

CHESAPEAKE

UTILITIES CORPORATION

March 28, 2003

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

RE: Consummation Report of Securities Issued by Chesapeake Utilities Corporation,
Docket No. 011345-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 ended December 31, 2002, 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 November 19, 2001 and December 5, 2001, the Florida Public Service Commission ("FPSC") issued Order Nos. PSC-01-2274-FOF-GU and PSC-01-2274A-FOF-GU, respectively, which authorized Chesapeake to issue up to 1,025,562 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 orders also authorized Chesapeake to issue up to 4,974,438 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

Chesapeake Utilities Corporation

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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 ended December 31, 2002, Chesapeake has issued the following:

(a) 52,740 shares of common stock were issued for the purpose of administering Chesapeake's Retirement Savings Plan. The average issuance price of these shares was \$19.18 per share. Expenses associated with this issuance were negligible.

(b) 5,708 shares of common stock were issued for the Performance Incentive Plan. The average issuance price of these shares was \$19.10 per share. Expenses associated with this issuance were negligible.

(c) 49,782 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 \$19.29 per share. Expenses associated with this issuance were negligible.

- (d) 4,518 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) \$30,000,000 of 6.64% unsecured senior notes were issued on October 31, 2002 in a private placement with Massachusetts Mutual Life Insurance Company; C.M. Life Insurance Company; American United Life Insurance Company; Pioneer Mutual Life Insurance Company; and The State Life Insurance Company. These notes will be due on October 31, 2017 and have a ten-year average life. Interest is payable semi-annually with provisions for payment of interest only prior to October 31, 2007; beginning October 31, 2007 and for the ten years thereafter, principal is payable, in addition to interest on the unpaid balance, at the rate of \$2,727,272.72 per annum. Total expenses associated with this issuance are estimated to be \$142,000.

3. Schedules showing capitalization, pretax interest coverage and debt interest requirements as of December 31, 2001, are attached hereto as Exhibit A.
4. A copy of the \$30,000,000 senior note agreement is attached hereto as Exhibit B. A copy of the application to the Delaware Public Service Commission requesting authority to issue the senior notes is attached hereto as Exhibit C. A copy of the Order of the Delaware Public Service Commission authorizing the issuance of the senior notes is attached hereto as Exhibit D.
5. Except for those agreements provided as Exhibits to this document, copies of all Plans, Agreements, registration filings with the Securities and Exchange Commission and Orders of the Delaware Public Service Commission authorizing the issuance of the above securities have been previously filed with the FPSC under Docket Nos. 931112-GU, 961194-GU, 981213-GU, and 991631-GU, and are hereby incorporated by reference.
6. Copies of the signed Opinions of Counsel with respect to the legality of the \$30,000,000 senior notes are attached as part of Exhibit B.
7. Signed copies of the Opinions of Counsel with respect to the legality of all other securities issued have been previously filed with the FPSC as exhibits to the Consummation Reports of

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

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

9. Chesapeake employed PNC Capital Markets, Inc. ("CMI") and Bank of America, N.A. ("BOA") as private placement co-agents, to present the \$30,000,000 senior notes offering to various accredited investors. Both CMI and BOA have direct access to the capital markets and numerous accredited investors. The complete addresses of CMI and BOA are as follows:

CMI: PNC Capital Markets, Inc.
249 Fifth Avenue, 26th Floor
Pittsburgh, PA 15222

BOA: Bank of America, N.A.
300 Tilghman Road
Salisbury, MD 21804

CMI is an affiliate of PNC Bank, Chesapeake's primary bank and one of its lenders (Chesapeake has a discretionary line of credit with PNC Bank in the amount of \$30,000,000). Chesapeake has two lines of credit with Bank of America, one uncommitted facility in the amount of \$20,000,000 and one committed facility in the amount of \$15,000,000. Of the total \$142,000 in expenses associated with the issuance of the senior notes, \$105,000 represented the placement fee. Chesapeake

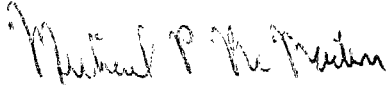
verified the reasonableness of this fee by questioning other lenders as to what their fees would be for the placement service. Chesapeake did not enter into any other contracts, underwritings, or other arrangements providing for the sale or marketing of the securities nor were any underwriter's or finder's fees paid.

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We respectfully submit this Consummation Report on the issuance of securities by Chesapeake Utilities Corporation, Florida Public Service Commission Docket No. 011345-GU, this 28th day of March 2003.

Sincerely,

CHESAPEAKE UTILITIES CORPORATION

A handwritten signature in black ink, appearing to read "Michael P. McMasters". The signature is written in a cursive style with some loops and flourishes.

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:

Securities Issued
\$30,000,000 Senior Notes
(Included within Exhibit B)

Applicable Opinions
Covington & Burling
October 31, 2002
Parkowski & Guerke
October 31, 2002
Piper Rudnick
October 31, 2002
Rose, Sundstrom & Bentley, LLP
October 31, 2002
Laws & Robertson, P.A.
October 31, 2002

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, 2001
Exhibit B	\$30,000,000 Senior Note Agreement
Exhibit C	Delaware Public Service Commission Application for the \$30,000,000 Senior Notes
Exhibit D	Delaware Public Service Commission Order authorizing the issuance of the \$30,000,000 Senior Notes
Exhibit E	December 31, 2001 Form 10-K

CHESAPEAKE UTILITIES CORPORATION
Capitalization Ratios Actual & Pro Forma as of December 31, 2001

<u>TYPE OF CAPITAL</u>	<u>UNAUDITED</u>					
	<u>ACTUAL BEFORE ISSUANCE</u>			<u>PRO FORMA AFTER ISSUANCE</u>		
	<u>AMOUNT OUTSTANDING</u>	<u>% OF TOTAL</u>	<u>PRO FORMA ADJUSTMENT</u>	<u>AMOUNT OUTSTANDING</u>	<u>% OF TOTAL</u>	
<u>COMMON EQUITY</u>						
COMMON STOCK	\$2,640,060	1.65%	\$54,875	\$2,694,935	1.68%	
PAID IN CAPITAL	29,653,992	18.53%	2,102,991	31,756,983	19.84%	
RETAINED EARNINGS	34,555,560	<u>21.59%</u>	<u>0</u>	<u>34,555,560</u>	<u>21.59%</u>	
TOTAL COMMON EQUITY	<u>66,849,612</u>	<u>41.77%</u>	<u>2,157,866</u>	<u>69,007,478</u>	<u>43.12%</u>	
<u>PREFERRED STOCK</u>	<u>0</u>	<u>0.00%</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	
<u>LONG-TERM DEBT</u>						
FIRST MORTGAGE BONDS	1,512,000	0.94%	0	1,512,000	0.94%	
CONVERTIBLE DEBENTURES	3,358,000	2.10%	0	3,358,000	2.10%	
SENIOR NOTES	43,272,727	27.04%	30,000,000	73,272,727	45.78%	
OTHER	<u>265,869</u>	<u>0.17%</u>	<u>0</u>	<u>265,869</u>	<u>0.17%</u>	
TOTAL LONG-TERM DEBT	<u>48,408,596</u>	<u>30.25%</u>	<u>30,000,000</u>	<u>78,408,596</u>	<u>48.99%</u>	
TOTAL PERMANENT CAPITAL	<u>115,258,208</u>	<u>72.02%</u>	<u>32,157,866</u>	<u>147,416,074</u>	<u>92.11%</u>	
<u>CURRENT PORTION OF LTD</u>	2,686,145	1.68%	0	2,686,145	1.68%	
<u>SHORT-TERM DEBT</u>	<u>42,100,000</u>	<u>26.31%</u>	(32,157,866)	<u>9,942,134</u>	<u>6.21%</u>	
TOTAL CAPITALIZATION	<u>\$160,044,353</u>	<u>100.00%</u>	<u>\$0</u>	<u>\$160,044,353</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, 2001

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	\$102,963,856	\$0	\$102,963,856
2 Operating expenses before income taxes	94,842,749	0	\$94,842,749
3 Income taxes (including Deferrals)	2,076,518	(268,987)	\$1,807,531
4 Operating Income (1-(2+3))	6,044,589	0	6,313,576
5 Other Income, Net	286,212	0	\$286,212
6 Income Before Interest Charges (4+5)	6,330,801	0	6,599,788
7 Interest Charges	2,792,393	672,467	\$3,464,860
8 Net Income (6-7)	3,538,408	0	3,134,928
9 Preferred stock dividends	0	0	0
10 Earnings available to common equity (8-9)	3,538,408	0	3,134,928
11 Pretax Interest Coverage ((3+6)/7)	3.01	N/A	2.43

CHESAPEAKE UTILITIES CORPORATION

Notes to Capitalization, Income and
Pretax Interest Coverage Schedules
As of December 31, 2001

The following adjustments have been made to capitalization:

1. Common Stock – Number of shares (112,748) times par value (\$0.4867 per share), with the shares issued for the following purposes:

- 52,740 shares for the Retirement Savings Plan
- 5,708 shares for the Performance Incentive Plan
- 49,782 shares for the Automatic Dividend Reinvestment and Stock Purchase Plan
- 4,518 shares for the conversion of debentures

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

- 52,740 shares at \$19.18 per share
- 5,708 shares at \$19.10 per share
- 49,782 shares at \$19.29 per share
- 4,518 shares at \$17.01 per share

3. Short-Term Debt –

- a) Decrease by \$30,000,000 to reflect the usage of the senior notes proceeds to pay down \$30,000,000 of the short-term debt.
- b) Decrease by a total of \$2,157,866 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, 2001

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

1. Income Taxes - Taxes associated with an increase in Interest Charges as discussed below, assuming a tax rate of 40%.
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 6.64% versus 4.43%, the estimated rate for short-term debt (\$663,000).
 - (b) The debt issuance costs of \$142,000 will be amortized over 15 years, representing additional interest charges annually of \$9,467.

EXECUTION COPY

CHESAPEAKE UTILITIES CORPORATION

NOTE AGREEMENT

Dated October 31, 2002

\$30,000,000

6.64% Senior Notes due October 31, 2017

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CHESAPEAKE UTILITIES CORPORATION

909 Silver Lake Boulevard

Dover, Delaware 19904

NOTE AGREEMENT

\$30,000,000

6.64% Senior Notes due October 31, 2017

As of October 31, 2002

To the Purchasers listed in the
attached Purchaser Schedule

Ladies and Gentlemen:

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

SECTION 1. PURCHASE AND SALE OF NOTES

Section 1.1 Issue of Notes.

The Company will authorize the issue of \$30,000,000 principal amount of its 6.64% Senior Notes due October 31, 2017 (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 6.64% (computed on the basis of a 360-day year of twelve 30-day months), payable semi-annually on the last day of April and October in each year beginning on April 30, 2003. The Notes will be subject to certain mandatory principal repayments prior to maturity, as provided in Section 2.1 and will mature on October 31, 2017. 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) 8.64% 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.

Section 1.2 The Closing.

The Company agrees to sell to each Purchaser and each Purchaser agrees to purchase from the Company, in accordance with the provisions of this Agreement, the principal amount of the Notes indicated for such Purchaser on the Purchaser Schedule attached hereto at par. The closing of the sale and purchase of the Notes will be held at 10:00 a.m. on October 31, 2002 (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 each Purchaser one or more Notes, as specified in the Purchaser Schedule attached hereto in the aggregate amount of each Purchaser's purchase, dated the Closing Date and payable to such Purchaser or such Purchaser's nominee(s), if any, listed in the Purchaser Schedule, against payment in immediately available funds. Each Purchaser's obligations hereunder are several and not joint and no Purchaser shall have any obligation or liability to any Person for the performance or nonperformance by any other Purchaser hereunder.

Section 1.3 Expenses.

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

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

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

Section 1.4 Closing Conditions.

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

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

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

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

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

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

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

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

(c) Opinion of Company's Special and Local Counsel. Such Purchaser shall have received from Covington & Burling, who are acting as special counsel for the Company in connection with this transaction, a favorable opinion satisfactory to the Purchasers substantially in the form of Exhibit B-1 hereto, from Parkowski & Guerke, who are acting as Delaware counsel for the Company in connection with this transaction, a favorable opinion satisfactory to the Purchasers substantially in the form of Exhibit B-2 hereto, from Piper Rudnick LLP, who are acting as Maryland counsel for the Company in connection with this transaction, a favorable opinion satisfactory to the Purchasers substantially in the form of Exhibit B-3 hereto, from Rose, Sundstrom & Bentley, LLP, who are acting as Florida counsel for the Company in connection with this transaction, a favorable opinion satisfactory to the Purchasers substantially in the form of Exhibit B-4 hereto, and a favorable opinion satisfactory to the Purchasers substantially in the form of Exhibit B-5 hereto, from Laws & Robertson, 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 such 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 such Purchaser on the Closing Date on the terms and conditions herein provided (including the use of the proceeds of such Notes by the Company) shall not violate any applicable law or governmental regulation (including, without limitation, Section 5 of the Securities Act or Regulation T, U or X of the Board of Governors of the Federal Reserve System) and shall not subject such Purchaser to any tax, penalty, liability or other onerous condition under or pursuant to any applicable law or governmental regulation, and such Purchaser shall have received such certificates or other evidence as it may reasonably request to establish compliance with this condition. The orders of the Delaware and Florida State Commissions referred to in Section 6.10 shall be satisfactory to such Purchaser and shall be final and in full force and effect on the Closing Date. No appeal, review or contest of either thereof shall be pending on the Closing Date, and, as of the Closing Date, the time for appeal or to seek review or reconsideration of such orders shall have expired. Any conditions contained in either order shall have been satisfied to such Purchaser's reasonable satisfaction. Such Purchaser and its special counsel shall have received copies of such documents and papers (including, without limitation, a certified or attested copy of such orders) as such Purchaser may reasonably request in connection therewith or as a basis for the Purchasers' special counsel's closing opinion, all in form and substance satisfactory to such Purchaser and the Purchasers' special counsel.

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

(g) Related Transactions. The Company shall have consummated the sale of the entire principal amount of the Notes scheduled to be sold on the Closing Date pursuant to this Agreement.

SECTION 2. PAYMENTS

Section 2.1 Required Payments.

(a) Until the Notes are paid in full, the Company will pay \$2,727,272.72 in aggregate principal amount of the Notes on October 31 in each year beginning on October 31, 2007 and ending on October 31, 2017, inclusive. The entire outstanding principal amount and unpaid interest thereon shall be due and payable on October 31, 2017, 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.

Section 2.2 Optional Prepayments.

(a) At a Premium. The Company may prepay the Notes in whole or part, at any time and from time to time, in multiples of \$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.

Section 2.3 Partial Payment Pro Rata.

If there is more than one Note outstanding, the principal amount of each required or optional partial payment of the Notes, other than a prepayment pursuant to Section 2.1(b), will be

allocated among the Notes at the time outstanding in proportion, as nearly as practicable, to the respective outstanding principal amounts of the Notes.

SECTION 3. INFORMATION AS TO COMPANY

Section 3.1 Financial and Business Information.

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

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

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

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

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

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

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

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

setting forth in the case of such consolidated financial statements, the figures for the previous fiscal year in comparative form, and setting forth in such statements of income, the specific dollar amounts of depreciation charged, lease rental expense, and interest expense on

Indebtedness, and accompanied in the case of such consolidated financial statements by an opinion of a firm of independent 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.

Section 3.2 Officer's Certificates.

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

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

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

Section 3.3 Accountants' Certificates.

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

Section 3.4 Inspection.

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

SECTION 4. COMPANY BUSINESS COVENANTS

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

Section 4.1 Payment of Taxes and Claims.

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

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

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

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

Section 4.2 Maintenance of Properties and Corporate Existence.

The Company shall, and shall cause each Subsidiary to:

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

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

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

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

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

Section 4.3 Payment of Notes and Maintenance of Office.

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

Section 4.4 Fixed Charge Coverage Ratio.

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

Section 4.5 Minimum Consolidated Net Worth.

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

Section 4.6 Incurrence of Indebtedness.

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

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

(ii) Unsecured Funded Indebtedness of the Company, if after giving effect thereto and to any concurrent transactions, the aggregate principal amount of outstanding secured and unsecured Funded Indebtedness of the Company (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 65% of Total Capitalization; and

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

Section 4.7 Guaranties.

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

Section 4.8 Liens and Encumbrances.

(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:

(i) 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;

(ii) 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;

(iii) 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;

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

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

(vi) 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

(vii) 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.

Section 4.9 Restricted Payments.

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

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

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

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

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

Section 4.10 Sale of Property and Subsidiary Stock.

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

(i) the amount of such assets (valued at net book value), together with all other assets of the Company and Subsidiaries previously disposed of (other than in the ordinary course of business) as permitted by this Section 4.10(a) and the assets of any Subsidiary disposed of as permitted by Section 4.10(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 sale, and after giving effect thereto, no Default or Event of Default would exist.

(b) The Company will not, and will not permit any Subsidiary to, dispose of its investment in any Subsidiary, and the Company will not, and will not permit any Subsidiary to, issue or transfer any shares of a Subsidiary's capital stock or any other Securities exchangeable or convertible into 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).

Section 4.11 Merger and Consolidation.

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

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

(ii) the surviving or acquiring corporation, if not the Company, expressly and unconditionally assumes in writing the covenants and obligations to be performed by the Company under the Notes and this Agreement, such

assumption to be in a form acceptable to the holder or holders of not less than 66-2/3% in principal amount of all Notes at the time outstanding, and

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

provided, further, that any Subsidiary may merge or consolidate with or into the Company or any other subsidiary so long as (x) 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.

Section 4.12 Transactions with Affiliates.

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

Section 4.13 Loans, Advances and Investments.

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

Section 4.14 Sale-Leaseback.

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

Section 4.15 ERISA Compliance.

(a) The Company will not permit the present value of all employee benefits vested under all 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 4.16 Use of Proceeds.

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

SECTION 5. DEFAULT

Section 5.1 Nature of Default.

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

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

(b) Breach of Particular Covenants--failure to comply with any covenant contained in Sections 4.4 through 4.11 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.

Section 5.2 Default Remedies.

(a) Acceleration--If an Event of Default of the type described in Sections 5.1(e) or 5.1(f) shall occur, the, entire outstanding principal amount of the Notes shall automatically

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

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

(b) Annulment of Acceleration--In the event of each declaration or automatic acceleration pursuant to Section 5.2(a), the holder or holders of at least 75% of the outstanding principal amount of the Notes (exclusive of Notes owned by the Company, Subsidiaries and Affiliates) may annul such declaration or automatic acceleration and its consequences if no judgment or decree has been entered for the payment of any amount due pursuant to such declaration or automatic acceleration and if all sums payable under the Notes and under this Agreement (except any principal or interest on the Notes which has become payable solely by reason of such declaration or automatic acceleration) shall have been duly paid.

Section 5.3 Other Remedies.

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

SECTION 6. REPRESENTATIONS, COVENANTS AND WARRANTIES

The Company represents, covenants and warrants as follows:

Section 6.1 Organization, Etc.

(a) Due Organization. Foreign Qualifications. Stock Ownership. The Company is a corporation duly organized and existing in good standing under the laws of the State of Delaware, and is qualified to do business and is in good standing in the States of Florida and Maryland, which are the only jurisdictions where the ownership by it of property or the nature of the business conducted by it makes such qualification necessary. Each Subsidiary of the Company is duly organized and existing in good standing under the laws of the jurisdictions in which it is incorporated. Neither the ownership by any Subsidiary of property or the nature of the business conducted by any Subsidiary requires any Subsidiary to be qualified to do business in any jurisdiction in which it is not already qualified to do business. The names of the Subsidiaries of the Company and the jurisdiction of incorporation of such 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 principles of equity. As of the Closing Date, the Company shall have duly executed and delivered the Notes being issued on such Closing Date, and such Notes shall be the legal, valid and binding obligations of the Company enforceable against the Company in accordance with their terms subject, as to enforceability, to applicable laws relating to bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditor's rights generally and subject to general principles of equity.

Section 6.2 Financial Statements.

The Company has furnished each Purchaser with the following financial statements, identified by a principal financial officer of the Company: (i) a consolidated balance sheet of the Company and its Subsidiaries as at December 31 in each of the years 1996 to 2001, 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, 2002 and consolidated statements of income, stockholders' equity and cash flows for the six-month period ended on such date, prepared by the Company. Such financial statements (including any related schedules and/or notes) are true and correct in all material respects (subject, as to interim statements, to changes resulting from audits and year-end adjustments), have been prepared in accordance with generally accepted accounting principles consistently followed throughout the periods involved and show all liabilities, direct and contingent, of the Company and its Subsidiaries required to be shown in accordance with such principles. The balance sheets fairly present

the condition of the Company and its Subsidiaries as at the dates thereof, and the statements of income, stockholders' equity and cash flows fairly present the results of the operations of the Company and its Subsidiaries and their cash flows for the periods indicated. There has been no material adverse change in the business, condition (financial or otherwise) or operations of the Company and its Subsidiaries taken as a whole since December 31, 2001.

Section 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, there is no action, suit, investigation or proceeding pending or, to the knowledge of the Company, threatened against the Company or any of its Subsidiaries, or any properties or rights of the Company or any of its Subsidiaries, by or before any court, arbitrator or administrative or governmental body not covered by insurance which could reasonably be expected to result in any material adverse change in the business, condition (financial or otherwise) or operations of the Company and its Subsidiaries taken as a whole.

Section 6.4 Outstanding Indebtedness.

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.

Section 6.5 Title to Properties.

The Company has and each of its Subsidiaries has good and marketable title to its respective real properties (other than properties which it leases) and good title to all of its other respective properties and assets, including the properties and assets reflected in the balance sheet as of December 31, 2001 referred to in Section 6.2 (other than properties and assets disposed of in the ordinary course of business), subject to no Lien of any kind except Liens permitted by Section 4.8. All leases necessary in any material respect for the conduct of the respective businesses of the Company and its Subsidiaries are valid and subsisting and are in full force and effect.

Section 6.6 Taxes.

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

Section 6.7 Conflicting Agreements and Other Matters.

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

Section 6.8 Offering of Notes.

Neither the Company nor any agent acting on its behalf has, directly or indirectly, offered the Notes or any similar security of the Company for sale to, or solicited any offers to buy the Notes or any similar security of the Company from, or otherwise approached or negotiated with respect thereto with, any Person other than institutional investors, and neither the Company nor any agent acting on its behalf has taken or will take any action which would subject the issuance or sale of the Notes to the provisions of Section 5 of the Securities Act or to the provisions of any securities or Blue Sky law of any applicable jurisdiction.

Section 6.9 ERISA.

No accumulated funding deficiency (as defined in Section 302 of ERISA and Section 412 of the Code), whether or not waived, exists with respect to any Pension Plan (other than a Multiemployer Plan). No liability to the Pension Benefit Guaranty Corporation has been or is expected by the Company or any ERISA Affiliate to be incurred with respect to any Pension Plan (other than a Multiemployer Plan) by the Company, any Subsidiary or any ERISA Affiliate which is or would be materially adverse to the business, condition (financial or otherwise) or operations of the Company and its Subsidiaries taken as a whole. Neither the Company, any Subsidiary nor any ERISA Affiliate has incurred or presently expects to incur any withdrawal liability under Title IV of ERISA with respect to any Multiemployer Plan which is or would be materially adverse to the business, condition (financial or otherwise) or operations of the Company and its Subsidiaries taken as a whole. The execution and delivery of this Agreement and the issuance and sale of the Notes will be exempt from, or will not involve any transaction which is subject to, the prohibitions of section 406 of ERISA and will not involve any transaction in connection with which a penalty could be imposed under section 502(i) of ERISA or a tax could be imposed pursuant to section 4975 of the Code. The representation by the Company in the next preceding sentence is made in reliance upon and subject to the accuracy of each Purchaser's representation in Section 9.5.

Section 6.10 Governmental Consent.

