

CHESAPEAKE

March 29, 2001

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

RE: Consummation Report of Securities Issued by Chesapeake Utilities Corporation,
Docket No. 991631-GU

Dear Ms. Bayo:

Chesapeake Utilities Corporation ("Chesapeake") respectfully files this Consummation Report (original and three copies) on the issuance of securities for the fiscal year ending December 31, 2000 in compliance with Rule 25-8.009, Florida Administrative Code. In satisfaction of the Consummation Report requirements, Chesapeake sets forth the following information:

1. On December 17, 1999, the Florida Public Service Commission ("FPSC") issued Order No. PSC-99-2477-FOF-GU which authorized Chesapeake to issue up to 949,347 shares of common stock for the purpose of administering Chesapeake's Retirement Savings Plan, Performance Incentive Plan, Automatic Dividend Reinvestment and Stock Purchase Plan, and the conversion of Chesapeake's convertible debentures. The order also authorized Chesapeake to issue up to 5,050,653 shares of common stock and up to \$40 million in secured and/or unsecured debt for possible acquisitions. In addition, the Order authorized Chesapeake to issue up to \$40 million in secured and/or unsecured debt to be used for

DOCUMENT NUMBER-DATE

Chesapeake Utilities Corporation

909 Silver Lake Boulevard

Dover, Delaware 19904

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FPSC RECORDS REPORTING

general corporate purposes, including, but not limited to, working capital, retirement of short-term debt, retirement of long-term debt and capital improvements. Chesapeake was also authorized to issue up to 1,000,000 shares of Chesapeake preferred stock for possible acquisitions, financing transactions, and other general corporate purposes, including potential distribution under the Company's Shareholder Rights Agreement adopted by the Board of Directors on August 20, 1999.

2. Of the above-mentioned securities, and for the twelve-month period ending December 31, 2000, Chesapeake has issued the following:

(a) 52,093 shares of common stock were issued for the purpose of administering Chesapeake's Retirement Savings Plan. The average issuance price of these shares was \$17.50 per share. Expenses associated with this issuance were negligible.

(b) 7,120 shares of common stock were issued for the Performance Incentive Plan. The average issuance price of these shares was \$17.94 per share. Expenses associated with this issuance were negligible.

(c) 41,056 shares of common stock were issued for the purpose of administering Chesapeake's Automatic Dividend Reinvestment and Stock Purchase Plan. The average issuance price of these

shares was \$17.50 per share. Expenses associated with this issuance were negligible.

(d) 10,628 shares of common stock were issued for the conversion of debentures. The average issuance price of these shares was \$17.01 per share. Expenses associated with this issuance were negligible.

(e) \$20,000,000 of 7.83% unsecured senior notes were issued on December 29, 2000 in a private placement with Pacific Life Insurance Company. These notes will be due on January 1, 2015 and have a ten-year average life. Interest is payable semi-annually with provisions for payment of interest only prior to January 1, 2006; thereafter, principal is payable, in addition to interest on the unpaid balance, over ten (10) years at the rate of \$2,000,000 per annum. Total expenses associated with this issuance are estimated to be \$114,000.

3. Schedules showing capitalization, pretax interest coverage and debt interest requirements as of December 31, 1999 are attached hereto as Exhibit A.

4. Copies of all Plans, Agreements, registration filings with the Securities and Exchange Commission and Orders of the Delaware Public Service Commission authorizing the issuance of the above securities have been

previously filed with the FPSC under Docket Nos. 931112-GU, 961194-GU, 981213-GU, 991631-GU, and are hereby incorporated by reference.

5. Signed copies of the Opinions of Counsel with respect to the legality of all other securities issued have been previously filed with the FPSC as exhibits to the Consummation Reports of Securities Issued by Chesapeake Utilities Corporation, Docket Nos. 931112-GU and 961194-GU, dated April 1, 1994 and March 27, 1998, respectively, and are hereby incorporated by reference.
6. A copy of Chesapeake's most current Form 10-K as filed with the Securities and Exchange Commission is attached hereto as Exhibit B.
7. A copy of the \$20,000,000 senior note agreement is attached hereto as Exhibit C. A copy of the application to the Delaware Public Service Commission requesting authority to issue the senior notes is attached hereto as Exhibit D. A copy of the Order of the Delaware Public Service Commission authorizing the issuance of the senior notes is attached hereto as Exhibit E.
8. Copies of the signed Opinions of Counsel with respect to the legality of the \$20,000,000 senior notes are attached as part of Exhibit C.
9. Chesapeake employed PNC Capital Markets, Inc. ("PNC") as private placement agent, to present the \$20,000,000 senior notes offering to various accredited investors. PNC has direct access to the capital

markets and numerous accredited investors. PNC's complete address is as follows:

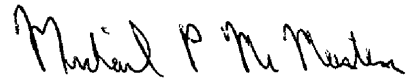
PNC Capital Markets, Inc.
Private Placements
One PNC Plaza, 3rd Floor
249 Fifth Avenue
Pittsburgh, PA 15222-2707

PNC is an affiliate of PNC Bank, Chesapeake's primary bank and one of its lenders (Chesapeake has a line of credit with PNC Bank in the amount of \$30,000,000). Of the total \$114,000 in expenses associated with the issuance of the senior notes, \$92,000 represented the dollars paid to PNC as a placement fee. Chesapeake verified the reasonableness of this fee by questioning several of its other lenders as to what their fees would be for the placement service. Chesapeake did not enter into any other contracts, underwritings, or other arrangements providing for the sale or marketing of the securities nor were any underwriter's or finder's fees paid.

We respectfully submit this Consummation Report on the issuance of securities by Chesapeake Utilities Corporation, Florida Public Service Commission Docket No. 991631-GU, this 29th day of March 2001.

Sincerely,

CHESAPEAKE UTILITIES CORPORATION

A handwritten signature in black ink that reads "Michael P. McMasters". The signature is written in a cursive style with a large initial 'M'.

Michael P. McMasters
Vice President, Treasurer and CFO

CHESAPEAKE UTILITIES CORPORATION

Opinions of Counsel

The legality of the issuance of securities is addressed in the attached Opinions of Counsel as follows:

<u>Securities Issued</u>	<u>Applicable Opinions</u>
20,000,000 Senior Notes (Included within Exhibit C)	Covington & Burling December 29, 2000 Schmittinger And Rodriguez, P.A. December 29,2000 Piper, Marbury, Rudnick & Wolfe, L.L.P. December 29, 2000 Laws & Laws, P.A. December 29, 2000 Schiff, Hardin & Waite December 29, 2000 Wayne L. Schiefelbein December 29, 2000

CHESAPEAKE UTILITIES CORPORATION
Summary of Exhibits

<u>Exhibit Reference</u>	<u>Description</u>
Exhibit A	Schedules showing capitalization, pretax interest coverage and debt requirements as of December 31, 1999
Exhibit B	December 31, 1999 Form 10-K
Exhibit C	\$20,000,000 Senior Note Agreement
Exhibit D	Delaware Public Service Commission Application for the \$20,000,000 Senior Notes
Exhibit E	Delaware Public Service Commission Order authorizing the issuance of the \$20,000,000 Senior Notes

CHESAPEAKE UTILITIES CORPORATION
Capitalization Ratios Actual & Pro Forma as of December 31, 1999

TYPE OF CAPITAL	UNAUDITED		PRO FORMA		
	ACTUAL BEFORE ISSUANCE		AFTER ISSUANCE		
	AMOUNT OUTSTANDING	% OF TOTAL	PRO FORMA ADJUSTMENT	AMOUNT OUTSTANDING	% OF TOTAL
<u>COMMON EQUITY</u>					
COMMON STOCK	\$2,524,018	2.11%	\$54,192	\$2,578,210	2.16%
PAID IN CAPITAL	25,782,824	21.56%	1,884,431	27,667,255	23.13%
RETAINED EARNINGS	31,857,732	<u>26.64%</u>	0	<u>31,857,732</u>	<u>26.64%</u>
TOTAL COMMON EQUITY	<u>60,164,574</u>	<u>50.30%</u>	<u>1,938,623</u>	<u>62,103,197</u>	<u>51.92%</u>
<u>PREFERRED STOCK</u>	0	0.00%	0	0	0.00%
<u>LONG-TERM DEBT</u>					
FIRST MORTGAGE BONDS	3,024,000	2.53%	0	3,024,000	2.53%
CONVERTIBLE DEBENTURES	3,662,000	3.06%	0	3,662,000	3.06%
SENIOR NOTES	26,090,909	21.81%	20,000,000	46,090,909	38.54%
OTHER	0	0.00%	0	0	0.00%
TOTAL LONG-TERM DEBT	<u>32,776,909</u>	<u>27.40%</u>	<u>20,000,000</u>	<u>52,776,909</u>	<u>44.13%</u>
TOTAL PERMANENT CAPITAL	<u>92,941,483</u>	<u>77.71%</u>	<u>21,938,623</u>	<u>114,880,106</u>	<u>96.05%</u>
<u>CURRENT PORTION OF LTD</u>	3,665,091	3.06%	0	3,665,091	3.06%
<u>SHORT-TERM DEBT</u>	<u>23,000,000</u>	<u>19.23%</u>	(21,938,623)	<u>1,061,377</u>	<u>0.89%</u>
TOTAL CAPITALIZATION	<u>\$119,606,574</u>	<u>100.00%</u>	<u>(\$0)</u>	<u>\$119,606,574</u>	<u>100.00%</u>

CHESAPEAKE UTILITIES CORPORATION
 Statement of Income and Pretax Interest Coverage
Actual & Pro Forma for the Twelve Months Ended December 31, 1999

UNAUDITED

	<u>Annualized Twelve Months</u>		
	<u>Actual Before Issuance</u>	<u>Pro Forma Adjustment</u>	<u>Pro Forma After Issuance</u>
Statement of Income			
1 Operating revenues	\$70,789,283	\$0	\$70,789,283
2 Operating expenses before income taxes	65,640,193	0	\$65,640,193
3 Income taxes (including Deferrals)	1,149,822	(80,196)	\$1,069,626
4 Operating Income (1-(2+3))	3,999,268	80,196	4,079,464
5 Other Income, Net	13,282	0	\$13,282
6 Income Before Interest Charges (4+5)	4,012,550	80,196	4,092,746
7 Interest Charges	2,129,298	195,600	\$2,324,898
8 Net Income (6-7)	1,883,252	(115,404)	1,767,848
9 Preferred stock dividends	0	0	0
10 Earnings available to common equity (8-9)	1,883,252	(115,404)	1,767,848
11 Pretax Interest Coverage ((3+6)/7)	2.42	N/A	2.22

CHESAPEAKE UTILITIES CORPORATION

Notes to Capitalization, Income and
Pretax Interest Coverage Schedules
As of December 31, 1999

The following adjustments have been made to capitalization:

1. Common Stock – Number of shares (110,897) times par value (\$0.4867 per share), with the shares issued for the following purposes:

52,093 shares for the Retirement Savings Plan
7,120 shares for the Performance Incentive Plan
41,056 shares for the Automatic Dividend Reinvestment and Stock
Purchase Plan
10,628 shares for the conversion of debentures

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

52,093 shares at \$17.50 per share
7,120 shares at \$17.94 per share
41,056 shares at \$17.50 per share
10,628 shares at \$17.01 per share

3. Long-Term Debt –

(a) Increase by \$20,000,000 to reflect the issuance of the senior notes on December 29, 2000.

4. Short-Term Debt –

(a) Decrease by a \$20,000,000 to reflect the usage of the senior notes proceeds to pay down \$20,000,000 of the short-term debt.

(b) Decrease by a total of \$1,938,623 to reflect the paying down of short-term lines of credit with proceeds from the Automatic Dividend Reinvestment and Stock Purchase Plan, the Retirement Savings Plan, the Performance Incentive Plan and the conversion of certain debentures.

CHESAPEAKE UTILITIES CORPORATION

Notes to Capitalization, Income and
Pretax Interest Coverage Schedules (continued)
As of December 31, 1999

The following adjustments have been made to the Statement of Income and Pretax Interest Coverage Schedule:

1. Income Taxes – Taxes associated with above increase in Operating Expenses and an increase in Interest Charges as discussed below, assuming a tax rate of 41%.
2. Interest Charges – Increase in interest expense for the following:
 - (a) Additional interest expense would be recorded since the senior notes have a coupon rate of 7.83% versus 6.89%, the estimated rate for short-term debt (\$188,000).
 - (b) The debt issuance costs of \$114,000 will be amortized over 15 years, representing additional interest charges annually of \$7,600.

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
 (State or other jurisdiction of
 incorporation or organization)

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

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

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

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

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
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”).

Delaware and Maryland. 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.

Florida. 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 contracts. 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 Citrusco 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:

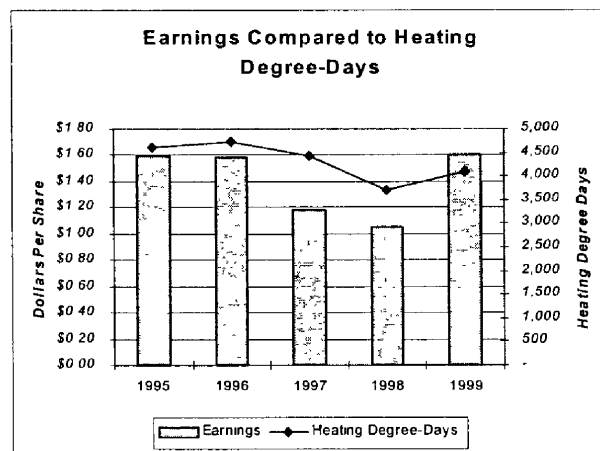
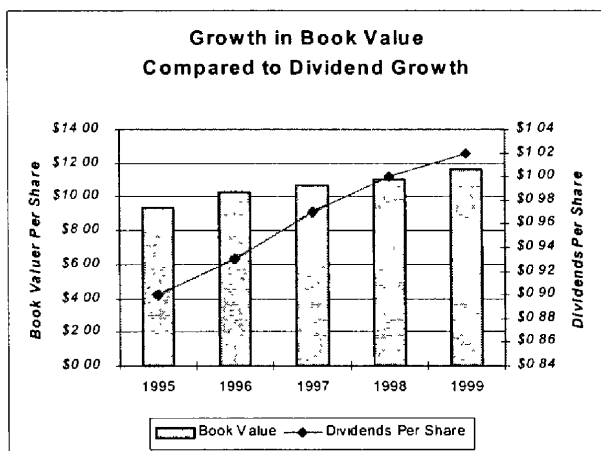
Quarter Ended	High	Low	Close	Dividends Declared Per Share
1999				
March 31	\$19.5000	\$15.8750	\$16.0625	\$0.2500
June 30	18.8750	14.8750	18.5625	0.2500
September 30.....	19.8125	17.1875	17.2500	0.2600
December 31	19.6250	17.1250	18.3750	0.2600
1998				
March 31	\$20.5000	\$18.2500	\$18.3750	\$0.2500
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

	(dollars in thousands except stock data)				
For the Years Ended December 31,	1999	1998	1997	1996	1995
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
<i>Operating Revenues</i>	\$ 230,863,123	\$ 183,568,795	\$ 222,489,264
<i>Cost of Sales</i>	176,731,255	136,226,618	175,377,647
<i>Gross Margin</i>	54,131,868	47,342,177	47,111,617
<i>Operating Expenses</i>			
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
<i>Total operating expenses</i>	43,463,134	38,901,095	38,445,153
<i>Operating Income</i>	10,668,734	8,441,082	8,666,464
<i>Other Income</i>			
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)
<i>Total other income</i>	1,068,449	241,254	545,155
<i>Income Before Interest Charges</i>	11,737,183	8,682,336	9,211,619
<i>Interest Charges</i>			
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
<i>Total interest charges</i>	3,466,197	3,379,750	3,344,007
<i>Net Income</i>	\$ 8,270,986	\$ 5,302,586	\$ 5,867,612
<i>Earnings Per Share of Common Stock:</i>			
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
<i>Net Income</i>	\$ 8,270,986	\$ 5,302,586	\$ 5,867,612
<i>Unrealized gain on marketable securities, net of income taxes</i>	-	566,472	258,274
<i>Total Comprehensive Income</i>	\$ 8,270,986	\$ 5,869,058	\$ 6,125,886

See accompanying notes

Consolidated Balance Sheets

At December 31,	1999	1998
Assets		
<i>Property, Plant and Equipment</i>		
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
<i>Investments, at fair market value</i>	595,644	4,165,194
<i>Current Assets</i>		
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
<i>Deferred Charges and Other Assets</i>		
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		
<i>Capitalization</i>		
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
<i>Current Liabilities</i>		
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
<i>Deferred Credits and Other Liabilities</i>		
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
<i>Commitments and Contingencies</i>		
<i>(Notes L and M)</i>		
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
<i>Operating Activities</i>			
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
<i>Investing Activities</i>			
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)
<i>Financing Activities</i>			
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)
<i>Net Decrease)in Cash and Cash Equivalents</i>	(240,911)	(2,231,092)	(2,310,662)
<i>Cash and Cash Equivalents at Beginning of Year</i>	2,598,084	4,829,176	7,139,838
<i>Cash and Cash Equivalents at End of Year</i>	\$ 2,357,173	\$ 2,598,084	\$ 4,829,176
<i>Supplemental Disclosure of Cash Flow Information</i>			
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
<i>Common Stock</i>			
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
<i>Additional Paid-in Capital</i>			
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
<i>Retained Earnings</i>			
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
<i>Unearned Compensation</i>			
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)
<i>Accumulated Other Comprehensive Income</i>			
Net of income tax expense of approximately \$552,000 and \$190,000 in 1998 and 1997, respectively	-	863,344	296,872
<i>Total Stockholders' Equity</i>	\$ 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

Notes to Consolidated Financial Statements

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.

