Corporation and Subsidiaries

Consolidated Statements of Income (Unaudited)

For the Three Months Ended June 30,	2000	1999
Operating Revenues	$ 66,170,793	$ 46,842,720
Cost of Sales	53,666,552	35,281,467
Gross Margin	12,504,241	11,561,253
Operating Expenses		
Operations	7,929,546	6,760,049
Maintenance	618,625	428,733
Depreciation and amortization	1,770,674	1,609,596
Other taxes	800,662	777,387
Income taxes	149,502	442,743
Total operating expenses	11,269,009	10,018,508
Operating Income	1,235,232	1,542,745
Other Income, net	55,451	50,315
Income Before Interest Charges	1,290,683	1,593,060
Interest Charges	971,135	796,957
Net Income	$ 319,548	$ 796,103
Earnings Per Share of Common Stock:		
Basic	$ 0.06	$ 0.16
Diluted	$ 0.06	$ 0.15

Consolidated Statements of Comprehensive Income (Unaudited)

For the Three Months Ended June 30,	2000	1999
Net Income	$ 319,548	$ 796,103
Unrealized loss on marketable securities, net of income taxes	-	233,312
Total Comprehensive Income	$ 319,548	$ 1,029,415

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

Chesapeake Utilities Corporation and Subsidiaries

Consolidated Statements of Income (Unaudited)

For the Six Months Ended June 30,	2000	1999
Operating Revenues	$ 165,035,078	$ 102,486,863
Cost of Sales	131,066,230	72,441,430
Gross Margin	33,968,848	30,045,433
Operating Expenses		
Operations	16,098,821	13,538,951
Maintenance	1,104,242	848,485
Depreciation and amortization	3,595,903	3,198,015
Other taxes	1,718,453	1,677,753
Income taxes	3,575,469	3,482,080
Total operating expenses	26,092,888	22,745,284
Operating Income	7,875,960	7,300,149
Other Income, net	82,332	101,045
Income Before Interest Charges	7,958,292	7,401,194
Interest Charges	1,969,278	1,662,108
Net Income	$ 5,989,014	$ 5,739,086
Earnings Per Share of Common Stock:		
Basic	$ 1.15	$ 1.12
Diluted	$ 1.12	$ 1.09

Consolidated Statements of Comprehensive Income (Unaudited)

For the Six Months Ended June 30,	2000	1999
Net Income	$ 5,989,014	$ 5,739,086
Unrealized gain on marketable securities, net of income taxes	-	-
Total Comprehensive Income	$ 5,989,014	$ 5,739,086

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

Chesapeake Utilities Corporation and Subsidiaries

Consolidated Statements of Cash Flows (Unaudited)

For the Six Months Ended June 30,	2000	1999
Operating Activities		
Net Income	$ 5,989,014	$ 5,739,086
Adjustments to reconcile net income to net operating cash:		
Depreciation and amortization	4,504,556	3,658,484
Deferred income taxes, net	194,063	(883,899)
Investment tax credit adjustments	(17,646)	(16,601)
Mark-to-market adjustments	(10,637)	33,855
Other, net	441,923	134,553
Changes in assets and liabilities:		
Accounts receivable, net	1,816,644	222,951
Inventory, materials, supplies and storage gas	(672,358)	772,431
Other current assets	432,236	630,783
Other deferred charges	(421,639)	343,265
Accounts payable, net	65,324	1,867,403
Refunds payable to customers	(97,321)	(13,757)
Overrecovered purchased gas costs	(81,438)	2,239,032
Income taxes payable	842,919	2,423,983
Other current liabilities	843,050	1,437,713
Net cash provided by operating activities	13,828,690	18,589,282
Investing Activities		
Property, plant and equipment expenditures, net	(7,645,747)	(7,336,408)
Net cash used by investing activities	(7,645,747)	(7,336,408)
Financing Activities		
Common stock dividends net of amounts reinvested of $245,551 and $219,808, respectively	(2,458,573)	(2,332,631)
Issuance of stock:		
Dividend Reinvestment Plan optional cash	111,419	93,754
Retirement Savings Plan	470,471	420,237
Net repayments under line of credit agreements	(1,600,000)	(7,100,000)
Repayments of long-term debt	(1,378,068)	(1,268,025)
Net cash used by financing activities	(4,854,751)	(10,186,665)
Net Increase in Cash and Cash Equivalents	$ 1,328,192	$ 1,066,209
Cash and Cash Equivalents at Beginning of Period	2,357,173	2,598,084
Cash and Cash Equivalents at End of Period	$ 3,685,365	$ 3,664,293

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

Chesapeake Utilities Corporation and Subsidiaries

Consolidated Balance Sheets (Unaudited)