Neither the nature of the Company or of any Subsidiary, nor any of their respective businesses or properties, nor any relationship between the Company or any Subsidiary and any other Person, nor any circumstance in connection with the offering, issuance, sale or delivery of the Notes is such as to require any authorization, consent, approval, exemption or other action by or notice to or filing with any court or administrative or governmental body, including, without limitation, the Maryland State Commission, (other than routine filings after the date of closing with the Securities and Exchange Commission and/or state Blue Sky authorities) in connection with the execution and delivery of this Agreement, the offering, issuance, sale or delivery of the Notes or fulfillment of or compliance with the terms and provisions hereof or of the Notes, other than (a) Order No. 5989 of the Public Service Commission of the State of Delaware entered in PSC Docket No. 02-186 dated July 9, 2002, (b) Order No. PSC-01-2274-FOF-GU of the Florida Public Service Commission issued in Docket No. 011345-GU on November 19, 2001, (c) Order No. PSC-01-2274A-FOF-GU of the Florida Public Service Commission issued in Docket No. 011345-GU on December 5, 2001, and (d) Order No. PSC-02-1102-FOF-GU of the Florida Public Service Commission issued in Docket No. 011345-GU on August 12, 2002, 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 each Purchaser true and complete copies of such orders.

Section 6.11 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.

Section 6.12 Permits and Other Operating Rights.

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

Section 6.13 Disclosure.

Neither this Agreement nor any other document, certificate or statement furnished to any Purchaser by or on behalf of the Company in connection herewith contains any untrue statement of a material fact or omits to state a material fact necessary in order to make the statements contained herein and therein not misleading. There is no fact peculiar to the Company or any of its Subsidiaries which materially adversely affects or in the future may (so far as the Company can now foresee) materially adversely affect the business, property or assets, or financial condition of the Company or any of its Subsidiaries 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 each Purchaser by the Company is reasonable based on the assumptions stated therein and the best information available to the officers of the Company.

Section 6.14 Regulatory Status of Company; Trust Indenture Act.

The Company is not an "investment company" or a company "controlled" by an "investment company," within the meaning of the Investment Company Act of 1940, as amended. The Company is not a "holding company" or a "subsidiary company" or an "affiliate" of a "holding company" within the meaning of the Public Utility Holding Company Act of 1935, as amended, and is not a "public utility" within the meaning of the Federal Power Act, as amended. By purchasing the Notes, no Purchaser will be (a) a "public utility company," a "holding company" or an "affiliate" of a "holding company" or a "subsidiary company" of a "holding company" within the meaning of the Public Utility Holding Company Act of 1935, as amended, (b) a "transmitting 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

Section 7.1 Terms Defined.

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

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

Agreement--means this Note Agreement dated as of October 31, 2002 between the Company and each Purchaser (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.

Company--Preamble.

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

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

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

- (1) any gain or loss on the sale of Investments or fixed assets, and any taxes on such excluded gain or loss;
- (2) any proceeds from life insurance;
- (3) any portion of the net earnings of any Subsidiary which for any reason is unavailable to pay dividends to the Company or any other Subsidiary;
- (4) any gain arising from any write-up or reappraisal of assets;
- (5) any deferred or other credit representing the excess of equity of an acquired Person over the amount invested by the Company and its Subsidiaries in such Person;
- (6) any gain arising from the acquisition of any Securities of the Company or any Subsidiary;

- (7) net earnings of any Person (other than a Subsidiary) in which the Company or any Subsidiary has an ownership interest unless those net earnings have actually been received by the Company or the Subsidiary in the form of cash distributions or, to the extent of their fair market value, in the form of any other freely transferable Property; and
- (8) earnings of any Person accrued prior to the date it becomes a Subsidiary or its assets are acquired by the Company or a Subsidiary.

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

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

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

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

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

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

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 (i) 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.; Absolute Water Care, Inc.; Sharp Water of Florida, Inc.; Sharp Water of Minnesota, Inc.; Sharp Water of Idaho, Inc.; BravePoint, Inc.; Skipjack, Inc.; Eastern Shore Real Estate, Inc.; aQuality Company, Inc.; aquality solutions of Western Maryland, LLC; or aquality solutions of Delmarva, LLC, and (ii) any Subsidiary that the Company may create or acquire after the date hereof which is not (x) a "public utility company," a "holding company" or an "affiliate" of a "holding company" or a "subsidiary company" of a "holding company" within the meaning of the Public Utility Holding Company Act of 1935, as amended, or (y) a "transmitting utility" within the meaning of the Federal Power Act, as amended.

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

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

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

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

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

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

Guaranty--with respect to any Person, means all guaranties of, and all other obligations which in effect guaranty, any indebtedness, dividend or other obligation of any other Person (the

“primary obligor”) in any manner (except any indebtedness or other obligation of any Subsidiary or any Funded Indebtedness of the Company), including obligations incurred through an agreement, contingent or otherwise, by such Person:

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

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

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

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 hereto;
- (2) Investments in any Person which is or would immediately thereafter become a Subsidiary or a division of the Company or a Subsidiary, whether by acquisition of stock, indebtedness, other obligation or Security, or by loan, Guaranty, advance, capital contribution, or otherwise;
- (3) Investments in cash equivalent short-term investments maturing within one year of acquisition;
- (4) Investments in mutual funds which invest only in either money market securities or direct obligations of the United States of America or any of its agencies, or obligations fully guaranteed by the United States of America, which mature within three years from the date acquired;
- (5) Investments in related industries;
- (6) Direct obligations of the United States of America or any of its agencies, or obligations fully guaranteed by the United States of America, provided that such obligations mature *within one year from the date acquired*;
- (7) Negotiable certificates of deposit maturing within one year from the date acquired and issued by a bank or trust company organized under the laws of the United States or any of its states, and having capital, surplus and undivided profits aggregating at least \$100,000,000;
- (8) commercial paper rated A-1 or better by Standard & Poor's Corporation on the date of acquisition and maturing not more than 270 days from the date of creation thereof; and

- (9) other investments in an aggregate amount not in excess of 20% of Consolidated Net Worth at any one time.

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

Prepayment Date--Section 2.2(b).

Process Agent--Section 7.4.

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

PTCE--Section 9.5.

Purchaser--Preamble.

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

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.

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

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

Source--Section 9.5.

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

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

Subsidiary Stock--Section 4.10.

Tangible Assets--means all assets except:

- (1) deferred assets, other than prepaid insurance and prepaid taxes;
- (2) patents, copyrights, trademarks, trade names, franchises, good will, experimental expense and other similar intangibles;
- (3) treasury stock;
- (4) unamortized debt discount and expense; and

- (5) assets located and notes and receivables due from obligors domiciled outside the United States of America or Canada.

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

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.

Section 7.2 Accounting Principles.

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

Section 7.3 Directly or Indirectly.

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

Section 7.4 Governing Law; Consent to Jurisdiction.

This Agreement shall be construed and enforced in accordance with, and the rights of the parties shall be governed by, the law of the State of New York. The Company irrevocably agrees that any legal action or proceeding with respect to this Agreement or the Notes may be brought in the courts of the State of New York or any court of the United States of America located in the State of New York, and, by execution and delivery of this Agreement, the Company accepts for itself, generally and unconditionally, and agrees to submit to the jurisdiction of each of the above-mentioned courts and irrevocably waives, to the fullest extent permitted by law, any objection which it may now or later have based on venue or *forum non conveniens* with respect to any action instituted therein. The Company hereby irrevocably appoints Corporation Service Company (the "Process Agent"), with an office on the date hereof at 80 State Street, 6th Floor, Albany, New York 12207-2543, United States, as its agent to receive, on the Company's behalf and on behalf of the Company's property, service of copies of the summons and complaint and any other process which may be served in any such action or proceeding. Such service may be made by mailing or delivering a copy of such process to the

Company in care of the Process Agent at the Process Agent's above address, and the Company hereby irrevocably authorizes and directs the Process Agent to accept such service on its behalf.

SECTION 8. PURCHASERS' SPECIAL RIGHTS

Section 8.1 Note Payment.

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

Section 8.2 Issue Taxes.

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

Section 8.3 Registration of Notes.

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

Section 8.4 Exchange of Notes.

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

Company may require payment of a sum sufficient to cover any stamp tax or governmental charge imposed in respect of any transfer.

Section 8.5 Replacement of Notes.

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

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

(b) in the case of mutilation, upon surrender and cancellation of the Note,

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

SECTION 9. MISCELLANEOUS

Section 9.1 Notices.

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

(i) if to 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

(ii) if to the Company, at its address shown at the beginning of this Agreement, or at any other address as it may have most recently furnished in writing to each Purchaser and to all other holders of the Notes.

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

Section 9.2 Payments Due on Non-Business Days.

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

Section 9.3 Reproduction of Documents.

This Agreement and all related documents, including (a) consents, waivers and modifications which may subsequently be executed, (b) documents received by each Purchaser at the closing of each Purchaser's purchase of the Notes (except the Notes themselves), and (c) financial statements, certificates and other information previously or subsequently furnished to any Purchaser, may be reproduced by any Purchaser by any photographic, photostatic, microfilm, micro-card, miniature photographic or other similar process and any Purchaser may destroy any original document so reproduced. The Company agrees and stipulates that any such reproduction shall, to the extent permitted by applicable law, be admissible in evidence as the original itself in any judicial or administrative proceeding (whether or not the original is in existence and whether or not the reproduction was made by any Purchaser in the regular course of business) and that any enlargement, facsimile or further reproduction of the reproduction shall likewise be admissible in evidence.

Section 9.4 Purchase for Investment.

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

Section 9.5 Source of Funds.

Each Purchaser represents to the Company that at least one of the following statements is an accurate representation as to each source of funds (a "Source") to be used by such Purchaser to pay the purchase price of the Notes to be purchased by it hereunder: (i) the Source is the "insurance company general account" of such 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 such 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 such Purchaser in which no employee benefit plan, other than employee benefit plans identified on a list which has been furnished by such 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.

Section 9.6 Successors and Assigns.

This Agreement shall inure to the benefit of and be binding upon the successors and assigns of each of the parties except that each Purchaser's obligations to purchase the Notes (as provided in Section 1.2) shall be a right which is personal to the Company and such right shall not be transferable or assignable by the Company to any other Person (including successors at

law) whether voluntarily or involuntarily. The provisions of this Agreement are intended to be for the benefit of all holders, from time to time, of the Notes, and shall be enforceable by any holder, whether or not an express assignment of rights under this Agreement has been made by any Purchaser or any Purchaser's successor or assign.

Section 9.7 Amendment and Waiver; Acquisition of Notes.

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

(b) Acquisition of Notes. 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.

Section 9.8 Duplicate Originals.

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

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

Very truly yours,

CHESAPEAKE UTILITIES CORPORATION

By: Michael P. Matheson
Name: Michael P. Matheson
Title: Vice President, Treasurer and CFO

Accepted:

MASSACHUSETTS MUTUAL LIFE INSURANCE COMPANY

By: David L. Babson & Company Inc., as Investment Advisor

By: _____
Name: _____
Title: _____

C.M. LIFE INSURANCE COMPANY

By: David L. Babson & Company Inc., as Investment Advisor

By: _____
Name: _____
Title: _____

AMERICAN UNITED LIFE INSURANCE COMPANY

By: _____
Name: _____
Title: _____

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

Very truly yours,

CHESAPEAKE UTILITIES CORPORATION

By: _____
Name: _____
Title: _____

Accepted:

MASSACHUSETTS MUTUAL LIFE INSURANCE COMPANY

By: David L. Babson & Company Inc., as Investment Advisor

By: Richard C. Morrison
Name: Richard C. Morrison
Title: Managing Director

C.M. LIFE INSURANCE COMPANY

By: David L. Babson & Company Inc., as Investment Sub-Advisor

By: Richard C. Morrison
Name: Richard C. Morrison
Title: Managing Director

AMERICAN UNITED LIFE INSURANCE COMPANY

By: _____
Name: _____
Title: _____

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

Very truly yours,

CHESAPEAKE UTILITIES CORPORATION

By: _____
Name: _____
Title: _____

Accepted:

MASSACHUSETTS MUTUAL LIFE INSURANCE COMPANY

By: David L. Babson & Company Inc., as Investment Advisor

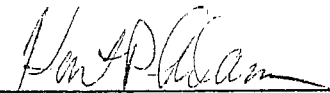
By: _____
Name: _____
Title: _____

C.M. LIFE INSURANCE COMPANY

By: David L. Babson & Company Inc., as Investment Advisor

By: _____
Name: _____
Title: _____

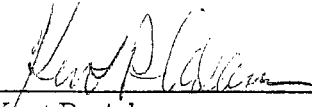
AMERICAN UNITED LIFE INSURANCE COMPANY

By:  _____

Name: Kent R. Adams

Title: Vice President, Fixed Income Securities

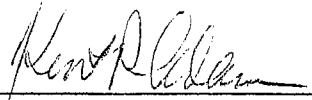
PIONEER MUTUAL LIFE INSURANCE COMPANY

By: 

Name: Kent R. Adams

Title: Vice President, Fixed Income Securities
of American United Life Insurance Company
as agent for Pioneer Mutual Life Insurance Company

THE STATE LIFE INSURANCE COMPANY

By: 

Name: Kent R. Adams

Title: Vice President, Fixed Income Securities
of American United Life Insurance Company
as agent for The State Life Insurance Company

PURCHASER SCHEDULE

	Aggregate Principal Amount of Notes to be Purchased	Note Denomination(s)
MASSACHUSETTS MUTUAL LIFE INSURANCE COMPANY		
(1) All payments on account of Notes held by such purchaser shall be made by crediting in the form of bank wire transfer of Federal or other immediately available funds, (identifying each payment as "6.64% Senior Notes due October 31, 2017, PPN 165303 D* 6", interest and principal), to: interest and principal), to: Citibank, N.A. 111 Wall Street New York, NY 10043 ABA # 021000089 For MassMutual Long-Term Pool Account No. 4067-3488 Re: Description of security, principal and interest split With telephone advice of payment to the Securities Custody and Collection Department of David L. Babson & Company Inc. at (413)226-1889 or (413)226-1803	\$8,300,000	\$8,300,000
(2) Address for all notices relating to payments: Massachusetts Mutual Life Insurance Company C/o David L. Babson & Company Inc. 1500 Main Street, Suite 800 Springfield, MA 01115 Attention: Securities Custody and Collection Department		

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

Massachusetts Mutual Life Insurance Company
C/o David L. Babson & Company Inc.
1500 Main Street, Suite 800
Springfield, MA 01115
Attn: Securities Investment Division

- (4) Tax Id. No.: 04-1590850

PURCHASER SCHEDULE

	Aggregate Principal Amount of Notes to be Purchased	Note Denomination(s)
MASSACHUSETTS MUTUAL LIFE INSURANCE COMPANY		
(1) All payments on account of the Notes shall be made by crediting in the form of bank wire transfer of Federal or other immediately available funds, (identifying each payment as "6.64% Senior Notes due October 31, 2017, PPN 165303 D* 6", interest and principal), to: Citibank, N.A. 111 Wall Street New York, NY 10043 ABA # 021000089 For MassMutual Spot Priced Contract Acct No. 3890-4953 Re: Description of security, principal and interest split With telephone advice of payment to the Securities Custody and Collection Department of David L. Babson & Company Inc. at (413) 226-1807 or (413) 226-1839	\$4,600,000	\$4,600,000
(2) Address for all notices relating to payments: Massachusetts Mutual Life Insurance Company c/o David L. Babson & Company Inc. 1500 Main Street, Suite 800 Springfield, Massachusetts 01115 Attn: Securities Custody and Collection Department		

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

Massachusetts Mutual Life Insurance Company
c/o David L. Babson & Company Inc.
1500 Main Street, Suite 800
Springfield, Massachusetts 01115
Attn: Securities Investment Division

- (4) Tax Id. No.: 04-1590850

PURCHASER SCHEDULE

	Aggregate Principal Amount of Notes to be Purchased	Note Denomination(s)
MASSACHUSETTS MUTUAL LIFE INSURANCE COMPANY		
(1) All payments on account of the Notes shall be made by crediting in the form of bank wire transfer of Federal or other immediately available funds. (identifying each payment as "6.64% Senior Notes due October 31, 2017, PPN 165303 D* 6", interest and principal), to: JPMorgan Chase Bank 4 Chase MetroTech Center New York, NY 10081 ABA No. 021000021 For MassMutual Pension Management Acct # 910-2594018 Re: Description of security, principal and interest split With telephone advice of payment to the Securities Custody and Collection Department of David L. Babson & Company Inc. at (413) 226-1803 or (413) 226-1839	\$4,400,000	\$4,400,000
(2) Address for all notices relating to payments: Massachusetts Mutual Life Insurance Company c/o David L. Babson & Company Inc. 1500 Main Street, Suite 800 Springfield, Massachusetts 01115 Attn: Securities Custody and Collection Department		

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

Massachusetts Mutual Life Insurance Company
c/o David L. Babson & Company Inc.
1500 Main Street, Suite 800
Springfield, Massachusetts 01115
Attn: Securities Investment Division

- (4) Tax Id. No.: 04-1590850

PURCHASER SCHEDULE

	Aggregate Principal Amount of Notes to be Purchased	Note Denomination(s)
MASSACHUSETTS MUTUAL LIFE INSURANCE COMPANY		
(1) All payments on account of the Notes shall be made by crediting in the form of bank wire transfer of Federal or other immediately available funds, (identifying each payment as "6.64% Senior Notes due October 31, 2017, PPN 165303 D* 6", interest and principal), to: Citibank, N.A. 111 Wall Street New York, NY 10043 ABA # 021000089 For MassMutual Structured Settlement Fund Acct # 4065-5423 Re: Description of security, principal and interest split With telephone advice of payment to the Securities Custody and Collection Department of David L. Babson & Company Inc. at (413) 226-1807 or (413) 226-1839	\$1,300,000	\$1,300,000
(2) Address for all notices relating to payments: Massachusetts Mutual Life Insurance Company c/o David L. Babson & Company Inc. 1500 Main Street, Suite 800 Springfield, Massachusetts 01115 Attn: Securities Custody and Collection Department		

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

Massachusetts Mutual Life Insurance Company
c/o David L. Babson & Company Inc.
1500 Main Street, Suite 800
Springfield, Massachusetts 01115
Attn: Securities Investment Division

- (4) Tax Id. No.: 04-1590850

PURCHASER SCHEDULE

	Aggregate Principal Amount of Notes to be Purchased	Note Denomination(s)
C.M. LIFE INSURANCE COMPANY		
(1) All payments on account of the Notes shall be made by crediting in the form of bank wire transfer of Federal or other immediately available funds, (identifying each payment as "6.64% Senior Notes due October 31, 2017, PPN 165303 D* 6", interest and principal), to: Citibank, N.A. 111 Wall Street New York, NY 10043 ABA # 021000089 For Segment 43 – Universal Life Acct # 4068-6561 Re: Description of security, principal and interest split With telephone advice of payment to the Securities Custody and Collection Department of David L. Babson & Company Inc. at (413) 226-1839 or (413) 226-1803	\$3,400,000	\$3,400,000
(2) Address for all notices relating to payments: C.M. Life Insurance Company c/o David L. Babson & Company Inc. 1500 Main Street, Suite 800 Springfield, Massachusetts 01115 Attn: Securities Custody and Collection Department		

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

C.M. Life Insurance Company
c/o David L. Babson & Company Inc.
1500 Main Street, Suite 800
Springfield, Massachusetts 01115
Attn: Securities Investment Division

- (4) Tax Id. No.: 06-1041383

PURCHASER SCHEDULE

AMERICAN UNITED LIFE INSURANCE COMPANY	Aggregate Principal Amount of Notes to be Purchased	Note Denomination(s)
---	---	-------------------------

- (1) All payments on account of Notes held by such purchaser shall be made by wire transfer of immediately available funds for credit to:
- \$7,000,000 \$7,000,000

Bank of New York
One Wall Street, 3rd Floor
Window A
New York, New York 10286
Attn: P&I Department
ABA # 021000018
BNF: IOC566

Each such wire transfer shall set forth the name of the Company, a reference to "6.64% Senior Notes due October 31, 2017, PPN 165303 D* 6", 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:

American United Life Insurance Company
One American Square
Post Office Box 368
Indianapolis, Indiana 46204
Attn: Christopher D. Pahlke, Securities
Department
Phone: 317-285-1485
Fax: 317-285-7580

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

American United Life Insurance Company
One American Square
Post Office Box 368
Indianapolis, Indiana 46204
Attn: Christopher D. Pahlke, Securities
Department
Phone: 317-285-1485
Fax: 317-285-7580

- (4) Tax Id. No.: 35-0145825

PURCHASER SCHEDULE

	Aggregate Principal Amount of Notes to be Purchased	Note Denomination(s)
PIONEER MUTUAL 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:
- \$500,000 \$500,000

Bank of New York
One Wall Street, 3rd Floor
Window A
New York, New York 10286
Attn: P&I Department
ABA # 021000018
BNF: IOC566
Pioneer Mutual Life, c/o American United Life

Each such wire transfer shall set forth the name of the Company, a reference to "6.64% Senior Notes due October 31, 2017, PPN 165303 D* 6", 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:

Pioneer Mutual Life Insurance Company
c/o American United Life Insurance Company
One American Square
Post Office Box 368
Indianapolis, Indiana 46204
Attn: Christopher D. Pahlke, Securities
Department
Phone: 317-285-1485
Fax: 317-285-7580

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

Pioneer Mutual Life Insurance Company
c/o American United Life Insurance Company
One American Square
Post Office Box 368
Indianapolis, Indiana 46204
Attn: Christopher D. Pahlke, Securities
Department
Phone: 317-285-1485
Fax: 317-285-7580

- (4) Tax Id. No.: 45-0220640

PURCHASER SCHEDULE

THE STATE LIFE INSURANCE COMPANY	Aggregate Principal Amount of Notes to be Purchased	Note Denomination(s)
---	--	---------------------------------

- (1) All payments on account of Notes held by such purchaser shall be made by wire transfer of immediately available funds for credit to:

Bank of New York
One Wall Street, 3rd Floor
Window A
New York, New York 10286
Attn: P&I Department
ABA # 021000018
BNF: IOC566
State Life, c/o American United Life

Each such wire transfer shall set forth the name of the Company, a reference to "6.64% Senior Notes due October 31, 2017, PPN 165303 D* 6", and the due date and application (as among principal, interest and Make Whole Amount) of the payment being made.

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

The State Life Insurance Company
c/o American United Life Insurance Company
One American Square
Post Office Box 368
Indianapolis, Indiana 46204
Attn: Christopher D. Pahlke, Securities
Department
Phone: 317-285-1485
Fax: 317-285-7580

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

The State Life Insurance Company
c/o American United Life Insurance Company
One American Square
Post Office Box 368
Indianapolis, Indiana 46204
Attn: Christopher D. Pahlke, Securities
Department
Phone: 317-285-1485
Fax: 317-285-7580

- (4) Tax Id. No.: 35-0684263

SCHEDULE 4.6

EXISTING INDEBTEDNESS

The Existing Indebtedness of the Company and Subsidiaries as of October 31, 2002 is as follows:

Funded Debt:

\$ 1,890,000	9.37% First Mortgage Sinking Fund Bonds Series I
\$ 3,310,000	8.25% Convertible Debentures, Due March 1, 2014
\$ 6,000,000	7.97% Senior Unsecured Note, due February 1, 2008
\$ 8,181,818	6.91% Senior Unsecured Note, due October 1, 2010
\$10,000,000	6.85% Senior Unsecured Note, due January 1, 2012
\$20,000,000	7.83% Senior Unsecured Note, due January 1, 2015
\$ 271,300	8.50% Mortgage (Skipjack, Inc.)
\$ 45,511	0.00% Auto Loans (Sharp Water of Idaho, Inc.)