Notes to Consolidated Financial Statements

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.

Notes to Consolidated Financial Statements

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
Reconciliation 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.

Notes to Consolidated Financial Statements

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.

Notes to Consolidated Financial Statements

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

Notes to Consolidated Financial Statements

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.

Notes to Consolidated Financial Statements

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 3/7% 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

Notes to Consolidated Financial Statements

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

Notes to Consolidated Financial Statements

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

Notes to Consolidated Financial Statements

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.

Notes to Consolidated Financial Statements

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,

Notes to Consolidated Financial Statements

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.

Notes to Consolidated Financial Statements

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

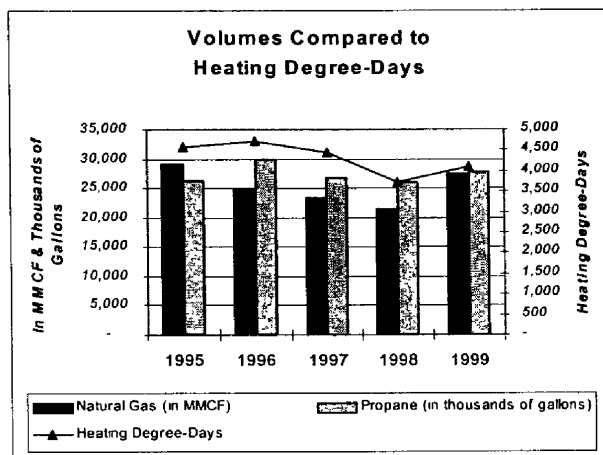
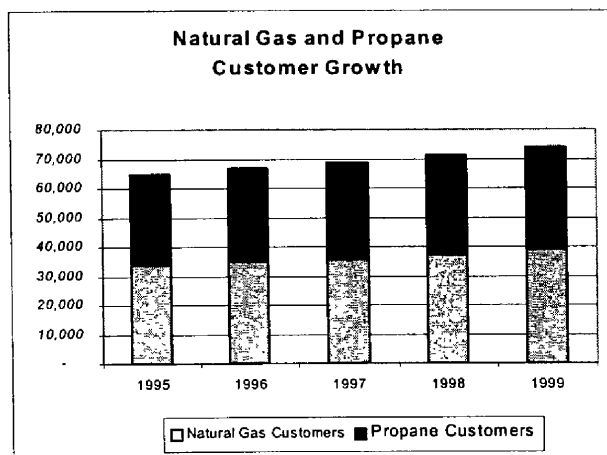
⁽¹⁾ Results for the fourth quarter of 1999 reflect a gain on the sale of investments of \$863,000, net of income tax expense. See Note E to the Consolidated Financial Statements.

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

Operating Statistics

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			Balance at End of Year
		Charged to Income	Other Accounts ⁽¹⁾	Deductions ⁽²⁾	
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

<u>Subsidiaries</u>	<u>State Incorporated</u>
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

<u>Subsidiary of Eastern Shore Natural Gas Company</u>	<u>State Incorporated</u>
Dover Exploration Company	Delaware

<u>Subsidiaries of Sharp Energy, Inc.</u>	<u>State Incorporated</u>
Sharpgas, Inc.	Delaware
Sharpoil, Inc.	Delaware

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

<u>Subsidiaries of Sharp Water, Inc.</u>	<u>State Incorporated</u>
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.*

EXECUTION COPY

CHESAPEAKE UTILITIES CORPORATION

NOTE AGREEMENT

Dated December 29, 2000

\$20,000,000

7.83% Senior Notes due January 1, 2015

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PURCHASER SCHEDULE

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CHESAPEAKE UTILITIES CORPORATION
909 Silver Lake Boulevard
Dover, Delaware 19904

NOTE AGREEMENT

\$20,000,000

7.83% Senior Notes due January 1, 2015

As of December 29, 2000

Pacific Life Insurance Company
700 Newport Center Drive
Newport Beach, CA 92660-6397

Ladies and Gentlemen:

Chesapeake Utilities Corporation, a Delaware corporation (the "Company"), hereby agrees with you (the "Purchaser") as follows:

Section 1. PURCHASE AND SALE OF NOTES

1.1. Issue of Notes.

The Company will authorize the issue of \$20,000,000 principal amount of its 7.83% Senior Notes due January 1, 2015 (the "Notes"). Each Note will bear interest on the unpaid principal balance thereof, from the date of the Note or the most recent date to which interest thereon has been paid, until the same is due and payable, at an annual rate of 7.83% (computed on the basis of a 360-day year of twelve 30-day months), payable semi-annually on the 1st day of January and July in each year beginning on July 1, 2001. The Notes will be subject to certain mandatory principal repayments prior to maturity, as provided in Section 2.1 and will mature on January 1, 2015. Payments of

principal, Make Whole Amount, if any, and, to the extent permitted by law, interest not paid when due will bear interest from the date such payment was due until paid at a rate per annum from time to time equal to the greater of (i) 9.83% or (ii) the rate of interest publicly announced by Morgan Guaranty Trust Company of New York from time to time in New York City as its Prime Rate. The Notes will be registered notes in the form set out in Exhibit A.

1.2. The Closing.

The Company agrees to sell to the Purchaser and the Purchaser agrees to purchase from the Company, in accordance with the provisions of this Agreement, the principal amount of the Notes indicated for you on the Purchaser Schedule attached hereto at par. The closing of your purchase will be held at 10:00 a.m. on December 29, 2000 (the "Closing Date"), or such other date as may be mutually agreed, at the offices of Schiff Hardin & Waite, 6600 Sears Tower, Chicago, Illinois. On the Closing Date, the Company will deliver to you one or more Notes, as specified in the Purchaser Schedule attached hereto in the aggregate amount of your purchase, dated the Closing Date and payable to you or your nominee(s), if any, listed in the Purchaser Schedule, against payment in immediately available funds.

1.3. Expenses.

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

- (a) the cost of reproducing this Agreement and the Notes;
- (b) the reasonable fees and disbursements (including the cost of obtaining the private placement number) of your special counsel;
- (c) the cost of any fees of agents, brokers or dealers or otherwise incurred in connection with the sale of the Notes pursuant to this Agreement but not with respect to any subsequent resale;
- (d) your reasonable out-of-pocket expenses incurred in negotiating this Agreement;

- (e) the cost of delivering to or from your home office, insured to your satisfaction, the Notes purchased by you, any Note surrendered by you to the Company pursuant to this Agreement and any Note issued to you in substitution or replacement for a surrendered Note; and
- (f) all costs (including reasonable fees and expenses of counsel) related to proposed or actual modifications of, or proposed or actual consents under, this Agreement.

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

1.4. Closing Conditions.

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

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

- (i) The Notes to be purchased by the Purchaser.
- (ii) Certified copies of the resolutions of the Board of Directors of the Company approving this Agreement and the Notes, and of all documents evidencing other necessary corporate action and governmental approvals, if any, with respect to this Agreement and the Notes.
- (iii) A certificate of the Secretary or an Assistant Secretary of the Company certifying the names and true signatures of the officers of the Company authorized to sign this Agreement and the Notes and the other documents to be delivered hereunder.
- (iv) Certified copies of the Certificate of Incorporation and By-laws of the Company.
- (v) Good standing certificates for the Company from each of the Secretary of State of Delaware, the

Secretary of State of Maryland, and the Secretary of State of Florida, dated of a recent date.

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

(c) Opinion of Company's Special and Local Counsel. The Purchaser shall have received from Covington & Burling, who are acting as special counsel for the Company in connection with this transaction, a favorable opinion satisfactory to the Purchaser substantially in the form of Exhibit B-1 hereto, from Schmitter & Rodriguez, who are acting as Delaware counsel for the Company in connection with this transaction, a favorable opinion satisfactory to the Purchaser substantially in the form of Exhibit B-2 hereto, from Piper Marbury Rudnick & Wolfe, L.L.P., who are acting as Maryland counsel for the Company in connection with this transaction, a favorable opinion satisfactory to the Purchaser substantially in the form of Exhibit B-3 hereto, from Wayne L. Schiefelbein, who is acting as Florida counsel for the Company in connection with this transaction, a favorable opinion satisfactory to the Purchaser substantially in the form of Exhibit B-4 hereto, and a favorable opinion satisfactory to the Purchaser substantially in the form of Exhibit B-5 hereto, from Laws & Laws, P.A., who are also acting as Maryland counsel for the Company in connection with this transaction.

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

(e) Purchase Permitted By Applicable Laws. The purchase of and payment for the Notes to be purchased by the Purchaser on the Closing Date on the terms and conditions herein provided (including the use of the proceeds of such Notes by the Company) shall not violate any applicable law or governmental regulation (including, without limitation, Section 5 of the Securities Act or Regulation G, T, U or X of the Board of Governors of the Federal Reserve System) and shall not subject the Purchaser to

any tax, penalty, liability or other onerous condition under or pursuant to any applicable law or governmental regulation, and the Purchaser shall have received such certificates or other evidence as it may reasonably request to establish compliance with this condition. The orders of the Delaware and Florida State Commissions referred to in Section 6.11 shall be satisfactory to such Purchaser and shall be final and in full force and effect on the Closing Date. No appeal, review or contest of either thereof shall be pending on the Closing Date, and, as of the Closing Date, the time for appeal or to seek review or reconsideration of such orders shall have expired. Any conditions contained in either order shall have been satisfied to the Purchaser's reasonable satisfaction. The Purchaser and its special counsel shall have received copies of such documents and papers (including, without limitation, a certified or attested copy of such orders) as the Purchaser may reasonably request in connection therewith or as a basis for the Purchaser's special counsel's closing opinion, all in form and substance satisfactory to the Purchaser and the Purchaser's special counsel.

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

Section 2. PAYMENTS

2.1. Required Payments.

(a) Until the Notes are paid in full, the Company will pay \$2,000,000 in aggregate principal amount of the Notes on January 1 in each year beginning on January 1, 2006 and ending on January 1, 2015, inclusive. The entire outstanding principal amount and unpaid interest thereon shall be due and payable on January 1, 2015, the maturity date of the Notes. Prepayments on each holder's Notes under Section 2.2 shall be applied to mandatory payments on such Notes in inverse order of maturity and the Company's obligation to make the payments required by this Section 2.1 shall not be reduced by any payment pursuant to Section 2.2. Notwithstanding the foregoing, upon any payment of less than all of the outstanding Notes pursuant to Section 2.1(b) hereof or any acquisition of any Notes by the Company or any Subsidiary or Affiliate permitted by Section 9.6(b) hereof,

the principal amount of such required prepayment of the Notes becoming due under this Section 2.1 on or after the day of such payment or acquisition shall be reduced in the same proportion as the aggregate unpaid principal amount of the Notes is reduced as a result of such prepayment or purchase.

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

2.2. Optional Prepayments.

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

(b) Notice of Optional Prepayment. The Company will give written notice of any optional prepayment of the Notes to each holder of Notes at least 15 but not more than 45 days before the date fixed for prepayment, specifying (1) such date (the "Prepayment Date"), and (2) the amount of principal and interest with respect to the Notes and such holder's Notes to be prepaid on such date. Any such notice of prepayment will be irrevocable. Upon the giving of such notice by the Company, the principal amount of the Notes specified in the notice, together with interest accrued to the Prepayment Date on such principal amount, and a premium equal to the Make Whole Amount, if any,

applicable to such payment, shall be due and payable on the Prepayment Date, and the Company shall pay such amount on the Prepayment Date. The Company shall, on or before the day on which it gives written notice of any prepayment pursuant to Section 2.2(a), give telephonic notice of the principal amounts of the Note to be prepaid and the prepayment date to each Purchaser which shall have designated a recipient of such notices in the Purchaser Schedule attached hereto or by notice in writing to the Company.

2.3. Partial Payment Pro Rata.

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

Section 3. INFORMATION AS TO COMPANY

3.1. Financial and Business Information.

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

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

- (1) a consolidated balance sheet of the Company and its Subsidiaries as at the end of such quarter and as at the end of the corresponding quarter in the most recently completed fiscal year and a consolidating balance sheet of the Company and its Subsidiaries as of the end of such quarter, and
- (2) consolidated statements of income, retained earnings and cash flows of the Company and its Subsidiaries for that quarter and for the portion of the fiscal year ending with such quarter,

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

setting forth in the statements of income for each fiscal period, the specific dollar amounts of depreciation charged, lease rental expense and interest expense on Indebtedness, accompanied by a certificate signed by a principal financial officer of the Company stating that such financial statements present fairly the financial condition of the companies being reported upon and have been prepared in accordance with generally accepted accounting principles consistently applied, with such adjustments as may be required to present fairly the financial statements therein contained;

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

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

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

setting forth in the case of such consolidated financial statements, the figures for the previous fiscal year in comparative form, and setting forth in such statements of income, the specific dollar

amounts of depreciation charged, lease rental expense, and interest expense on Indebtedness, and accompanied in the case of such consolidated financial statements by an opinion of a firm of independent certified public accountants of recognized national standing stating that such financial statements present fairly the results of the operations and financial condition of the companies being reported upon and have been prepared in accordance with generally accepted accounting principles consistently applied (except for changes in application in which such accountants concur);

- (c) Audit Reports--promptly upon receipt thereof, one copy of each other report submitted to the Company or any Subsidiary by independent accountants in connection with any annual, interim or special audit made by them of the books of the Company or any Subsidiary;
- (d) SEC and Other Reports--promptly upon their becoming available, copies of each periodic report (including Form 8-K, 10-K, and 10-Q, proxy statement and registration statement or prospectus relating to Securities of the Company filed with or delivered to any securities exchange, the Securities and Exchange Commission or any successor agency, and promptly upon transmission thereof, copies of such other financial statements, notices and reports, if any, as the Company or any Subsidiary shall send to its public stockholders;
- (e) Annual Regulatory Reports--promptly upon their becoming available, copies of each annual report required to be filed by the Company or any Subsidiary with any of the State Commissions or with the FERC
- (f) Notice of Default or Event of Default--immediately upon becoming aware of the existence of any Default or Event of Default, a notice describing in reasonable

detail its nature and what action the affected Company or Subsidiary is taking or proposes to take with respect thereto;

- (g) Notice of Claimed Default--immediately upon becoming aware that the holder of any Note or of any other evidence of indebtedness or other Security of the Company or any Subsidiary has given notice (or taken any other action) with respect to a claimed default, breach, Default or Event of Default, a notice describing in reasonable detail the notice given (or action taken) and in reasonable detail the nature of the claimed default, breach, Default or Event of Default and what action the affected Company or Subsidiary is taking or proposes to take with respect thereto;
- (h) Report on Proceedings--promptly upon the Company's making public information with respect to (1) any proposed or pending investigation of it or any Subsidiary by any governmental authority or agency, or (2) any court or administrative proceeding, which in either case involves the possibility of materially and adversely affecting the Properties, business, prospects, profits or financial condition of the Company and its Subsidiaries, a notice specifying its nature and the action the Company is taking with respect thereto; and
- (i) Requested Information--with reasonable promptness, any other data and information which may be reasonably requested from time to time, including without limitation any information required to be made available at any time to any prospective transferee of any Notes in order to satisfy the requirements of Rule 144A under the Securities Act of 1933, as amended.