Assets	June 30, 2000	December 31, 1999
Property, Plant and Equipment		
Natural gas distribution and transmission	$ 137,958,355	$ 132,929,885
Propane gas distribution and marketing	29,543,663	28,679,766
Advanced information services	1,656,882	1,460,411
Other plant	9,392,883	9,017,458
Total property, plant and equipment	178,551,783	172,087,520
Less: Accumulated depreciation and amortization	(57,905,403)	(54,424,105)
Net property, plant and equipment	120,646,380	117,663,415
Investments	595,111	595,644
Current Assets		
Cash and cash equivalents	2,403,944	2,357,173
Accounts receivable	19,893,122	21,699,128
Materials and supplies, at average cost	2,963,739	2,407,214
Propane inventory, at average cost	2,688,354	2,754,401
Storage gas prepayments	2,392,963	2,211,084
Underrecovered purchased gas costs	1,318,353	1,236,914
Income taxes receivable	-	73,772
Deferred income taxes	745,888	745,888
Prepaid expenses	1,073,159	1,505,396
Total current assets	33,479,522	34,990,970
Deferred Charges and Other Assets		
Environmental regulatory assets	2,301,821	2,340,000
Environmental expenditures	3,408,231	3,574,888
Other deferred charges and intangible assets	8,570,120	7,823,597
Total deferred charges and other assets	14,280,172	13,738,485
Total Assets	$ 169,001,185	$ 166,988,514

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

Capitalization and Liabilities	June 30, 2000	December 31, 1999
Capitalization		
Stockholders' equity		
Common Stock, par value $.4867 per share; (authorized 12,000,000 shares; issued 5,246,794 and 5,186,546 shares, respectively)	$ 2,553,341	$ 2,524,018
Additional paid-in capital	26,810,540	25,782,824
Retained earnings	35,074,391	31,857,732
Total stockholders' equity	64,438,272	60,164,574
Long-term debt, net of current portion	32,296,957	33,776,909
Total capitalization	96,735,229	93,941,483
Current Liabilities		
Current portion of long-term debt	2,665,091	2,665,091
Short-term borrowing	21,400,000	23,000,000
Accounts payable	15,649,022	16,865,119
Refunds payable to customers	682,187	779,508
Income taxes payable	769,147	-
Accrued interest	553,424	581,649
Dividends payable	1,416,016	1,347,784
Other accrued liabilities	5,356,918	4,613,358
Total current liabilities	48,491,805	49,852,509
Deferred Credits and Other Liabilities		
Deferred income taxes	14,088,903	13,895,373
Deferred investment tax credits	694,341	711,987
Environmental liability	2,301,821	2,340,000
Accrued pension costs	1,548,638	1,544,963
Other liabilities	5,140,448	4,702,199
Total deferred credits and other liabilities	23,774,151	23,194,522
Total Capitalization and Liabilities	$ 169,001,185	$ 166,988,514

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

1. Quarterly Financial Data

The financial information of Chesapeake Utilities Corporation (the "Company") included herein is unaudited and should be read in conjunction with the Company's 1999 annual report on Form 10-K. In the opinion of management, the financial information reflects normal recurring adjustments, which are necessary for a fair presentation of the Company's interim results. Due to the seasonal nature of the Company's business, there are substantial variations in the results of operations reported on a quarterly basis; therefore, the results of operations for an interim period may not give a true indication of results for the year. Certain amounts in 1999 have been reclassified to conform to current year presentation.

2. Calculation of Earnings Per Share

	Three Months Ended		Six Months Ended	
For the Periods Ended June 30,	**2000**	**1999**	**2000**	**1999**
Calculation of Basic Earnings Per Share:				
Net Income	$ 319,548	$ 796,103	$ 5,989,014	$ 5,739,086
Weighted Average Shares Outstanding	5,237,741	5,134,178	5,222,004	5,121,189
Basic Earnings Per Share	$ 0.06	$ 0.16	$ 1.15	$ 1.12
Calculation of Diluted Earnings Per Share:				
Reconciliation of Numerator:				
Net Income — Basic	$ 319,548	$ 796,103	$ 5,989,014	$ 5,739,086
Effect of 8.25% Convertible Debentures	-	-	90,414	94,467
Adjusted numerator — Diluted	$ 319,548	$ 796,103	$ 6,079,428	$ 5,833,553
Reconciliation of Denominator:				
Weighted Shares Outstanding — Basic	5,237,741	5,134,178	5,222,004	5,121,189
Effect of Dilutive Securities				
Stock Options	11,029	10,368	11,461	11,026
8.25% Convertible Debentures	-	-	212,370	222,505
Adjusted denominator — Diluted	5,248,770	5,144,546	5,445,835	5,354,720
Diluted Earnings per Share	$ 0.06	$ 0.15	$ 1.12	$ 1.09