Current Debt:

\$35,000,000	Short-term borrowing under line of credit agreements with Bank of America
\$ 500,000	Short-term borrowing under line of credit agreement with PNC Bank

SCHEDULE 4.8(a)(v)

EXISTING LIENS

The Liens of Property of the Company and Subsidiaries as of October 31, 2002 (other than Liens of the types described in clauses (i) through (iv) of Section 4.8(a)) and the obligations secured thereby are as follows:

- a. Lien arising from the First Mortgage Indenture to the extent securing bonds outstanding thereunder as of the date hereof.
- b. Mortgage on real estate owned by Skipjack, Inc.
- c. Automobile loans purchased by Sharp Water of Idaho, Inc.

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
BravePoint, 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
Absolute Water Care, Inc.	Florida
Sharp Water of Florida, Inc.	Delaware
Sharp Water of Minnesota, Inc.	Delaware
Sharp Water of Idaho, Inc.	Delaware
aQuality Company, Inc.	Delaware
aquality souldutions of Western Maryland, LLC	Delaware
aquality souldutions of Delmarva, LLC	Delaware

SCHEDULE 6.7

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

EXISTING INVESTMENTS

The outstanding Investments of the Company and Subsidiaries as of October 31, 2002, are as follows:

Rabbi Trust Investment of \$500,000 associated with the acquisition of Xeron, Inc.

EXHIBIT A

[FORM OF NOTE]

CHESAPEAKE UTILITIES CORPORATION

6.64% Senior Note due October 31, 2017

No. R-_____

PPN 165303 D* 6

\$_____

[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 October 31, 2017; 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 6.64% per annum, semi-annually on the last day of April and October in each year, commencing on April 30, 2003 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) 8.64% 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 \$30,000,000 pursuant to the Company's Note Agreement dated as of October 31, 2002 between the Company and the respective Purchasers named therein and is entitled to the benefits thereof. As provided in such Agreement, this Note is subject to prepayment, in whole or in part, with a premium as specified in said Agreement. The Company agrees to make required payments on account of said Notes in accordance with the provisions of said Agreement.

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

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

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

CHESAPEAKE UTILITIES CORPORATION

(CORPORATE SEAL)

By: _____

Name: _____

Title: _____

[COVINGTON & BURLING]

October 31, 2002

Massachusetts Mutual Life Insurance Company
C.M. Life Insurance Company
c/o David L. Babson & Company Inc.
1500 Main Street, Suite 800
Springfield, Massachusetts 01115
Attn: Securities Investment Division

American United Life Insurance Company
The State Life Insurance Company
Pioneer Mutual Life Insurance Company
One American Square
Post Office Box 368
Indianapolis, Indiana 46204
Attn: Christopher D. Pahlke, Securities Department

Ladies and Gentlemen:

We have acted as special counsel for Chesapeake Utilities Corporation (the "Company") in connection with the Note Agreement, dated as of October 31, 2002, between the Company and each of you (the "Note Agreement"), pursuant to which the Company has issued to each of you today 6.64% Senior Notes due October 31, 2017 of the Company in the aggregate principal amount of \$30,000,000. All terms used herein that are defined in the Note Agreement have the respective meanings specified in the Note Agreement. This letter is being delivered to each of you in satisfaction of the condition set forth in Section 1.4(c) of the Note Agreement and with the understanding that each of you is purchasing the Notes in reliance on the opinions expressed herein.

In 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 c below, we have also relied upon the representation made by each of 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 each of you by Parkowski & Guerke. 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.

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 the consent of each of you, 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:

a. 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.

b. 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.

c. 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.

d. 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.

e. 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-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 each of you, transferees of each of you, 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 any of you (which shall be deemed to include the National Association of Insurance Commissioners), this opinion may not be disclosed to any other person without our prior written consent.

Very truly yours,

COVINGTON & BURLING

[PARKOWSKI & GUERKE]

October 31, 2002

Massachusetts Mutual Life Insurance Company
C.M. Life Insurance Company
c/o David L. Babson & Company Inc.
1500 Main Street, Suite 800
Springfield, Massachusetts 01115
Attn: Securities Investment Division

American United Life Insurance Company
The State Life Insurance Company
Pioneer Mutual Life Insurance Company
One American Square
Post Office Box 368
Indianapolis, Indiana 46204
Attn: Christopher D. Pahlke, Securities Department

Ladies and Gentlemen:

We have acted as special Delaware counsel for Chesapeake Utilities Corporation (the "Company") in connection with the Note Agreement, dated as of October 31, 2002, between the Company and each of you (the "Note Agreement"), pursuant to which the Company has issued to each of you today 6.64% Senior Notes due October 31, 2017 of the Company in the aggregate principal amount of \$30,000,000. All terms used herein that are defined in the Note Agreement have the respective meanings specified in the Note Agreement. This letter is being delivered to each of you in satisfaction of the condition set forth in Section 1.4(c) of the Note Agreement and with the understanding that each of you is purchasing the Notes in reliance on the opinions expressed herein.

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

Based on the foregoing, it is our opinion that:

a. The Company 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.

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

c. 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. 5989 in PSC Docket No. 02-186 dated July 9, 2002, such Order is final and in full force and effect, no appeal, review or contest thereof is pending, and no further action by the Public Service Commission of the State of Delaware is a requirement to execution and delivery of the Note Agreement or the Notes or the offering, issuance or sale of the Notes or the fulfillment of compliance with the requisite provisions of the Note Agreement and the Notes.

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

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

Sincerely yours,

PARKOWSKI & GUERKE

BY: _____
William A. Denman, Esq.

[PIPER RUDNICK LLP]

October 31, 2002

Massachusetts Mutual Life Insurance Company
C.M. Life Insurance Company
c/o David L. Babson & Company Inc.
1500 Main Street, Suite 800
Springfield, Massachusetts 01115
Attn: Securities Investment Division

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Pioneer Mutual Life Insurance Company
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Post Office Box 368
Indianapolis, Indiana 46204
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Based on the foregoing and assuming approval of the subject transaction by the Delaware Public Service Commission in PSC Docket No. 02-186, it is our opinion that:

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

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

Very truly yours,

[ROSE, SUNDSTROM & BENTLEY, LLP]

October 31, 2002

Massachusetts Mutual Life Insurance Company
C.M. Life Insurance Company
c/o David L. Babson & Company Inc.
1500 Main Street, Suite 800
Springfield, Massachusetts 01115
Attn: Securities Investment Division

American United Life Insurance Company
The State Life Insurance Company
Pioneer Mutual Life Insurance Company
One American Square
Post Office Box 368
Indianapolis, Indiana 46204
Attn: Christopher D. Pahlke, Securities Department

Ladies and Gentlemen:

We have acted as special Florida counsel for Chesapeake Utilities Corporation (the "Company") in connection with the Note Agreement, dated as of October 31, 2002, between the Company and each of you (the "Note Agreement"), pursuant to which the Company has issued to each of you today 6.64% Senior Notes due October 31, 2017 of the Company in the aggregate principal amount of \$30,000,000. All terms used herein that are defined in the Note Agreement have the respective meanings specified in the Note Agreement. This letter is being delivered to each of you in satisfaction of the condition set forth in Section 1.4(c) of the Note Agreement and with the understanding that each of you is purchasing the Notes in reliance on the opinions expressed herein.

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

Based on the foregoing, it is our opinion that:

- a. The Company is qualified to do business and is in good standing under the laws of the State of Florida.

b. The execution and delivery of the Note Agreement and the Notes, the issuance and sale of the Notes and fulfillment of and compliance with the respective provisions of the Note Agreement and the Notes will not require any authorization, consent, approval, exemption or other action by or notice to or filing with any court, administrative or governmental body (other than the Public Service Commission of the State of Florida) pursuant to any applicable law, statute, rule or regulation of the State of Florida. The Public Service Commission of the State of Florida has duly entered Order Nos. PSC-01-2274-FOF-GU, PSC-01-2274A-FOF-GU and PSC-02-1102-FOF-GU in Docket No. 011345-GU dated November 19, 2001, December 5, 2001, and August 12, 2002, respectively, which orders are final and in full force and effect, no appeal, review or contest thereof is pending and the time for appeal or to seek review or reconsideration thereof has expired and no further action by the Public Service Commission of the State of Florida is a requirement to execution and delivery of the Note Agreement or the Notes or the issuance or sale of the Notes or the fulfillment of compliance with the requisite provisions of the Note Agreement and the Notes.

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

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

Sincerely,

[LAWS & ROBERTSON, P.A.]

October 31, 2002

Massachusetts Mutual Life Insurance Company
C.M. Life Insurance Company
c/o David L. Babson & Company Inc.
1500 Main Street, Suite 800
Springfield, Massachusetts 01115
Attn: Securities Investment Division

American United Life Insurance Company
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One American Square
Post Office Box 368
Indianapolis, Indiana 46204
Attn: Christopher D. Pahlke, Securities Department

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

Based on the foregoing, it is our opinion that:

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

b. The execution and delivery of the Note Agreement and the Notes, the offering, issuance and sale of the Notes and fulfillment of and compliance with the respective provisions of the Note Agreement and the Notes will not require any authorization, consent, approval, exemption or other action by or notice to or filing with any 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 Rudnick LLP, will express a separate opinion.

Our opinions may not be relied upon by any person or entity other than each of you, transferees of each of you and Schiff Hardin & 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 & ROBERTSON, P.A.

By: _____

COVINGTON & BURLING

1201 PENNSYLVANIA AVENUE NW
WASHINGTON, DC 20004-2401
TEL 202.662.6000
FAX 202.662.6291
WWW.COV.COM

WASHINGTON
NEW YORK
LONDON
BRUSSELS
SAN FRANCISCO

October 31, 2002

Massachusetts Mutual Life Insurance Company
C.M. Life Insurance Company
c/o David L. Babson & Company Inc.
1500 Main Street, Suite 800
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Attn: Securities Investment Division

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Attn: Christopher D. Pahlke, Securities Department

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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

COVINGTON & BURLING

Massachusetts Mutual Life Insurance Company
American United Life Insurance Company
October 31, 2002
Page 2 of 3

set forth. With respect to the opinion expressed in paragraph c below, we have also relied upon the representation made by each of 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 each of you by Parkowski & Guerke. 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.

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 the consent of each of you, 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:

a. 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.

b. 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.

c. 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.

COVINGTON & BURLING

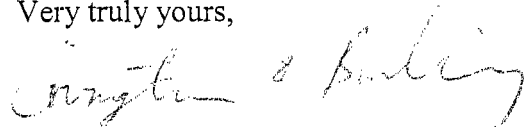
Massachusetts Mutual Life Insurance Company
American United Life Insurance Company
October 31, 2002
Page 3 of 3

d. 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.

e. 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-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 each of you, transferees of each of you, 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 any of you (which shall be deemed to include the National Association of Insurance Commissioners), this opinion may not be disclosed to any other person without our prior written consent.

Very truly yours,



COVINGTON & BURLING

LAW OFFICES
PARKOWSKI & GUERKE

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

F. MICHAEL PARKOWSKI
I. BARRY GUERKE
CLAY T. JESTER
JEREMY W. HOMER
JOHN C. ANDRADE
MARK F. DUNKLE
WILLIAM A. DENMAN
MICHAEL W. ARRINGTON
BASIL C. KOLLIAS
ANNE E. HARTNETT

GEORGE F. GARDNER, III
OF COUNSEL

October 31, 2002

Massachusetts Mutual Life Insurance Company
C.M. Life Insurance Company
c/o David L. Babson & Company, Inc.
1500 Main Street, Suite 800
Springfield, Massachusetts 01115
Attn: Securities Investment Division

American United Life Insurance Company
The State Life Insurance Company
Pioneer Mutual Life Insurance Company
One American Square
Post Office Box 368
Indianapolis, Indiana 46204
Attn: Christopher D. Pahlke, Securities Department

Ladies and Gentlemen:

We have acted as special Delaware counsel for Chesapeake Utilities Corporation (the "Company") in connection with the Note Agreement, dated as of October 31, 2002, between the Company and each of you (the "Note Agreement"), pursuant to which the Company has issued to each of you today 6.64% Senior Notes due October 31, 2017 of the Company in the aggregate principal amount of \$30,000,000. All terms used herein that are defined in the Note Agreement have the respective meanings specified in the Note Agreement. This letter is being delivered to each of you in satisfaction of the condition set forth in Section 1.4(c) of the Note Agreement and with the understanding that each of you is purchasing the Notes in reliance on the opinions expressed herein.

In this connection, we have examined such certificates of public officials, certificates of officers of the Company and copies certified to our satisfaction of corporate documents and records of the Company and of other papers, and have made such other investigations, as we have deemed relevant and necessary as a basis for

our opinion hereinafter set forth. We have relied upon such certificates of public officials and of officers of the Company with respect to the accuracy of material factual matters contained therein which were not independently established. With respect to the opinion expressed in paragraph 3 below, we have also relied upon the representations made by each of you in Sections 9.4 and 9.5 of the Note Agreement.

Based on the foregoing, it is our opinion that:

a. The Company 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.

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

c. 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. 5989 in PSC Docket No. 02-186 dated July 9, 2002, such Order is final and in full force and effect, no appeal, review or contest thereof is pending, and no further action by the Public Service Commission of the State of Delaware is a requirement to execution and delivery of the Note Agreement or the Notes or the offering, issuance or sale of the Notes or the fulfillment of compliance with the requisite provisions of the Note Agreement and the Notes.


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

Massachusetts Mutual Life Ins. Co.
American United Life Ins. Co.
Page 3

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

Sincerely yours,

Parkowski & Guerke, PA

By: 

William A. Denman, Esquire

Piper Rudnick

6225 Smith Avenue
Baltimore, Maryland 21209-3600
main 410.580.3000 fax 410.580.3001

October 31, 2002

Massachusetts Mutual Life Insurance Company
C.M. Life Insurance Company
c/o David L. Babson & Company Inc.
1500 Main Street, Suite 800
Springfield, Massachusetts 01115
Attn: Securities Investment Division

American United Life Insurance Company
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Based on the foregoing, and assuming approval of the subject transaction by the Delaware Public Service Commission in its Docket No.02-186, it is our opinion that:

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

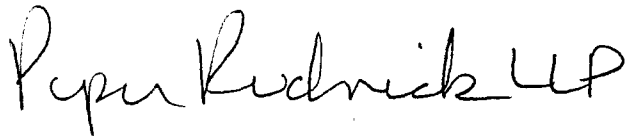
Piper Rudnick

Massachusetts Mutual Life
Insurance Company
C.M. Life Insurance Company
American United Life Insurance
Company
The State Life Insurance
Company
Pioneer Mutual Life Insurance
Company
October 31, 2002
Page 2

The opinion expressed herein is solely for the benefit of you, your transferees and Schiff Hardin & Waite, your special counsel in connection with the matters referred to herein, and neither this opinion nor this opinion letter may be circulated, quoted or relied upon by any other person or for any other purpose without our prior consent.

Very truly yours,

PIPER RUDNICK LLP

A handwritten signature in black ink that reads "Piper Rudnick LLP". The signature is written in a cursive, flowing style.

LAW OFFICES

ROSE, SUNDBSTROM & BENTLEY, LLP

2548 BLAIRSTONE PINES DRIVE
TALLAHASSEE, FLORIDA 32301

(850) 877-6555

Fax (850) 656-4029

www.rsbatorneys.com

CHRIS H. BENTLEY, P.A.
ROBERT C. BRANNAN
F. MARSHALL DETERDING
MARTIN S. FRIEDMAN, P.A.
JOHN R. JENKINS, P.A.
STEVEN T. MINDLIN, P.A.
DAREN L. SHIPPY
WILLIAM E. SUNDBSTROM, P.A.
DIANE D. TREMOR, P.A.
JOHN L. WHARTON

ROBERT M. C. ROSE, *OF COUNSEL*
WAYNE L. SCHIEFELBEIN, *OF COUNSEL*

CENTRAL FLORIDA OFFICE

650 S. NORTH LAKE BLVD., SUITE 420
ALTAMONTE SPRINGS, FLORIDA 32701

(407) 830-6331

FAX (407) 830-8522

October 31, 2002

Massachusetts Mutual Life Insurance Company
C.M. Life Insurance Company
c/o David L. Babson & Company Inc.
1500 Main Street, Suite 800
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Attn: Securities Investment Division

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Ladies and Gentlemen:

We have acted as special Florida counsel for Chesapeake Utilities Corporation (the "Company") in connection with the Note Agreement, dated as of October 31, 2002, between the Company and each of you (the "Note Agreement"), pursuant to which the Company has issued to each of you today 6.64% Senior Notes due October 31, 2017 of the Company in the aggregate principal amount of \$30,000,000. All terms used herein that are defined in the Note Agreement have the respective meanings specified in the Note Agreement. This letter is being delivered to each of you in satisfaction of the condition set forth in Section 1.4(c) of the Note Agreement and with the understanding that each of you is purchasing the Notes in reliance on the opinions expressed herein.

In this connection, we have examined such certificates of public officials, certificates of officers of the Company and copies certified to our satisfaction of corporate documents and records of the Company and of other papers, and have made such other investigations, as we have deemed relevant and necessary as a basis for our

October 31, 2002

Page 2

opinion hereinafter set forth. We have relied upon such certificates of public officials and of officers of the Company with respect to the accuracy of material factual matters contained therein which were not independently established.

Based on the foregoing, it is our opinion that:

a. The Company is qualified to do business and is in good standing under the laws of the State of Florida.

b. The execution and delivery of the Note Agreement and the Notes, the issuance and sale of the Notes and fulfillment of and compliance with the respective provisions of the Note Agreement and the Notes will not require any authorization, consent, approval, exemption or other action by or notice to or filing with any court, administrative or governmental body (other than the Public Service Commission of the State of Florida) pursuant to any applicable law (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 Nos. PSC-01-2274-FOF-GU, PSC-01-2274A-FOF-GU, and PSC-02-1102-FOF-GU in Docket No. 011345-GU dated November 19, 2001, December 5, 2001, and August 12, 2002, respectively, which orders are final and in full force and effect, no appeal, review or contest thereof is pending and the time for appeal or to seek review or reconsideration thereof has expired and no further action by the Public Service Commission of the State of Florida is a requirement to execution and delivery of the Note Agreement or the Notes or the issuance or sale of the Notes or the fulfillment of compliance with the requisite provisions of the Note Agreement and the Notes.

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

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

Sincerely,



Wayne L. Schiefelbein
Of Counsel

LAW OFFICES

LAWSON & ROBERTSON, P.A.

VICTOR H. LAWS
COUNSEL

VICTOR H. LAWS, III
JEAN S. LAWS
J. SCOTT ROBERTSON

LAURA E. ROBERTSON

209 EAST MAIN STREET

P. O. BOX 75

SALISBURY, MARYLAND 21803-0075

TELEPHONE: 410.749.7500

FAX: 410.749.7509

SATELLITE OFFICE:

208 CEDAR STREET
CAMBRIDGE, MARYLAND 21613
TELEPHONE: 410.376.0287

Writer's E-Mail Address:
viclaws@lawspa.net

October 31, 2002

Massachusetts Mutual Life Insurance Company
C.M. Life Insurance Company
c/o David L. Babson & Company Inc.
1500 Main Street, Suite 800
Springfield, Massachusetts 01115
Attn.: Securities Investment Division

American United Life Insurance Company
The State Life Insurance Company
Pioneer Mutual Life Insurance Company
One American Square
Post Office Box 368
Indianapolis, Indiana 46204
Attn.: Christopher D. Pahlke, Securities Department

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 October 31, 2002, between the Company and each of you (the "Note Agreement"), pursuant to which the Company has issued to each of you today 6.64% Senior Notes due October 31, 2017, of the Company in the aggregate principal amount of \$30,000,000. All terms used herein that are defined in the Note Agreement have the respective meanings specified in the Note Agreement. This letter is being delivered to each of you in satisfaction of the condition set forth in Section 1.4(c) of the Note Agreement and with the understanding that each of you is purchasing the Notes in reliance on the opinions expressed herein.

In this connection, we have examined such certificates of public officials, certificates of officers of the Company and copies certified to our satisfaction of corporate documents and records of the Company and of other papers, and have made such other investigations, as we have deemed relevant and necessary as a basis for our opinion hereinafter set forth. We have relied

upon such certificates of public officials and of officers of the Company with respect to the accuracy of material factual matters contained therein which were not independently established.

Based on the foregoing, it is our opinion that:

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 Rudnick LLP, will express a separate opinion.

Our opinions may not be relied upon by any person or entity other than each of you, transferees of each of you and Schiff Hardin & 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 & ROBERTSON, P.A.

By: 

Victor H. Laws, III

VHLIII:sc

<u>For PSC Use Only:</u>	
Docket No. _____	
Filing Date: _____	
Reviewer: _____	
Given to: _____	

**DELAWARE PUBLIC SERVICE COMMISSION
FILING COVER SHEET**

1. NAME OF APPLICANT: Chesapeake Utilities Corporation

2. TYPE OF FILING:
- RATE CHANGE _____
 - FUEL ADJUSTMENT _____
 - ADMINISTRATIVE X
 - CPCN _____
 - NEW SERVICE OFFERING _____
 - OTHER _____

IF A TELECOMMUNICATIONS FILING, WHAT TYPE OF SERVICE IS IMPACTED?
(PLEASE CHECK)

BASIC___ COMPETITIVE___ DISCRETIONARY

3. PROPOSED EFFECTIVE DATE: Upon PSC Approval

IS EXPEDITED TREATMENT REQUESTED? YES X NO ___

4. SHORT SYNOPSIS OF FILING: Chesapeake Utilities Corporation requests approval for the issuance of Long-Term Debt.

5. DOES THIS FILING RELATE TO PENDING DOCKETS? YES___ NO X

IF SO, PLEASE LIST DOCKET(S) NO(S):

6. IS PUBLIC NOTICE REQUIRED? YES___ NO X
IF YES, PLEASE ATTACH COPY OF PROPOSED PUBLIC NOTICE.

7. APPLICANT'S CONTACT PERSON:

(NAME)	Jeffrey R. Tietbohl
(TITLE)	Controller – Natural Gas
(TELE. NO.)	302.734.6742
(FAX NO.)	302.734.6011

8. DID YOU PROVIDE A COMPLETE COPY OF THE FILING TO THE PUBLIC ADVOCATE?

YES X NO ___ IF SO, WHEN? Mailed on Wednesday, June 12, 2002

9. FILING FEE ENCLOSED: \$100.00
(AMOUNT)

NOTE: House Bill 681, enacted into law 7/13/98, authorizes the Commission to recover the cost of time spent by in-house staff to process all filings initiated after the date of enactment. You may be required to reimburse the Commission for staff time.

CHESAPEAKE

June 13, 2002

Ms. Karen J. Nickerson, Secretary
Delaware Public Service Commission
861 Silver Lake Boulevard
Cannon Building, Suite 100
Dover, Delaware 19904

Re: Chesapeake Utilities Corporation – Application Requesting Approval for
the Issuance of Long-Term Debt

Dear Ms. Nickerson:

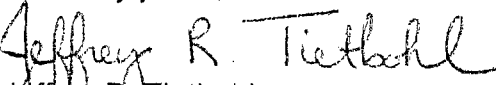
Enclosed for filing with the Delaware Public Service Commission (“Commission”) are an original and ten (10) copies of the application of Chesapeake Utilities Corporation (“Chesapeake” or the “Company”) requesting approval for the issuance of long-term debt.

The Company is requesting approval for the issuance of up to \$30,000,000 of Chesapeake unsecured senior notes for the purpose of financing capital additions that have previously been funded with short-term debt for ongoing construction programs related to the Company’s utility business, as well as for other proper corporate purposes. At this time, the closing date for the senior notes is scheduled around October 31, 2002.

In addition, to the extent that Commission approval is required, Chesapeake respectfully requests the Commission’s approval to utilize certain financial risk management tools to mitigate and/or manage its interest cost as described in the application.

Should you have any questions with regard to this filing, please contact me at 302.734.6742 or William A. Denman of Parkowski & Guerke, P.A. at 302.678.3262.