3.2. Officer's Certificates.

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

- (a) Covenant Compliance--the information required in order to establish compliance with Section 4 during the period covered by the financial statements then being furnished; and
- (b) Default or Event of Default--that the signer has reviewed the relevant terms of this Agreement and has made, or caused to be made, under the signer's supervision, a review of the transactions and condition of the Company and its Subsidiaries from the beginning of the period covered by the financial statements then being furnished and that the review has not disclosed the existence of any Default or Event of Default or, if a Default or Event of Default exists, describing its nature.

3.3. Accountants' Certificates.

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

3.4. Inspection.

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

Section 4. COMPANY BUSINESS COVENANTS

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

4.1. Payment of Taxes and Claims.

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

- (a) all taxes, assessments and governmental charges or levies imposed upon it or its Property, and
- (b) all claims or demands of materialmen, mechanics, carriers, warehousemen, landlords and other like Persons which, if unpaid, might result in the creation of a Lien upon its Property,

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

4.2. Maintenance of Properties and Corporate Existence.

The Company shall, and shall cause each Subsidiary to:

- (a) Property--maintain its Property in good condition and make all necessary renewals, replacements, additions, betterments and improvements thereto;
- (b) Insurance--maintain, with financially sound and reputable insurers, insurance with respect to its Properties and business against such casualties and contingencies, of such types (including public liability, larceny, embezzlement or other criminal misappropriation insurance) and in such amounts as is customary in the case of corporations of established reputations engaged in the same or a similar business and similarly situated;
- (c) Financial Records--keep true books of records and accounts in which full and correct entries will be made of all its business transactions, and will reflect in its financial statements adequate accruals and appropriations to reserves, all in accordance with generally accepted accounting principles;
- (d) Corporate Existence and Rights--do or cause to be done all things necessary (a) to preserve and keep in full force and effect its existence, rights and franchises and (b) except as provided in Section 4.10 or 4.11, to maintain each Subsidiary as a Subsidiary; and
- (e) Compliance with Law--comply with all laws (including but not limited to environmental laws), ordinances, or governmental rules and regulations (including, without limitation, federal, state and local environmental laws, rules and regulations) to which it is subject and maintain any licenses, permits, franchises or other governmental authorizations necessary to the ownership of its Properties or to the conduct of its business, if the failure to so comply or the failure to so maintain might materially adversely affect the Properties, business, prospects, profits or condition

(financial or otherwise) of the Company and its Subsidiaries or the ability of the Company to perform its obligations set forth in this Agreement and in the Notes.

4.3. Payment of Notes and Maintenance of Office.

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

4.4. Fixed Charge Coverage Ratio.

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

4.5. Minimum Consolidated Net Worth.

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

4.6. Incurrence of Indebtedness.

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

- (i) Funded Indebtedness represented by the Notes and the outstanding Indebtedness set forth in Schedule 4.6(A);
- (ii) Unsecured Funded Indebtedness of the Company, if after giving effect thereto and to any concurrent transactions, the aggregate principal amount of outstanding secured and unsecured Funded Indebtedness of the

Company (including, but not limited to, the Funded Indebtedness represented by the Bonds) and secured and unsecured Current and Funded Indebtedness of the Subsidiaries (excluding Indebtedness owed by a Subsidiary to the Company or a Wholly-Owned Subsidiary) does not exceed 60% of Total Capitalization; and

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

4.7. Guaranties.

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

4.8. Liens and Encumbrances.

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

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

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

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

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

(5) the Liens existing at the date of this Agreement which are set forth in Schedule 4.8(a)(5)(A);

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

improvements to the Property originally subject thereto;
and

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

(b) The Company will not issue or permit to be issued any additional Bonds under the First Mortgage Indenture, except in the case of the exchange or transfer of Bonds or the replacement of lost, stolen, destroyed or mutilated Bonds, in each case in accordance with the terms of the First Mortgage Indenture.

4.9. Restricted Payments.

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

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

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

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

if at the time of any such Restricted Payment and after giving effect thereto, the aggregate amount of all Restricted Payments made, paid or declared since the Closing Date would exceed the sum of (x) \$10.0 million plus (y) 100% of Consolidated Net Income for the period beginning on January 1, 2001 and ending on the date of the proposed Restricted Payment, computed on a cumulative basis (or if Consolidated Net Income is a deficit figure for the period, then minus 100% of such deficit).

4.10. Sale of Property and Subsidiary Stock.

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

- (i) the amount of such assets (valued at greater of net book or fair market value), together with all other assets of the Company and Subsidiaries previously disposed of (other than in the ordinary course of business) as permitted by this Section 4.10(a) and the assets of any Subsidiary disposed of as permitted by Section 4.10(a)(ii) during the current fiscal year does not exceed 10% of Consolidated Total Assets as of the end of the fiscal year then most recently ended; provided that assets, as so valued, may be sold in excess of 10% of Consolidated Total Assets in any fiscal year if either (1) within one year of such sale, the proceeds from the sale of such assets are used, or committed by the Company's Board of Directors to be used, to acquire other assets of at least equivalent value and earning power, or (2) with the written consent of the holders of the Notes, the proceeds from sale of such assets are used immediately upon receipt to prepay first any Bonds outstanding and, if no Bonds are outstanding, to prepay pro rata the Notes under Section 2.2(a) hereof and other senior Funded Indebtedness of the Company; and
- (ii) in the opinion of the Company's Board of Directors, the sale is for fair value and is in the best interest of the Company; and

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

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

4.11. Merger and Consolidation.

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

- (i) the surviving or acquiring corporation is organized under the laws of the United States or a jurisdiction thereof,
- (ii) the surviving or acquiring corporation, if not the Company, expressly and unconditionally assumes in writing the covenants and obligations to be performed by the Company under the Notes and this Agreement, such assumption to be in a form acceptable to the holder or holders of not

less than 66-2/3% in principal amount of all Notes at the time outstanding, and

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

provided, further, that any Subsidiary may merge or consolidate with or into the Company or any other subsidiary so long as (x) the condition specified in paragraph (iii) above is satisfied, and (y) in any merger or consolidation involving the Company, the Company shall be the surviving or continuing corporation.

4.12. Transactions with Affiliates.

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

4.13. Loans, Advances and Investments.

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

4.14. Sale-Leaseback.

Without the written consent of the holder or holders of not less than 66-2/3% in principal amount of all Notes at the time outstanding, neither the Company nor any Subsidiary will sell

and lease back (whether or not under a Financing Lease) any Property.

4.15. ERISA Compliance.

(a) The Company will not permit the present value of all employee benefits vested under all Pension Plans maintained by the Company and its Subsidiaries to exceed the present value of the assets allocable to such vested benefits;

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

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

- (i) engage in any "prohibited transaction" as such term is defined in Section 4975 of the Internal Revenue Code of 1986, as amended, or described in Section 406 of ERISA;
- (ii) incur any "accumulated funding deficiency" as such term is defined in Section 302 of ERISA, whether or not waived; or
- (iii) terminate under circumstances which could result in the imposition of a Lien on the Property of the Company or any Subsidiary pursuant to Section 4068 of ERISA.

Section 5. DEFAULT

5.1. Nature of Default.

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

- (a) Principal, Premium or Interest Payments--failure to pay principal or Make Whole Amount on any Note on or before the date the payment is due, or failure to pay interest on any Note on or before the fifth day after the payment is due;
- (b) Breach of Particular Covenants--failure to comply with any covenant contained in Sections 4.4 through 4.11 and Sections 4.14 and 4.15;
- (c) Other Breaches--failure to comply with any other provision of this Agreement, which continues for more than 30 days after it first becomes known to the chief executive officer, president, chief financial officer or treasurer of the Company;
- (d) Default on Indebtedness or Other Security--failure by the Company or any Subsidiary to make one or more payments due on aggregate indebtedness exceeding \$1,000,000; or any event, other than the giving of a notice of voluntary prepayment, shall occur or any condition shall exist, the effect of which event or condition is to cause (or permit one or more Persons to cause) more than \$1,000,000 of aggregate indebtedness or other Securities of the Company or any Subsidiary to become due before its (or their) stated maturity or before its (or their) regularly scheduled dates of payment;
- (e) Involuntary Bankruptcy Proceedings, Etc.--a custodian, receiver, liquidator or trustee of the Company or any Subsidiary, or of any of the Property of either, is appointed or takes possession and such appointment or possession remains in effect for more than 60 days; or the Company or any Subsidiary generally fails to pay its debts as they become due; or the Company or any Subsidiary is adjudicated bankrupt or insolvent; or an order for relief is entered under the Federal Bankruptcy Code against the Company or any Subsidiary; or any of the Property of either is sequestered by court order and the order remains in effect for more than 60 days; or a petition is filed against the Company or any Subsidiary under any bankruptcy, reorganization, arrangement, insolvency, readjustment of debt, dissolution or liquidation law of any

jurisdiction, whether now or subsequently in effect, and is not dismissed within 60 days after filing;

- (f) Voluntary Bankruptcy Proceedings, Etc.--the Company or any Subsidiary files a voluntary petition in bankruptcy or seeking relief under any provision of any bankruptcy, reorganization, arrangement, insolvency, readjustment of debt, dissolution or liquidation law of any jurisdiction, whether now or subsequently in effect; or consents to the filing of any petition against it under any such law; or consents to the appointment of or taking possession by a custodian, receiver, trustee or liquidator of the Company, or a Subsidiary, or of all or any part of the Property of either; or makes an assignment for the benefit of its creditors;
- (g) Warranties or Representations--any warranty, representation or other statement by or on behalf of the Company contained in this Agreement or in any document, certificate or instrument furnished in compliance with or in reference to this Agreement shall prove to have been false or misleading in any material respect on the date as of which it was made; or
- (h) Undischarged Final Judgments--a final judgment for the payment of money is outstanding against one or more of the Company and its Subsidiaries and has been outstanding for more than 60 days from the date of its entry and has not been discharged in full or effectively stayed.

5.2. Default Remedies.

- (a) Acceleration--If an Event of Default of the type described in Sections 5.1(e) or 5.1(f) shall occur, the, entire outstanding principal amount of the Notes shall automatically become due and payable, without the taking of any action on the part of any holder of the Notes or any other Person and without the giving of any notice with respect thereto. If an Event of Default of the type described in Section 5.1(a) exists, any holder of Notes may, at its option, exercise any right, power or remedy permitted by law, including the right, by notice to the Company, to declare the Notes held by such holder to be immediately due and payable. If any other Event of Default exists, the holder or holders of at least 66-2/3% in outstanding principal amount of the Notes (exclusive of Notes owned by the Company, Subsidiaries and Affiliates) may, at its or their option, exercise any right, power or remedy permitted by law, including the right, by notice to the Company, to declare all the outstanding Notes to be immediately due and payable. Upon each such acceleration, the principal of the Notes declared due or automatically becoming due shall be immediately payable, together with all accrued interest and the Make Whole Amount, if any, applicable thereto, and the Company will immediately make payment, without any presentment, demand, protest or other notice of any kind, all of which are hereby expressly waived.

No course of dealing or delay or failure to exercise any right on the part of any holder of the Notes shall operate as a waiver of such right or otherwise prejudice such holder's rights, powers or remedies. The Company will pay or reimburse the holders of the Notes for all costs and expenses (including reasonable attorneys' fees) incurred by them in collecting any sums due on the Notes or in otherwise enforcing any of their rights.

- (b) Annulment of Acceleration--In the event of each declaration or automatic acceleration pursuant to Section 5.2(a), the holder or holders of at least 75% of the outstanding principal amount of the Notes (exclusive of Notes owned by the Company, Subsidiaries

and Affiliates) may annul such declaration or automatic acceleration and its consequences if no judgment or decree has been entered for the payment of any amount due pursuant to such declaration or automatic acceleration and if all sums payable under the Notes and under this Agreement (except any principal or interest on the Notes which has become payable solely by reason of such declaration or automatic acceleration) shall have been duly paid.

5.3. Other Remedies.

If any Event of Default or Default shall occur and be continuing, the holder of any Note may proceed to protect and enforce its rights under this Agreement and such Note by exercising such remedies as are available to such holder in respect thereof under applicable law, either by suit in equity or by action at law, or both, whether for specific performance of any covenant or other agreement contained in this Agreement or in aid of the exercise of any power granted in this Agreement. No remedy conferred in this Agreement upon any of you or any other holder of any Note is intended to be exclusive of any other remedy, and each and every such remedy shall be cumulative and shall be in addition to every other remedy conferred herein or now or hereafter existing at law or in equity or by statute or otherwise.

Section 6. REPRESENTATIONS, COVENANTS AND WARRANTIES

The Company represents, covenants and warrants as follows:

6.1. Organization, Etc.

(a) Due Organization, Foreign Qualifications, Stock Ownership. The Company is a corporation duly organized and existing in good standing under the laws of the State of Delaware, and is qualified to do business and is in good standing in the States of Florida and Maryland, which are the only jurisdictions where the ownership by it of property or the nature of the business conducted by it makes such qualification necessary. Each Subsidiary of the Company is duly organized and existing in good standing under the laws of the jurisdictions in which it is incorporated. Neither the ownership by any Subsidiary of property or the nature of the business conducted by any Subsidiary requires any Subsidiary to be qualified to do business in any jurisdiction in which it is not already qualified to do business. The names of the Subsidiaries of the

Company and the jurisdiction of incorporation of such is listed on Schedule 6.1(A) hereto.

(b) Power and Authority. The Company and each of its Subsidiaries has all requisite corporate power to conduct their respective businesses as currently conducted and as currently proposed to be conducted. The Company has all requisite corporate power to execute, deliver and perform its obligations under this Agreement and the Notes. The execution, delivery and performance of the obligations of the Company under this Agreement and the Notes have been duly authorized by all requisite corporate action on the part of the Company. The Company has duly executed and delivered this Agreement, and this Agreement constitutes the legal, valid and binding obligation of the Company, enforceable against the Company in accordance with its terms subject, as to enforceability, to applicable laws relating to bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditor's rights generally and subject to general principals of equity. As of the Closing Date, the Company shall have duly executed and delivered the Notes being issued on such Closing Date, and such Notes shall be the legal, valid and binding obligations of the Company enforceable against the Company in accordance with their terms subject, as to enforceability, to applicable laws relating to bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditor's rights generally and subject to general principals of equity.

6.2. Financial Statements.

The Company has furnished each Purchaser with the following financial statements, identified by a principal financial officer of the Company: (i) a consolidated balance sheet of the Company and its Subsidiaries as at December 31 in each of the years 1996 to 1999, inclusive, and consolidated statements of income, stockholders' equity and cash flows of the Company and its Subsidiaries for each such year, all certified on by PriceWaterhouseCoopers, L.L.P.; and (ii) a consolidated balance sheet of the Company and its Subsidiaries as at June 30 in each of the years 1999 and 2000 and consolidated statements of income, stockholders' equity and cash flows for the six-month period ended on each such date, prepared by the Company. Such financial statements (including any related schedules and/or notes) are true and correct in all material respects (subject, as to interim statements, to changes resulting from audits and year-end adjustments), have been prepared in accordance with generally accepted accounting principles consistently followed

throughout the periods involved and show all liabilities, direct and contingent, of the Company and its Subsidiaries required to be shown in accordance with such principles. The balance sheets fairly present the condition of the Company and its Subsidiaries as at the dates thereof, and the statements of income, stockholders' equity and cash flows fairly present the results of the operations of the Company and its Subsidiaries and their cash flows for the periods indicated. There has been no material adverse change in the business, condition (financial or otherwise) or operations of the Company and its Subsidiaries taken as a whole since June 30, 2000.

6.3. Actions Pending.

Except as disclosed in the Company's Form 10-K, 10-Q and 8-K Reports most recently filed with the Securities and Exchange Commission ("SEC"), there is no action, suit, investigation or proceeding pending or, to the knowledge of the Company, threatened against the Company or any of its Subsidiaries, or any properties or rights of the Company or any of its Subsidiaries, by or before any court, arbitrator or administrative or governmental body not covered by insurance which could reasonably be expected to result in any material adverse change in the business, condition (financial or otherwise) or operations of the Company and its Subsidiaries taken as a whole.

6.4. Outstanding Indebtedness.

As of the Closing Date, neither the Company nor any of its Subsidiaries has outstanding any Indebtedness except as permitted by Section 4.6. As of the Closing Date, there exists no default under the provisions of any instrument evidencing such Debt or of any agreement relating thereto.