3. Commitments and Contingencies — Environmental Matters

The Company is currently participating in the investigation, assessment and remediation of three former gas manufacturing plant sites located in different states, including the exploration of corrective action options to remove environmental contaminants. Chesapeake entered into settlement agreements with a number of insurance companies resulting in proceeds to fund actual environmental costs incurred for two of the sites over three to seven-year periods beginning in 1990. The final insurance proceeds were requested and received in 1992. Chesapeake has received ratemaking treatment for costs incurred to date from the applicable regulatory commissions for the three sites listed below. It is management's opinion that any current or future costs that have not been recovered through insurance proceeds or rates at this time will be recoverable in future rates.

(a) Dover Gas Light Site

The Dover site has been listed by the Environmental Projection Agency Region III ("EPA") on the Superfund National Priorities List under the Comprehensive Environmental Response, Compensation and Liability Act. In 1994, the EPA issued a site Record of Decision ("ROD"), which selected a remedial plan and estimated the costs of the selected remediation at $2.7 million for ground-water and $3.3 million for soil. In 1995, the EPA issued an order ("Order") requiring the Company and General Public Utilities Corporation, Inc. ("GPU") to fund or implement the ROD. Although notifying the EPA of its objections, the Company agreed to comply with the Order. GPU informed the EPA that it did not intend to comply. The EPA may seek judicial enforcement of its Order, as well as significant financial penalties for failure to comply. In June 1996, the Company initiated litigation against GPU for contribution to the remedial costs incurred by Chesapeake in connection with complying with the ROD. At this time, management cannot predict the outcome of the litigation or the amount of proceeds to be received, if any. Additional information pertaining to remediation costs, investigations related to additional parties who may be potentially responsible parties and/or litigation initiated by the Company can be found in the Company's annual report on Form 10-K for the year ended December 31, 1999 (see the "Environmental — Dover Gas Light Site" section, beginning on page 11).

In 1996, the Company began the design phase of the ROD, on-site pre-design and investigation. In January 1998, the EPA issued a ROD Amendment, which modified the soil remediation clean-up plan to include: (1) excavation and off-site thermal treatment of the contents of the former subsurface gas holders; (2) implementation of soil vaporization extraction; and (3) pavement of the parking lot. The overall estimated clean-up cost of the site under the EPA's ROD Amendment was $4.2 million ($1.5 million for soil remediation and $2.7 million for ground-water remediation) as compared to the original ROD clean-up estimate of $6.0 million ($3.3 million for soil remediation and $2.7 million for ground-water remediation).

During the fourth quarter of 1998 the Company completed the first element of the soil remediation. Over the next twelve to eighteen months the Company will finalize the remaining two elements of the soil remediation. The installation of the ground-water remediation system has been delayed pending further investigation.

The Company's independent consultants have prepared preliminary cost estimates of two potentially acceptable alternatives to complete the ground-water remediation activities at the site. The costs range from a low of $390,000 in capital and $37,000 per year of operating costs for 30 years for natural attenuation to a high of $3.3 million in capital and $1.0 million per year in operating costs for 30 years for a pump-and-treat system. The pump-and-treat / ground-water containment system is intended to contain the manufactured gas plant ("MGP") contaminants to allow the ground-water outside of the containment area to naturally attenuate. The operating cost estimate for the containment system is dependent upon the actual ground-water quality and flow conditions. The Company continues to believe that a ground-water containment system is not necessary for the MGP contaminants, that there is insufficient information to design an overall ground-water containment program and that natural attenuation is the appropriate remedial action for the MGP wastes. The Company is currently in discussions with the EPA on possible ground-water alternatives to the pump-and-treat. Natural attenuation is still being evaluated as a possible ground-water remedy.

The Company cannot predict what the EPA will require for the overall ground-water program, and accordingly, accrued $2.1 million at December 31, 1998 for the Dover site, and recorded a regulatory asset for an equivalent amount. Of this amount, $1.5 million is for ground-water remediation and $600,000 is for the remaining soil remediation. The $1.5 million represents the low end of the ground-water remedy estimates described above. No changes have been made to these accrued amounts through the second quarter of 2000. The Company is currently engaged in investigations related to possible additional potentially responsible parties ("PRPs"). Based upon these investigations, the Company will consider suit against other PRPs. The Company expects continued negotiations with PRPs in an attempt to resolve these matters.

As of June 30, 2000, the Company has incurred approximately $7.8 million in costs relating to environmental testing and remedial action studies. Of this amount, $709,000 of incurred environmental costs has not received ratemaking treatment. In November, Chesapeake will submit a filing with the Public Service Commission seeking to recover these costs through rates.