Sincerely yours,


Jeffrey R. Tietbohl
Controller – Natural Gas

Enclosures

Cc: William A. Denman, Esquire
G. Arthur Padmore, Public Advocate

Chesapeake Utilities Corporation

350 South Queen Street Dover, Delaware 19904 302.734.6797 302.734.6010 / fax

CERTIFICATE OF SERVICE

I hereby certify that the foregoing was mailed by United States mail (first class) or by personal delivery to the individuals listed on the enclosed letter.

Jeffrey R. Tietbohl
Jeffrey R. Tietbohl

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. 02-
LONG-TERM DEBT)

Chesapeake Utilities Corporation (hereinafter sometimes called "Chesapeake" or "Applicant") pursuant to 26 Del. C. section 215, makes the following application for approval by the Delaware Public Service Commission ("Commission") of the issuance of up to \$30,000,000 of Chesapeake unsecured senior notes. In addition, to the extent that Commission approval is required, Chesapeake requests the Commission's approval to utilize certain financial risk management tools to mitigate and/or manage its interest cost in the manner described herein.

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

2. Counsel for the Applicant is William A. Denman, Parkowski & Guerke, P.A., 116 West Water Street, P.O. Box 598, Dover, Delaware 19903. Correspondence and other communications concerning this application should be

directed to counsel at the foregoing address, or at the following e-mail address: wdenman@dol.net. The respective telephone number and facsimile number are 302.678.3262 and 302.678.9415.

3. Chesapeake is a corporation incorporated under the laws of the State of Delaware. The voting stock of Chesapeake is publicly owned. Shares of common stock, 5,456,947 of which were outstanding as of March 31, 2002, 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") pursuant to which PNC will serve as primary agent for the private placement of up to \$30,000,000 in unsecured senior notes ("Notes"). A true and correct copy of the Agreement and a draft of the 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 \$30,000,000 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) related to Chesapeake's regulated 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 February 22, 2002 and April 12, 2002. Chesapeake selected the aforesaid form of financing because, in Chesapeake's judgment, the long-term debt financing is consistent with the Company's capital requirements and will be bid upon in the marketplace through PNC, the primary placement agent for the Company in this matter.

7. Chesapeake is also considering entering into certain other financial agreements with other financial institutions, such as interest rate swaps, collars, caps, and/or floors (the "Interest Rate Swap Products"). The Company is evaluating Interest Rate Swap Products as part of its continuing effort to manage and mitigate the Company's interest cost on its long-term and/or short-term debt. To the extent that the approval of the Commission is required, in this Application Chesapeake seeks the authority to enter into agreements with financial institutions relating to Interest Rate Swap Products subject to the limitation that the notional principal amount for any such Interest Rate Swap Products would not, in the aggregate, exceed the sum of \$30,000,000. By way of example, upon receipt of any necessary approvals, Chesapeake may enter into a "swap" agreement with a separate financial institution (other than the Note holder) pursuant to which Chesapeake would be entitled to receive from the financial institution a fixed payment equal to a fixed rate times the "notional" amount (in this case up to \$30,000,000 for up to a ten year average life). Pursuant to the "swap" agreement, Chesapeake would agree to pay a

variable amount equal to a variable rate (in this case LIBOR plus a margin) times the same "notional" amount for the same time period to the same financial institution. Chesapeake may also enter into an arrangement that includes a floor and/or a cap on the variable amounts it would pay the financial institution. The Company does not consider such financial transactions to involve the actual issuance of securities and or the type of debt otherwise within the ambit of 26 Del. C. Section 215. Nevertheless, to the extent that the Commission considers Interest Rate Swap Products to fall within the ambit of 26 Del. C. Section 215, Chesapeake respectfully requests approval to enter into and acquire Interest Rate Swap Products on such terms as Chesapeake considers to be appropriate provided that the notional amount on said Products does not, in the aggregate, exceed the sum of \$30,000,000.

8. Chesapeake believes that Interest Rate Swap Products would provide Chesapeake with an additional opportunity to achieve lower cost funding of existing and prospective debt placements, as well as enhanced flexibility to manage the Company's exposure to interest rates as market conditions permit.

9. A copy of the opinion of counsel for Chesapeake with respect to the legality of the proposed issuance of long-term debt is attached hereto as Attachment B. To the extent required, when and if Chesapeake enters into agreements relating to Interest Rate Swap Products, Chesapeake will cause to be filed with the Commission supplemental legal opinions applicable to the specific transaction.

10. Attached hereto as Attachment C and incorporated herein by reference is a schedule setting forth Chesapeake's balance sheet and income statement for

the twelve (12) months ended March 31, 2002, both before and after the issuance of the long-term debt.

11. Attached hereto as Attachment D is a copy of Chesapeake's annual report on Form 10-K for the calendar year ended December 31, 2001. Attached hereto as Attachment E is Chesapeake's most recent quarterly report on Form 10-Q. Both reports have been filed with the Securities and Exchange Commission.

12. 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 March 31, 2002.
- b) Schedule No. 2 – Rate of return, actual and pro forma for the twelve (12) months ended March 31, 2002.
- c) Schedule No. 3 – Fixed charge coverage ratios for the twelve (12) months ended March 31, 2002.

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

WHEREFORE, Chesapeake prays as follows:

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

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

C. To the extent that the Commission believes that any such approval is required under 26 Del. C. Section 215, that the Commission authorize Chesapeake to enter into interest rate swaps, caps, floors and collars with financial institutions so long as the notional principal amount with respect to said transactions does not, in the aggregate, exceed the sum of \$30,000,000.

CHESAPEAKE UTILITIES CORPORATION

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


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

DATED: June 13, 2002

DATED: June 13, 2002

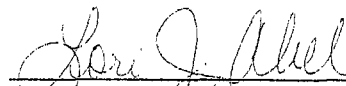
STATE OF DELAWARE)
)
COUNTY OF KENT)

BE IT REMEMBERED that on this 13th day of June, 2002, personally appeared before me, a notary public for the State and County aforesaid, Michael P. McMasters, who being by me duly sworn, did depose and say that he is Vice President, Treasurer and Chief Financial Officer of Chesapeake Utilities Corporation, a Delaware corporation, and that insofar as the Application of Chesapeake Utilities Corporation states facts, and insofar as those facts are within his personal knowledge, they are true; and insofar as those facts are not within his personal knowledge, he believes them to be true; and that the attachments accompanying this application and attached hereto are true and correct copies of the originals of the aforesaid attachments, and that he has executed this Application on behalf of the Company.



Michael P. McMasters
Vice President, Treasurer & CFO

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



Notary Public
My Commission Expires: July 11, 2002

Application of Chesapeake Utilities Corporation
For Approval of the Issuance of Securities

Table of Attachments and Schedules

Attachment A	PNC Marketing Agreement and Summary of the Terms and Conditions of the Notes
Attachment B	Opinion of Legal Counsel
Attachment C	Balance Sheet and Income Statement for Chesapeake Utilities Corporation for the Twelve Months Ended March 31, 2002
Attachment D	2001 Form 10-K
Attachment E	March 31, 2002 Form 10-Q
Schedule No. 1	Capitalization Ratios – Actual and Pro Forma as of March 31, 2002
Schedule No. 2	Rate of Return – Actual, Pro Forma, and Annualized for the Twelve Months Ended March 31, 2002
Schedule No. 3	Fixed Charge Coverage Ratios for the Twelve Months Ended March 31, 2002



April 1, 2002

Ms. Beth W. Cooper
Assistant Treasurer & Assistant Secretary
Chesapeake Utilities Corporation
909 Silver Lake Boulevard
Dover, DE 19904

Dear Beth:

This is to confirm the understanding between us, to the extent outlined below, as to the terms, conditions and procedures under which PNC Capital Markets, Inc. ("PNC") as Placement Agent, will employ its best efforts to privately place with a limited number of institutional investors up to \$40,000,000 of Senior Notes (the "Notes") for Chesapeake Utilities Corporation (the "Company").

Method of Offering

PNC agrees that it will not offer, offer for sale, offer to sell, or solicit offers to provide the Notes to or from anyone other than an "Accredited Investor" as defined in Rule 501(a) issued by the SEC under Securities Act of 1933. In addition, PNC agrees that offers to provide the Notes to any offeree shall be accomplished only in accordance with the procedures set forth herein.

PNC will assist the Company in the preparation of a Private Placement Memorandum (the "Placement Memorandum"), containing information from data furnished by the Company, published sources, documents filed with government agencies and other sources satisfactory to you. The Company will have the ultimate responsibility for all information in the Placement Memorandum and all revisions thereof, and PNC will not provide copies thereof to any person until the material is approved in writing by the Company. Prior to offering the Notes to any offeree, PNC will provide such offeree with (a) a copy of the Placement Memorandum and (b) all such other materials as the Company may deliver to PNC with instructions to transmit such materials to offerees of the Notes.

PNC will not offer the Notes by means of any form of general solicitation or general advertising, including but not limited to the following:

- (a) Any advertisement, article, notice, or other communication published in any newspaper, magazine or similar medium or broadcast over television or radio.

A PNC Bank Company

One PNC Plaza 249 Fifth Avenue Pittsburgh Pennsylvania 15222 2707

- (b) Any seminar or meeting whose attendees have been invited by any general solicitation or general advertising.

Confidentiality

PNC agrees to treat in a confidential manner any material, non-public information concerning the Company furnished to PNC by the Company in connection with PNC's engagement hereunder.

Indemnification

The Company hereby agrees to indemnify and hold PNC harmless against any losses, claims damages or liabilities (collectively, "claims") to which PNC may become subject, under the Securities Act of 1933, or any state securities law or otherwise, insofar as such claims arise out of or are based upon any alleged untrue statement of any material fact in the Placement Memorandum or other materials supplied by the Company, or upon the alleged omission to state therein a material fact necessary to make the statements therein not misleading, and that said indemnity shall survive the satisfaction, expiration or termination of this agreement; provided, however, that the Company shall not be liable under this sentence (except cases arising out of information provided by the Company) in respect of any loss, claim, damage, liability, cost or expense to the extent that a court having jurisdiction shall have determined by a final judgment that such loss, claim, damage, liability, cost or expense resulted from PNC's willful misconduct or gross negligence. The Company agrees further to reimburse PNC for any legal and other expenses reasonably incurred by PNC in connection with investigating or defending any such claim.

Exclusive Period

The Company agrees to grant to PNC an Exclusive Period ending July 31, 2002, in which to secure commitments for the proposed issue. During the Exclusive Period, no other party will be authorized by the Company to act as its agent in arranging this long-term debt financing. This Exclusive Period may be canceled or extended at any time by mutual consent of the Company and PNC. However, if the Company terminates this Letter Agreement (the "Agreement") without cause prior to the expiration of the Exclusive Period, all fees and expenses then due or which would become subsequently payable to PNC by the Company, in accordance with the following paragraph of this Agreement, shall be paid in full by the Company as otherwise provided for by this Agreement. The subject Exclusive Period will commence upon receipt by PNC of an executed copy of this Agreement. It is agreed that during the Exclusive Period as long as PNC is acting as the Company's Financial Advisor and Placement Agent in connection with the offering of the Notes, the Company will not directly or indirectly offer these Notes other than through PNC without the written consent of PNC.

Early Termination

In the event that the Agreement is terminated by the Company without cause prior to the expiration of the Exclusive Period, for the immediately subsequent period of one year from such date of termination, any amount of Notes purchased by an institutional investor solicited by PNC in connection with the procedures described herein (which investor is

identified by PNC to the Company within 15 days of such termination) shall result in PNC being entitled to a fee outlined below.

Placement Fee

The Company agrees to pay to PNC, upon the successful closing of the Notes, a placement fee equal to 60% of 0.35% of the principal amount of the Notes. The fee shall be paid as consideration for PNC services as Placement Agent in matters which shall include, but not be limited to, the following:

40% of 0.35%

1. Assisting the Company in having the notes pre-rated by the National Association of Insurance Commissioners (the "NAIC") or other rating agencies, if necessary;
2. Recommending terms of and timing for the offering;
3. Assisting the Company in the preparation of the Placement Memorandum;
4. Presenting the offering to Accredited Investors;
5. Assisting in conducting due diligence proceedings;
6. Assisting in the selection of special counsel and review of documentation; and
7. Assisting in negotiations between the Company, the Investors and other parties.

Your counsel will be responsible for legal matters, including compliance with federal and state securities laws. PNC shall pay for investors' counsel fees if the notes are documented in a manner similar to that of the Company's outstanding senior notes.

In addition, the Company agrees to reimburse PNC for reasonable out-of-pocket expenses incurred in connection with the proposed Notes (including travel, printing, mailing and telephone costs, etc.) whether or not the financing contemplated herein is concluded.

Announcement

Upon completion of its services and receipt of approval from the Company, PNC will be entitled, at its own expense, to place an announcement in such approved publications stating that it acted as Placement Agent to the Company.

If you are in agreement with the forgoing, please sign below and return an executed copy of this Agreement to my attention.

Sincerely,



Robert Erwin
Managing Director

Accepted and Approved on this 8th day of April, 2002

CHESAPEAKE UTILITIES CORPORATION

By: Beth W. Cooper
Title: Asst. Treasurer

III. SUMMARY OF TERMS AND CONDITIONS

- Form:** It is anticipated that the form of the note purchase agreement will, except as specified in this Memorandum, be drafted in a manner consistent with that of the Company's most recent senior note issues. The note agreement for the Company's 7.83% Senior Notes due January 1, 2015 can be found in Exhibit C. Capitalized terms not herein defined shall have the meanings ascribed in the attached note agreement.
- Issuer:** Chesapeake Utilities Corporation ("Chesapeake" or the "Company")
- Issue:** Senior Unsecured Notes (the "Notes")
- Amount:** \$30,000,000
- Closing:** June 30, 2002, or as soon as practical.
- Maturity:** Up to 15 years
- Average Life:** Up to 10 years
- Interest Rate:** To be fixed at a spread over the on-the-run ten-year Treasury rate.
- Interest Payable:** Interest on the Notes shall be payable semi-annually in arrears, calculated on the basis of twelve 30-day months in a 360-day year.
- Delayed Takedown Option:** The Company will entertain bids which will allow the Company to delay funding of the issue until up to December, 2002.
- Mandatory Redemptions:** Annual principal payments to be repaid in equal installments according to an amortization schedule corresponding to Maturity and Average Life option chosen.
- Optional Prepayments:** In addition to any Mandatory Redemptions, the Notes may be prepaid, in whole or in part at any time, at the greater of: (i) the par amount of the principal to be prepaid ("Called Principal") plus accrued interest; or (ii) the present value of the remaining Mandatory Redemptions and interest payments on the Notes, discounted at a rate equal to the yield on the Treasury Note with a maturity corresponding to the average life remaining on the Notes plus 50 basis points ("Discounted Value") plus accrued interest. The Make-Whole Premium is the amount equal to the excess of the Discounted Value over the Called Principal, provided that the Make-Whole Premium may, in no event, be less than zero.

Use of Proceeds: To refinance existing short-term debt and for general corporate purposes, including to fund capital expenditures.

Limitation on Incurrence of Funded Indebtedness: Chesapeake will not, and will not 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 Indebtedness outstanding at the time of closing;
- (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 Company's first mortgage 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 65% of Total Capitalization; and *previously was 60%*
- (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 (ii) above 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.

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

Minimum Consolidated Net Worth:

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

Restricted Payments:

Except as hereby provided, the Company will not, and 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 any of the foregoing 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 to capital stock of the Company (such declarations, payments, redemptions or retirements shall be defined as "Restricted Payments")

If at the time of such Restricted Payments and after giving effect thereto, the aggregate amount of 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 with the first fiscal year after the closing date to and ending on the date of the proposed Restricted Payments, computed on a cumulative basis (or if Consolidated Net Income is a deficit figure for the fiscal year, then minus 100% of such deficit).

Sale of Property and Subsidiary Stock:

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, as defined); 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 (value at ^{previously was value at greater of net book or fair market value} net book value), together with all other assets of the Company and Subsidiaries previously disposed of (other than in the ordinary course of business) 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 any fiscal year if either (1) within one year of such sale, the

proceeds from the sale of such assets are 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 such sale are used immediately upon receipt to prepay first any Bonds outstanding and, if no Bonds are outstanding, to prepay pro-rata the Notes and other senior Funded Indebtedness of the Company;

- (ii) in the opinion of the Company's Board of Directors, the sale is for fair value and in the best interest of the Company; and
- (iii) immediately after the consummation of the sale and after giving effect thereto, no Default or Event of Default would exist.

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 cash consideration to a Person other than an Affiliate of the entire investment of the Company and its other Subsidiaries in any Subsidiary provided the Company would be permitted to dispose of all of the assets of the Subsidiary at the time in compliance with the conditions specified in (i), (ii) and (iii) above.

Permitted Investments:

The Company may make or permit to remain outstanding the following investments ("Permitted Investments"):

- (1) Investments in any Person outstanding on the Closing Date;
- (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 maturity not more than 270 days from the date of creation there and
- (9) Other investments in an aggregate amount not in excess 20% of Consolidated Net Worth at any one time.

→ Was 10%

Other Business Covenants:

Other business covenants shall substantially conform to such covenants documented in the note agreement which follows.

Representations and Warranties:

Representations and warranties for the Notes shall substantially conform to such representations and warranties documented in the note agreement which follows.

Events of Default:

The nature of default, default remedies and other remedies under the Notes will substantially conform to those documented in the note agreement as summarized below:

- (a) Principal, Premium or Interest Payments -- failure to pay principal or premium 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 the following covenants:
 - Fixed Charge Coverage Ratio
 - Limitation on Incurrence of Funded Indebtedness
 - Minimum Consolidated Net Worth
 - Limitation on Guaranties
 - Liens and Encumbrances

- Restricted Payments
 - Sale of Property and Subsidiary Stock
 - Merger and Consolidation
 - Sale-Leaseback
 - ERISA Compliance;
- (c) Other Breaches – failure to comply any other provision, 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 more than \$1,000,000 of aggregate indebtedness or other securities of the Company or any Subsidiary to become due before its stated maturity or before its regularly scheduled dates of payment;
- (e) Involuntary Bankruptcy Proceedings;
- (f) Voluntary Bankruptcy Proceedings;
- (g) Warranties or Representations -- any warranty, representation or other statement by or on behalf of the Company or any document, certificate or instrument furnished in compliance with the Note agreement shall prove to have been false or misleading in any material respect; and
- (h) Undischarged Final Judgements – a final judgement 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.

Remedies under an Event of Default shall be as defined in the attached note purchase agreement.

Investors' Counsel:

It is suggested that the Purchaser of the Notes consider utilizing Schiff, Hardin & Waite as their special counsel. Schiff, Hardin & Waite drafted the attached note agreement and served as special counsel to the Company's prior two Senior Note issuances.

SELECTED DEFINITIONS

Capitalized terms not herein defined shall have the meanings ascribed in the attached note agreement found in Exhibit C.

Consolidated Fixed Charges -- For any period, shall mean 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, shall mean Consolidated Net Income for such period plus the net amount deducted in the determination thereof for interest on Indebtedness, lease rental expense and income taxes.

Consolidated Net Income -- For any period, shall mean 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 in accordance with GAAP, but 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 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 from the acquisition of 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 in the form of any other freely transferable Property; and
8. Earnings of any Person accrued prior to the date it becomes a Subsidiary of the Company or its assets are acquired by the Company.

Consolidated Net Worth -- Shall mean 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 – Shall mean, 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.

Current Indebtedness -- Shall mean all liabilities for borrowed money and liabilities collateralized by property, which are payable within one year plus the aggregate amount of guaranties of such liabilities except:

- i) any liabilities which are renewable or extendable at the option of the debtor to a date in excess of one year; and
- ii) any liabilities, although payable in one year, which constitute principal payments on indebtedness expected to mature more than one year from their creation.

Excluded Assets -- shall mean any of the Company's non-energy related assets or subsidiaries, including, but not limited to Sharp Water, Inc.; Carroll Water Systems, Inc.; EcoWater Systems of Michigan, Inc.; Sam Shannahan Well Co., Inc.; Absolute Water Care, Inc.; Sharp Water of Florida, Inc.; Sharp Water of Minnesota, Inc.; Sharp Water of Idaho, Inc.; BravePoint, Inc.; Skipjack, Inc.; Eastern Shore Real Estate, Inc. or any non-energy related assets or subsidiary that the Company may acquire in the future.

Funded Indebtedness -- Shall mean:

- i) the Company's liabilities for borrowed money, other than Current Indebtedness;
- ii) liabilities secured by any lien existing on property owned (whether or not those liabilities have been assumed);
- iii) the aggregate amount of guaranties, other than guaranties which constitute Current Indebtedness; and
- iv) its financing lease obligations.

Indebtedness -- Shall mean Current Indebtedness and Funded Indebtedness.

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

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

Purchase Money Indebtedness -- Shall mean 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.

Subsidiary -- Shall mean 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 other Subsidiaries.

Total Capitalization -- Shall mean Funded Indebtedness plus Consolidated Net Worth.

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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Bonnie

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 Schmittinger & 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: Weth W. Cooper
Name: *Weth 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

PACIFIC LIFE INSURANCE COMPANY	Aggregate Principal Amount of Notes to be Purchased	Note Denomin- ation(s)
(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]

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.

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-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

[SCHMITTINGER AND RODRIGUEZ]

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 no further action by the Public Service Commission of the State of Delaware is a requirement to execution and delivery of the Note Agreement or the Notes or the offering, issuance or sale of the Notes or the fulfillment of compliance with the requisite provisions of the Note Agreement and the Notes.

Our opinions may not be relied upon by any person or entity other than 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 Delaware.

Sincerely yours,

SCHMITTINGER &
RODRIGUEZ, P.A.

BY: _____

[PIPER MARBURY RUDNICK & WOLFE, L.L.P.]

December 29, 2000

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

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 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 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,

[WAYNE L. SCHIEFELBEIN]

December 29, 2000

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

Ladies and Gentlemen:

We have acted as special Florida counsel for Chesapeake Utilities Corporation (the "Company") in connection with the Note Agreement, dated as of 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 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,

[LAWS & LAWS, P.A.]

December 29, 2000

Pacific Life Insurance Company
700 Newport Center Drive
Newport Beach, CA 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: _____

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.

452958v6

LAW OFFICES
PARKOWSKI & GUERKE

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

F. MICHAEL PARKOWSKI
I. BARRY GUERKE
CLAY T. JESTER
JEREMY W. HOMER
JOHN C. ANDRADE
MARK F. DUNKLE
WILLIAM A. DENMAN
MICHAEL W. ARRINGTON
BASIL C. KOLLIAS
ANNE E. HARTNETT

GEORGE F. GARDNER, III
OF COUNSEL

June 11, 2002

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

RE: Application of Chesapeake Utilities Corporation for the Approval of the Issuance
of Long Term Debt

Dear Mr. Burcat:

We are Delaware counsel for Chesapeake Utilities Corporation ("Chesapeake") in connection with Chesapeake's Application for Commission approval of the issuance of up to \$30,000,000 of Chesapeake unsecured senior notes as described in the Application. Chesapeake's Application is submitted pursuant to 26 Del. C. §215.

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

Bruce H. Burcat, Executive Director
Page 2

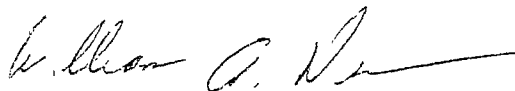
Based upon our knowledge of the applicable statute, and its regulatory and judicial interpretation and application, it is our opinion that the proposed issuance of up to \$30,000,000 of Chesapeake unsecured senior notes at an interest rate not to exceed 7% per annum for the purpose of financing capital additions and working capital requirements previously funded with short term debt has been duly authorized by the Board of Directors of Chesapeake and is valid and in accordance with law, subject to any necessary approval on the part of the Maryland and/or Florida Public Service Commissions and satisfactory compliance by Chesapeake with all applicable Federal Securities Laws.

Based upon the statement of Chesapeake's intended use of the proceeds from the issuance of the unsecured senior notes, it is our opinion that the proposed issuance of unsecured senior notes, as described in the Application, is for a proper purpose, and is consistent with the public interest, by enabling Chesapeake to raise funds for purposes of reducing its short term debt and financing capital improvements.