6.5. Title to Properties.

The Company has and each of its Subsidiaries has good and marketable title to its respective real properties (other than properties which it leases) and good title to all of its other respective properties and assets, including the properties and assets reflected in the balance sheet as at June 30, 2000 referred to in Section 6.2 (other than properties and assets disposed of in the ordinary course of business), subject to no Lien of any kind except Liens permitted by Section 4.8. All leases necessary in any material respect for the conduct of the

respective businesses of the Company and its Subsidiaries are valid and subsisting and are in full force and effect.

6.6. Taxes.

The Company has and each of its Subsidiaries has filed all federal, state and other income tax returns which, to the knowledge of the officers of the Company, are required to be filed, and each has paid all taxes as shown on such returns and on all assessments received by it to the extent that such taxes have become due, except such taxes as are being contested in good faith by appropriate proceedings for which adequate reserves have been established in accordance with generally accepted accounting principles.

6.7. Conflicting Agreements and Other Matters.

Neither the execution nor delivery of this Agreement or the Notes, nor the offering, issuance and sale of the Notes, nor fulfillment of nor compliance with the terms and provisions hereof and of the Notes will conflict with, or result in a breach of the terms, conditions or provisions of, or constitute a default under, or result in any violation of, or result in the creation of any Lien upon any of the properties or assets of the Company or any of its Subsidiaries pursuant to, the charter or by-laws of the Company or any of its Subsidiaries, any award of any arbitrator or any agreement (including any agreement with stockholders), instrument, order, judgment, decree, statute, law, rule or regulation to which the Company or any of its Subsidiaries is subject. Neither the Company nor any of its Subsidiaries is a party to, or otherwise subject to any provision contained in, any instrument evidencing Indebtedness of the Company or such Subsidiary, any agreement relating thereto or any other contract or agreement (including its charter) which limits the amount of, or otherwise imposes restrictions on the incurring of, Debt of the Company of the type to be evidenced by the Notes except as set forth in the agreements listed in Schedule 6.7 attached hereto.

6.8. Offering of Notes.

Neither the Company nor any agent acting on its behalf has, directly or indirectly, offered the Notes or any similar security of the Company for sale to, or solicited any offers to buy the Notes or any similar security of the Company from, or otherwise approached or negotiated with respect thereto with, any Person other than institutional investors, and neither the

Company nor any agent acting on its behalf has taken or will take any action which would subject the issuance or sale of the Notes to the provisions of Section 5 of the Securities Act or to the provisions of any securities or Blue Sky law of any applicable jurisdiction.

6.9. Use of Proceeds.

Neither the Company nor any Subsidiary owns or has any present intention of acquiring any "margin stock" as defined in Regulation U (12 CFR Part 221) of the Board of Governors of the Federal Reserve System (herein called "margin stock"). The proceeds of sale of the Notes will be used to refinance outstanding short-term debt previously used to fund capital expenditures and for general corporate purposes. None of such proceeds will be used, directly or indirectly, for the purpose, whether immediate, incidental or ultimate, of purchasing or carrying any margin stock or for the purpose of maintaining, reducing or retiring any Indebtedness which was originally incurred to purchase or carry any stock that is currently a margin stock or for any other purpose which might constitute this transaction a "purpose credit" within the meaning of such Regulation U. Neither the Company nor any agent acting on its behalf has taken or will take any action which might cause this Agreement or the Notes to violate Regulation T, Regulation U or any other regulation of the Board of Governors of the Federal Reserve System or to violate the Exchange Act, in each case as in effect now or as the same may hereafter be in effect.

6.10. ERISA.

No accumulated funding deficiency (as defined in Section 302 of ERISA and Section 412 of the Code), whether or not waived, exists with respect to any Pension Plan (other than a Multiemployer Plan). No liability to the Pension Benefit Guaranty Corporation has been or is expected by the Company or any ERISA Affiliate to be incurred with respect to any Pension Plan (other than a Multiemployer Plan) by the Company, any Subsidiary or any ERISA Affiliate which is or would be materially adverse to the business, condition (financial or otherwise) or operations of the Company and its Subsidiaries taken as a whole. Neither the Company, any Subsidiary nor any ERISA Affiliate has incurred or presently expects to incur any withdrawal liability under Title IV of ERISA with respect to any Multiemployer Plan which is or would be materially adverse to the business, condition (financial or otherwise) or operations of the Company and its Subsidiaries taken as a whole. The

execution and delivery of this Agreement and the issuance and sale of the Notes will be exempt from, or will not involve any transaction which is subject to, the prohibitions of section 406 of ERISA and will not involve any transaction in connection with which a penalty could be imposed under section 502(i) of ERISA or a tax could be imposed pursuant to section 4975 of the Code. The representation by the Company in the next preceding sentence is made in reliance upon and subject to the accuracy of each Purchaser's representation in Section 9.5.

6.11. Governmental Consent.

Neither the nature of the Company or of any Subsidiary, nor any of their respective businesses or properties, nor any relationship between the Company or any Subsidiary and any other Person, nor any circumstance in connection with the offering, issuance, sale or delivery of the Notes is such as to require any authorization, consent, approval, exemption or other action by or notice to or filing with any court or administrative or governmental body, including, without limitation, the Maryland State Commission, (other than routine filings after the date of closing with the Securities and Exchange Commission and/or state Blue Sky authorities) in connection with the execution and delivery of this Agreement, the offering, issuance, sale or delivery of the Notes or fulfillment of or compliance with the terms and provisions hereof or of the Notes, other than Order No. 5609 of the Public Service Commission of the State of Delaware entered in PSC Docket No. 00-609 dated December 19, 2000 and Order No. PSC-99-2477-FOF-GU of the Florida Public Service Commission issued in Docket No. 991631-GU on December 17, 1999, each of which orders have been duly issued, are final and in full force and effect, no appeal, review or contest of either thereof is pending and the time for appeal or to seek review or reconsideration of either thereof has expired. The Company has delivered to you true and complete copies of such orders.

6.12. Environmental Compliance.

Except as disclosed in the Company's Form 10-K, 10-Q and 8-K Reports most recently filed with the SEC, the Company and its Subsidiaries and all of their respective properties and facilities have complied at all times and in all respects with all federal, state, local and regional statutes, laws, ordinances and judicial or administrative orders, judgments, rulings and regulations relating to protection of the environment except, in any such case, where failure to comply would not reasonably be

expected to result in a material adverse effect on the business, condition (financial or otherwise) or operations of the Company and its Subsidiaries taken as a whole.

6.13. Permits and Other Operating Rights.

The Company and each of its Subsidiaries has all such valid and sufficient franchises, licenses, permits, operating rights, certificates of convenience and necessity, other authorizations from federal, state, regional, municipal and other local regulatory bodies or administrative agencies or other governmental bodies having jurisdiction over the Company or any of its Subsidiaries or any of its respective properties, easements and rights-of-way as are necessary for the ownership, operation and maintenance of its respective businesses and respective properties, subject to minor exceptions and deficiencies which do not materially affect its business and operations considered as a whole or any material part thereof, and neither the Company nor any of its Subsidiaries is in violation of any thereof in any material respect.

6.14. Disclosure.

Neither this Agreement nor any other document, certificate or statement furnished to the Purchaser by or on behalf of the Company in connection herewith contains any untrue statement of a material fact or omits to state a material fact necessary in order to make the statements contained herein and therein not misleading. There is no fact peculiar to the Company or any of its Subsidiaries which materially adversely affects or in the future may (so far as the Company can now foresee) materially adversely affect the business, property or assets, or financial condition of the Company or any of its Subsidiaries and which has not been set forth in this Agreement or in the other documents, certificates and statements furnished to each Purchaser by or on behalf of the Company prior to the date hereof in connection with the transactions contemplated hereby. The information concerning the effect of the potential application of Federal Energy Regulatory Commission Order 636 to the Company and its Subsidiaries provided to the Purchaser by the Company is reasonable based on the assumptions stated therein and the best information available to the officers of the Company.

6.15. Regulatory Status of Company; Trust Indenture Act.

The Company is not an "investment company" or a company "controlled" by an "investment company," within the meaning of the Investment Company Act of 1940, as amended. The Company is not a "holding company" or a "subsidiary company" or an "affiliate" of a "holding company" within the meaning of the Public Holding Company Act of 1935, as amended, and is not a "public utility" within the meaning of the Federal Power Act, as amended. By purchasing the Notes, you will not be (a) a "public utility," a "holding company" or an "affiliate" of a "holding company" or a "subsidiary company" of a "holding company" within the meaning of the Public Utility Holding Company Act of 1935, as amended, (b) a "public utility" within the meaning of the Federal Power Act, as amended, (c) a "public utility" or an "electric utility" under Delaware law, Florida law, Maryland law or the law of any other state or (d) subject to the jurisdiction of the Federal Energy Regulatory Commission, the Public Service Commission of the State of Delaware, the Public Service Commission of the State of Florida or any other commission or person in any other state.

Section 7. INTERPRETATION OF THIS AGREEMENT

7.1. Terms Defined.

As used in this Agreement (including Exhibits and Schedules), the following terms have the respective meanings set forth below or in the Section indicated. Unless the context otherwise requires, (a) words denoting the singular number only shall include the plural and vice versa and (b) references to a gender shall include all genders.

Affiliate--means a Person (other than a Subsidiary) (1) which directly or indirectly controls, or is controlled by, or is under common control with, the Company, (2) which owns 5% or more of the Voting Stock of the Company or (3) 5% or more of the Voting Stock (or in the case of a Person which is not a corporation, 5% or more of the equity interest) of which is owned by the Company or a Subsidiary. The term "control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of Voting Stock, by contract or otherwise.

Agreement--means this Note Agreement dated December 29, 2000 between the Company and you (including Exhibits and Schedules) as amended or modified from time to time.

Bonds--has the meaning specified in the First Mortgage Indenture.

Business Day--means any day other than a Saturday, a Sunday or a day on which commercial banks in New York City are required or authorized to be closed.

Called Principal--means, with respect to any Note, the principal of such Note that is to be prepaid pursuant to Section 2.2(a) or is declared to be due and payable pursuant to Section 2.1(b) or 5.2(a), as the context requires.

Closing Date--Section 1.2.

Code--shall mean the Internal Revenue Code of 1986, as amended.

Consolidated Fixed Charges--for any period, means the net amount deducted, in determining Consolidated Net Income for such period, for interest on Indebtedness and lease rental expense of the Company and its Subsidiaries.

Consolidated Net Earnings Available for Fixed Charges--for any period, means Consolidated Net Income for such period plus the net amount deducted in the determination thereof for (i) interest on Indebtedness, (ii) lease rental expense and (iii) income taxes.

Consolidated Net Income--for any period, means the gross revenue of the Company and its Subsidiaries determined on a consolidated basis minus all proper expenses (including income taxes) determined on a consolidated basis for such period, but in any event excluding:

- (1) any gain or loss on the sale of Investments or fixed assets, and any taxes on such excluded gain or loss;
- (2) any proceeds from life insurance;

- (3) any portion of the net earnings of any Subsidiary which for any reason is unavailable to pay dividends to the Company or any other Subsidiary;
- (4) any gain arising from any write-up or reappraisal of assets;
- (5) any deferred or other credit representing the excess of equity of an acquired Person over the amount invested by the Company and its Subsidiaries in such Person;
- (6) any gain arising from the acquisition of any Securities of the Company or any Subsidiary;
- (7) net earnings of any Person (other than a Subsidiary) in which the Company or any Subsidiary has an ownership interest unless those net earnings have actually been received by the Company or the Subsidiary in the form of cash distributions or, to the extent of their fair market value, in the form of any other freely transferable Property; and
- (8) earnings of any Person accrued prior to the date it becomes a Subsidiary or its assets are acquired by the Company or a Subsidiary.

Consolidated Net Worth--means as of any date, the sum of the amounts that would be shown on a consolidated balance sheet of the Company and its Subsidiaries at such date for (i) capital stock, (ii) capital surplus and (iii) retained earnings.

Consolidated Tangible Net Worth--means as of any date Consolidated Net Worth at such date minus the amount at which any assets other than Tangible Assets would be shown on a consolidated balance sheet of the Company and its Subsidiaries at such date.

Consolidated Total Assets--means as of any date the aggregate amount at which the assets of the Company and its Subsidiaries would be shown on a consolidated balance sheet at such date.

Current Indebtedness--with respect to any Person, means all liabilities for borrowed money and all liabilities secured by any Lien existing on Property owned by that Person (whether or not those liabilities have been assumed) which, in either case, are payable on demand or within one year from their creation, plus the aggregate amount of Guaranties by that Person of all such liabilities of other Persons, except:

- (1) any liabilities which are renewable or extendible at the option of the debtor to a date more than one year from the date of creation thereof; and
- (2) any liabilities which, although payable within one year, constitute principal payments on indebtedness expressed to mature more than one year from the date of its creation.

Default--means an event or condition which will, with the lapse of time or the giving of notice or both, become an Event of Default.

Discounted Value--means, with respect to the Called Principal of any Note, the amount obtained by discounting all Remaining Scheduled Payments with respect to such Called Principal from their respective scheduled due dates to the Settlement Date with respect to such Called Principal, in accordance with accepted financial practice and at a discount factor (applied on the same periodic basis as that on which interest on the Notes is payable) equal to the Reinvestment Yield with respect to such Called Principal.

Diversification Event--Section 2.1(b).

ERISA--means the Employee Retirement Income Security Act of 1974, as amended.

ERISA Affiliate-- shall mean any corporation which is a member of the same controlled group of corporations as the Company within the meaning of Section 414(b) of the

Code, or any trade or business which is under common control with the Company within the meaning of Section 414(b) of the Code.

Event of Default--Section 5.1.

Excluded Assets-- means each of the following Subsidiaries or the assets of any of the following Subsidiaries: Sharp Water, Inc.; Carroll Water Systems, Inc.; EcoWater Systems of Michigan, Inc.; Sam Shannahan Well Co., Inc.; United Systems, Inc.; Skipjack, Inc.; or Eastern Shore Real Estate, Inc.

FERC--means the Federal Energy Regulatory Commission or a successor thereto.

Financing Lease--means any lease which is shown or is required to be shown in accordance with generally accepted accounting principles as a liability on a balance sheet of the lessee thereunder.

Financing Lease Obligation--means the obligation of the lessee under a Financing Lease. The amount of a Financing Lease Obligation at any date is the amount at which the lessee's liability under the Lease would be required to be shown on its balance sheet at such date.

First Mortgage Indenture--means the Indenture dated as of December 1, 1959, between Chesapeake Utilities Corporation and Fidelity-Baltimore National Bank, Trustee, as amended and supplemented.

Funded Indebtedness--with respect to any Person, means without duplication:

- (1) its liabilities for borrowed money, other than Current Indebtedness;
- (2) liabilities secured by any Lien existing on Property owned by the Person (whether or not those liabilities have been assumed);
- (3) the aggregate amount of Guaranties by the Person, other than Guaranties which constitute Current Indebtedness; and

- (4) its Financing Lease Obligations.

Guaranty--with respect to any Person, means all guaranties of, and all other obligations which in effect guaranty, any indebtedness, dividend or other obligation of any other Person (the "primary obligor") in any manner (except any indebtedness or other obligation of any Subsidiary or any Funded Indebtedness of the Company), including obligations incurred through an agreement, contingent or otherwise, by such Person:

- (1) to purchase such indebtedness or obligation or any Property constituting security therefor;
- (2) to advance or supply funds
 - (A) for the purchase or payment of such indebtedness or obligation, or
 - (B) to maintain working capital or any balance sheet or income statement condition;
- (3) to lease Property, or to purchase Securities or other Property or services, primarily for the purpose of assuring the owner of such indebtedness or obligation of the ability of the primary obligor to make payment of the indebtedness or obligation; or
- (4) otherwise to assure the owner of such indebtedness or obligation, or the primary obligor, against loss;

but excluding endorsements in the ordinary course of business of negotiable instruments for deposit or collection.

The amount of any Guaranty shall be deemed to be the maximum amount for which such Person may be liable, upon the occurrence of any contingency or otherwise, under or by virtue of the Guaranty.

Indebtedness--means Current Indebtedness and Funded Indebtedness.

Institutional Holder--means a "qualified institutional buyer" as defined in Regulation 230.144A issued pursuant to the Securities Act of 1933, as amended.

Investments--Section 4.13.