(b) Salisbury Town Gas Light Site

In cooperation with the Maryland Department of the Environment ("MDE"), the Company completed an assessment of the Salisbury manufactured gas plant site, determining that there was localized ground-water contamination. During 1996, the Company completed construction and began Air Sparging and Soil-Vapor Extraction remediation procedures. Chesapeake has been reporting the remediation and monitoring results to the MDE on an ongoing basis since 1996. The Company has requested approval from the MDE to shut down the remediation procedures currently in place. The MDE has approved a temporary shut down and is evaluating a complete shut down of the site.

The estimated cost of the remaining remediation is approximately $100,000 per year for operating expenses for a period of two years and capital costs of $50,000 to shut down the remediation process. Based on these estimated costs, the Company adjusted both its liability and related regulatory asset to $240,000 on December 31, 1999, to cover the Company's projected remediation costs for this site. The Company has not adjusted the accrual during 2000. As of June 30, 2000, the Company has incurred approximately $2.7 million for remedial actions and environmental studies. Of this amount, approximately $940,000 of incurred costs has not been recovered through insurance proceeds or received ratemaking treatment. Chesapeake will apply for the recovery of these and any future costs in the next base rate filing with the Maryland Public Service Commission.

(c) Winter Haven Coal Gas Site

Chesapeake has been working with the Florida Department of Environmental Protection ("FDEP") in assessing a coal gas site in Winter Haven, Florida. In May 1996, the Company filed an Air Sparging and Soil Vapor Extraction Pilot Study Work Plan for the Winter Haven site with the FDEP. The Work Plan described the Company's proposal to undertake an Air Sparging and Soil Vapor Extraction ("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. Chesapeake has reported the results of the Work Plan to the FDEP for further discussion and review. It is not possible to determine what remedial action will be required by FDEP or the cost of such remediation.

The Company has recovered all environmental costs incurred to date, approximately $773,000, through rates charged to customers. Additionally, the Florida Public Service Commission has allowed the Company to continue to recover amounts for future environmental costs that might be incurred. At June 30, 2000, Chesapeake had received $532,000 related to future costs, which might be incurred.

4. Recent Accounting Pronouncements

FASB Statements and Other Authoritative Pronouncements Issued

Derivative Instruments and Hedging Activities

The Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 133, establishing accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and hedging activities. This statement does not allow retroactive application to financial statements for prior periods. Chesapeake will adopt the requirements of this standard in the first quarter of 2001, as required. The Company believes that adoption of this statement will not have a material impact on the Company's financial position or results of operations.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Business Description
Chesapeake Utilities Corporation is a diversified utility company engaged in natural gas distribution and transmission, propane distribution and wholesale marketing and advanced information services.

Chesapeake's strategy is to grow earnings from a stable utility foundation by investing in related businesses and services that provide opportunities for higher, unregulated returns. This growth strategy includes acquisitions and investments in unregulated businesses as well as the continued investment and expansion of the Company's utility operations that provide the stable base of earnings. Chesapeake continuously re-evaluates its investments to ensure that they are consistent with its strategy and the goal of enhancing shareholder value.

Results of Operations for the Quarter Ended June 30, 2000

Consolidated Overview
The Company recognized net income of $320,000 or $0.06 per share for the second quarter of 2000. As indicated in the following table, the decrease in income is primarily due to lower contributions of pre-tax operating income by the advanced information services business and propane segments. These reductions were partially offset by higher pre-tax operating income for the natural gas and other business segment.

For the Three Months Ended June 30,	2000	1999	Change
Pre-tax Oprerating Income			
Natural Gas Distribution & Transmission	$ 2,065,853	$ 1,954,213	$ 111,640
Propane Gas Distribution & Marketing	(908,013)	(443,730)	(464,283)
Advanced Information Services	(51,221)	418,751	(469,972)
Other & Eliminations	278,115	56,254	221,861
Pre-tax Operating Income	1,384,734	1,985,488	(600,754)
Operating Income Taxes	149,502	442,743	(293,241)
Interest	971,135	796,957	174,178
Non-Operating Income, net	55,451	50,315	5,136
Net Income	$ 319,548	$ 796,103	$ (476,555)

Natural Gas Distribution and Transmission
The natural gas distribution and transmission segment reported pre-tax operating income of $2.1 million for the second quarter 2000 as compared to $2.0 million for the corresponding period last year — an increase of $112,000. The increase in pre-tax operating income is due to an increase in gross margin offset by higher operating expenses.