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

Very truly yours,

Parkowski and Guerke, P.A.



BY: WILLIAM A. DENMAN

WAD/cl

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Chesapeake Utilities Corporation
Consolidated Balance Sheet
As of March 31, 2002

UNAUDITED

Assets	Actual Before Issuance	Adjustment	Pro Forma Before Issuance	Issuance of Securities 1/	Pro Forma After Issuance of Securities
Property, Plant and Equipment					
At Original Cost	\$219,521,079	\$0	\$219,521,079	\$0	\$219,521,079
Less: Accum. Depreciation and Amortization	(68,925,565)	0	(68,925,565)	0	(68,925,565)
Net Property, Plant and Equipment	150,595,514	0	150,595,514	0	150,595,514
Investments	513,982	0	513,982	0	513,982
Current Assets					
Cash and Cash Equivalents	634,029	0	634,029	0	634,029
Accounts Receivable, Net	21,430,019	0	21,430,019	0	21,430,019
Materials and Supplies	1,144,544	0	1,144,544	0	1,144,544
Propane Inventory	2,042,424	0	2,042,424	0	2,042,424
Storage Gas Prepayments	848,182	0	848,182	0	848,182
Other Prepaid Expenses	1,815,031	0	1,815,031	0	1,815,031
Deferred Income Taxes	0	0	0	0	0
Merchandise Inventory	1,505,455	0	1,505,455	0	1,505,455
Total Current Assets	29,419,684	0	29,419,684	0	29,419,684
Deferred Charges					
Environmental Regulatory Assets	2,664,877	0	2,664,877	0	2,664,877
Environmental Expenditures, Net	2,816,491	0	2,816,491	0	2,816,491
Other Deferred Charges & Intangible Assets	9,708,726	0	9,708,726	128,500	9,837,226
Total Deferred Charges & Other Assets	15,190,094	0	15,190,094	128,500	15,318,594
Total Assets	\$195,719,274	\$0	\$195,719,274	\$128,500	\$195,847,774

Chesapeake Utilities Corporation
Consolidated Balance Sheet
As of March 31, 2002

UNAUDITED

Liabilities and Capitalization	Actual Before Issuance	Adjustment	Pro Forma Before Issuance	Issuance of Securities 1/	Pro Forma After Issuance of Securities
Capitalization					
Common Stock	\$2,655,628	\$0	\$2,655,628	\$0	\$2,655,628
Additional Paid-In Capital	30,258,031	0	30,258,031	0	30,258,031
Retained Earnings	36,022,490	0	36,022,490	0	36,022,490
Accumulated Other Comprehensive Income	0	0	0	0	0
Less: Unearned Compensation-Stock Awards	0	0	0	0	0
Total Stockholder's Equity	68,936,149	0	68,936,149	0	68,936,149
Long-Term Debt, Net of Current	46,393,048	0	46,393,048	30,000,000	76,393,048
Total Capitalization	115,329,197	0	115,329,197	30,000,000	145,329,197
Current Liabilities					
Current Portion of Long-Term Debt	3,686,596	0	3,686,596	0	3,686,596
Short-Term Borrowings	31,600,000	0	31,600,000	(29,871,500)	1,728,500
Accounts Payable	13,260,565	0	13,260,565	0	13,260,565
Refunds Payable to Customers	546,397	0	546,397	0	546,397
Customer Deposits	1,796,315	0	1,796,315	0	1,796,315
Accrued Income Taxes	3,355,283	0	3,355,283	0	3,355,283
Accrued Taxes Other than Income	911,038	0	911,038	0	911,038
Accrued Interest	870,060	0	870,060	0	870,060
Overrecovered Purchased Gas Costs	(3,689,045)	0	(3,689,045)	0	(3,689,045)
Dividends Payable	1,500,547	0	1,500,547	0	1,500,547
Deferred Income Taxes	846,956	0	846,956	0	846,956
Other Accrued Expenses	2,542,171	0	2,542,171	0	2,542,171
Total Current Liabilities	57,226,883	0	57,226,883	(29,871,500)	27,355,383
Deferred Credits					
Deferred Income Taxes	13,206,089	0	13,206,089	0	13,206,089
Deferred Investment Tax Credits	588,653	0	588,653	0	588,653
Environmental Liability	3,147,713	0	3,147,713	0	3,147,713
Accrued Pension Costs	1,621,114	0	1,621,114	0	1,621,114
Other Liabilities	4,599,625	0	4,599,625	0	4,599,625
Total Deferred Credits and Other Liabilities	23,163,194	0	23,163,194	0	23,163,194
Total Liabilities and Capitalization	\$195,719,274	\$0	\$195,719,274	\$128,500	\$195,847,774

Chesapeake Utilities Corporation
Consolidated Income Statement
For the Twelve Months Ended March 31, 2002

UNAUDITED

	Actual Before Issuance	Adjustment	Pro Forma Before Issuance	Issuance of Securities 2-3/	Pro Forma After Issuance of Securities
Operating Revenue	\$264,822,431	\$0	\$264,822,431	\$0	\$264,822,431
Operating Expense					
Purchased Gas Costs	201,683,638	0	201,683,638	0	201,683,638
Operations Expense	34,889,204	0	34,889,204	0	34,889,204
Maintenance Expense	1,748,300	0	1,748,300	0	1,748,300
Eliminated O & M Expenses	(835,392)	0	(835,392)	0	(835,392)
Depreciation and Amortization Expense	8,532,452	0	8,532,452	0	8,532,452
Taxes Other Than Income	4,347,856	0	4,347,856	0	4,347,856
Income Taxes	3,697,565	0	3,697,565	(274,164)	3,423,401
Total Operating Expense	254,063,623	0	254,063,623	(274,164)	253,789,459
Net Operating Income	10,758,808	0	10,758,808	274,164	11,032,972
Other Income and Deductions	559,177	0	559,177	0	559,177
Income Before Interest Charges	11,317,985	0	11,317,985	274,164	11,592,149
Interest Charges					
Interest - Long-Term Debt	3,948,903	0	3,948,903	1,992,000	5,940,903
Interest - Short Term Borrowings	1,061,335	0	1,061,335	(1,323,307)	(261,972)
Interest - Other	(25,330)	0	(25,330)	0	(25,330)
Amortization of Debt Expense	93,531	0	93,531	0	93,531
Capital Leases	0	0	0	0	0
AFUDC	0	0	0	0	0
Total Interest Charges	5,078,439	0	5,078,439	668,693	5,747,132
Net Income before Cumulative Effect of Change in Accounting Principle	6,239,546	0	6,239,546	(394,529)	5,845,017
Cumulative Effect of Change in Accounting Principle	(1,916,000)	0	(1,916,000)	0	(1,916,000)
Total Net Income	\$4,323,546	\$0	\$4,323,546	(\$394,529)	\$3,929,017

Chesapeake Utilities Corporation
Footnotes to Financial Statements
For the Twelve Months Ended March 31, 2002

The following adjustments have been made to the Income Statement and Balance Sheet for March 31, 2002:

Long-Term Debt Issuance:

- 1) Assume issuance of \$30,000,000 unsecured Senior Notes. Increase Long-Term Debt accordingly.
Reduce short-term borrowing by \$29,871,500.

- 2) Interest rate of 6.64%, based upon current Treasury note interest rates and an estimated spread.
Estimated issuance cost of \$128,500 for the new issue.
Reduce Interest Short-Term Borrowings by \$1,323,307, at the average historical short-term interest rate for 2001 of 4.43%.
Increase Interest Long-Term Debt by \$1,992,000 (\$30,000,000 multiplied by the Senior Note interest rate of 6.64%).
Income taxes will be reduced by \$274,164 as a result of the net change in interest expense of \$668,693.

- 3) Income taxes are calculated using an income tax rate of 41%.

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, 2001 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 25, 2002, 5,456,536 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 25, 2002, as reported by the New York Stock Exchange, was approximately \$99.9 million.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the 2001 Annual Meeting of Stockholders are incorporated by reference in Part III.

CHESAPEAKE UTILITIES CORPORATION
FORM 10-K

YEAR ENDED DECEMBER 31, 2001

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PART I

ITEM 1. BUSINESS

Chesapeake has made statements in this Form 10-K that are considered to be forward-looking statements. These statements are not matters of historical fact. Sometimes they contain words such as “believes,” “expects,” “intends,” “plans,” “will,” or “may,” and other similar words of a predictive nature. These statements relate to matters such as customer growth, changes in revenues or margins, capital expenditures, environmental remediation costs, regulatory approvals, market risks 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. See Item 7 under the heading “Management’s Discussion and Analysis — Cautionary Statement.”

(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 42,700 residential, commercial and industrial customers in southern Delaware, Maryland’s Eastern Shore and 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 Southern Pennsylvania, Delaware and on the Eastern Shore of Maryland. The Company’s propane distribution operation serves approximately 34,600 customers in southern Delaware, the Eastern Shore of both Maryland and Virginia and parts of Florida. 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 subsidiaries in other service-related businesses.

(i) (a) Natural Gas Distribution and Transmission

General

Chesapeake distributes natural gas to approximately 42,700 residential, commercial and industrial customers in southern Delaware, the Salisbury and Cambridge, Maryland areas on Maryland’s Eastern Shore, and 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 and 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 32,400 customers, of which approximately 32,230 are residential and commercial customers purchasing gas primarily for heating purposes. The remainder are industrial customers. For the year 2001, residential and commercial customers accounted for approximately 78% of the volume delivered by

the divisions and 70% 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 approximately 10,500 residential and commercial and 92 industrial customers in Polk, Osceola, Hillsborough, Gadsden, Gilchrist, Union, Holmes, Jackson, Desoto, Suwannee and Citrus Counties. Currently the 92 industrial customers, which purchase and transport gas either on a firm or an interruptible basis, account for approximately 93% of the volume delivered by the Florida division and 40% of the revenues. These customers are primarily engaged in the citrus and phosphate industries and in electric cogeneration. The Company's Florida division, through Peninsula Energy Services Company provides natural gas supply management services to 203 customers.

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 a sales service 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 both firm and interruptible contracts with four interstate "open access" pipelines including Eastern Shore. The divisions are directly interconnected with Eastern Shore and services upstream of Eastern Shore are contracted with Transco Gas Pipeline Corporation ("Transco"), Columbia Gas Transmission ("Columbia") and Columbia Gulf Transmission Company ("Gulf"). The divisions use their firm transportation supply resources to meet a significant percentage of their projected demand requirements. In order to meet the difference between firm supply and firm demand, the divisions purchase natural gas supply on the "spot market" from various suppliers that is transported by the upstream pipelines and delivered to the divisions' interconnects with Eastern Shore. The divisions also have the capability to use propane-air peak-shaving to supplement or displace the "spot market" purchases. The Company believes that the availability of gas supply to the Delaware and Maryland divisions is adequate under existing arrangements 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, with provisions to continue from year to year, 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; (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 30,225 Dt per day for the period December through February, 29,003 Dt per day for the months of November, March and April, and 19,927 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 several suppliers. These supply contracts provide the availability of a maximum firm daily entitlement of 19,700 Dt and the supplies are transported by Transco, Columbia, Gulf and Eastern Shore under firm transportation contracts. The gas purchase contracts have various expiration dates and daily quantities may vary from day to day and month to month.

Maryland. 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, with provisions to continue from year to year, 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 several suppliers. These supply contracts provide the availability of a maximum firm daily entitlement of 7,600 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 day to day and month to month.

Florida. The Florida division receives transportation service from Florida Gas Transmission Company ("FGT"), a major interstate pipeline. Chesapeake has contracts with FGT for: (a) daily firm transportation capacity of 27,579 Dt in November through April, 21,200 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 1,600 in November through April under FGT's firm transportation service FTS-2 rate schedule. The firm transportation contract FTS-1 expires on August 1, 2010 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 its FTS-2 capacity. This turnback coincides with the in service dates of FGT's Phase 5 Project scheduled to be in service in the second quarter of 2002.

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

Eastern Shore. Eastern Shore has 2,888 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.

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 for its transportation services. 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.

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. 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

In March 1999, the Company, DPSC Staff and the Division of the Public Advocate settled all the issues in this matter and executed a proposed settlement agreement. 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 at 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.

Also under the agreements, the Company excludes 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.

The Company earned or retained \$500,000 of additional gross margin during 2000 as the Company met the requirements of the approved settlement in order to implement the approved mechanism. The mechanism had no impact on 2001 gross margins.

On August 2, 2001, the Delaware Division filed a general rate increase application. Interim rates, subject to refund went into effect on October 1, 2001. A settlement agreement was reached on February 20, 2002 that would result in an annual increase in rates of approximately \$380,000. The agreement is expected to be submitted to the DPSC for final approval in the second quarter of 2002.

As a result of filing the general rate increase application on August 2, 2001, the Delaware Division's previously approved rate design changes in 1999 to its margin sharing mechanism terminated. The previous rate design changes that addressed the level of recovery of fixed distribution costs from its residential and smaller commercial customers in relation to its margin sharing mechanism and the actual weather experienced, ended upon the implementation of interim rates on October 1, 2001.

Maryland. During the 1999 Maryland General Assembly legislative session, taxation of electric and gas utilities 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. 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.

Florida. On August 8, 2001, the Florida Division filed a petition for approval of tariff modifications relating to the Competitive Rate Adjustment Cost Recovery Clause (the “Clause”). On October 1, 2001, the Florida Public Service Commission (“FPSC”) issued an order approving the Clause. The Clause provides for the equitable distribution of surpluses or collection of shortfalls from both sales and transportation customers of any variances between our tariff rates and actual revenue derived from those customers who are provided service under our flexible rate tariff. All “market price sensitive” customers are excluded from the Clause.

On November 19, 2001, the Florida Division filed a petition with the Florida Public Service Commission for approval of certain transportation cost recovery factors. The Florida Public Service Commission approved the factors on January 24, 2002. In the Florida Division’s rate case approved in November 2000, the FPSC approved the concept but not the specifics of the recovery methodology or the level of costs to be recovered. The methodology and factors approved provide for the recovery, over a two year period, of the Florida Division’s actual and projected expenses incurred in the implementation of the transportation provisions of the tariff as approved in the November 2000 rate case.

On February 4, 2002, the FPSC approved a special contract with Suwannee American Limited Partnership. The agreement is for the construction of distribution facilities connecting Florida Gas Transmission’s (FGT) pipeline to the Suwannee American cement plant in order to provide natural gas service. The FGT pipeline and all of the Florida Division’s facilities are located on Suwannee America’s property located in Suwannee County, Florida.

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 was to enable Eastern Shore to provide 7,065 Dekatherms (“Dts”) of additional daily firm service capacity on Eastern Shore’s system. The FERC approved Eastern Shore’s application on April 28, 2000. The two miles of 16-inch mainline looping in Pennsylvania and the one mile of 4-inch lateral replacement in Delaware and Maryland were completed and placed in service during the fourth quarter of 2000. The ten miles of 6-inch mainline extension and associated delivery points in Delaware were completed and placed into service during the third quarter of 2001.

On January 11, 2001, Eastern Shore filed an application before the FERC requesting authorization for the following: (1) to construct and operate six miles of 16-inch pipeline looping in Pennsylvania and Maryland, (2) install 3,330 horsepower of additional capacity at the existing Daleville compressor station and (3) construct and operate a new delivery point in Chester County, Pennsylvania. The purpose of the construction was to enable Eastern Shore to provide 19,800 Dts of additional daily firm service capacity on its system. The expansion was completed and placed in service in the fourth quarter of 2001.

On January 25, 2002, Eastern Shore filed an application before FERC requesting authorization for the following: (1) Segment 1 – construct and operate 1.5 miles of 16-inch mainline looping in Pennsylvania on Eastern Shore’s existing

right-of-way; and (2) Segment 2 – construct and operate 1.0 mile of 16-inch mainline looping in Maryland and Delaware on, or adjacent to, Eastern Shore’s existing right-of-way. The purpose of the proposed construction is to enable Eastern Shore to provide 4,500 Dts of additional daily firm capacity on Eastern Shore’s system. The proposed expansion is targeted for completion by November 1, 2002 and is estimated to cost approximately \$2,654,000.

On October 31, 2001, Eastern Shore filed revised tariff sheets to reflect a general Natural Gas Act Section 4 rate increase before the FERC. The filing was made pursuant to the requirements of Article XII of the Stipulation and Agreement dated August 1, 1997. Eastern Shore’s filing proposed a change in base rates for firm transportation services.

On November 30, 2001, the Commission issued an Order, which accepted and suspended the effectiveness of the rates until May 1, 2002 subject to refund and the outcome of a hearing. A pre-hearing conference was held on December 18, 2001 and the hearing was scheduled has been September 24, 2002.

Discovery related to the rate proceeding began in January 2002 with FERC Staff data requests. The outcome of the proceedings is uncertain.

(i) (b) 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.

The Company’s consolidated propane distribution operation served approximately 34,600 propane customers on the Delmarva Peninsula and delivered approximately 22 million retail and wholesale gallons of propane during 2001.

In April 2000, Sharp Energy, Inc. started a propane distribution operation in West Palm Beach Florida doing business as Treasure Coast Propane.

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

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 supply and demand for 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 a gas 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

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

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

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

Competition

The Company's propane distribution operations compete with several other propane distributors in their service territories, primarily on the basis of service and price, *emphasizing reliability of service and responsiveness*. Competition is generally from local outlets of national distribution companies and local businesses because distributors located in close proximity to customers incur lower costs of providing service. Propane competes with electricity as an energy source, because it is typically less expensive than electricity, based on equivalent BTU value. 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, many of which have significantly greater 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 \$40,000,000 per occurrence, but there is no assurance that such insurance will be adequate.

(i) (c) Advanced Information Services

General

Chesapeake's advanced information services segment consists of BravePoint, Inc. ("BravePoint"), a wholly owned subsidiary of the Company. The Company changed its name from United Systems, Inc. in 2001 to reflect a change in service offerings.

BravePoint is based in Atlanta and primarily provides web-related products and services and support for users of PROGRESS™, a fourth generation computer language and Relational Database Management System. BravePoint offers consulting, training, placement, staffing, 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 does the Company. In addition, changes in the advanced information services business are occurring rapidly, which could adversely impact the markets for the products and services offered by these businesses.

(i) (d) Other Subsidiaries

Skipjack, Inc. ("Skipjack"), Eastern Shore Real Estate, Inc. and Chesapeake Investment Company are wholly owned subsidiaries of Chesapeake Service Company. Skipjack and Eastern Shore Real Estate, Inc. own and lease office buildings Delaware and Maryland to affiliates of Chesapeake. Chesapeake Investment Company is a Delaware affiliated investment company.

The Company owns several businesses involved in water conditioning and treatment and bottled water services. Sam Shannahan Well Co., Inc. (dba Sharp Water, Inc.) and Sharp Water, Inc. are wholly owned subsidiaries of Chesapeake. EcoWater Systems of Michigan, Inc. (dba Douglas Water Conditioning), Carroll Water Systems, Inc., Absolute Water Care, Inc., Sharp Water of Florida, Inc. (dba Aquarius Water Systems), Sharp Water of Minnesota, Inc. (dba EcoWater Systems of Rochester) and Sharp Water of Idaho, Inc. (dba Intermountain Water) are wholly owned subsidiaries of Sharp Water, Inc.

The water operations serve central and southern Delaware; the eastern shore of Virginia; Maryland; Detroit, Michigan; Rochester, Minnesota; Boise, Idaho and parts of Florida. They face competition from a variety of national and local suppliers of water conditioning and treatment services and bottled water.

(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, 2001, Chesapeake had 580 employees, including 177 in natural gas, 128 in propane, 103 in advanced information services and 122 in water conditioning. The remaining 44 employees are considered general and administrative and include officers of the Company, treasury, accounting, information technology, human resources and other administrative personnel. The 2001 acquisitions added 51 employees.

(v) Executive Officers of the Registrant

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

Ralph J. Adkins (age 59) Mr. Adkins is Chairman of the Board of Directors of Chesapeake. He has served as Chairman since 1997. Prior to January 1, 1999, Mr. Adkins served as Chief Executive Officer, a position he had held since 1990. During his tenure with Chesapeake Mr. Adkins has also served as President and Chief Executive Officer, President and Chief Operating Officer, Executive Vice President, Senior Vice President, Vice President and Treasurer of Chesapeake. He has been a director of Chesapeake since 1989.

John R. Schimkaitis (age 54) Mr. Schimkaitis assumed the role of Chief Executive Officer on January 1, 1999. He has served as President since 1997. His present term expires on May 21, 2002. Prior to his new post, Mr. Schimkaitis

has also served as President and Chief Operating Officer, Executive Vice President and Chief Operating Officer, Senior Vice President and Chief Financial Officer, Vice President, Treasurer, Assistant Treasurer and Assistant Secretary of Chesapeake. He has been a director of Chesapeake since 1996.

Michael P. McMasters (age 43) 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 41) 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.

William C. Boyles (age 44) 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; Winter Haven, Florida; and Fenton, Michigan. Chesapeake rents office space in Dover, Delaware; Jupiter, Lecanto, Venice and Stuart, Florida; Chincoteague and Belle Haven, Virginia; Easton, Salisbury, Westminster and Pocomoke, Maryland; Waterford, Michigan; Houston, Texas; Atlanta, Georgia; Boise and Moscow, Idaho; and Rochester, Minnesota. In general, the properties of the Company are adequate for the uses for which they are employed. Capacity and utilization of the Company's facilities can vary significantly due to the seasonal nature of the natural gas and propane distribution businesses.

(b) Natural Gas Distribution

Chesapeake owns over 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.

(c) 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 compressor stations are used to provide increased pressures required to meet demands on the system.

(d) Propane Distribution and Marketing

The company's Delmarva-based propane distribution operation own bulk propane storage facilities with an aggregate capacity of approximately 1.9 million gallons at 31 plant facilities in Delaware, Maryland and Virginia, located on real estate they either own or lease. The company's Florida-based propane distribution operation owns one bulk propane storage facility with a capacity of 30,000 gallons. Xeron does not own physical storage facilities or equipment to transport propane.

(e) Other

The Company owns and operates a resin regeneration facility in Salisbury, Maryland to serve exchange tank and metered water customers and a sales office in Fenton, Michigan. The other water operations operate out of rented facilities.

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 MGP.

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, including 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 of Delaware 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).

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 ("SVE") system (another major component of the soil remediation) and continued with the ongoing operation of the system at a cost of \$250,000. In 2000, the Company operated the SVE system and during the last quarter of 2000, the Company submitted to the EPA their finding along with a request to discontinue the SVE operations. The Company is awaiting a response from the EPA on their request. If discontinuation of the SVE procedures is approved, the company will 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 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.

Because the Company cannot predict what the EPA will require for the overall ground-water program, a liability of \$2.1 million was accrued 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 the 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 scheduled the trial for February 2001. In early February 2001, the Company and GPU reached a tentative settlement agreement that is subject to approval of the courts.

In May 2001, Chesapeake, General Public Utilities Corporation, Inc. ("GPU"), the State of Delaware and the United States Environmental Protection Agency ("EPA") signed a settlement term sheet reflecting the agreement in principle to settle a lawsuit with respect to the Dover Gas Light site. The parties are in the process of memorializing the terms of the final agreement in two consent decrees. The consent decrees will then be published for public comment and submitted to a federal judge for approval.

If the agreement in principle receives final approval, Chesapeake will:

- Design and construct a parking lot on the site and dismantle the soil vapor extraction system that had been erected at the site.
- Receive a net payment of \$1.15 million from other parties to the agreement. These proceeds will be passed on to Chesapeake's firm customers, in accordance with the environmental rate rider.
- Receive a release from liability and covenant not to sue from the EPA and the State of Delaware. This will relieve Chesapeake from liability for future remediation at the site, unless previously unknown conditions are discovered at the site, or information previously unknown to EPA is received that indicates the remedial action related to the prior manufactured gas plant is not sufficiently protective. These contingencies are standard, and are required by the United States in all liability settlements.