Lien--means any interest in Property securing an obligation owed to, or a claim by, a Person other than the owner of the Property, whether the interest is based on common law, statute or contract (including the security interest lien arising from a mortgage, encumbrance, pledge, conditional sale or trust receipt or a lease, consignment or bailment for security purposes). The term "Lien" shall not include minor reservations, exceptions, encroachments, easements, rights-of-way, covenants, conditions, restrictions and other minor title exceptions affecting Property, provided that they do not constitute security for a monetary obligation. For the purposes of this Agreement, the Company or a Subsidiary shall be deemed to be the owner of any Property which it has acquired or holds subject to a Financing Lease or a conditional sale agreement or other arrangement pursuant to which title to the Property has been retained by or vested in some other Person for security purposes, and such retention or vesting shall be deemed to be a Lien.

Make Whole Amount--means, with respect to any Note, an amount equal to the excess, if any, of the Discounted Value of the Called Principal of such Note over the sum of (i) such Called Principal plus (ii) interest accrued thereon as of (including interest due on) the Settlement Date with respect to such Called Principal. The Make Whole Amount shall in no event be less than zero.

Notes--Section 1.1.

Pension Plan--means any "employee pension benefit plan" (as such term is defined in Section 3 of ERISA) maintained by the Company and its Related Persons, or in which employees of the Company or any Related Person are entitled to participate, as from time to time in effect.

Permitted Investments--means:

- (1) Investments in any Person outstanding on the Closing Date, which are set forth in Schedule 7.1(A) hereto;
- (2) Investments in any Person which is or would immediately thereafter become a Subsidiary or a division of the Company or a Subsidiary, whether by acquisition of stock, indebtedness, other obligation or Security, or by loan, Guaranty, advance, capital contribution, or otherwise;
- (3) Investments in cash equivalent short-term investments maturing within one year of acquisition;
- (4) Investments in mutual funds which invest only in either money market securities or direct obligations of the United States of America or any of its agencies, or obligations fully guaranteed by the United States of America, which mature within three years from the date acquired;
- (5) Investments in related industries;
- (6) Direct obligations of the United States of America or any of its agencies, or obligations fully guaranteed by the United States of America, provided that such obligations mature within one year from the date acquired;
- (7) Negotiable certificates of deposit maturing within one year from the date acquired and issued by a bank or trust company organized under the laws of the United States or any of its states, and having capital, surplus and undivided profits aggregating at least \$100,000,000;

- (8) commercial paper rated A-1 or better by Standard & Poor's Corporation on the date of acquisition and maturing not more than 270 days from the date of creation thereof; and
- (9) other investments in an aggregate amount not in excess of 10% of Consolidated Net Worth at any one time.

Person--means an individual, partnership, corporation, limited liability company, trust or unincorporated organization, and a government or a governmental agency or political subdivision.

Prepayment Date--Section 2.2(b).

Property--means any interest in any kind of property or asset, whether real, personal or mixed, or tangible or intangible.

Purchase Money Indebtedness--means Indebtedness of the Company which is secured by a Lien on Property of the Company which either existed at the time of the original acquisition of the Property by the Company or was granted or retained in connection with the acquisition or improvement of the Property by the Company in order to facilitate the financing of such acquisition or improvement.

Reinvestment Yield--means, with respect to the Called Principal of any Note, .50% plus the yield to maturity implied by (i) the yields reported, as of 10:00 a.m. (New York City time) on the Business Day next preceding the Settlement Date with respect to such Called Principal, on the display designated as "Page 678" on the Bridge Telerate Service (or such other display as may replace Page 678 on the Bridge Telerate Service) for actively traded U.S. Treasury securities having a maturity equal to the Remaining Average Life of such Called Principal as of such Settlement Date, or if such yields shall not be reported as of such time or the yields reported as of such time shall not be ascertainable, (ii) the Treasury Constant Maturity Series yields reported, for the latest day for which such yields shall have been so reported as of the Business Day next preceding the

Settlement Date with respect to such Called Principal, in Federal Reserve Statistical Release H.15 (519) (or any comparable successor publication) for actively traded U.S. Treasury securities having a constant maturity equal to the Remaining Average Life of such Called Principal as of such Settlement Date. Such implied yield shall be determined, if necessary, by (a) converting U.S. Treasury bill quotations to bond-equivalent yields in accordance with accepted financial practice and (b) interpolating linearly between yields reported for various maturities.

Related Person--means any Person (whether or not incorporated) which is under common control with the Company within the meaning of Section 414(c) of the Internal Revenue Code of 1986, as amended, or of Section 4001(b) of ERISA.

Remaining Average Life--means, with respect to the Called Principal of any Note, the number of years (calculated to the nearest one-twelfth year) obtained by dividing (i) such Called Principal into (ii) the sum of the products obtained by multiplying (a) each Remaining Scheduled Payment of such Called Principal (but not of interest thereon) by (b) the number of years (calculated to the nearest one-twelfth year) which will elapse between the Settlement Date with respect to such Called Principal and the scheduled due date of such Remaining Scheduled Payment.

Remaining Scheduled Payments--means, with respect to the Called Principal of any Note, all payments of such Called Principal and interest thereon that would be due on or after the Settlement Date with respect to such Called Principal if no payment of such Called Principal were made prior to its scheduled due date.

Required Payment Date--Section 2.1(b).

Restricted Payments--Section 4.9.

Required Payment Date--Section 2.1(b).

Security--shall have the same meaning as in Section 2(1) of the Securities Act of 1933, as amended.

Settlement Date--means, with respect to the Called Principal of any Note, the date on which such Called Principal is to be prepaid pursuant to Section 2.2(a) or is

declared to be due and payable pursuant to Section 2.1(b) or 5.2(a), as the context requires.

State Commissions--means the Delaware, Florida and Maryland public utilities commissions or other bodies which regulate the rates of the Company or its Subsidiaries as a natural gas distribution company or otherwise.

Subsidiary--means any corporation organized under the laws of any State of the United States of America, which conducts the major portion of its business in and makes the major portion of its sales to Persons located in the United States of America, and not less than 80% of the total combined voting power of all classes of Voting Stock, and 80% of all other equity securities, of which shall, at the time as of which any determination is being made, be owned by the Company either directly or through Subsidiaries.

Subsidiary Stock--Section 4.10.

Tangible Assets--means all assets except:

- (1) deferred assets, other than prepaid insurance and prepaid taxes;
- (2) patents, copyrights, trademarks, trade names, franchises, good will, experimental expense and other similar intangibles;
- (3) treasury stock;
- (4) unamortized debt discount and expense; and
- (5) assets located and notes and receivables due from obligors domiciled outside the United States of America or Canada.

Total Capitalization--means at any date, the aggregate amount at that date, as determined on a consolidated basis, of the Funded Indebtedness of the Company and its Subsidiaries, plus Consolidated Net Worth.

Voting Stock--means Securities, the holders of which are ordinarily, in the absence of contingencies, entitled to elect the corporate directors (or Persons performing similar functions).

Wholly-Owned Subsidiary--means any Subsidiary whose financial results are consolidated with the financial results of the Company, and all of the equity Securities of which (except director's qualifying shares) are owned by the Company and/or one or more Wholly-Owned Consolidated Subsidiaries of the Company.

7.2. Accounting Principles.

The character or amount of any asset or liability or item of income or expense required to be determined under this Agreement and each consolidation or other accounting computation required to be made under this Agreement, shall be determined or made in accordance with generally accepted accounting principles at the time in effect, to the extent applicable, except where such principles are inconsistent with the requirements of this Agreement.

7.3. Directly or Indirectly.

Where any provision in this Agreement refers to any action which any Person is prohibited from taking, the provision shall be applicable whether the action is taken directly or indirectly by such Person, including actions taken by, or on behalf of, any partnership in which such Person is a general partner and all liabilities of such partnerships shall be considered liabilities of such Person under this Agreement.

7.4. Governing Law; Consent to Jurisdiction.

This Agreement shall be construed and enforced in accordance with, and the rights of the parties shall be governed by, the law of the State of New York. The Company irrevocably agrees that any legal action or proceeding with respect to this Agreement or the Notes may be brought in the courts of the State of New York or any court of the United States of America located in the State of New York, and, by execution and delivery of this Agreement, the Company accepts for itself, generally and unconditionally, and agrees to submit to the jurisdiction of each of the above-mentioned courts and irrevocably waives, to the fullest extent permitted by law, any objection which it may now or later have based on venue or *forum non conveniens* with

respect to any action instituted therein. The Company hereby irrevocably appoints Corporation Service Company (the "Process Agent"), with an office on the date hereof at 80 State Street, 6th Floor, Albany, New York 12207-2543, United States, as its agent to receive, on the Company's behalf and on behalf of the Company's property, service of copies of the summons and complaint and any other process which may be served in any such action or proceeding. Such service may be made by mailing or delivering a copy of such process to the Company in care of the Process Agent at the Process Agent's above address, and the Company hereby irrevocably authorizes and directs the Process Agent to accept such service on its behalf.

Section 8. PURCHASER'S SPECIAL RIGHTS

8.1. Note Payment.

The Company agrees that, so long as the Purchaser shall hold any Note, it will make payments of principal of, interest on and any Make Whole Amount payable with respect to such Note, which comply with the terms of this Agreement, by wire transfer of immediately available funds for credit (not later than 12:00 noon, New York City time, on the date due) to the account or accounts as specified in the Purchaser Schedule attached hereto or such other account or accounts in the United States as the Purchaser may designate in writing, notwithstanding any contrary provision herein or in any Note with respect to the place of payment. The Purchaser agrees that, before disposing of any Note, the Purchaser will make a notation thereon (or on a schedule attached thereto) of all principal payments previously made thereon and of the date to which interest thereon has been paid. The Company agrees to afford the benefits of this paragraph 8.1 to any transferee of any Note which shall have made the same agreement as made in this paragraph 8.1.

8.2. Issue Taxes.

The Company will pay all issuance, stamp and similar taxes in connection with the issuance and sale of the Notes and in connection with any modification of the Notes and will save each of you harmless against any and all liabilities relating to such taxes. The obligations of the Company under this Section 8.2 shall survive the payment of the Notes and the termination of this Agreement.

8.3. Registration of Notes.

The Company will cause to be kept a register for the registration and transfer of the Notes. The names and addresses of the holders of the Notes, and all transfers of and the names and addresses of the transferees of any of the Notes, will be registered in the register. The Person in whose name any Note is registered shall be deemed and treated as the owner thereof for all purposes of this Agreement, and the Company shall not be affected by any notice or knowledge to the contrary.

8.4. Exchange of Notes.

Upon surrender of any Note to the Company, the Company, upon request, will execute and deliver at its expense (except as provided below), new Notes, in denominations of at least \$1,000,000 (or, if less, the outstanding principal amount of the surrendered Note), in an aggregate principal amount equal to the outstanding principal amount of the surrendered Note. Each new Note (a) shall be payable to any Person as the surrendering holder may request and (b) shall be dated and bear interest from the date to which interest has been paid on the surrendered Note or dated the date of the surrendered Note if no interest has been paid thereon. The Company may require payment of a sum sufficient to cover any stamp tax or governmental charge imposed in respect of any transfer.

8.5. Replacement of Notes.

Upon receipt by the Company of evidence reasonably satisfactory to it (provided that if the holder of the Note is an Institutional Holder, its own certification shall be deemed to be satisfactory evidence) of the ownership of and the loss, theft, destruction or mutilation of any Note and

- (a) in the case of loss, theft or destruction, of indemnity reasonably satisfactory to it (provided that if the holder of the Note is an Institutional Holder, its own agreement of indemnity shall be deemed to be satisfactory), or
- (b) in the case of mutilation, upon surrender and cancellation of the Note,

the Company at its expense will execute and deliver a new Note, dated and bearing interest from the date to which interest has been paid on the lost, stolen, destroyed or mutilated Note or dated the date of the lost, stolen, destroyed or mutilated Note if no interest has been paid thereon.

Section 9. MISCELLANEOUS

9.1. Notices.

(a) All notices, requests, demands or other communications under this Agreement or under the Notes will be in writing and will be given by telecopy, telex, first class registered or certified mail (postage prepaid) or personal delivery:

- (1) if to any holder of any Note, in the manner provided in the Purchaser Schedule or in any other manner as such holder may have most recently advised the Company in writing, or
- (2) if to the Company, at its address shown at the beginning of this Agreement, or at any other address as it may have most recently furnished in writing to each of you and to all other holders of the Notes.

(b) Notice shall be deemed to be given upon the receipt thereof at the notice address specified.

9.2. Payments Due on Non-Business Days.

Anything in this Agreement or the Note to the contrary notwithstanding, any payment of principal of or interest on any Note that is due on a date other than a Business Day shall be made on the next succeeding Business Day.

9.3. Reproduction of Documents.

This Agreement and all related documents, including (a) consents, waivers and modifications which may subsequently be executed, (b) documents received by each of you at the closing of your purchase of the Notes (except the Notes themselves), and (c) financial statements, certificates and other information previously or subsequently furnished to each of you, may be reproduced by you by any photographic, photostatic, microfilm, micro-card, miniature photographic or other similar process and

each of you may destroy any original document so reproduced. The Company agrees and stipulates that any such reproduction shall, to the extent permitted by applicable law, be admissible in evidence as the original itself in any judicial or administrative proceeding (whether or not the original is in existence and whether or not the reproduction was made by any of you in the regular course of business) and that any enlargement, facsimile or further reproduction of the reproduction shall likewise be admissible in evidence.

9.4. Purchase for Investment.

The Purchaser represents to the Company that the Purchaser is purchasing the Notes for its own account for investment or for resale under Rule 144A under the Securities Act of 1933, as amended, and with no present intention of distributing or reselling any of the Notes, but without prejudice to the Purchaser's right at all times to sell or otherwise dispose of all or part of the Notes under an effective registration statement under the Securities Act of 1933, as amended, or under a registration exemption available under that Act.

9.5. Source of Funds.

The Purchaser represents to the Company that at least one of the following statements is an accurate representation as to each source of funds (a "Source") to be used by the Purchaser to pay the purchase price of the Notes to be purchased by it hereunder: (i) the Source is the "insurance company general account" of the Purchaser (as such term is defined under Section V of the United States Department of Labor's Prohibited Transaction Class Exemption ("PTCE") 95-60), and as of the date of the purchase of the Notes the Purchaser satisfies all of the applicable requirements for relief under Sections I and IV of PTCE 95-60; (ii) the Source is a separate account maintained by the Purchaser in which no employee benefit plan, other than employee benefit plans identified on a list which has been furnished by the Purchaser to the Company, participates to the extent of 10% or more; (iii) the Source is one or more employee benefit plans, or a separate account or trust fund comprised of one or more employee benefit plans, each of which has been identified to the Company in writing pursuant to this clause (iii); or (iv) the Source does not include assets of any employee benefit plan, other than a plan exempt from the coverage of ERISA. For the purpose of this Section 9.5, the terms "separate account" and "employee benefit plan" shall have the respective meanings specified in Section 3 of ERISA.

9.6. Successors and Assigns.

This Agreement shall inure to the benefit of and be binding upon the successors and assigns of each of the parties except that each of your obligations to purchase the Notes (as provided in Section 1.2) shall be a right which is personal to the Company and such right shall not be transferable or assignable by the Company to any other Person (including successors at law) whether voluntarily or involuntarily. The provisions of this Agreement are intended to be for the benefit of all holders, from time to time, of the Notes, and shall be enforceable by any holder, whether or not an express assignment of rights under this Agreement has been made by you or your successor or assign.

9.7. Amendment and Waiver; Acquisition of Notes.

(a) Amendment and Waiver. This Agreement may be amended, and the observance of any term of this Agreement may be waived, with (and only with) the written consent of the Company and the holders of at least 66-2/3% of the outstanding principal amount of the Notes (exclusive of Notes then owned by the Company, Subsidiaries and Affiliates), provided that no amendment or waiver of any of the provisions of Sections 1, 6 and 8 shall be effective as to any holder of the Notes unless consented to by such holder in writing, and provided further, that no amendment or waiver shall, without the written consent of the holders of all the outstanding Notes, (1) subject to Section 5.2(b), change the amount or time of any prepayment, payment of principal or premium or the rate or time of payment of interest, (2) amend Section 5, or (3) amend this Section 9.7(a). Executed or complete and correct copies of any amendment or waiver effected pursuant to the provisions of this Section 9.7(a) shall be delivered by the Company to each holder of outstanding Notes promptly following the date on which the same shall become effective.

(b) Acquisition of Notes. Neither the Company nor any Subsidiary, nor any Affiliate will, directly or indirectly, acquire or make any offer to acquire any Notes unless the Company or such Subsidiary or Affiliate shall contemporaneously offer to acquire Notes, pro rata, from all holders of the Notes and upon the same terms. Any Notes acquired by the Company, any Subsidiary or any Affiliate shall not be considered outstanding for any purpose under this Agreement.