For the Three Months Ended June 30,	2000	1999	Change
Revenue	$ 21,824,727	$ 15,978,130	$ 5,846,597
Cost of Gas	13,727,644	8,601,911	5,125,733
Gross Margin	8,097,083	7,376,219	720,864
Operations & Maintenance	4,151,362	3,625,369	525,993
Depreciation & Amortization	1,286,388	1,206,328	80,060
Other Taxes	593,480	590,309	3,171
Total Operating Expenses	6,031,230	5,422,006	609,224
Pre-tax Operating Income	$ 2,065,853	$ 1,954,213	$ 111,640

Gross margin increased due to a greater level of transportation services provided, a 4.4 percent increase in customer base and a weather normalization adjustment in the Company's Delaware division. Transportation revenues increased due to new services provided as a result of the expansion of the pipeline system, which occurred during the second half of last year. In 1999, the Company requested and received approval from the

Delaware Public Service Commission to adjust its interruptible margin sharing mechanism in order to address the level of recovery of fixed distribution costs from residential and small commercial heating customers. During the second quarter of 2000, the Company increased the margin sharing thresholds for the weather normalization mechanism resulting in an increase in gross margin of $60,000. Operating expenses were higher due to depreciation on capital additions during the past year, compensation, information systems and marketing expenses.

Propane Gas Distribution and Marketing

For the second quarter of 2000, the propane segment recognized a pre-tax operating loss of $908,000 compared to $444,000 for the same period last year. The increase in the loss was the result of an increase in operating expenses combined with a reduction in gross margin.

For the Three Months Ended June 30,	2000	1999	Change
Revenue	$ 39,453,101	$ 26,764,392	$12,688,709
Cost of Sales	37,309,109	24,503,285	12,805,824
Gross Margin	2,143,992	2,261,107	(117,115)
Operations & Maintenance	2,685,910	2,390,432	295,478
Depreciation & Amortization	311,157	275,407	35,750
Other Taxes	54,938	38,998	15,940
Total Operating Expenses	3,052,005	2,704,837	347,168
Pre-tax Operating Loss	$ (908,013)	$ (443,730)	$ (464,283)

The decline in gross margin is primarily due to a 10.4 percent reduction in distribution gallons sold, partially offset by a slight increase in margin earned on distribution sales and marketing margins. Operating expenses were higher due to compensation, information systems and marketing expenses.

Advanced Information Services

The advanced information services segment recognized a pre-tax operating loss of $51,000 for the second quarter of 2000 as compared to pre-tax operating income of $419,000 for the same period last year. The decrease in contribution from this segment is directly related to a reduction in revenue.

For the Three Months Ended June 30,	2000	1999	Change
Revenue	$ 3,192,537	$ 3,573,799	$ (381,262)
Cost of Sales	1,850,974	1,771,201	79,773
Gross Margin	1,341,563	1,802,598	(461,035)
Operations & Maintenance	1,181,632	1,184,984	(3,352)
Depreciation & Amortization	74,403	66,448	7,955
Other Taxes	136,749	132,415	4,334
Total Operating Expenses	1,392,784	1,383,847	8,937
Pre-tax Operating (Loss) Income	$ (51,221)	$ 418,751	$ (469,972)

The decline in pre-tax operating income was primarily the result of a decrease in revenue due to many companies curtailing their information technology ("IT") expenditures after implementing their Year 2000 contingency plans. The Company expects the traditional service revenues to remain depressed for the remainder of the year.

Operating Income Taxes

Operating income taxes were lower due to a decline in operating income.

Interest Expense

The Company's interest expense increased due to a greater level of short-term borrowings combined with a rise in interest rates.

RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED JUNE 30, 2000

Consolidated Overview

The Company recognized net income of $6.0 million — $1.15 per share — for the first six months of 2000. As indicated in the following table, the increase in income is primarily due to a greater contribution of pre-tax operating income by the natural gas and other business segments. These gains were mostly offset by lower pre-tax operating income for the advanced information services and propane business segment.

For the Six Months Ended June 30,	2000	1999	Change
Pre-tax Oprerating Income			
Natural Gas Distribution & Transmission	$ 8,453,272	$ 7,144,726	$ 1,308,546
Propane Gas Distribution & Marketing	2,583,985	2,771,734	(187,749)
Advanced Information Services	(24,966)	681,600	(706,566)
Other & Eliminations	439,138	184,169	254,969
Pre-tax Operating Income	11,451,429	10,782,229	669,200
Operating Income Taxes	3,575,469	3,482,080	93,389
Interest	1,969,278	1,662,108	307,170
Non-Operating Income, net	82,332	101,045	(18,713)
Net Income	$ 5,989,014	$ 5,739,086	$ 249,928

Natural Gas Distribution and Transmission

The natural gas distribution and transmission segment reported pre-tax operating income of $8.5 million for the first six months of 2000 as compared to $7.1 million for the corresponding period last year — an increase of $1.3 million. The increase in pre-tax operating income is due to an increase in gross margin somewhat offset by higher operating expenses.