At December 31, 2001, the Company had accrued \$2.1 million of costs associated with the remediation of the Dover site and had recorded an associated regulatory asset for the same amount. Of that amount, \$1.5 million was for estimated ground-water remediation and \$600,000 was for remaining soil remediation. The \$1.5 million represented the low end of the ground-water remediation estimates prepared by an independent consultant and was used because the Company could not, at that time, predict the remedy the EPA might require.

Upon receiving final court approval of the consent decrees, Chesapeake will reduce both the accrued environmental liability and the associated environmental regulatory asset to the amount required to complete its obligations (primarily the final demobilization of the remedial system and final design and construction of the parking lot).

Through December 31, 2001, the Company has incurred approximately \$8.9 million in costs relating to environmental testing and remedial action studies at the Dover site. 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 the carrying cost savings associated with the timing of the deduction of environmental costs for tax purposes as compared 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 rider makes it unnecessary to file a rate case every year to recover expenses incurred. Through December 31, 2001, the unamortized balance and amount of environmental costs not included in the rider; effective January 1, 2002 were \$2,878,000 and \$67,000,

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 Company has requested approval from the MDE to shutdown the remediation procedures currently in place. The MDE approved a temporary shutdown and is evaluating a complete shutdown of the system.

The estimated cost of the remaining remediation is approximately \$100,000 for the final year's operating costs and capital costs to shut down the remediation process at the end of the year. Based on these estimated costs, the Company adjusted both its liability and related regulatory asset to \$100,000 on December 31, 2001, to cover the Company's projected remediation costs for this site. Through December 31, 2001, the Company has incurred approximately \$2.8 million for remedial actions and environmental studies. Of this amount, approximately \$1,062,000 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. In February 2001, the company filed a remedial action plan ("RAP") with the FDEP to address the contamination of the subsurface soil and groundwater in the northern portion of the site. The FDEP approved the RAP on May 4, 2001.

The Company has accrued a liability of \$1,000,000 as of December 31, 2001 for the Florida site. The Company has recovered all environmental costs incurred to date, approximately \$890,000, 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, 2001, Chesapeake had received \$523,000 related to future costs, which are expected to be incurred. There is a regulatory asset recorded at December 31, 2001 of \$477,000, which represents the estimated future liability for clean up (\$1,000,000), net of the amount received through rates in excess of the costs incurred to date (\$523,000).

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 2001 and 2000 were as follows:

Quarter Ended	High	Low	Close	Dividends Declared Per Share
2001				
March 31	\$19.1250	\$17.3750	\$18.2000	\$0.2700
June 30	19.5500	17.6000	18.8800	0.2700
September 30.....	19.2000	17.7500	18.3500	0.2750
December 31	19.9000	18.1000	19.8000	0.2750
2000				
March 31	\$18.8750	\$16.2500	\$16.9375	\$0.2600
June 30	18.5000	16.3750	17.7500	0.2600
September 30.....	18.1250	16.6250	18.1250	0.2700
December 31	18.7500	16.7500	18.6250	0.2700

Indentures pertaining to the long-term debt of the Company and its subsidiaries each 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, 2001, the amounts available for future dividends permitted by the Series I covenant are \$19.9 million.

At December 31, 2001, there were approximately 2,171 shareholders of record of the Common Stock.

ITEM 6. SELECTED FINANCIAL DATA

10-Year Financial & Statistical Information

For the Years Ended December 31,	2001	2000	1999
Operating (in thousands of dollars)			
Revenues			
Natural gas distribution and transmission	\$108,122	\$99,750	\$75,592
Propane	198,124	216,273	138,437
Advanced informations systems	14,104	12,353	13,531
Other	9,971	7,037	2,640
Total revenues	\$330,321	\$335,413	\$230,200
Gross margin			
Natural gas distribution and transmission	\$37,374	\$35,322	\$32,339
Propane	14,444	15,995	14,099
Advanced informations systems	6,719	5,656	6,575
Other	5,429	3,611	1,025
Total gross margin	\$63,966	\$60,584	\$54,038
Operating income before taxes			
Natural gas distribution and transmission	\$14,267	\$12,365	\$10,300
Propane	1,100	2,319	2,627
Advanced informations systems	517	336	1,470
Other	(339)	1,006	452
Total operating income before taxes	\$15,545	\$16,026	\$14,849
Net income from continuing operations ⁽²⁾	\$6,722	\$7,489	\$8,271
Assets (in thousands of dollars)			
Gross property, plant and equipment	\$216,903	\$192,940	\$172,088
Net property, plant and equipment	\$150,256	\$131,466	\$117,663
Total assets	\$210,054	\$210,700	\$166,989
Capital expenditures	\$29,186	\$23,056	\$25,917
Capitalization (in thousands of dollars)			
Stockholders' equity	\$66,850	\$63,972	\$60,164
Long-term debt, net of current maturities	\$48,408	\$50,921	\$33,777
Total capital	\$115,258	\$114,893	\$93,941
Current portion of long-term debt	\$2,686	\$2,665	\$2,665
Short-term debt	\$42,100	\$25,400	\$23,000
Total capitalization and short-term financing	\$160,044	\$142,958	\$119,606

⁽¹⁾ 1994 and prior years have not been restated to include the business combinations with Tri-County Gas Company, Inc., Tolan Water Service and Xeron, Inc.

⁽²⁾ For the year 1992, the Company had net income from discontinued operations included in earnings of \$73,500.

1998	1997	1996	1995	1994 ⁽¹⁾	1993 ⁽¹⁾	1992 ⁽¹⁾
\$68,745	\$88,105	\$90,093	\$79,105	\$71,716	\$64,380	\$55,877
102,063	125,159	161,812	147,596	20,684	16,908	16,489
10,331	7,636	6,903	7,307	2,288	1,706	1,122
1,781	1,589	1,294	1,277	3,884	2,879	2,447
\$182,920	\$222,489	\$260,102	\$235,285	\$98,572	\$85,873	\$75,935
\$29,516	\$30,064	\$29,612	\$29,094	\$23,943	\$22,833	\$22,055
12,071	12,492	17,579	13,235	9,359	8,579	7,954
5,316	3,856	2,503	1,823	1,281	955	628
901	737	915	1,016	1,472	1,078	942
\$47,804	\$47,149	\$50,609	\$45,168	\$36,055	\$33,445	\$31,579
\$8,814	\$9,219	\$9,625	\$10,811	\$7,715	\$7,207	\$7,083
971	1,158	2,669	2,128	2,288	1,588	1,440
1,316	1,046	1,017	587	(246)	136	70
504	671	672	508	0	(631)	(705)
\$11,605	\$12,094	\$13,983	\$14,034	\$9,757	\$8,300	\$7,888
\$5,303	\$5,868	\$7,782	\$7,696	\$4,460	\$3,972	\$3,549
\$152,991	\$144,251	\$134,001	\$120,746	\$110,023	\$100,330	\$91,039
\$104,266	\$99,879	\$94,014	\$85,055	\$75,313	\$69,794	\$64,596
\$145,234	\$145,719	\$155,787	\$130,998	\$108,271	\$100,775	\$89,214
\$12,650	\$13,471	\$15,399	\$12,887	\$10,653	\$10,064	\$6,720
\$56,356	\$53,656	\$50,700	\$45,587	\$37,063	\$34,817	\$33,105
\$37,597	\$38,226	\$28,984	\$31,619	\$24,329	\$25,682	\$25,668
\$93,953	\$91,882	\$79,684	\$77,206	\$61,392	\$60,499	\$58,773
\$520	\$1,051	\$3,526	\$1,787	\$1,348	\$1,286	\$5,026
\$11,600	\$7,600	\$12,735	\$5,400	\$8,000	\$8,900	\$0
\$106,073	\$100,533	\$95,945	\$84,393	\$70,740	\$70,685	\$63,799

10-Year Financial & Statistical Information

For the Years Ended December 31,	2001	2000	1999
Common Stock Data and Ratios			
Basic earnings per share ^{(2) (3) (4)}	\$1.25	\$1.43	\$1.61
Return on average equity	10.3%	12.1%	14.2%
Common equity / total capital	58.0%	55.7%	64.0%
Common equity / total capital and short-term financing	41.8%	44.7%	50.3%
Book value per share	\$12.32	\$12.08	\$11.60
Market price:			
High	\$19.900	\$18.875	\$19.813
Low	\$17.375	\$16.250	\$14.875
Close	\$19.800	\$18.625	\$18.375
Average number of shares outstanding	5,367,433	5,249,439	5,144,449
Shares outstanding end of year	5,424,962	5,297,443	5,186,546
Registered common shareholders	2,171	2,166	2,212
Cash dividends per share	\$1.09	\$1.06	\$1.02
Dividend yield (annualized)	5.6%	5.8%	5.7%
Payout ratio	87.2%	74.1%	63.4%
Additional Data			
Customers			
Natural gas distribution and transmission	42,741	40,854	39,029
Propane distribution	34,632	35,345	35,267
Volumes			
Natural gas deliveries (in MMCF)	27,264	30,830	27,383
Propane distribution (in thousands of gallons)	23,080	28,469	27,788
Heating degree-days (Delmarva Peninsula)	4,368	4,730	4,082
Propane bulk storage capacity (in thousands of gallons)	1,958	1,928	1,926
Total employees	580	542	522

⁽¹⁾ 1994 and prior years have not been restated to include the business combinations with Tri-County Gas Company, Inc., Tolan Water Service and Xeron, Inc.

⁽²⁾ Earnings per share amounts shown prior to 1995 represent primary and fully diluted earnings per share.

⁽³⁾ 1993 excludes earnings per share of \$0.02 for the cumulative effect of change in accounting principle.

⁽⁴⁾ 1992 excludes earnings per share of \$0.02 for discontinued operations.

1998	1997	1996	1995	1994 ⁽¹⁾	1993 ⁽¹⁾	1992 ⁽¹⁾
\$1.05	\$1.18	\$1.58	\$1.59	\$1.23	\$1.12	\$1.02
9.6%	11.3%	16.2%	18.6%	12.4%	11.2%	10.5%
60.0%	58.4%	63.6%	59.0%	60.4%	57.5%	56.3%
53.1%	53.4%	52.8%	54.0%	52.4%	49.3%	51.9%
\$11.06	\$10.72	\$10.26	\$9.38	\$10.15	\$9.76	\$9.50
\$20.500	\$21.750	\$18.000	\$15.500	\$15.250	\$17.500	\$15.000
\$16.500	\$16.250	\$15.125	\$12.250	\$12.375	\$13.000	\$11.500
\$18.313	\$20.500	\$16.875	\$14.625	\$12.750	\$15.375	\$13.000
5,060,328	4,972,086	4,912,136	4,836,430	3,628,056	3,551,932	3,477,244
5,093,788	5,004,078	4,939,515	4,860,588	3,653,182	3,575,068	3,487,778
2,271	2,178	2,213	2,098	1,721	1,743	1,674
\$1.00	\$0.97	\$0.93	\$0.90	\$0.88	\$0.86	\$0.86
5.5%	4.7%	5.5%	6.2%	6.9%	5.6%	6.6%
95.2%	82.2%	58.9%	56.6%	71.5%	76.8%	84.3%
37,128	35,797	34,713	33,530	32,346	31,270	30,407
34,113	33,123	31,961	31,115	22,180	21,622	21,132
21,400	23,297	24,835	29,260	22,728	19,444	17,344
25,979	26,682	29,975	26,184	18,395	17,250	17,125
3,704	4,430	4,717	4,594	4,398	4,705	4,645
1,890	1,866	1,860	1,818	1,230	1,140	1,140
456	397	338	335	320	326	317

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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, advanced information services and other related businesses.

Liquidity and Capital Resources

Chesapeake's capital requirements reflect the capital-intensive nature of its business and are principally attributable 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 2001, net cash provided by operating activities was \$15.5 million, cash used by investing activities was \$29.2 million and cash provided by financing activities was \$10.3 million. Based upon anticipated cash requirements in 2002, Chesapeake expects to refinance its short-term debt through the issuance of long-term debt. The timing of such an issuance will depend on the nature of the securities involved, the Company's financial needs and current market and economic conditions.

The Board of Directors has authorized the Company to borrow up to \$55.0 million of short-term debt from various banks and trust companies. As of December 31, 2001, Chesapeake had three unsecured bank lines of credit with two financial institutions, totaling \$65.0 million, for short-term cash needs to meet seasonal working capital requirements and to temporarily fund portions of its capital expenditures. One of the bank lines is committed. The other two lines are subject to the banks' availability of funds. The outstanding balances of short-term borrowing at December 31, 2001 and 2000 were \$42.1 million and \$25.4 million, respectively. In 2001, Chesapeake used funds provided by operations, short-term borrowing and cash on hand to fund capital expenditures. In 2000, Chesapeake used funds provided from operations and the issuance of long-term debt to fund capital expenditures and the increase in working capital associated with high gas costs. At December 31, 2001, the Company had an under-recovered purchased gas cost balance of \$6.5 million, a decrease of \$829,000 from the \$7.3 million balance in 2000.

During 2001, 2000 and 1999, capital expenditures were approximately \$29.2, \$21.8 and \$25.1 million, respectively. Capital expenditures increased in 2001 primarily as a result of Eastern Shore Natural Gas expenditures, totaling \$16.2 million, related to system expansion. Natural gas distribution also spent approximately \$7.7 million for expansion of facilities to serve new customers and for improvements of facilities. Chesapeake has budgeted \$16.8 million for capital expenditures during 2002. This amount includes \$11.8 million for natural gas distribution and transmission, \$2.3 million for propane distribution and marketing, \$200,000 for advanced information services and \$2.5 million for other operations. The natural gas distribution and transmission expenditures are for expansion and improvement of facilities. The propane expenditures are to support customer growth and for the replacement of equipment. The advanced information services expenditures are for computer hardware, software and related equipment. Expenditures for other operations include expenditures to support customer growth and replace equipment for water operations and general plant, computer software and hardware. Financing for the 2002 capital expenditure program is expected to be provided from short-term borrowing, cash provided by operating activities and the expected issuance of long-term debt. The capital expenditure program is subject to continuous review and modification. Actual capital requirements may vary from the above estimates due to a number of factors including acquisition opportunities, changing economic conditions, customer growth in existing areas, regulation, availability of capital and new growth opportunities.

Chesapeake has budgeted \$846,000 for environmental-related expenditures during 2002 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, 2001, common equity represented 58.0 percent of total permanent capitalization, compared to 55.7 percent in 2000. Including short-term borrowing and the current portion of long-term debt, the equity component of the Company's capitalization would have been 41.8 percent and 44.7 percent, respectively. Chesapeake remains committed to maintaining a sound capital structure and strong credit ratings to provide the financial flexibility needed to access the capital markets when required. This commitment, along with adequate and timely rate relief for the Company's regulated operations, is intended to ensure that Chesapeake will be able to attract capital from outside sources at a reasonable cost. The Company believes that the achievement of these objectives will provide benefits to customers and creditors, as well as to the Company's investors.

Financing Activities

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

In May 2001, Chesapeake issued a note payable of \$300,000 at 8.5 percent, due April 6, 2006, in conjunction with a real estate purchase. In December 2000, Chesapeake completed a private placement of \$20.0 million of 7.83 percent Senior Notes due January 1, 2015. The Company used the proceeds to repay short-term borrowing.

Chesapeake repaid approximately \$2.7 million of long-term debt in both 2001 and 2000. Chesapeake issued common stock in connection with its Automatic Dividend Reinvestment and Stock Purchase Plan, in the amounts of 43,101 shares in 2001, 41,056 shares in 2000 and 36,319 shares in 1999.

Results of Operations

Net income for 2001 was \$6.7 million compared to \$7.5 million for 2000 and \$8.3 million for 1999. The reduction in earnings in 2001 was due to declines in the propane segment and other businesses' contribution to earnings, partially offset by increases in natural gas and advanced information services. Propane margins declined due to a 13 percent drop in sales because of warmer temperatures, a reduction in sales to poultry customers and the continuation of competitive pressures in some markets the Company serves on the Delmarva Peninsula. Heating degree-days on the Delmarva Peninsula indicate that temperatures were 8 percent warmer than 2000 and 1 percent warmer than normal. The margin decrease was partially offset by savings in operating expenses resulting from cost containment measures implemented during 2001. The decrease in other operations is due principally to a drop in pre-tax operating income for the water businesses resulting from increased overhead due to the development of a management infrastructure and expansion to new locations. The natural gas segment improved over 2000 as a result of enhanced margins in the transmission segment and from a rate increase in Florida and reductions in operating expenses in Delaware and Maryland. Interest expense increased \$770,000 due to an increase in long-term debt, partially offset by lower short-term interest rates.

Pre-Tax Operating Income Summary (in thousands)

For the Years Ended December 31,	2001	2000	Increase (decrease)	2000	1999	Increase (decrease)
Business Segment:						
Natural gas distribution & transmission	\$ 14,267	\$ 12,365	\$ 1,902	\$ 12,365	\$ 10,300	\$ 2,065
Propane	1,100	2,319	(1,219)	2,319	2,627	(308)
Advanced information services	518	336	182	336	1,470	(1,134)
Other & Eliminations	(339)	1,006	(1,345)	1,006	452	554
Total Pre-tax Operating Income	\$ 15,546	\$ 16,026	\$ (480)	\$ 16,026	\$ 14,849	\$ 1,177

The reduction in net income in 2000 compared to 1999 is primarily due to a one-time after tax gain of \$863,000 on the sale of the Company's investment in Florida Public Utilities Company recorded in the fourth quarter of 1999 (see Note E to the Consolidated Financial Statements). Exclusive of this gain, net income for 2000 increased by \$81,000; however, earnings per share decreased \$0.01 per share. This increase in net income for 2000 reflected improved pre-tax operating income for the natural gas business segment, offset by a reduction in contribution from the advanced information services

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and the propane gas segments. The natural gas segment benefited from cooler temperatures, a 5 percent growth in customers and increased transportation services. In terms of heating degree-days, temperatures for the year were 16 percent cooler than the prior year and 4 percent cooler than normal. The reduced contribution from the advanced information services segment reflects lower revenues from their traditional lines of business in 2000. The propane gas segment also benefited from cooler weather and an increase in marketing margins; however, higher operating expenses offset these increases. Also contributing to the increase in net income for 2000 was the Company's other business operations, which included a full year of operations from the water business acquisitions that occurred in late 1999 and early 2000.

The \$863,000 after-tax gain on the sale of the Company's investment in Florida Public Utilities Company is shown in non-operating income on the Company's financial statements.

Natural Gas Distribution and Transmission

Pre-tax operating income increased \$1.9 million from 2000 to 2001. The increase in pre-tax operating income was due to increases contributed by the Company's Florida operations and the natural gas transmission subsidiary. The Florida unit's increase was driven by higher margins due to a rate increase implemented in August 2000 and increased margins from the marketing operation, partially due to the expansion of transportation services in Florida. In addition, the transmission subsidiary's margins increased by approximately \$1.1 million due to an increase in firm transportation services provided to its customers. The transmission subsidiary increased its capacity to provide firm transportation services by expanding its system. While the margins in Delaware and Maryland were down by more than \$700,000 primarily due to weather, cost reduction measures implemented in 2001 enabled the Company to maintain earnings in these two units. The Delaware Division also implemented an interim rate increase, subject to refund, on October 1, 2001. Included in the Company's operating expense reduction is a one-time credit adjustment of approximately \$280,000 to establish a regulatory asset for other post retirement benefits which are being collected through the Company's rates on a "pay-as-you-go" basis in Delaware.

Natural Gas Distribution and Transmission (in thousands)						
For the Years Ended December 31,	2001	2000	Increase (decrease)	2000	1999	Increase (decrease)
Revenue	\$ 108,234	\$ 99,870	\$ 8,364	\$ 99,870	\$ 75,653	\$ 24,217
Cost of gas	70,749	64,429	6,320	64,429	43,253	21,176
Gross margin	37,485	35,441	2,044	35,441	32,400	3,041
Operations & maintenance	15,008	15,527	(519)	15,527	14,927	600
Depreciation & amortization	5,667	5,253	414	5,253	4,803	450
Other taxes	2,543	2,296	247	2,296	2,370	(74)
Pre-tax operating expenses	23,218	23,076	142	23,076	22,100	976
Total Pre-tax Operating Income	\$ 14,267	\$ 12,365	\$ 1,902	\$ 12,365	\$ 10,300	\$ 2,065

Pre-tax operating income increased \$2.1 million from 1999 to 2000. The increase was the result of a \$3.0 million increase in gross margin offset by a \$1.0 million increase in operating expenses. The principal factors responsible for this increase in gross margin were:

- increased levels of firm transportation services;
- customer growth of 5 percent, primarily residential and commercial;
- greater deliveries due to temperatures in 2000 which were 16 percent cooler than 1999;
- an adjustment to the Delaware operation's margin sharing mechanism to compensate for warmer temperatures in late 1999 and early 2000; and
- interim rates in the Florida operation beginning in August 2000, with final rate increase taking effect in December 2000.

The customer growth and cooler temperatures resulted in a 14 percent increase in volumes delivered to residential and commercial customers.

Under normal temperatures and customer usage, the Company estimates that 5 percent customer growth would generate an additional margin of \$850,000 on an annual basis.

Propane

Pre-tax operating income declined from \$2.3 million in 2000 to \$1.1 million in 2001. The Delmarva propane operations pre-tax operating income decreased \$1.2 million. In addition, the propane start-ups in Florida lost approximately \$293,000 on a pre-tax basis in 2001. The Company's wholesale marketing subsidiary continued to contribute earnings above the Company's target expectations in 2001.

Propane (in thousands)						
For the Years Ended December 31,	2001	2000	Increase (decrease)	2000	1999	Increase (decrease)
Revenue	\$ 198,124	\$ 216,273	\$ (18,149)	\$ 216,273	\$ 138,437	\$ 77,836
Cost of sales	183,680	200,278	(16,598)	200,278	124,338	75,940
Gross margin	14,444	15,995	(1,551)	15,995	14,099	1,896
Operations & maintenance	11,181	11,608	(427)	11,608	9,623	1,985
Depreciation & amortization	1,437	1,429	8	1,429	1,202	227
Other taxes	726	639	87	639	647	(8)
Pre-tax operating expenses	13,344	13,676	(332)	13,676	11,472	2,204
Total Pre-tax Operating Income	\$ 1,100	\$ 2,319	\$ (1,219)	\$ 2,319	\$ 2,627	\$ (308)

During 2001, the Company's gross margins on the Delmarva Peninsula declined by approximately \$1.75 million due to a 13 percent decline in sales volumes. Cost containment measures taken during the second quarter of 2001 generated a \$575,000 reduction in operations and maintenance expenses. However, this was not enough to offset the reduced margins on the lower sales volumes. The decline in margins was due to warmer temperatures, a reduction in sales to poultry customers and the continuation of competitive pressures in some of the markets the Company serves on the Peninsula. The decline in sales to the poultry customers comprised 32 percent of the decline in margins. The decreases in volume have been exacerbated by the decline in wholesale prices over the course of the year. Declines in wholesale prices, which are generally good for the long-term, negatively impact the Company in the short-term by devaluing its inventories and fixed price supply contracts. During 2001, the Company wrote down inventory totaling \$850,000 due to wholesale price declines. Increased competition has also affected volumes sold. Over the last couple of years, several independent dealers have entered the propane business with pricing strategies designed to acquire market share. The Company's position as the largest or second largest distributor in several of the markets that it serves makes it particularly vulnerable to these tactics.

In 2000, the Company started up three propane distribution operations in Florida. The operations contributed \$238,000 to gross margin in 2001.

Although the margins contributed by the marketing operation declined by four percent in 2001, they were still well above the earnings target established by the Company.

Pre-tax operating income for 2000 was \$2.3 million compared to \$2.6 million for 1999. This decline of \$308,000 was the result of an increase in operating expenses of \$2.2 million offset by an increase of \$1.9 million in gross margin. Operating expenses were higher due to several initiatives the Company undertook to enhance long-term customer service. The initiatives included the opening of a customer service/marketing office in a location convenient to retail shopping, an increase in merchandise sales and service activities and the extension of customer service hours. The Company expects that the Florida propane start-ups may take up to three years to achieve profitability. Gross margin was higher in 2000

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due primarily to an increase of 102 percent in wholesale margins earned. Additionally, gallons delivered by the distribution operations increased by 2 percent.