9.8. Duplicate Originals.

Two or more duplicate originals of this Agreement may be signed by the parties, each of which shall be an original but all of which together shall constitute one and the same instrument.

If this Agreement is satisfactory to you, please so indicate by signing the acceptance at the foot of a counterpart of this Agreement and return a counterpart to the Company, whereupon this Agreement will become binding between us in accordance with its terms.

[Signature page to follow]

Very truly yours,

CHESAPEAKE UTILITIES CORPORATION

By: Beth W. Cooper
Name: Beth W Cooper
Title: Asst. Treasurer

Accepted:

PACIFIC LIFE INSURANCE COMPANY

By: _____
Name:
Title:

Very truly yours,

CHESAPEAKE UTILITIES CORPORATION

By: _____
Name:
Title:

Accepted:

PACIFIC LIFE INSURANCE COMPANY

By: *Diane W. Dales*
Name: Diane W. Dales
Title: Assistant Vice President

By: *Peter S. Fiek*
Name: Peter S. Fiek
Title: Assistant Secretary

PURCHASER SCHEDULE

	Aggregate Principal Amount of Notes to be Purchased	Note Denomin- ation(s)
PACIFIC LIFE INSURANCE COMPANY		
(1) All payments on account of Notes held by such purchaser shall be made by wire transfer of immediately available funds for credit to:	\$20,000,000	\$3,000,000 \$2,000,000 \$5,000,000 \$10,000,000

Federal Reserve Bank of Boston
ABA #0110-0123-4/BOS SAFE DEP
DDA 125261
Attn: MBS Income CC: 1253
A/C Name: Pacific Life General
Account/PLCF1810132

Each such wire transfer shall set forth the name of the Company, a reference to "7.83% Senior Notes due January 1, 2015, PPN 165303 C# 3, and the due date and application (as among principal, interest and Make Whole Amount) of the payment being made.

- (2). Address for all notices relating to payments:

Mellon Trust
Attn: Pacific Life Accounting
Team
One Mellon Bank Center
Room 0930
Pittsburgh, PA 15258-0001

And to:

Pacific Life Insurance Company
Attn: Securities
Administration - Cash Team
700 Newport Center Drive
Newport Beach, CA 92660-6397

- (3) Address for all other
communications and notices:

Pacific Life Insurance Company
Attn: Securities Department
700 Newport Center Drive
Newport Beach, CA 92660-6397

- (4) Register Notes in nominee name:
Mac & Co.

- (5) Tax Id. No.:95-1079000

EXHIBIT A

[FORM OF NOTE]

CHESAPEAKE UTILITIES CORPORATION

7.83% Senior Note due January 1, 2015.

No. R-__

\$ _____

[DATE]

CHESAPEAKE UTILITIES CORPORATION, a Delaware corporation (the "Company"), for value received, hereby promises to pay to _____ or registered assigns the principal sum of _____ Dollars (\$____) on January 1, 2015; and to pay interest (computed on the basis of a 360-day year of twelve 30-day months) on the unpaid principal balance hereof from the date of this Note at the rate of 7.83% per annum, semi-annually on the 1st day of January and July in each year, commencing on July 1, 2001 until the principal amount hereof shall become due and payable; and to pay on demand interest on any overdue principal (including any overdue prepayment of principal) and premium, if any, and (to the extent permitted by applicable law) on any overdue payment of interest, at a rate per annum from time to time equal to the greater of (i) 9.83% or (ii) the rate of interest publicly announced by Morgan Guaranty Trust Company of New York from time to time in New York City as its Prime Rate.

Payments of principal, premium, if any, and interest shall be made in such coin or currency of the United States of America as at the time of payment is legal tender for the payment of public and private debts by check mailed and addressed to the registered holder hereof at the address shown in the register maintained by the Company for such purpose, or, at the option of the holder hereof, in such manner and at such other place in the United States of America as the holder hereof shall have designated to the Company in writing.

This Note is one of an issue of Notes of the Company issued in an aggregate principal amount limited to \$20,000,000 pursuant to the Company's Note Agreement with Pacific Life Insurance Company dated December 29, 2000, and is entitled to the benefits thereof. As provided in such Agreement, this Note is subject to prepayment, in whole or in part, with a premium as specified in said Agreement. The Company agrees to make required payments on account of said Notes in accordance with the provisions of said Agreement.

This Note is a registered Note and is transferable only by surrender hereof at the principal office of the Company in Dover, Delaware, duly endorsed or accompanied by a written instrument of transfer duly executed by the registered holder of this Note or his attorney duly authorized in writing.

Under certain circumstances, as specified in said Agreement, the principal of this Note may be declared due and payable in the manner and with the effect provided in said Agreement.

This Note and said Agreement are governed by and construed in accordance with New York law.

CHESAPEAKE UTILITIES CORPORATION

(CORPORATE SEAL)

By:

Name: _____

Title: _____

COVINGTON & BURLING

1201 PENNSYLVANIA AVENUE NW WASHINGTON, DC
WASHINGTON, DC 20004-2401 NEW YORK
TEL 202.662.6000 LONDON
FAX 202.662.6291 BRUSSELS
WWW.COV.COM SAN FRANCISCO

December 29, 2000

Pacific Life Insurance Company
700 Newport Center Drive
Newport Beach, CA 92660-6397

Ladies and Gentlemen:

We have acted as special counsel for Chesapeake Utilities Corporation (the "Company") in connection with the Note Agreement, dated as of December 29, 2000, between the Company and you (the "Note Agreement"), pursuant to which the Company has issued to you today 7.83% Senior Notes due January 1, 2015 of the Company in the aggregate principal amount of \$20,000,000. All terms used herein that are defined in the Note Agreement have the respective meanings specified in the Note Agreement. This letter is being delivered to you in satisfaction of the condition set forth in Section 1.4(c) of the Note Agreement and with the understanding that you are purchasing the Notes in reliance on the opinions expressed herein.

In rendering our opinion, we have relied, to the extent that we deem necessary and proper, as to factual matters only, on the warranties and representations contained in the Note Agreement and a certificate of an officer of the Company indicating that the Company has complied with certain financial ratios mandated by the agreements listed in Schedule 6.7 to the Note Agreement. We have also examined and relied upon such other certificates of officers of the Company, certificates of public officials, and copies certified to our satisfaction of corporate documents and records of the Company and of other papers, and have made such other investigations, as we have deemed relevant and necessary as a basis for our opinion hereinafter set forth. With respect to the opinion expressed in paragraph 4 below, we have also relied upon the representation made by you in Section 9.4 of the Note Agreement. We have assumed the genuineness of all signatures (except those of the Company) and conformity to original documents of all documents furnished to us as originals or photostatic copies. We have also assumed the power and authority of, the due execution and delivery by, and the enforceability of the Note Agreement against, each party to the Note Agreement other than the Company. As to certain matters of Delaware law, including the corporate power of the Company, we have relied upon the opinion letter of even date herewith given to you by Schmittinger and Rodriguez. Our factual inquiry has been limited to the actions and inquiries expressly described in this paragraph, and we have not conducted any independent inquiry, beyond that identified above, to verify such matters.

COVINGTON & BURLING

Pacific Life Insurance Company

December 29, 2000

Page 2

We are attorneys licensed to practice in the District of Columbia and the Federal courts and agencies of the United States of America. We express no opinion as to the laws of any jurisdiction other than the federal laws of the United States of America, the laws of the District of Columbia and the General Corporation Law of the State of Delaware. Without limitation of the foregoing, we note that the Note Agreement is governed by the laws of the State of New York, and with your consent, we have assumed for purposes of this opinion that those laws do not differ in any material respect from the laws of the District of Columbia.

Based on the foregoing, it is our opinion that:

1. The Company is a corporation duly organized and validly existing in good standing under the laws of the State of Delaware. The Company has the corporate power and authority to execute, deliver and perform its obligations under the Note Agreement and the Notes and to carry on the business as now being conducted. The Company is qualified to do business and is in good standing under the laws of the States of Maryland and Florida, which are the only jurisdictions where the ownership of property or the nature of the business conducted by it makes such qualification necessary.

2. The Note Agreement and the Notes have been duly authorized by all requisite corporate action and duly executed and delivered by authorized officers of the Company and constitute the legal, valid and binding obligations of the Company, enforceable against the Company in accordance with their terms except as enforcement of such terms may be limited by laws governing bankruptcy, reorganization, moratorium, or insolvency or similar laws affecting the enforcement of creditors' rights generally and by general principles of equity.

3. It is not necessary in connection with the offering, issuance, sale and delivery of the Notes under the circumstances contemplated by the Agreement to register the Notes under the Securities Act or to qualify an indenture in respect of the Notes under the Trust Indenture Act of 1939, as amended.

4. The extension, arranging and obtaining of the credit represented by the Notes do not result in any violation of Regulation T, U or X of the Board of Governors of the Federal Reserve System.

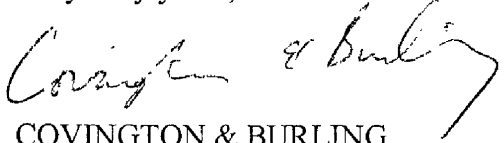
5. The execution and delivery of the Note Agreement and the Notes, the offering, issuance and sale of the Notes and fulfillment of and compliance with the respective provisions of the Note Agreement and the Notes do not conflict with, or result in a breach of the terms, conditions or provisions of, or constitute a default under, or result in any violation of, or result in the creation of any Lien upon any of the properties or assets of the Company pursuant to, or require any authorization, consent, approval, exemption or other action by or notice to or filing with any court, administrative or governmental body (other than the Delaware and Florida State Commissions and routine filings after the date hereof with the Securities and Exchange Commission and/or State Blue Sky authorities) or other Person pursuant to, the charter or by-

COVINGTON & BURLING
Pacific Life Insurance Company
December 29, 2000
Page 3

laws of the Company, any applicable law (including any securities or Blue Sky law), statute, rule or regulation or (insofar as is known to us after having made due inquiry with respect thereto) order, judgment or decree to which the Company is subject, or any of the agreements listed on Schedule 6.7 to the Note Agreement or the terms of the 8.25% Convertible Debentures due March 1, 2014.

Our opinions may not be relied upon by any person or entity other than you, your transferees, prospective transferees (other than pursuant to a public offering) and Schiff Hardin & Waite, your special counsel in connection with the matters referred to herein, and except with respect to regulatory authorities exercising jurisdiction over you (which shall be deemed to include the National Association of Insurance Commissioners), this opinion may not be disclosed to any other person without our prior written consent.

Very truly yours,


COVINGTON & BURLING

LAW OFFICES
SCHMITTINGER AND RODRIGUEZ, P.A.

PROFESSIONAL ASSOCIATION
414 SOUTH STATE STREET
POST OFFICE BOX 497
DOVER, DELAWARE 19901
TELEPHONE 302-674-0140
TELECOPIER 302-674-1830

HAROLD SCHMITTINGER
OF COUNSEL

WILMINGTON OFFICE
BRANDYWINE GATEWAY PLAZA
1300 NORTH MARKET STREET
WILMINGTON, DELAWARE 19801
TELEPHONE 302-652-3676
FAX 302-652-8788

REHOBOTH BEACH OFFICE
FIRST UNION BANK BUILDING
4602 HIGHWAY ONE
REHOBOTH BEACH, DELAWARE 19971
TELEPHONE 302-227-1400
FAX 302-645-1843

ODESSA OFFICE
ODESSA PROFESSIONAL PARK
POST OFFICE BOX 626
ODESSA, DELAWARE 19730
TELEPHONE 302-378-1697
FAX 302-378-1659

NICHOLAS H. RODRIGUEZ
PAUL H. BOSWELL
JOHN J. SCHMITTINGER
BRUCE C. ENNIS
DOUGLAS B. CATTS
DOUGLAS D. FLETCHER, JR.
WILLIAM A. DENMAN
CATHERINE T. HICKEY
CRAIG T. ELIASSEN
WILLIAM W. PEPPER SR.
CRYSTAL L. CAREY*
SCOTT E. CHAMBERS*
FRED A. TOWNSEND III
NOEL E. PRIMOS
DAVID A. BOSWELL
WALT F. SCHMITTINGER
R. SCOTT KAPPES
JEFFREY J. CLARK
BETH B. MILLER
KYLE KEMMER
DONNA L. HARRIS

*ALSO ADMITTED IN MARYLAND

December 29, 2000

Pacific Life Insurance Company
700 Newport Center Drive
Newport Beach, CA 92660-6397

Ladies and Gentlemen:

We have acted as special Delaware counsel for Chesapeake Utilities Corporation (the "Company") in connection with the Note Agreement, dated as of December 29, 2000, between the Company and you (the "Note Agreement"), pursuant to which the Company has issued to you today 7.83% Senior Notes due January 1, 2015 of the Company in the aggregate principal amount of \$20,000,000. All terms used herein that are defined in the Note Agreement have the respective meanings specified in the Note Agreement. This letter is being delivered to you in satisfaction of the condition set forth in Section 1.4(c) of the Note Agreement and with the understanding that you are purchasing the Notes in reliance on the opinions expressed herein.

In this connection, we have examined such certificates of public officials, certificates of officers of the Company, and copies certified to our satisfaction of corporate documents and records of the Company and of other papers, and have made such other investigations, as we have deemed relevant and necessary as a basis for our opinion hereinafter set forth. We have relied upon such certificates of public officials and of officers of the Company with respect to the accuracy of material factual matters contained therein which were not independently established. With respect to the opinion expressed in paragraph 3 below, we have also relied upon the representations made by you in Sections 9.4 and 9.5 of the Note Agreement.

Based on the foregoing, it is our opinion that:

1. The Company is a corporation duly organized and validly existing in good standing under the laws of the State of Delaware. The Company has the corporate power and authority to execute, deliver, and perform its obligations under the Note Agreement and the Notes and to carry on the business as now being conducted.

2. The Note Agreement and the Notes have been fully authorized by all requisite corporate action.

3. The execution and delivery of the Note Agreement and the Notes, the offering, issuance and sale of the Notes, and fulfillment of and compliance with the respective provisions of the Note Agreement and the Notes will not require any authorization, consent, approval, exemption or other action by or notice to or filing with any court, administrative or governmental body (other than the State of Delaware Public Service Commission and routine filings after the date hereof with the Securities and Exchange Commission and/or State Blue Sky authorities) pursuant to any applicable law (including any securities or Blue Sky law), statute, rule or regulation of the State of Delaware. The Public Service Commission of the State of Delaware has duly entered Order No. 5609 in PSC Docket No. 00-609 dated December 19, 2000, such Order is final and in full force and effect, no appeal, review or contest thereof is pending and no further action by the Public Service Commission of the State of Delaware is a requirement to execution and delivery of the Note Agreement or the Notes or the offering, issuance or sale of the Notes or the fulfillment of compliance with the requisite provisions of the Note Agreement and the Notes. Under 26 Del. C. Section 510, appeals from Orders of the Delaware Public Service Commission may be filed by any party or intervenor by filing said appeal in the Superior Court of Delaware within 30 days from the date upon which such order is served. In this regard, there were no intervenors in PSC Docket No. 00-609. The Staff of the Commission, the only party to the proceeding other than the Company, did not object to the issuance of the Order and has informed our firm that the Staff will not file any appeal.

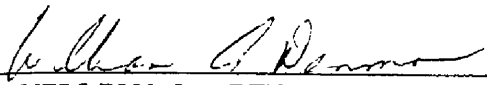
Our opinions may not be relied upon by any person or entity other than you, your transferees, and Schiff Hardin & Waite, your special counsel, in connection with the matters referred to herein.

Pacific Life Insurance Company
December 22, 2000
Page 3

Our opinions are limited to the laws of the State of Delaware.

Sincerely yours,

SCHMITTINGER & RODRIGUEZ, P.A.

BY: 
WILLIAM A. DENMAN, ESQUIRE

WAD:pmw



6225 Smith Avenue
Baltimore, Maryland 21209-3600
www.piperrudnick.com

PHONE (410) 580-3000
FAX (410) 580-3001

December 29, 2000

Pacific Life Insurance Company
700 Newport Center Drive
Newport Beach, California 92660-3697

Ladies and Gentlemen:

We have acted as special Maryland regulatory counsel for Chesapeake Utilities Corporation (the "Company") in connection with the Note Agreement, dated as of December 29, 2000, between the Company and you (the "Note Agreement"), pursuant to which the Company has issued you today 7.83% Senior Notes ("Notes") due January 1, 2015 of the Company in the aggregate principal amount of \$20,000,000. All terms used herein that are defined in the Note Agreement have the respective meanings specified in the Note Agreement. This letter is being delivered to you with the understanding that you are purchasing the Notes in reliance on the opinions expressed herein.