For the Six Months Ended June 30,	2000	1999	Change
Revenue	$ 51,897,295	$ 40,584,553	$11,312,742
Cost of Gas	31,386,816	22,400,362	8,986,454
Gross Margin	20,510,479	18,184,191	2,326,288
Operations & Maintenance	8,194,560	7,361,267	833,293
Depreciation & Amortization	2,608,489	2,410,168	198,321
Other Taxes	1,254,158	1,268,030	(13,872)
Total Operating Expenses	12,057,207	11,039,465	1,017,742
Pre-tax Operating Income	$ 8,453,272	$ 7,144,726	$ 1,308,546

Gross margin increased due to a 4.5 percent increase in customer base, a greater level of transportation services provided and the implementation of a weather normalization mechanism in the Company's Delaware division. The growth in customer base was primarily residential and commercial customers, which generated a 3 percent increase in deliveries. Transportation revenues increased due to new services provided resulting from the pipeline system expansion, which occurred during the second half of last year. In 1999, the Company requested and received approval from the Delaware Public Service Commission to adjust its interruptible margin sharing mechanism in order to address the level of recovery of fixed distribution costs from residential and small commercial heating customers. With this in place, the Company increased the margin sharing thresholds for the weather normalization mechanism during the first quarter of 2000, resulting in an increase in gross margin of $418,000. Operating expenses were higher due to depreciation on capital additions during the past year, compensation, information systems and expenses for marketing programs that are designed to build customer growth.

Propane Gas Distribution and Marketing

For the first six months of 2000, the propane segment contributed pre-tax operating income of $2.6 million as compared to $2.8 million for the same period last year. The decrease is the result of an increase in operating expenses partially offset by an increase in gross margin.

For the Six Months Ended June 30,	2000	1999	Change
Revenue	$ 103,600,080	$ 54,351,087	$49,248,993
Cost of Sales	94,592,148	46,077,755	48,514,393
Gross Margin	9,007,932	8,273,332	734,600
Operations & Maintenance	5,676,820	4,846,982	829,838
Depreciation & Amortization	618,258	550,548	67,710
Other Taxes	128,869	104,068	24,801
Total Operating Expenses	6,423,947	5,501,598	922,349
Pre-tax Operating Income	$ 2,583,985	$ 2,771,734	$ (187,749)

The increase in gross margin is due primarily to a $1.4 million increase in marketing margins partially offset by a 6.0 percent reduction on margins earned on distribution sales. Temperatures for the first six months of 2000 were 2 percent cooler than the same period in 1999. However, distribution deliveries for the first six months of 2000 were 3 percent lower primarily due to reduced consumption by agricultural customers. The decline in distribution margin earned was the result of higher priced supply costs, which could not be completely passed on to the customers in price increases. Operating expenses were higher due to compensation, information systems and marketing programs that are designed to build customer growth.

Advanced Information Services

The advanced information services segment recognized a pre-tax operating loss of $25,000 for the first six months of 2000 as compared to a pre-tax operating income of $682,000 for the period last year. The decrease in contribution from this segment is directly related to revenues not meeting expectations.

For the Six Months Ended June 30,	2000	1999	Change
Revenue	$ 6,362,604	$ 6,582,149	$ (219,545)
Cost of Sales	3,582,213	3,285,583	296,630
Gross Margin	2,780,391	3,296,566	(516,175)
Operations & Maintenance	2,353,780	2,215,283	138,497
Depreciation & Amortization	147,442	124,925	22,517
Other Taxes	304,135	274,758	29,377
Total Operating Expenses	2,805,357	2,614,966	190,391
Pre-tax Operating (Loss) Income	$ (24,966)	$ 681,600	$ (706,566)

During 2000, revenues from the Company's traditional IT services (i.e. non web-related services) have declined in comparison to the prior year, thereby eliminating the revenue growth from the Company's web-related services. Due to the increased costs incurred to meet the growth that the Company has been experiencing, earnings are down. The decline in traditional revenues is due to the reduction in IT project implementation after companies completed their Year 2000 contingency plans. The Company expects the traditional service revenues to remain depressed for the remainder of the year.

Interest Expense

The Company's interest expense increased due to a greater level of short-term borrowings combined with a rise in interest rates.

Environmental Matters

The Company continues to work with federal and state environmental agencies to assess the environmental impact and explore or implement corrective action at several former gas manufacturing plant sites (see Note 3 to the Consolidated Financial Statements). The Company believes that any future costs associated with these sites will be recoverable in future rates.