Advanced Information Services

The advanced information services segment provides consulting, custom programming, training, development tools and website development for national and international clients. The segment's contribution to pre-tax operating income increased \$182,000 over the depressed levels in 2000, to \$518,000 in 2001. The \$1.7 million increase in revenue was partially offset by the increase in the cost of providing the services and the cost of the marketing program implemented during the first half of the year. Marketing costs during 2001 were approximately \$400,000 over the normal levels the Company expects. WebProEX sales and related consulting contributed approximately \$450,000 of the increase in revenues during 2001.

Advanced Information Services (in thousands)						
For the Years Ended December 31,	2001	2000	Increase (decrease)	2000	1999	Increase (decrease)
Revenue	\$ 14,104	\$ 12,390	\$ 1,714	\$ 12,390	\$ 13,531	\$ (1,141)
Cost of sales	7,384	6,696	688	6,696	6,956	(260)
Gross margin	6,720	5,694	1,026	5,694	6,575	(881)
Operations & maintenance	5,361	4,576	785	4,576	4,353	223
Depreciation & amortization	256	280	(24)	280	268	12
Other taxes	585	502	83	502	484	18
Pre-tax operating expenses	6,202	5,358	844	5,358	5,105	253
Total Pre-tax Operating Income	\$ 518	\$ 336	\$ 182	\$ 336	\$ 1,470	\$ (1,134)

The advanced information services segment's contribution to consolidated pre-tax operating income for 2000 decreased \$1.1 million or 77 percent from 1999. The decline is directly related to a reduction in revenues earned from the traditional information technology business. This reduction occurred primarily due to many clients implementing their year 2000 contingency plans in 1999, then significantly reducing their information technology expenditures in 2000. This reduction was somewhat offset by continued growth in revenue earned on web-related products and services. Operating expenses increased 6 percent, primarily in the areas of compensation, marketing and uncollectible accounts.

Other Operations

The pre-tax operating loss for the Company's other operations is primarily due to the decline in the performance of the water businesses.

Other Operations (in thousands)						
For the Years Ended December 31,	2001	2000	Increase (decrease)	2000	1999	Increase (decrease)
Revenue	\$ 9,859	\$ 6,881	\$ 2,978	\$ 6,881	\$ 2,579	\$ 4,302
Cost of sales	4,542	3,426	1,116	3,426	1,616	1,810
Gross margin	5,317	3,455	1,862	3,455	963	2,492
Operations & maintenance	4,284	2,021	2,263	2,021	161	1,860
Depreciation & amortization	974	180	794	180	251	(71)
Other taxes	398	248	150	248	99	149
Pre-tax operating expenses	5,656	2,449	3,207	2,449	511	1,938
Total Pre-tax Operating (Loss) Income	\$ (339)	\$ 1,006	\$ (1,345)	\$ 1,006	\$ 452	\$ 554

The water businesses contribution to pre-tax operating income declined by \$915,000 in 2001. Water's contribution declined from \$190,000 in 2000 to a loss of \$725,000 in 2001. Approximately \$574,000 of the decline is due to the cost of establishing a corporate infrastructure for the group. In addition, the Michigan unit's performance declined by \$218,000 (net of corporate charges). The decrease resulted from a decline in sales and from an increase in depreciation, primarily related to changing out rental equipment. Finally, the two companies acquired in Florida during 2001

experienced a pre-tax loss of \$177,000 (net of corporate charges) during 2001. Transition costs were incurred after the acquisition, primarily the relocation of offices and related expenses.

Overall, other operations' margins increased by approximately \$1.9 million or 54 percent. However, other operations' pre-tax costs increased by \$3.2 million or 131 percent.

Income Taxes

Operating income taxes were lower in 2001 than 2000, due to lower operating income and higher interest expense, partially offset by the utilization of a higher effective tax rate in 2001. In 2001, the Company accrued income taxes at a federal tax rate of 35 percent as opposed to a 34 percent rate in 2000.

Operating income taxes were higher in 2000 compared to 1999 due to higher pre-tax operating income and a higher composite income tax rate. The higher composite tax rate in 2000 is the net effect of adjusting the 1999 accumulated deferred tax balances to a 35 percent federal rate, partially offset by a reduction in the tax accrual of \$238,000 due to a reassessment of known tax exposures.

Other Income

Non-operating income net of tax was \$483,000, \$361,000 and \$1,066,000 for the years 2001, 2000 and 1999, 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 net of tax for 1999 was \$203,000.

Interest Expense

Interest expense for 2001 increased due to a higher level of long-term debt, partially offset by lower interest rates on short-term borrowing. Interest expense increased in 2000 due to a higher average short-term borrowing balance of \$24.2 million in 2000 compared to \$9.9 million in 1999. Also contributing to the increase in interest expense is a higher short-term borrowing rate of 6.89 percent in 2000, up from 5.51 percent in 1999.

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 ("FERC").

On August 2, 2001, the Delaware Division filed a general rate increase application. Interim rates, subject to refund, went into effect on October 1, 2001. A proposed settlement agreement was reached that would result in an annual increase in rates of approximately \$380,000. The proposed settlement is expected to be submitted to the Delaware Public Service Commission for approval in the second quarter of 2002.

In 1999, the Company requested and received approval from the Delaware Public Service Commission to annually adjust its interruptible margin sharing mechanism to address the level of recovery of fixed distribution costs from residential and small commercial heating customers. The annual period runs from August 1 to July 31. During 2000, the weather for the period ending August 31, 2000 was warmer than the threshold, resulting in a reduction in margin sharing. This reduction resulted in a \$417,000 increase in margin for 2000.

As a result of filing the general rate increase application on August 2, 2001, the Delaware Division's previously approved rate design changes in 1999 to its margin sharing mechanism terminated. The previous rate design changes that addressed the level of recovery of fixed distribution costs from its residential and smaller commercial customers in relation to its margin sharing mechanism and the actual weather experienced, ended upon the implementation of interim rates on October 1, 2001. There was no impact on margins in 2001 due to this mechanism.

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On October 31, 2001, Eastern Shore filed a rate change with the FERC pursuant to the requirements of Article XII of the Stipulation and Agreement dated August 1, 1997. Eastern Shore's filing proposed a change in base rates for firm transportation services. At this time, the outcome of the rate filing is uncertain.

On November 30, 2001, the Commission issued an order, which accepted and suspended the effectiveness of the rates until May 1, 2002 subject to refund and the outcome of a hearing. A pre-hearing conference was held on December 18, 2001 and the hearing was scheduled for September 24, 2002. Discovery related to the rate proceeding began in January 2002 with FERC Staff data requests. The outcome of the proceedings is uncertain.

In January 2000, the Company filed a request for approval of a rate increase with the Florida Public Service Commission. Interim rates subject to refund, went into effect in August 2000. In November 2000, an order was issued approving the rate increase, which became effective in early December 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. The Company requested and received approval from the Maryland Public Service Commission to increase its natural gas delivery service rates by \$83,000 on an annual basis to recover the estimated impact of the Tax Act.

Environmental Matters

The Company continues to work with federal and state environmental agencies to assess the environmental impact and explore corrective action at three 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 or through sharing arrangements with, or contributions by, other responsible parties.

Market Risk

Market risk represents the potential loss arising from adverse changes in market rates and prices. Long-term debt is subject to potential losses based on the change in interest rates. The Company's long-term debt consists of first mortgage bonds, senior notes and convertible debentures (see Note H to the Consolidated Financial Statements for annual maturities of consolidated long-term debt). All of Chesapeake's long-term debt is fixed-rate debt and was not entered into for trading purposes. The carrying value of the Company's long-term debt was \$51.1 million at December 31, 2001 as compared to a fair value of \$56.9 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 Company's propane distribution business is exposed to market risk as a result of propane storage activities and entering into fixed price contracts for supply. The Company can store up to approximately 4 million gallons of propane during the winter season to meet its customers' peak requirements and to serve metered customers. Decreases in the wholesale price of propane may cause the value of stored propane to decline.

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 Company or the counter 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 market prices for NGL deviate from fixed contract settlement amounts. Market risk associated with the trading of futures and forward contracts are monitored daily for compliance with Chesapeake's Risk Management Policy, which includes volumetric limits for open positions. To manage exposures to changing market prices, open positions are marked up or down to market prices and reviewed by oversight officials on a daily basis. Additionally, the Risk Management Committee reviews periodic reports on market and credit risk, approves any exceptions to the Risk Management Policy (within the limits established by the Board of Directors) and authorizes the use of any new types of contracts. Quantitative information on the forward and futures contracts at December 31, 2001 and 2000 is shown below.

At December 31, 2001	Quantity in gallons	Estimated Market Prices	Weighted Average Contract Prices
Forward Contracts			
Sale	11,877,600	\$0.3275 - \$0.3375	\$0.3876
Purchase	9,660,000	\$0.3275 - \$0.3375	\$0.4032
Futures Contracts			
Sale	840,000	\$0.3275 - \$0.3300	\$0.3325

Estimated market prices and weighted average contract prices are in dollars per gallon.
All contracts expire in 2002.

At December 31, 2000	Quantity in gallons	Estimated Market Prices	Weighted Average Contract Prices
Forward Contracts			
Sale	33,007,800	\$0.6800 - \$1.2000	\$0.7869
Purchase	33,419,400	\$0.5625 - \$1.0200	\$0.7597
Futures Contracts			
Sale	2,814,000	\$0.6800 - \$0.8700	\$0.7714
Purchase	1,260,000	\$0.5625 - \$0.7700	\$0.5397

Estimated market prices and weighted average contract prices are in dollars per gallon.
All contracts expired in 2001.

The Company's natural gas distribution operations have entered into agreements with natural gas suppliers to purchase natural gas for resale to their customers. Purchases under these contracts are considered "normal purchases and sales" under Statement of Financial Accounting Standards ("SFAS") No. 133 and are not marked-to-market.

Competition

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

The Company's natural gas distribution operations located in Maryland, Delaware and Florida began offering transportation services to certain industrial customers during 1998, 1997 and 1994, respectively. In 2001, the Florida operations extended transportation service to commercial customers. 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.

Management's Discussion and Analysis

The Company's competitors include the interstate transmission company if the distribution customer is located close enough to the transmission company's pipeline to make a connection economically feasible. The customers at risk are usually large volume commercial and industrial customers with the financial resources and capability to bypass the distribution operations in this manner. In certain situations, the distribution operations may adjust services and rates for these customers to retain their business. The Company expects to continue to expand the availability of transportation services to additional classes of distribution customers in the future. The Company established a natural gas brokering and supply operation in Florida in 1994 to compete for customers eligible for transportation services.

The Company's propane distribution operations compete with several other propane distributors in their service territories, primarily on the basis of service and price. Competitors include several large national propane distribution companies, as well as an increasing number of local suppliers. Some of these competitors have pricing strategies designed to acquire market share.

The Company's advanced information services segment faces competition from a number of competitors, some of which have greater resources available to them than those of the Company. This segment competes on the basis of technological expertise, reputation and price.

The water businesses face competition from a variety of national and local suppliers of water conditioning and treatment services and bottled water.

Inflation

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

Recent Pronouncements

Effective January 1, 2001, the Company adopted Financial Accounting Standards Board ("FASB") SFAS No. 133 as amended by SFAS No. 137 and 138, which established accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. Their adoption did not have a material impact on the Company's financial position or results of operations.

On June 30, 2001, the FASB issued SFAS Nos. 141, 142 and 143. SFAS No. 141, "Business Combinations," eliminates the pooling-of-interest method of accounting for business combinations and requires the use of the purchase method. In addition, the reassessment of intangible assets to determine whether they are appropriately classified either separately or within goodwill is required. SFAS No. 141 is effective for business combinations initiated after June 30, 2001. The Company adopted SFAS No. 141 on July 1, 2001 with no material impact on net income.

SFAS No. 142, "Goodwill and Other Intangible Assets," eliminates the amortization of goodwill and other acquired intangible assets with indefinite economic useful lives. SFAS No. 142 requires an annual impairment test of goodwill and other intangible assets that are not subject to amortization. SFAS No. 142 is effective for fiscal years beginning after December 15, 2001; however, amortization of goodwill for acquisitions completed after June 30, 2001 was prohibited. The impact of adopting SFAS No. 142 has not yet been determined, but could be significant if future results of the new water businesses do not meet expectations.

SFAS No. 143, "Accounting for Asset Retirement Obligations," provides guidance on the accounting for obligations associated with the retirement of long-lived assets. SFAS No. 143 requires a liability to be recognized in the financial statements for retirement obligations meeting specific criteria. Measurement of the initial obligation is to approximate fair value with an equivalent amount recorded as an increase in the value of the capitalized asset. The asset will be depreciable in accordance with normal depreciation policy and the liability will be increased, with a charge to the income statement, until the obligation is settled. SFAS No. 143 is effective for fiscal years beginning after June 15, 2002. The potential impact of adopting SFAS No. 143 has not yet been determined.

SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," replaces SFAS No. 121. The statement develops one accounting model for long-lived assets to be disposed of by sale and addresses significant implementation issues. SFAS No. 144 is effective for fiscal years beginning after December 15, 2001. The effect of implementing SFAS No. 144 has not yet been determined.

Cautionary Statement

Chesapeake has made statements in this report that are considered to be forward-looking statements. These statements are not matters of historical fact. Sometimes they contain words such as "believes," "expects," "intends," "plans," "will," or "may," and other similar words of a predictive nature. These statements relate to matters such as customer growth, changes in revenues or margins, capital expenditures, environmental remediation costs, regulatory approvals, market risks associated with the Company's propane marketing operation, competition 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 prices of natural gas and propane and market movements in these prices;
- the effects of competition on the Company's unregulated and regulated businesses;
- the effect of changes in federal, state or local regulatory requirements, including deregulation;
- the ability of the Company's new and planned facilities and acquisitions to generate expected revenues; and
- the Company's ability to obtain the rate relief and cost recovery requested from utility regulators and the timing of the requested regulatory actions.

Management's Discussion and Analysis

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

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA

REPORT OF INDEPENDENT ACCOUNTANTS

To the Stockholders of Chesapeake Utilities Corporation

In our opinion, the consolidated financial statements listed in the 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, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 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 of America, 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 our opinion.



PRICEWATERHOUSECOOPERS LLP
Philadelphia, Pennsylvania
February 15, 2002

Consolidated Statements of Income

For the Years Ended December 31,	2001	2000	1999
Operating Revenues	\$330,320,958	\$335,412,844	\$230,200,335
Cost of Sales	266,355,278	274,828,371	176,162,693
Gross Margin	63,965,680	60,584,473	54,037,642
Operating Expenses			
Operations	34,055,855	31,862,975	27,543,188
Maintenance	1,778,760	1,868,260	1,521,302
Depreciation and amortization	8,333,482	7,142,611	6,523,669
Other taxes	4,251,825	3,684,656	3,600,345
Income taxes	4,027,543	4,387,925	4,174,896
Total operating expenses	52,447,465	48,946,427	43,363,400
Operating Income	11,518,215	11,638,046	10,674,242
Other Income			
Gain on sale of investment	0	0	1,415,343
Interest income	456,240	220,462	99,660
Other income	251,491	248,748	60,799
Income taxes	(224,731)	(108,667)	(509,351)
Total other income	483,000	360,543	1,066,451
Income Before Interest Charges	12,001,215	11,998,589	11,740,693
Interest Charges			
Interest on long-term debt	3,998,264	2,628,781	2,793,712
Interest on short-term borrowing	1,215,528	1,699,402	551,937
Amortization of debt expense	101,183	111,122	117,966
Other	(35,297)	70,083	6,092
Total interest charges	5,279,678	4,509,388	3,469,707
Net Income	\$6,721,537	\$7,489,201	\$8,270,986
Earnings Per Share of Common Stock:			
Basic	\$1.25	\$1.43	\$1.61
Diluted	\$1.24	\$1.40	\$1.57

See accompanying notes

Consolidated Balance Sheets

Assets		
At December 31,	2001	2000
Property, Plant and Equipment		
Natural gas distribution and transmission	\$170,254,892	\$149,121,319
Propane	32,877,317	31,630,208
Advanced information services	1,521,144	1,699,968
Other plant	12,249,442	10,488,581
Total property, plant and equipment	216,902,795	192,940,076
Less: Accumulated depreciation and amortization	(66,646,944)	(61,473,757)
Net property, plant and equipment	150,255,851	131,466,319
Investments, at fair market value	517,901	616,293
Current Assets		
Cash and cash equivalents	1,188,335	4,606,316
Accounts receivable (less allowance for uncollectibles of \$621,516 and \$549,961 in 2001 and 2000, respectively)	21,266,309	37,941,172
Materials and supplies, at average cost	1,106,995	1,566,126
Merchandise inventory, at average cost	1,610,786	1,234,072
Propane inventory, at average cost	2,518,871	4,379,599
Storage gas prepayments	4,326,416	3,500,323
Underrecovered purchased gas costs	6,519,754	5,388,725
Income taxes receivable	675,504	1,159,761
Prepaid expenses and other current assets	1,932,246	2,015,276
Total current assets	41,145,216	61,791,370
Deferred Charges and Other Assets		
Environmental regulatory assets	2,677,010	2,910,000
Environmental expenditures	3,189,156	3,626,475
Underrecovered purchased gas costs	0	1,959,562
Other deferred charges and intangible assets	12,342,923	8,329,484
Total deferred charges and other assets	18,209,089	16,825,521
Total Assets	\$210,128,057	\$210,699,503

See accompanying notes

Capitalization and Liabilities

At December 31,	2001	2000
Capitalization		
Stockholders' equity		
Common stock	\$2,640,060	\$2,577,992
Additional paid-in capital	29,653,992	27,672,005
Retained earnings	34,555,560	33,721,747
Total stockholders' equity	66,849,612	63,971,744
Long-term debt, net of current maturities	48,408,596	50,920,818
Total capitalization	115,258,208	114,892,562
Current Liabilities		
Current maturities of long-term debt	2,686,145	2,665,091
Short-term borrowing	42,100,000	25,400,000
Accounts payable	14,551,621	33,654,718
Refunds payable to customers	971,575	1,015,128
Accrued interest	1,758,401	595,175
Dividends payable	1,491,832	1,429,945
Deferred income taxes payable	848,271	985,349
Other accrued liabilities	5,327,457	5,674,419
Total current liabilities	69,735,302	71,419,825
Deferred Credits and Other Liabilities		
Deferred income taxes	15,732,842	15,086,951
Deferred investment tax credits	602,357	657,172
Environmental liability	3,199,733	2,910,000
Accrued pension costs	1,595,650	1,625,128
Other liabilities	4,003,965	4,107,865
Total deferred credits and other liabilities	25,134,547	24,387,116
Commitments and Contingencies		
(Notes L and M)		
Total Capitalization and Liabilities	\$210,128,057	\$210,699,503

See accompanying notes

Consolidated Statements of Cash Flows

For the Years Ended December 31,	2001	2000	1999
Operating Activities			
Net Income	\$6,721,537	\$7,489,201	\$8,270,986
Adjustments to reconcile net income to net operating cash:			
Depreciation and amortization	9,094,068	8,044,315	7,509,841
Investment tax credit adjustments, net	(54,815)	(54,815)	(54,815)
Deferred income taxes, net	508,813	2,922,815	385,103
Mark-to-market adjustments	906,551	(689,032)	65,076
Employee benefits	(29,478)	80,165	8,659
Employee compensation	223,255	217,000	298,756
Other, net	(27,897)	(816,049)	212,711
Changes in assets and liabilities:			
Accounts receivable, net	16,549,829	(16,745,492)	(6,814,506)
Inventories, storage gas and materials	1,117,052	(3,307,421)	(1,704,543)
Prepaid expenses and other current assets	83,031	217,126	(11,850)
Other deferred charges	(1,725,090)	95,657	1,120,355
Accounts payable, net	(19,103,098)	16,789,601	5,794,475
Refunds payable to customers	(43,553)	235,620	143,355
Over (under) recovered purchased gas costs	828,533	(6,111,373)	315,351
Other current liabilities	401,860	(688)	1,058,357
Net cash provided by operating activities	15,450,598	8,366,630	16,597,311
Investing Activities			
Property, plant and equipment expenditures	(29,185,807)	(21,821,005)	(25,128,669)
Sale of investments	0	0	2,189,312
Net cash used by investing activities	(29,185,807)	(21,821,005)	(22,939,357)
Financing Activities			
Common stock dividends, net of amounts reinvested of \$609,793, \$520,712 & \$456,962 in 2001, 2000 & 1999, respectively	(5,216,044)	(5,022,313)	(4,774,338)
Issuance of stock:			
Dividend Reinvestment Plan optional cash	191,765	197,797	187,369
Retirement Savings Plan	1,023,919	916,159	816,306
Net borrowing under line of credit agreements	16,700,000	2,400,000	11,400,000
Proceeds from issuance of long-term debt, net	300,000	19,887,194	0
Repayment of long-term debt	(2,682,412)	(2,675,319)	(1,528,202)
Net cash provided by financing activities	10,317,228	15,703,518	6,101,135
Net (Decrease) Increase in Cash and Cash Equivalents	(3,417,981)	2,249,143	(240,911)
Cash and Cash Equivalents at Beginning of Year	4,606,316	2,357,173	2,598,084
Cash and Cash Equivalents at End of Year	\$1,188,335	\$4,606,316	\$2,357,173
Supplemental Disclosure of Cash Flow Information			
Cash paid for interest	\$4,128,477	\$4,410,230	\$3,409,070
Cash paid for income taxes	\$3,601,400	\$3,212,080	\$4,413,155

See accompanying notes

Consolidated Statements of Stockholders' Equity

For the Years Ended December 31,	2001	2000	1999
Common Stock			
Balance — beginning of year	\$2,577,992	\$2,524,018	\$2,479,019
Dividend Reinvestment Plan	20,977	19,983	17,530
Retirement Savings Plan	26,730	25,353	22,489
Conversion of debentures	3,117	5,173	4,201
Performance shares and options exercised	11,244	3,465	779
Balance — end of year	2,640,060	2,577,992	2,524,018
Additional Paid-in Capital			
Balance — beginning of year	27,672,005	25,782,824	24,192,188
Dividend Reinvestment Plan	780,582	698,526	626,801
Retirement Savings Plan	997,187	890,806	793,817
Conversion of debentures	105,639	175,599	142,597
Performance shares and options exercised	98,579	124,250	27,421
Balance — end of year	29,653,992	27,672,005	25,782,824
Retained Earnings			
Balance — beginning of year	33,721,747	31,857,732	28,892,384
Net income	6,721,537	7,489,201	8,270,986
Cash dividends ⁽¹⁾	(5,887,724)	(5,625,186)	(5,305,638)
Balance — end of year	34,555,560	33,721,747	31,857,732
Unearned Compensation			
Balance — beginning of year	0	0	(71,041)
Amortization of prior years' awards	0	0	71,041
Balance — end of year	0	0	0
Total Stockholders' Equity	\$66,849,612	\$63,971,744	\$60,164,574

⁽¹⁾ Cash dividends per share for 2001, 2000 and 1999 were \$1.09, \$1.06 and \$1.02, respectively.