Based on the foregoing and assuming approval of the subject transaction by the Delaware Public Service Commission in PSC Docket No. 00-609, it is our opinion that:

The execution and delivery of the Note Agreement and the Notes, the offering, issuance and sale of the Notes and fulfillment of and compliance with the respective provisions of the Note Agreement and the Notes do not require any authorization, consent, approval, exemption or other action by or notice to or filing with any Maryland state administrative or governmental body, including, without limitation, the Public Service Commission of Maryland, pursuant to any applicable law (including any securities or Blue Sky law), statute, rule or regulation of the State of Maryland.

Our opinion may not be relied upon by any person or entity other than you, your transferees and Schiff Hardin & Waite, your special counsel in connection with the matters referred to herein.

Very truly yours,

Piper Marbury Rudnick & Wolfe, LLP

Wayne L. Schiefelbein
Attorney At Law

P.O. Box 15856 • Tallahassee, FL 32317-5856
(850) 422-1013 • (850) 531-0011 Fax

December 28, 2000

Pacific Life Insurance Company
700 Newport Center Drive
Newport Beach, CA 92660-6397

Ladies and Gentlemen:

I have acted as special Florida counsel for Chesapeake Utilities Corporation (the "Company") in connection with the Note Agreement, dated as of December 28, 2000, between the Company and you (the "Note Agreement"), pursuant to which the Company has issued to you today 7.83% Senior Notes due January 1, 2015 of the Company in the aggregate principal amount of \$20,000,000. All terms used herein that are defined in the Note Agreement have the respective meanings specified in the Note Agreement. This letter is being delivered to you in satisfaction of the condition set forth in Section 1.4 (c) of the Note Agreement and with the understanding that you are purchasing the Notes in reliance on the opinions expressed herein.

In this connection, I have examined such certificates of public officials, certificates of officers of the Company and copies certified to my satisfaction of corporate documents and records of the Company and of other papers, and have made such other investigations, as I have deemed relevant and necessary as a basis for my opinion hereinafter set forth. I have relied upon such certificates of public officials and of officers of the Company with respect to the accuracy of material factual matters contained therein which were not independently established.

Based on the foregoing, it is my opinion that:

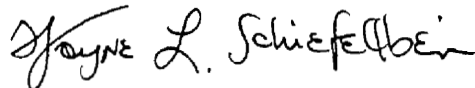
1. The Company is qualified to do business and is in good standing under the laws of the State of Florida.
2. The execution and delivery of the Note Agreement and the Notes, the offering, issuance and sale of the Notes and fulfillment of and compliance with the respective provisions of the Note Agreement and the Notes will not require any authorization, consent, approval, exemption or other action by or notice to or filing with any court, administrative or governmental body (other than the Public Service Commission of the State of Florida and routine filings after the date hereof with the Securities and Exchange Commission and/or State

Blue Sky authorities) pursuant to any applicable law (including any securities or Blue Sky law), statute, rule or regulation of the State of Florida. The Public Service Commission of the State of Florida has duly entered Order No. PSC-99-2477-FOF-GU in Docket No. 991631-GU dated December 17, 1999, which order is final and in full force and effect, no appeal, review or contest thereof is pending and the time for appeal or to seek review or reconsideration thereof has expired and no further action by the Public Service Commission of the State of Florida is a requirement to execution and delivery of the Note Agreement or the Notes or the offering, issuance or sale of the Notes or the fulfillment of compliance with the requisite provisions of the Note Agreement and the Notes.

My opinion may not be relied upon by any person or entity other than you, your transferees and Schiff Hardin & Waite your special counsel in connection with the matters referred to herein.

My opinion is limited to the laws of the State of Florida.

Sincerely,

A handwritten signature in cursive script that reads "Wayne L. Schiefelbein". The signature is written in black ink and is positioned below the word "Sincerely,".

Wayne L. Schiefelbein

LAW OFFICES
LAWS & LAWS, P.A.

209 EAST MAIN STREET

P. O. BOX 75

SALISBURY, MARYLAND 21803-0075

TELEPHONE (410) 749-7500

FAX (410) 749-7509

E-MAIL lawspa@ce.net

208 CEDAR STREET
CAMBRIDGE, MARYLAND 21613
TELEPHONE (410) 376-0287

VICTOR H. LAWS
COUNSEL

VICTOR H. LAWS, III
JEAN S. LAWS

December 28, 2000

Pacific Life Insurance Company
700 Newport Center Drive
Newport Beach, California 92660-6397

Ladies and Gentlemen:

We have acted as special Maryland counsel for Chesapeake Utilities Corporation (the "Company") in connection with the Note Agreement, dated as of December 29, 2000, between the Company and you (the "Note Agreement"), pursuant to which the Company has issued to you today 7.83% Senior Notes due January 1, 2015, of the Company in the aggregate principal amount of \$20,000,000. All terms used herein that are defined in the Note Agreement have the respective meanings specified in the Note Agreement. This letter is being delivered to you in satisfaction of the condition set forth in Section 1.4(c) of the Note Agreement and with the understanding that you are purchasing the Notes in reliance on the opinions expressed herein.

In this connection, we have examined such certificates of public officials, certificates of officers of the Company and copies certified to our satisfaction of corporate documents and records of the Company and of other papers, and have made such other investigations, as we have deemed relevant and necessary as a basis for our opinion hereinafter set forth. We have relied upon such certificates of public officials and of officers of the Company with respect to the accuracy of material factual matters contained therein which were not independently established.

Based on the foregoing, it is our opinion that:

1. The Company is qualified to do business and is in good standing in the State of Maryland.

2. The execution and delivery of the Note Agreement and the Notes, the offering, issuance and sale of the Notes and fulfillment of and compliance with the respective provisions of the Note Agreement and the Notes will not require any authorization, consent, approval, exemption or other action by or notice to or filing with any court, administrative or governmental body (other than routine filings after the date hereof with the Securities and Exchange Commission and/or State Blue Sky authorities) pursuant to any applicable law (including any securities or Blue Sky law), statute, rule or regulation of the State of Maryland, except that this opinion expresses no opinion about any authorization, consent, approval, exemption or other action by or notice to or filing with the Maryland Public Service Commission, a matter about which we understand that the Company's counsel for Public Service Commission matters, Piper, Marbury, Rudnick & Wolfe, L.L.P., will express a separate opinion.

Our opinions may not be relied upon by any person or entity other than you, your transferees and Schiff Hardin & Waite, your special counsel in connection with the matters referred to herein.

Our opinions are limited to the laws of the State of Maryland.

Very truly yours,

LAWS & LAWS, P.A.

By: Victor H. Laws, III
Victor H. Laws, III

VHLIII:mah

SCHIFF HARDIN & WAITE

A Partnership including Professional Corporations

6600 Sears Tower, Chicago, Illinois 60606-6473
Telephone (312) 258-5500 Facsimile (312) 258-5700

Exhibit C-6

Chicago
Washington
New York
Merrillville
Dublin

December 29, 2000

Pacific Life Insurance Company
700 Newport Center Drive
Newport Beach, California 92660-6397

Ladies and Gentlemen:

We have acted as special counsel for you in connection with the Note Agreement, dated as of December 29, 2000, between Chesapeake Utilities Corporation, a Delaware corporation (the "Company"), and you (the "Agreement"), providing for the issuance and delivery to you today of the Company's 7.83% Senior Notes due January 1, 2015 in the aggregate principal amount of \$20,000,000 (the "Notes"). This opinion letter is being delivered pursuant to Section 1.4(b) of the Agreement. Capitalized terms used in this opinion letter which are defined in the Agreement and not otherwise defined in this opinion letter shall have the meanings given to them in the Agreement.

We have examined such documents and matters of law which we have deemed necessary as the basis for the opinions expressed below. The documents examined include the following (the documents described in (i) and (ii) below are collectively called the "Transaction Documents"):

- (i) An executed copy of the Agreement;
- (ii) Executed copies of the Notes;
- (iii) A copy of the Restated Certificate of Incorporation of the Company and amendments thereto, certified by the Secretary of State of Delaware;
- (iv) A copy of the By-Laws of the Company, certified by the Secretary of the Company;
- (v) A copy of the resolutions of the board of directors of the Company authorizing the execution and delivery of the Agreement and the Notes, certified by the Secretary of the Company;
- (vi) A certificate of the Secretary of the Company as to the incumbency and specimen signatures of the officers of the Company executing the Agreement and the Notes;
- (vii) A certificate of the Secretary of State of Delaware as to the good standing of the Company; and

(viii) A copy of Order No. PSC-99-2477-FOF-GU of the Florida Public Service Commission entered in Docket No. 991631-GU on December 17, 1999 authorizing the issuance of the Notes and a copy of Order No. 5609 of the Delaware Public Service Commission entered in Docket No. 00-609 on December 19, 2000 authorizing the issuance of the Notes.

In making our examination, we have assumed the genuineness of all signatures, the authenticity of all documents submitted to us as originals, the conformity with the originals of all documents submitted to us as copies and the legal capacity of all natural persons. As to matters of fact material to our opinions in this letter, we have relied on certificates of officers of the Company, public officials and other appropriate persons and on the representations made in the Transaction Documents. We have not independently investigated or verified any of the foregoing.

In rendering the opinions in this letter we have assumed, without independent investigation or verification, that each party to each of the Transaction Documents, other than the Company, (a) is validly existing and in good standing under the laws of its jurisdiction of organization, (b) has full power and authority to execute the Transaction Documents to which it is a party and to enter into the transactions contemplated therein, (c) has taken all necessary action to authorize execution of the Transaction Documents to which it is a party on its behalf by the persons executing same, (d) has properly executed and delivered each of the Transaction Documents to which it is a party, and (e) has duly obtained all consents or approvals of any nature from and made all filings with any governmental authorities necessary for such party to execute, deliver or perform its obligations under the Transaction Documents to which it is a party. In addition, in rendering such opinions we have assumed, without independent investigation or verification, that the execution and delivery of, and performance of their respective agreements under, the Transaction Documents by each party thereto other than the Company do not violate any agreement or instrument binding on such party or, except to the extent covered by our opinion in paragraph 6 below, any law, rule or regulation binding upon such party, that each of the Transaction Documents is the legal, valid and binding obligation of, and enforceable against, each party thereto other than the Company, and that the execution and delivery by the Company of, and performance by it of its agreements under, the Transaction Documents to which it is a party do not violate any agreement or instrument binding upon the Company or, except to the extent covered by our opinions in paragraphs 4, 5, 6 or 7 below, any law, rule, or regulation binding upon the Company or require any consent or approval from or filing with any governmental authority.

In rendering our opinions herein we have also assumed, without independent investigation or verification, that there is no oral or written agreement, understanding, course of dealing or usage of trade that amends any term of any Transaction Document, or any waiver of any such term, that the Transaction Documents are accurate and complete and that there has been no mutual mistake of fact or fraud, duress, undue influence or similar inequitable conduct.

For the purpose of this opinion letter, our "knowledge" (or any similar concept) with respect to any matter means (1) the actual knowledge regarding such matter of the particular Schiff Hardin & Waite attorneys who are presently employees or partners of Schiff Hardin & Waite and who have represented you in connection with the transactions contemplated by the Transaction Documents, (2) we have not undertaken any review of our files or other independent investigation

with respect to any such matter and (3) no inference that we have actual knowledge concerning such matter should be drawn from the mere fact of our representation of you or our expression of any opinion in this letter.

The opinions contained in this letter are only expressions of professional judgment regarding the legal matters addressed and are not guarantees that a court would reach any particular result.

Based on the foregoing and subject to the qualifications set forth below, we are of the opinion that:

1. The Company is a corporation validly existing and in good standing under the laws of the State of Delaware.

2. The Company has the corporate power and authority to execute, deliver and perform its obligations under each of the Transaction Documents. The execution, delivery and performance thereof by the Company have been duly authorized by all necessary corporate action on the part of the Company and each of the Transaction Documents has been duly executed and delivered by the Company.

3. Each of the Transaction Documents constitutes the legal, valid and binding obligation of the Company enforceable against the Company in accordance with its terms.

4. The execution and delivery by the Company of each of the Transaction Documents do not, and the performance by the Company of its obligations under the Transaction Documents will not, (i) violate the Restated Certificate of Incorporation or By-Laws of the Company or (ii) violate any law, rule or regulation applicable to the Company.

5. In view of the circumstances surrounding the sale and delivery of the Notes and on the basis of the representations made by the Company in Section 6.8 of the Agreement and by you in Section 9.4 of the Agreement, it is not necessary in connection with the offering, issuance and delivery of the Notes under the circumstances contemplated by the Agreement to register the Notes under the Securities Act or to qualify an indenture in respect of the Notes under the Trust Indenture Act of 1939, as amended and now in effect.

6. On the basis of the representations made by the Company in Section 6.9 of the Agreement, the extension, arranging and obtaining of the credit represented by the Notes do not result in any violation of Regulation T, U or X or the Board of Governors of the Federal Reserve System.

7. Each of the Florida Public Service Commission and the Delaware Public Service Commission have issued an order authorizing the issuance of the Notes.

The opinions set forth above are subject to the following qualifications:

A. For purposes of our opinion in paragraph 1 above as to the existence and good standing of the Company, we have relied solely upon the documents described in items (iii) and (vii) above.

B. The opinion expressed in paragraph 3 above with respect to the legality, validity, binding nature and enforceability of the Transaction Documents is subject to (i) applicable laws relating to bankruptcy, insolvency, reorganization, moratorium, fraudulent transfer or other similar laws affecting creditors' rights generally, whether now or hereafter in effect, and (ii) general principles of equity, including, without limitation, concepts of materiality, laches, reasonableness, good faith and fair dealing (regardless of whether considered in a proceeding at law or in equity).

C. In rendering the opinions set forth above, we have made no examination of, and we express no opinion with respect to, any accounting matters.

D. We express no opinion as to the validity, legality, binding effect or enforceability of any covenant or agreement (i) providing for release of liability for or the indemnification against any losses, claims, damages, expenses or liabilities incurred by any person as a result of any violation of any securities law by such person, as a result of the gross negligence or willful misconduct of such person, or as a result of the negligence of such person if a court would find that the intent to indemnify such person for such person's negligence was not clearly expressed or that such indemnification violates a public policy of the State of New York, (ii) requiring that any amendment, modification or waiver of any Transaction Document shall not be effective unless in writing, (iii) providing for the consent to jurisdiction of any court, the waiver of objection of venue of any court, the waiver of or consent to service of process in any manner other than provided in the laws of the State of New York, the waiver of jury trial or the waiver of counterclaim or cross-claim, (iv) providing that delays will not operate as waivers, (v) which attempts to modify or waive any requirements of reasonableness or notice arising under the laws of any jurisdiction to the extent applicable to the transactions contemplated by the Transaction Documents, (vi) which requires the payment of interest on overdue but unpaid interest or fixed late payment charges, (vii) relating to severability as applied to any portion of a Transaction Document deemed by a court to be material, (viii) waiving the benefits of any statutory provision or common law right where such waiver violates limitations imposed by statute or is against public policy, or (ix) providing for a choice of any governing law other than the laws of the State of New York.

E. Our opinions are limited to only those laws, rules and regulations that we have, in the exercise of customary professional diligence, but without any special investigation, recognized as generally applicable to the transactions contemplated by the Transaction Documents or to New York business corporations generally (which are not engaged in regulated business activities) and, except to the extent covered by our opinions in paragraphs 5 and 6, above, exclude all laws, rules and regulations of the type described in Section 19 of the Legal Opinion Accord of the American Bar Association Section of Business Law (1991). In addition, we express no opinion as to any law, rule or regulation to which the Company may be subject as a result of your legal or regulatory status.

SCHIFF HARDIN & WAITE

F. The foregoing opinions are limited to the laws of the State of New York, the Delaware General Corporation Law and the federal laws of the United States of America, and we express no opinions with respect to the laws of any other jurisdiction.

G. Our opinions in paragraph 2 above have been given upon the assumption that the opinion of Covington & Burling, special counsel to the Company, referred to below, is correct; provided that we have independently reviewed the documents referred to in items (i) through (viii) above.