Financial Position, Liquidity and Capital Resources

The Company's capital requirements reflect the capital-intensive nature of its business and are attributable principally to its construction program and the retirement of its outstanding debt. The Company relies on funds provided by operations and short-term borrowing to meet normal working capital requirements and temporarily finance capital expenditures. During the first six months of 2000, the Company's net cash provided by operating activities, net cash used by investing activities and net cash used by financing activities were approximately $12.5 million, $7.6 million and $4.9 million, respectively. Due to the seasonal nature of the Company's business, there are substantial variations in the results of operations reported on a quarterly basis.

The Company has three unsecured lines of credit totaling $51.0 million. The Board of Directors has authorized the Company to borrow up to $35.0 million under these lines of credit. Funds provided from these lines of credit are used for short-term cash needs to meet seasonal working capital requirements and to fund portions of its capital expenditures. The outstanding balances of short-term borrowing at June 30, 2000 and December 31, 1999 were $21.4 and $23.0 million, respectively.

During the six months ended June 30, 2000 and June 30, 1999, net property, plant and equipment expenditures were approximately $7.6 million and $7.3 million, respectively. Chesapeake has budgeted $24.9 million for capital expenditures during 2000. This amount includes $17.8 million for natural gas distribution and transmission; $4.9 million for propane distribution and marketing; $400,000 for advanced information services; and $1.8 million for general plant. The natural gas expenditures are for expansion and improvement of facilities in existing service territories and improvement and expansion of the pipeline system, specifically, to provide service to customers in the City of Milford, Delaware. The propane expenditures are to support customer growth and the replacement of older equipment. The advanced information services expenditures are for computer hardware, software and related equipment to support revenue growth and increased staffing. General expenditures are for building improvements, computer software and hardware. During the second quarter of 2000, the Company entered into a Joint Electric Generation Agreement with the City of Seaford, Delaware. Under the agreement the Company would lease three electric generating units to the City of Seaford. The cost to purchase and install the units is estimated at $8 to $9 million. Financing for the 2000 construction program, including the Seaford project, is expected to be provided from short-term borrowing, cash from operations and the possible issuance of long-term debt. The construction program is subject to continuous review and modification. Actual construction expenditures may vary from the above estimates due to a number of factors including inflation, changing economic conditions, regulation, sales growth and the cost and availability of capital.

Chesapeake has budgeted $1.2 million for environmental related expenditures during 2000 and expects to incur additional expenditures in future years (see Note 3 to the Consolidated Financial Statements), a portion of which may need to be financed through external sources. Management does not expect such financing to have a material adverse effect on the financial position or capital resources of the Company.

The Company is continually evaluating new business opportunities and acquisitions, some of which may require the Company to obtain financing. The Company has entered into an agreement with an investment banker to assist in identifying acquisition candidates. Under the agreement, the Company issued warrants to the investment banker to purchase 15,000 shares of the Company's common stock, which are exercisable during the next seven years at a price of $18.00 per share. In addition to cash compensation payable in connection with a successful transaction, the agreement also provides for the possible issuance of additional warrants being issued to the investment banker based on performance.

As of June 30, 2000, common equity represented 66.6 percent of permanent capitalization, compared to 64.0 percent as of December 31, 1999. Including short-term borrowing, the equity capitalization would have been 54.5 percent and 51.5 percent. The Company remains committed to maintaining a sound capital structure and strong credit ratings in order to provide the financial flexibility needed to access the capital markets when required. This commitment, along with adequate and timely rate relief for the Company's regulated operations, is designed to ensure that the Company will be able to attract capital from outside sources at a reasonable cost.

OTHER MATTERS

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. These statements relate to such topics as customer growth, increases in revenues or margins, regulatory approvals, market risk associated with the Company's propane marketing operation, the competitive position of the Company, rate recovery of environmental clean-up costs 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:

- the seasonality and temperature sensitivity of the natural gas and propane gas businesses;
- the wholesale price of propane and market movements in these prices;
- the effects of competition on both unregulated and regulated businesses;
- the ability of the Company's existing, new and planned facilities to generate expected revenues;
- the Company's ability to obtain the rate relief requested from utility regulators and the timing of that rate relief; and
- the effect of changes in federal, state or local legislative requirements.
- the ability of the Company's marketing programs to generate expected customer growth.
- the ability of the Advanced Information Services segment to maintain and/or generate future revenue growth.