We have reviewed the opinions, dated today's date, addressed to you by Covington & Burling, special counsel to the Company, Piper & Marbury, special Maryland regulatory counsel for the Company, Wayne L. Schietelbein, special Florida counsel for the Company, Laws, Laws & Smith, P.A., special Maryland counsel for the Company, and Schmittinger and Rodriguez, special Delaware counsel for the Company, delivered in accordance with Section 1.4(c) of the Agreement. Such opinions are satisfactory to us both in form and scope, and we believe that we and you are justified in relying on such opinions.

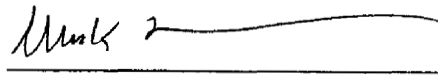
The opinions expressed in this opinion letter are as of the date of this opinion letter only and as to the laws covered hereby only as they are in effect on that date, and we assume no obligation to update or supplement such opinion to reflect any facts or circumstances that may come to our attention after that date or any changes in law that may occur or become effective after that date. The opinions herein are limited to the matters expressly set forth in this opinion letter, and no opinion is given or may be inferred beyond the matters expressly set forth in this opinion letter.

This opinion letter is furnished by us as your counsel, is solely for your benefit and for the benefit of your successors and assigns, including any transferee of any Note, in connection with the transactions stated herein, and is not to be relied on by any other person or entity or for any other purpose without our prior written consent.

Very truly yours,

SCHIFF HARDIN & WAITE

By:



Mark C. Zaander

SCHEDULE 4.6 (A)

EXISTING INDEBTEDNESS

The Existing Indebtedness of the Company and Subsidiaries as of November 30, 2000 is as follows:

Funded Debt:

\$ 3,402,000	9.37%	First Mortgage Sinking Fund Bonds Series I
\$ 3,519,000	8.25%	Convertible Debentures, Due March 1, 2014
\$ 8,000,000	7.97%	Senior Unsecured Note, due February 1, 2008
\$ 9,090,909	6.91%	Senior Unsecured Note, due October 1, 2010
\$10,000,000	6.85%	Senior Unsecured Note, due January 1, 2012

Current Debt:

\$30,000,000	Short-term borrowing under line of credit agreements with Bank of America
\$ 9,500,000	Short-term borrowing under line of credit agreement with PNC Bank

SCHEDULE 4.8(a)(5)(A)

EXISTING LIENS

The Liens of Property of the Company and Subsidiaries as of November 30, 2000, (other than Liens of the types described in clauses (1) through (4) of Section 4.8) and the obligations secured thereby are as follows:

Lien arising from the First Mortgage Indenture to the extent securing bonds outstanding thereunder as of the date hereof.

SCHEDULE 6.1(A)

SUBSIDIARIES

<u>Subsidiary</u>	<u>Jurisdiction of Incorporation</u>
Chesapeake Utilities Corporation	Delaware
Eastern Shore Natural Gas Company	Delaware
Dover Exploration Company	Delaware
Skipjack, Inc.	Delaware
Sharpgas, Inc.	Delaware
United Systems, Inc.	Georgia
Sharpoil, Inc.	Delaware
Sharp Energy, Inc.	Delaware
Chesapeake Investment Company	Delaware
Capital Data Systems, Inc.	North Carolina
Currin and Associates, Inc.	North Carolina
Chesapeake Service Company	Delaware
Tri-County Gas Co., Inc.	Maryland
Eastern Shore Real Estate, Inc.	Maryland
Sam Shannahan Well Co., Inc.	Maryland
Xeron, Inc.	Mississippi
Sharp Water, Inc.	Delaware
Sharp Living, Inc.	Delaware
Eco Water Systems of Michigan, Inc.	Michigan
Carroll Water Systems, Inc.	Maryland

LIST OF AGREEMENTS RESTRICTING DEBT

The contracts or agreements of the Company or a Subsidiary which restrict the right of ability of the Company to issue the Notes or to perform its obligation under the Agreement are as follows:

- a. Tenth Supplemental Indenture, dated as of December 15, 1989, by and between Chesapeake Utilities Corporation, Maryland National Bank, and Barnett Banks and Trust Company, N.A.
- b. Eighth Supplemental Indenture, dated as of April 1, 1986, by and between Chesapeake Utilities Corporation, Maryland National Bank, and Barnett Banks Trust Company, N.A.
- c. Guaranty Agreement, dated as of December 15, 1985, by and between Chesapeake Utilities Corporation and First Union National Bank.

SCHEDULE 7.1(A)

EXISTING INVESTMENTS

The outstanding Investments of the Company and Subsidiaries as of November 30, 2000, are as follows:

None.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF DELAWARE

IN THE MATTER OF THE APPLICATION OF)
CHESAPEAKE UTILITIES CORPORATION)
FOR APPROVAL OF THE ISSUANCE OF) P.S.C. DOCKET NO. 00-
LONG-TERM DEBT, THE ISSUANCE OF)
COMMON STOCK, AND THE ISSUANCE)
OF PREFERRED STOCK)

Chesapeake Utilities Corporation (hereinafter sometimes called "Chesapeake" or "Applicant") pursuant to 26 Del. C. section 215, makes the following application for approval by the Commission of the issuance of up to \$20,000,000 of Chesapeake unsecured senior notes, the issuance of up to 300,000 shares of Chesapeake common stock, and the potential issuance of up to 200,000 shares of Chesapeake preferred stock.

1. Chesapeake is a Delaware public utility with its principal place of business at 909 Silver Lake Boulevard, Dover, Delaware 19904. All communications should be addressed to Applicant at the foregoing address, Attention: Jeffrey R. Tietbohl, Director of Regulatory Affairs, or at the following e-mail address: jtietbohl@chpk.com. The respective telephone number and facsimile number are 302.734.6742 and 302.734.6011.

2. Counsel for the Applicant is William A. Denman, Schmittinger & Rodriguez, P.A., 410 S. State Street, P.O. Box 497, Dover, Delaware 19903. Correspondence and other communications concerning this application should be directed to counsel at the foregoing address, or at the following e-mail address:

wdenman@schmittrod.com. The respective telephone number and facsimile number are 302.678.5452 and 302.678.6580.

3. Chesapeake is a corporation incorporated under the laws of the State of Delaware. The voting stock of Chesapeake is publicly owned. Shares of common stock, 5,285,820 of which were outstanding as of October 31, 2000, are the only voting securities of Chesapeake. Each share is entitled to one vote.

4. Chesapeake has entered into a marketing agreement ("Agreement") with PNC Capital Markets, Inc. ("PNC") for the private placement of \$20,000,000 in unsecured senior notes ("Notes"). A true and correct copy of the Agreement and a draft of proposed terms and conditions of the Notes are attached hereto as Attachment A. Included in the draft Summary of Terms and Conditions of the Notes are the following principal terms:

- a) Up to \$20,000,000 of Chesapeake unsecured senior notes with a maturity of up to 15 years and an average life of up to 10 years.
- b) Interest will be paid semi-annually on the unpaid amount of the Notes.
- c) The form of the actual note purchase agreement will be drafted in a manner consistent with that of the Company's most recent senior note issues.

5. Chesapeake expects to use the Note proceeds to finance Chesapeake's capital requirements, including capital expenditures previously funded with short-term debt and ongoing construction programs related to its utility business, as well as for other proper corporate purposes.

6. The Board of Directors of Chesapeake authorized the officers of Chesapeake to proceed with the issuance of Notes on October 6, 2000, with the amount and terms subject to final Board approval. Chesapeake selected the aforesaid form of financing because, in Chesapeake's judgment, the Notes represent the lowest cost of capital to Chesapeake under present market conditions and best positions the Company for the future.

7. Chesapeake's Retirement Savings Plan ("Plan") was implemented on February 1, 1977. As of September 30, 2000, the Plan had 325 participants and a total market valuation of \$17,333,489. True and correct copies of the Summary Plan Description, the Plan Document and the Adoption Agreement are attached hereto as Attachment B, C, and D, respectively. Pursuant to the Plan, a major portion of the employer matching contributions made on behalf of participants are invested in common stock of Chesapeake. As of September 30, 2000, 307,031 shares were held in the Plan. The Delaware Public Service Commission in Order No. 3425 dated June 24, 1992, approved the issuance of 100,000 new shares of common stock, and in Order No. 5165 dated July 13, 1999, approved the issuance of an additional 100,000 new shares of common stock, for the purpose of administering the Plan.

8. Since January 5, 1996, the Plan's trustee has issued 164,295 of these shares to fund employer matching contributions. To continue to balance the composition of capital between debt and equity, Chesapeake wants to maintain flexibility in how the Plan is funded, i.e., with new shares of its stock, buying shares on the open market, and/or a combination of both funding methods. Therefore, Chesapeake seeks the Commission's approval to issue up to 300,000 additional

shares of common stock for the purpose of administering Chesapeake's Retirement Savings Plan.

9. The Board of Directors approved the aforesaid issuance of common stock on October 6, 2000.

10. Chesapeake has adopted a Shareholder Rights Agreement whereby preferred stock purchase rights have been distributed to shareholders as a dividend at the rate of one preferred stock purchase right ("Right") for each share of common stock held. The Rights will only become exercisable after a publicly announced acquisition of, or a tender offer for, 15% or more of Chesapeake's Common Stock. Each Right, when it becomes exercisable, entitles the registered holder to purchase from Chesapeake one-fiftieth of a share of Series A Participating Cumulative Preferred Stock, par value \$.01 per share (the "Preferred Shares"), of the Company at a price of \$54.56 per one-fiftieth of a Preferred Share (the "Purchase Price"), subject to adjustment.

11. The Rights are designed to protect the value of shareholders' investment in Chesapeake by assuring that all shareholders are treated fairly by any party seeking to obtain control of Chesapeake. The Rights are not intended to prevent a takeover of Chesapeake at a fair price to all shareholders.

12. Chesapeake is not aware of any attempt to acquire control of the company at the present time.

13. The Board of Directors approved the adoption of the Shareholder Rights Agreement on August 20, 1999.

14. A true and correct copy of the Shareholder Rights Agreement is attached hereto as Attachment E.

15. Chesapeake seeks the Commission's approval to issue up to 200,000 shares of preferred stock for the purpose of potential distribution under Chesapeake's Shareholder Rights Agreement.

16. A copy of the opinion of counsel for Chesapeake with respect to the legality of the proposed issuance of long-term debt, the proposed issuance of common stock, and the proposed issuance of preferred stock is attached hereto as Attachment F.

17. Attached hereto as Attachment G and incorporated herein by reference is a schedule setting forth Chesapeake's balance sheet and income statement for the twelve (12) months ended September 30, 2000, both before and after the issuance of the long-term debt and common stock.

18. Attached hereto as Attachment H is a copy of Chesapeake's annual report on Form 10-K for the calendar year ended December 31, 1999. Attached hereto as Attachment I is Chesapeake's most recent quarterly report on Form 10-Q. Both reports have been filed with the Securities and Exchange Commission.

19. The shares of common stock to be issued as described herein will be issued as either i) a private placement or small offering exempt from the registration provisions of the Federal securities laws; ii) in transactions to which the registration provisions of the Federal securities laws do not apply; or iii) in compliance with any applicable registration provisions of the Federal securities laws.

20. Pursuant to the Commission's minimum filing requirements – Part (D), attached hereto and incorporated herein by reference are the following schedules:

- a) Schedule No. 1 – Capitalization ratios, actual and pro forma as of September 30, 2000.
- b) Schedule No. 2 – Rate of return, actual, pro forma, and annualized for the twelve (12) months ended September 30, 2000.
- c) Schedule No. 3 – Fixed charge coverage ratios for the twelve (12) months ended September 30, 2000.

21. Chesapeake represents that the proposed issuance of long-term debt, common stock and preferred stock are in accordance with law, for a proper purpose, and consistent with the public interest.

WHEREFORE, Chesapeake prays as follows:

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

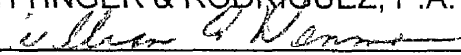
B. That the Commission approve the proposed issuance of long-term debt, common stock and preferred stock by Chesapeake as described herein.

CHESAPEAKE UTILITIES CORPORATION

By: Michael P. McMasters
Michael P. McMasters
Vice President, Treasurer and CFO

SCHMITTINGER & RODRIGUEZ, P.A.

By:



William A. Denman
410 S. State Street
Dover, DE 19901
Attorney for Applicant

DATED: November 29, 2000

STATE OF DELAWARE

BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF THE APPLICATION)
 OF CHESAPEAKE UTILITIES CORPORATION)
 FOR APPROVAL OF THE ISSUANCE OF)
 LONG-TERM DEBT, THE ISSUANCE OF) PSC DOCKET NO. 00-609
 COMMON STOCK, AND THE ISSUANCE OF)
 PREFERRED STOCK)
 (FILED NOVEMBER 29, 2000))

ORDER NO. 5609

AND NOW, on this 19th day of December, 2000;

WHEREAS, by application dated November 29, 2000, Chesapeake Utilities Corporation ("Chesapeake" or the "Company"), seeks Commission approval to issue up to \$20 million unsecured senior notes with maturity dates of up to 15 years, the proceeds from which will be used to finance capital additions previously funded by short-term debt and to also finance ongoing construction programs; and

WHEREAS, by the same application, Chesapeake seeks Commission approval to issue 300,000 shares of new common stock to be used by the Company in meeting its matching obligations under the Company's Retirement Savings Plan; and

WHEREAS, by another part of said application, Chesapeake seeks Commission approval to issue 200,000 shares of preferred stock; and

WHEREAS, the Commission having examined the Company's application and made such investigation in connection with said matters as the Commission deemed necessary, and having heard the presentation of the Company and the Commission Staff at the Commission meeting of December 19, 2000;

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

WHEREAS, the Commission having been advised by Staff, and having determined, that the proposed issuance of up to \$20 million in unsecured senior notes for the purposes set forth in the application is in accordance with law, for a proper purpose, and consistent with the public interest; and

WHEREAS, the Commission having been advised by Staff, and having determined, that the proposed issuance of 300,000 shares of common stock and 200,000 shares of preferred stock by Chesapeake are both in accordance with law, for a proper purpose, and consistent with the public interest; now, therefore,

IT IS ORDERED THAT:

1. The application filed by Chesapeake Utilities Corporation in this matter on or about November 29, 2000, is hereby approved and Chesapeake Utilities Corporation is hereby authorized: (1) to issue up to \$20 million in unsecured senior notes with maturity dates of up to 15 years; (2) to issue 300,000 new shares of common stock; and (3) to issue 200,000 shares of preferred stock. The proceeds from such debt and the new issues of stock shall be used for the purposes outlined in the application.

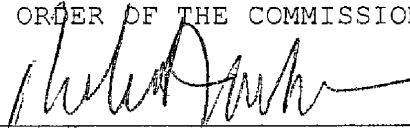
2. Approval of Chesapeake Utilities Corporation's application by the Commission shall not be construed as approving any capitalization ratios that result for any purposes or procedures involving ratemaking; that approval shall not be construed as approving any portions of the Retirement Savings Plan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

3. Nothing in this Order shall be construed as a guarantee, warranty, or representation by the State of Delaware or by any agency, commission, or department hereof, with respect to the Shares to be issued pursuant to the application and this Order.

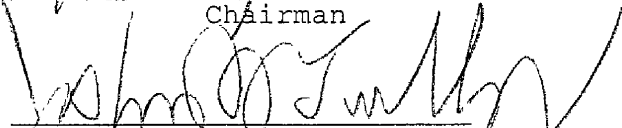
4. Chesapeake Utilities Corporation shall, within thirty days of the consummation of the above transactions, provide the Commission notice, by letter, of the date of consummation and, in case of the issuance of long-term debt, the interest rates and maturity dates for such debt instruments. In addition, Chesapeake Utilities Corporation shall, on a semi-annual basis, provide to the Commission the results of covenant calculations given to the note holders.

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

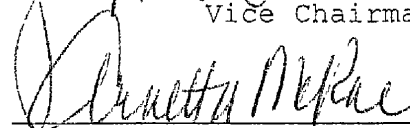
BY ORDER OF THE COMMISSION:




Chairman



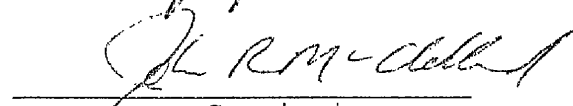
Vice Chairman



Commissioner

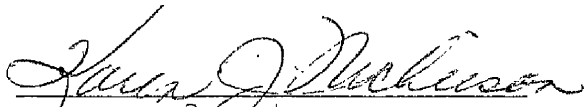


Commissioner



Commissioner
(with voting)

ATTEST:



Secretary