Recent Accounting Pronouncements

Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities*, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and hedging activities. It requires that entities recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. This statement, originally effective for all fiscal quarters of fiscal years beginning after June 15, 1999 has been deferred by FASB and is now effective for all fiscal quarters of fiscal years beginning after June 15, 2000. The Company believes that adoption of this statement will not have a material impact on the Company's financial position or results of operations.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Market risk represents the potential loss arising from adverse changes in market rates and prices. The Company's long-term debt consists of first mortgage bonds, senior notes and convertible debentures. All of Chesapeake's long-term debt is fixed rate debt and was not entered into for trading purposes. The carrying value of Chesapeake's long-term debt at June 30, 2000 was $35.0 million. The fair value was $35.2 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 is exposed to changes in interest rates as a result of financing through its issuance of fixed rate long-term debt. The Company evaluates whether to refinance existing debt or permanently finance existing short-term borrowing based on the fluctuation in interest rates.

At June 30, 2000, the wholesale propane marketing operation was a party to natural gas liquids ("NGL") forward contracts, primarily propane contracts, with various third parties. These contracts require that the wholesale propane 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 respective party. The wholesale propane 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 wholesale propane marketing operation is subject to commodity price risk on their open positions to the extent that NGL market prices deviate from fixed contract settlement prices. Market risks 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. In order to manage exposures to changing market prices, open positions are marked to market 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. Listed below is quantitative information on the forward and futures contracts at June 30, 2000. All of the contracts mature within nine months.

At June 30, 2000	Quantity in gallons	Estimated Market Prices	Weighted Average Contract Prices
Forward Contracts			
Sale	13,146,000	\$0.4800 — \$0.5850	\$0.5461
Purchase	9,723,000	\$0.4700 — \$0.5950	\$0.5370
Futures Contracts			
Sale	1,890,000	\$0.5550 — \$0.5810	\$0.5608
Purchase	4,620,000	\$0.5475 — \$0.5650	\$0.5581

Estimated market prices and weighted average contract prices are in dollars per gallon.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings
See Note 3 to the Consolidated Financial Statements

Item 2. Changes in Securities and Use of Proceeds
None

Item 3. Defaults upon Senior Securities
None

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

(a) The matters described in Item 4(c) below were submitted to a vote of stockholders at the Annual Meeting of Stockholders on May 16, 2000, in connection with which, proxies were solicited in accordance with Regulation 14A under the Securities Exchange Act of 1934, as amended.

(b) Not applicable.

(c) Proposals as submitted in the proxy statement were voted on as follows:

   i. to elect four Class I Directors for three-year terms ending in 2003, and until their successors are elected and qualified; and

   ii. to consider and vote upon the ratification of the selection of PricerwaterhouseCoopers, LLP as independent auditors for the fiscal year ending December 31, 2000.

Item 5. Other Information
None

Item 6. Exhibits and Reports on Form 8-K
None

SIGNATURES

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

CHESAPEAKE UTILITIES CORPORATION

/s/ Michael P. McMasters

Michael P. McMasters
Vice President, Treasurer and Chief Financial Officer

Date: August 14, 2000

CHESAPEAKE UTILITIES CORPORATION
2001 SUMMARY OF ESTIMATED CAPITAL EXPENDITURES
DISTRIBUTION UTILITY PLANT
UNAUDITED

EXHIBIT B

PLANT ACCOUNT NUMBER	DESCRIPTION	TOTAL 2001 CAPITAL ESTIMATED
301	ORGANIZATION	$0
302	FRANCHISE AND CONSENTS	$0
303	INTANGIBLE PLANT	$0
304	LAND AND LAND RIGHTS	$16,000
305	STRUCTURES AND IMPROVEMENTS	$9,000
311	PROPANE PLANT	$160,000
374	LAND AND LAND RIGHTS	$0
375	STRUCTURES AND IMPROVEMENTS	$0
376	MAINS	$6,350,000
378	M & R EQUIPMENT - GENERAL	$161,000
379	M & R EQUIPMENT - CITY GATE	$424,000
380	SERVICES	$1,493,000
381	METERS	$811,000
382	METER INSTALLATIONS	$426,000
383	HOUSE REGULATORS	$194,000
384	REGULATOR INSTALLATIONS	$0
385	INDUSTRIAL M & R STATION	$275,000
387	OTHER EQUIPMENT	$85,000
389	LAND AND LAND RIGHTS	$0
390	STRUCTURES AND IMPROVEMENTS	$60,000
391	OFFICE FURNITURE AND EQUIPMENT	$57,000
392	TRANSPORTATION	$430,000
393	STORES EQUIPMENT	$0
394	TOOLS, SHOP, AND GARAGE EQUIP	$29,000
395	LABORATORY EQUIPMENT	$0
396	POWER OPERATED EQUIPMENT	$152,000
397	COMMUNICATIONS EQUIPMENT	$52,000
398	MISCELLANEOUS EQUIPMENT	$95,000
399	OTHER TANGIBLE PROPERTY	$0
	TOTAL CAPITAL EXPENDITURES	$11,279,000

SOURCES AND USES OF FUNDS

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