See accompanying notes

Consolidated Statements of Income Taxes

For the Years Ended December 31,	2001	2000	1999
Current Income Tax Expense			
Federal	\$3,194,125	\$1,598,184	\$3,948,746
State	602,548	264,294	807,214
Investment tax credit adjustments, net	(54,815)	(54,815)	(54,815)
Total current income tax expense	3,741,858	1,807,663	4,701,145
Deferred Income Tax Expense ⁽¹⁾			
Property, plant and equipment	769,264	1,071,852	734,765
Deferred gas costs	(236,971)	2,404,994	(124,576)
Pensions and other employee benefits	(71,089)	(115,615)	(153,697)
Unbilled revenue	303,136	(736,700)	(45,290)
Contributions in aid of construction	0	0	(160,971)
Environmental expenditures	(142,362)	879	97,480
Other ⁽²⁾	(111,562)	63,519	(364,609)
Total deferred income tax expense	510,416	2,688,929	(16,898)
Total Income Tax Expense	\$4,252,274	\$4,496,592	\$4,684,247
Reconciliation of Effective Income Tax Rates			
Federal income tax expense ⁽³⁾	\$3,840,832	\$4,075,170	\$4,404,779
State income taxes, net of federal benefit	492,850	489,831	553,444
Other ⁽²⁾	(81,408)	(68,409)	(273,976)
Total Income Tax Expense	\$4,252,274	\$4,496,592	\$4,684,247
Effective income tax rate	38.7%	37.5%	36.2%
At December 31,	2001	2000	
Deferred Income Taxes			
Deferred income tax liabilities:			
Property, plant and equipment	\$15,730,682	\$15,088,379	
Environmental costs	1,286,226	1,478,259	
Deferred gas costs	2,607,170	2,844,140	
Other	935,104	736,255	
Total deferred income tax liabilities	20,559,182	20,147,033	
Deferred income tax assets:			
Unbilled revenue	1,487,428	1,790,563	
Pension and other employee benefits	1,464,878	1,382,628	
Self insurance	535,141	502,416	
Other	490,622	399,126	
Total deferred income tax assets	3,978,069	4,074,733	
Deferred Income Taxes Per Consolidated Balance Sheet	\$16,581,113	\$16,072,300	

⁽¹⁾ Includes \$102,000, \$298,000 and \$39,000 of deferred state income taxes for the years 2001, 2000 and 1999, 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⁾ Federal income taxes for 2001 were recorded at 35%. The years 2000 and 1999 were recorded at 34%.

See accompanying notes

A. SUMMARY OF ACCOUNTING POLICIES

Nature of Business

Chesapeake Utilities Corporation (“Chesapeake” or “the Company”) is engaged in natural gas distribution to approximately 42,700 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 Pennsylvania, Delaware and the Eastern Shore of Maryland. The Company’s propane distribution and marketing segment provides distribution service to approximately 34,600 customers in central and southern Delaware, the Eastern Shore of Maryland, Florida 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. The Company does not have any ownership interests in special purpose entities. 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 non-utility segments 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 that amortize the unrecovered cost of depreciable property over the estimated useful life of the asset. 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 9 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.

Inventories

The Company uses the average cost method to value inventory. If the market prices drop below average cost, inventory balances are adjusted to market values.

Notes to Consolidated Financial Statements

Environmental Regulatory Assets

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

Other Deferred Charges and Intangible Assets

Other deferred charges include discount, premium and issuance costs associated with long-term debt and rate case expenses. Debt costs are deferred, then amortized over the original lives of the respective debt issuances. 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. Except for goodwill on acquisitions that were completed after June 30, 2001, intangible assets are amortized on a straight-line basis over a weighted average period of 21 years. Goodwill related to acquisitions completed after June 30, 2001 is not amortized, in accordance with SFAS No. 142. Gross intangibles and the net unamortized balance at December 31, 2001 were \$8.7 million and \$7.7 million, respectively. Gross intangibles and the net unamortized balance at December 31, 2000 were \$7.7 million and \$5.9 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 portions of the Company's deferred tax liabilities applicable to utility operations, which have not been reflected in current service rates, represent income taxes recoverable through future rates. Investment tax credits on utility property have been deferred and are allocated to income ratably over the lives of the subject property.

Financial Instruments

Xeron, 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, 2001, there was an unrealized loss of \$75,000. At December 31, 2000, there was an unrealized gain of \$831,000. Trading liabilities are recorded in other accrued liabilities. Trading assets are recorded in prepaid expenses and other current assets.

The Company's natural gas distribution operations have entered into agreements with natural gas suppliers to purchase natural gas for resale to their customers. Purchases under these contracts are considered "normal purchases and sales" under SFAS No. 133 and are not marked-to-market.

Operating Revenues

Revenues for the natural gas distribution operations of the Company are based on rates approved by the various public service commissions. The natural gas transmission operation revenues are based on rates approved by FERC. 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 the end of the month. 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 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.

The advanced information services and other segments record revenue in the period the products are delivered and/or services are rendered.

Earnings Per Share

The calculations of both basic and diluted earnings per share are presented below. In 2001, the effect of assuming the exercise of the outstanding stock options would have been anti-dilutive; therefore it was not included in the calculations.

For the Years Ended December 31,	2001	2000	1999
Calculation of Basic Earnings Per Share:			
Net Income	\$ 6,721,537	\$ 7,489,201	\$ 8,270,986
Weighted Average Shares Outstanding	5,367,433	5,249,439	5,144,449
Basic Earnings Per Share	\$ 1.25	\$ 1.43	\$ 1.61
Calculation of Diluted Earnings Per Share:			
Reconciliation of Numerator:			
Net Income — basic	\$ 6,721,537	\$ 7,489,201	\$ 8,270,986
Effect of 8.25% Convertible debentures	171,725	179,701	188,982
Adjusted numerator — diluted	\$ 6,893,262	\$ 7,668,902	\$ 8,459,968
Reconciliation of Denominator:			
Weighted Shares Outstanding — basic	5,367,433	5,249,439	5,144,449
Effect of 8.25% Convertible debentures	201,125	209,893	220,732
Effect of stock options	-	11,484	11,875
Effect of stock warrants	849	-	-
Adjusted denominator — diluted	5,569,407	5,470,816	5,377,056
Diluted Earnings per Share	\$ 1.24	\$ 1.40	\$ 1.57

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 judgments with respect to, among other things, various future economic factors that are difficult to predict and are beyond the control of the Company. Therefore, actual results could differ from those estimates.

The Company records certain assets and liabilities in accordance with 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

Effective January 1, 2001, the Company adopted Financial Accounting Standards Board ("FASB") SFAS No. 133 as amended by SFAS No. 137 and 138, which established accounting and reporting standards for derivative instruments,

Notes to Consolidated Financial Statements

including certain derivative instruments embedded in other contracts, and for hedging activities. Their adoption did not have a material impact on the Company's financial position or results of operations.

On June 30, 2001, the FASB issued SFAS Nos. 141, 142 and 143. SFAS No. 141, "Business Combinations," eliminates the pooling-of-interest method of accounting for business combinations and requires the use of the purchase method. In addition, the reassessment of intangible assets to determine whether they are appropriately classified either separately or within goodwill is required. SFAS No. 141 is effective for business combinations initiated after June 30, 2001. The Company adopted SFAS No. 141 on July 1, 2001 with no material impact on net income.

SFAS No. 142, "Goodwill and Other Intangible Assets," eliminates the amortization of goodwill and other acquired intangible assets with indefinite economic useful lives. SFAS No. 142 requires an annual impairment test of goodwill and other intangible assets that are not subject to amortization. SFAS No. 142 is effective for fiscal years beginning after December 15, 2001; however, amortization of goodwill for acquisitions completed after June 30, 2001 was prohibited. The impact of adopting SFAS No. 142 has not yet been determined but could be material if future results of the new water businesses do not meet expectations.

SFAS No. 143, "Accounting for Asset Retirement Obligations," provides guidance on the accounting for obligations associated with the retirement of long-lived assets. SFAS No. 143 requires a liability to be recognized in the financial statements for retirement obligations meeting specific criteria. Measurement of the initial obligation is to approximate fair value with an equivalent amount recorded as an increase in the value of the capitalized asset. The asset will be depreciable in accordance with normal depreciation policy and the liability will be increased, with a charge to the income statement, until the obligation is settled. SFAS No. 143 is effective for fiscal years beginning after June 15, 2002. The potential impact of adopting SFAS No. 143 has not yet been determined.

SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," replaces SFAS No. 121. The statement develops one accounting model for long-lived assets to be disposed of by sale and addresses significant implementation issues. SFAS No. 144 is effective for fiscal years beginning after December 15, 2001. The effect of implementing SFAS No. 144 has not yet been determined.

Restatement and Reclassification of Prior Years' Amounts

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

B. BUSINESS COMBINATIONS

During 2001, Chesapeake acquired Absolute Water Care, Inc. and selected assets of Aquarius Systems, Inc. and Automatic Water Conditioning, Inc., three water conditioning and treatment dealerships operating in Florida. In July 2001, Chesapeake purchased selected assets of EcoWater Systems of Rochester, located in Rochester, Minnesota and Intermountain Water, Inc. and Blue Springs Water, located in Boise, Idaho. These companies provide water treatment, water conditioning and bottled water to customers in those geographic regions.

In January 2000, Chesapeake acquired Carroll Water Systems, Inc. ("Carroll") of Westminster, Maryland. Carroll was a privately owned EcoWater dealership serving the suburban areas around Baltimore, Maryland.

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.

These acquisitions were all accounted for as purchases and the Company's financial results include the results of operations from the dates of acquisition.

C. SEGMENT INFORMATION

Chesapeake uses the management approach to identify operating segments. Chesapeake organizes its business around differences in products or services and the operating results of each segment are regularly reviewed by the Company's chief operating decision maker in order to make decisions about resources and to assess performance. The following table presents information about the Company's reportable segments.

For the Years Ended December 31,	2001	2000	1999
Operating Revenues, Unaffiliated Customers			
Natural gas distribution and transmission	\$108,122,037	\$99,750,303	\$75,592,453
Propane	198,124,011	216,272,941	138,436,520
Advanced information services	14,103,890	12,353,056	13,531,261
Other	9,971,020	7,036,544	2,640,101
Total operating revenues, unaffiliated customers	\$330,320,958	\$335,412,844	\$230,200,335
Intersegment Revenues ⁽¹⁾			
Natural gas distribution and transmission	\$112,006	\$119,480	\$61,141
Advanced information services	0	36,535	0
Other	783,051	814,995	659,624
Total intersegment revenues	\$895,057	\$971,010	\$720,765
Operating Income Before Income Taxes			
Natural gas distribution and transmission	\$14,267,044	\$12,364,535	\$10,300,455
Propane	1,100,440	2,319,461	2,627,123
Advanced information services	517,427	335,849	1,469,958
Other and eliminations	(339,153)	1,006,126	451,602
Total operating income before income taxes	\$15,545,758	\$16,025,971	\$14,849,138
Depreciation and Amortization			
Natural gas distribution and transmission	\$5,667,001	\$4,930,445	\$4,762,285
Propane	1,436,550	1,429,405	1,201,693
Advanced information services	255,760	280,053	268,082
Other	974,171	502,708	291,609
Total depreciation and amortization	\$8,333,482	\$7,142,611	\$6,523,669
Capital Expenditures			
Natural gas distribution and transmission	\$23,791,057	\$17,882,724	\$17,853,885
Propane	1,847,913	3,235,288	2,168,269
Advanced information services	252,159	240,727	372,501
Other	3,294,678	1,696,990	5,522,615
Total capital expenditures	\$29,185,807	\$23,055,729	\$25,917,270
At December 31,			
Identifiable Assets			
Natural gas distribution and transmission	\$153,576,226	\$141,335,457	\$117,024,633
Propane	32,413,785	47,495,133	31,888,633
Advanced information services	2,583,740	2,372,407	2,854,670
Other	21,554,306	19,496,506	15,220,578
Total identifiable assets	\$210,128,057	\$210,699,503	\$166,988,514

⁽¹⁾ All significant intersegment revenues are billed at market rates and 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, 2001 and December 31, 2000 had a net unrealized loss in fair value of \$75,000 and a net unrealized gain in fair value of \$831,000, 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, 2001, including current maturities, had an estimated fair value of \$56.9 million as compared to a carrying value of \$51.1 million. At December 31, 2000, the estimated fair value was approximately \$56.0 million as compared to a carrying value of \$53.6 million. These estimates are based on published corporate borrowing rates for debt instruments with similar terms and average maturities.

E. INVESTMENTS

The investment balances at December 31, 2001 and 2000 consisted primarily of a Rabbi Trust ("the trust") associated with the acquisition of Xeron, Inc. The Company has classified the underlying investments held by the trust as trading securities, which require all gains and losses to be recorded into non-operating income. The trust was established during the acquisition as a retention bonus for an executive of Xeron. The Company has an associated liability recorded which is adjusted, along with non-operating expense, for the gains and losses incurred by the trust.

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.

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,	2001	2000	1999
Common Stock: Shares issued and outstanding (1)			
Balance — beginning of year	5,297,443	5,186,546	5,093,788
Dividend Reinvestment Plan (2)	43,101	41,056	36,319
Sale of stock to the Company's Retirement Savings Plan	54,921	52,093	46,208
Conversion of debentures	6,395	10,628	8,631
Performance shares and options exercised	23,102	7,120	1,600
Balance — end of year (3)	5,424,962	5,297,443	5,186,546

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

(2) Includes dividends and reinvested optional cash payments.

(3) The Company had 30,446 and 7,442 shares held in Rabbi Trusts at December 31, 2001 and 2000, respectively.

In 2000 and 2001, the Company entered into agreements with an investment banker to assist in identifying acquisition candidates. Under the agreements, the Company issued warrants to the investment banker to purchase 15,000 shares of Company stock in 2001 at a price of \$18.25 per share and 15,000 shares in 2000 at a price of \$18.00. The warrants are exercisable during a seven-year period after the date granted. The Company has recognized expenses of \$47,500 related to the warrants. No warrants have been exercised.

G. SHORT-TERM BORROWING

The Board of Directors has authorized the Company to borrow up to \$55.0 million from various banks and trust companies. As of December 31, 2001, the Company had three unsecured bank lines of credit totaling \$65.0 million, none of which required compensating balances. Under these lines of credit, the Company had short-term debt outstanding of \$42.1 million and \$25.4 million at December 31, 2001 and 2000, respectively, with weighted average interest rates of 4.43 percent and 6.89 percent, respectively.

H. LONG-TERM DEBT

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

At December 31,	2001	2000
First mortgage sinking fund bonds:		
9.37% Series I, due December 15, 2004	\$ 1,512,000	\$ 2,268,000
Uncollateralized senior notes:		
7.97% note, due February 1, 2008	6,000,000	7,000,000
6.91% note, due October 1, 2010	7,272,727	8,181,818
6.85% note, due January 1, 2012	10,000,000	10,000,000
7.83% note, due January 1, 2015	20,000,000	20,000,000
Convertible debentures:		
8.25% due March 1, 2014	3,358,000	3,471,000
Mortgage payable	265,869	-
Total long-term debt	\$ 48,408,596	\$ 50,920,818

Annual maturities of consolidated long-term debt for the next five years are as follows: \$2,686,145 for 2002, \$3,688,006 for 2003, \$3,690,031 for 2004, \$2,936,236 for 2005 and \$5,099,959 for 2006.

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 2001 and 2000, debentures totaling \$109,000 and \$181,000, respectively, 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. During 2001 and 2000, debentures totaling \$4,000 and \$10,000 were redeemed.

Indentures to the long-term debt of the Company and its subsidiaries contain various restrictions. The most stringent restrictions state that the Company must maintain equity of at least 40 percent of total capitalization and the times interest earned ratio must be at least 2.5.

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

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 \$827,000, \$652,000 and \$357,000 for 2001, 2000 and 1999, respectively. Future minimum payments under the Company's current lease agreements are \$858,000, \$795,000, \$693,000, \$531,000 and \$289,000 for the years of 2002 through 2006, respectively; and \$793,000 thereafter, totaling \$4.0 million.

Notes to Consolidated Financial Statements

J. EMPLOYEE BENEFIT PLANS

Pension Plan

In December 1998, the Company restructured the employee benefit plans to be competitive with those in similar industries. Chesapeake offered existing participants of the defined benefit plan the option to remain in the existing plan or receive a one-time payout and enroll in an enhanced retirement savings plan. Chesapeake closed the defined benefit plan to new participants, effective December 31, 1998. 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, 2001 and 2000:

At December 31,	2001	2000
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 8,826,534	\$ 8,241,995
Service cost	347,955	354,031
Interest cost	646,205	605,185
Change in discount rate	659,629	-
Actuarial loss	47,068	8,153
Benefits paid	(407,027)	(382,830)
Benefit obligation at end of year	10,120,364	8,826,534
Change in plan assets:		
Fair value of plan assets at beginning of year	11,738,984	10,185,394
Actual return on plan assets	413,617	1,936,420
Benefits paid	(407,027)	(382,830)
Fair value of plan assets at end of year	11,745,574	11,738,984
Funded Status	1,625,210	2,912,450
Unrecognized transition obligation	(66,059)	(81,163)
Unrecognized prior service cost	(53,055)	(57,754)
Unrecognized net gain	(2,413,816)	(3,883,807)
Accrued pension cost	\$ (907,720)	\$ (1,110,274)
Assumptions:		
Discount rate	7.00%	7.50%
Rate of compensation increase	4.75%	4.75%
Expected return on plan assets	8.50%	8.50%

Net periodic pension costs for the defined pension benefit plan for 2001, 2000 and 1999 include the components as shown below:

For the Years Ended December 31,	2001	2000	1999
Components of net periodic pension cost:			
Service cost	\$ 347,955	\$ 354,031	\$ 400,921
Interest cost	646,205	605,185	688,198
Expected return on assets	(981,882)	(859,245)	(1,046,254)
Amortization of:			
Transition assets	(15,104)	(15,104)	(15,104)
Prior service cost	(4,699)	(4,699)	(4,699)
Actuarial gain	(195,029)	(141,533)	(118,142)
Net periodic pension benefit	(202,554)	(61,365)	(95,080)

The Company sponsors an unfunded executive excess benefit plan. The accrued benefit obligation and accrued pension costs were \$1,170,000 and \$687,000, respectively, as of December 31, 2001 and \$676,000 and \$515,000, respectively, at December 31, 2000.

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 are matched with Chesapeake common stock. The remaining match is invested in the Company's 401(k) plan according to each employee's election options. On December 1, 2001, the Company converted the 401(k) fund holding Chesapeake stock to an Employee Stock Ownership Plan.

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

The Company's contributions to the 401(k) plans totaled \$1,352,000, \$1,231,000 and \$1,066,000 for the years ended December 31, 2001, 2000 and 1999, respectively. As of December 31, 2001, there are 273,333 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.

Net periodic post-retirement costs for 2001, 2000 and 1999 include the following components:

For the Years Ended December 31,	2001	2000	1999
Components of net periodic post-retirement cost:			
Service cost	\$ 887	\$ 1,803	\$ 3,322
Interest cost	49,799	57,584	55,023
Amortization of:			
Transition obligation	27,859	27,859	27,859
Actuarial (gain) loss	(1,717)	-	3,130
Net periodic post-retirement cost	76,828	87,246	89,334
Amounts amortized	-	25,028	25,254
Total post-retirement cost accruals	\$ 76,828	\$ 112,274	\$ 114,588

Notes to Consolidated Financial Statements

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

At December 31,	2001	2000
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 832,535	\$ 788,532
Retirees	(58,485)	23,708
Fully-eligible active employees	(24,453)	48,992
Other active	(25,671)	(28,697)
Benefit obligation at end of year	\$ 723,926	\$ 832,535
Funded Status	\$ (723,926)	\$ (832,535)
Unrecognized transition obligation	133,718	161,577
Unrecognized net (gain) loss	(73,737)	61,543
Accrued post-retirement cost	\$ (663,945)	\$ (609,415)
Assumptions:		
Discount rate	7.00%	7.50%

The health care inflation rate for 2001 is assumed to be 7.5 percent. This rate is projected to gradually decrease to an ultimate rate of 5 percent by the year 2007. 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 \$68,000 as of January 1, 2002, and would increase the aggregate of the service cost and interest cost components of the net periodic post-retirement benefit cost for 2002 by approximately \$5,000.

K. EXECUTIVE INCENTIVE PLANS

The Performance Incentive Plan ("the Plan") adopted in 1992 allows for the granting of stock options, stock appreciation rights and performance shares to certain officers of the Company over a 10-year period. Stock options granted under the Plan entitle participants 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 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. In 2000, the Company replaced the third year of this Stock Option Agreement with Stock Appreciation Rights ("SARs"). The SARs are awarded based on performance with a minimum number of SARs established for each participant. During 2001 and 2000, the Company granted 10,650 and 13,150 SARs, respectively, in conjunction with the agreement. Chesapeake currently awards Performance Share Agreements annually for certain other executive officers. Each year participants are eligible to earn a maximum number of performance shares, based on the Company's achievement of certain performance goals. The Company recorded compensation expense of \$123,000, \$118,000 and \$131,000 associated with these performance shares in 2001, 2000 and 1999, respectively.

Changes in outstanding options were as shown on the chart below:

	2001		2000		1999	
	Number of shares	Option Price	Number of shares	Option Price	Number of shares	Option Price
Balance — beginning of year	110,093	\$12.75 — \$20.50	163,637	\$12.75 — \$20.50	163,637	\$12.75 — \$20.50
Options exercised	(53,220)	\$12.75				
Options expired	(14,925)	\$12.75				
Options forfeited or replaced			(53,544)	\$20.50		
Balance — end of year	41,948	\$20.50	110,093	\$12.75 — \$20.50	163,637	\$12.75 — \$20.50
Exercisable	41,948	\$20.50	110,093	\$12.75 — \$20.50	85,735	\$12.75 — \$20.50

In December 1997, the Company granted stock options to certain executive officers of the Company. SFAS No. 123 requires the disclosure of pro forma net income and earnings per share as if fair value based accounting had been used to account for the stock-based compensation costs. Accordingly, pro forma net income, basic earnings per share and diluted earnings per share for 2000 were \$7,475,885, \$1.42 and \$1.40, respectively. Pro forma net income, basic earnings per share and diluted earnings per share for 1999 were \$8,230,868, \$1.60 and \$1.57, respectively. The assumptions used in calculating the pro forma information were: dividend yield, 4.73 percent; expected volatility, 15.53 percent; risk-free interest rate, 5.89 percent; and an expected life of 4 years. No options have been granted since 1997; therefore, there is no pro forma impact for 2001.

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 the Dover Gas Light, Salisbury Town Gas Light and the Winter Haven Coal Gas sites.

In May 2001, Chesapeake, General Public Utilities Corporation, Inc. (“GPU”), the State of Delaware and the United States Environmental Protection Agency (“EPA”) signed a settlement term sheet reflecting the agreement in principle to settle a lawsuit with respect to the Dover Gas Light site. The parties are in the process of memorializing the terms of the final agreement in two consent decrees. The consent decrees will then be published for public comment and submitted to a federal judge for approval.

If the agreement in principle receives final approval, Chesapeake will:

- Design and construct a parking lot on the site and dismantle the soil vapor extraction system that has been erected at the site.
- Receive a net payment of \$1.15 million from other parties to the agreement. These proceeds will be passed on to Chesapeake’s firm customers, in accordance with the environmental rate rider.
- Receive a release from liability and covenant not to sue from the EPA and the State of Delaware. This will relieve Chesapeake from liability for future remediation at the site, unless previously unknown conditions are discovered at the site, or information previously unknown to EPA is received that indicates the remedial action related to the former manufactured gas plant is not sufficiently protective. These contingencies are standard, and are required by the United States in all liability settlements.

At December 31, 2001, the Company had accrued \$2.1 million (discounted) of costs associated with the remediation of the Dover site and had recorded an associated regulatory asset for the same amount. Of that amount, \$1.5 million was for estimated ground-water remediation and \$600,000 was for remaining soil remediation. The \$1.5 million represented the low end of the ground-water remediation estimates prepared by an independent consultant and was used because the Company could not, at that time, predict the remedy the EPA might require.

Notes to Consolidated Financial Statements

Through December 31, 2001, the Company has incurred approximately \$8.9 million in costs relating to environmental testing and remedial action studies at the Dover site. Approximately \$6.0 million has been recovered through December 2001 from other parties or through rates.

Upon receiving final court approval of the consent decrees, Chesapeake will reduce both the accrued environmental liability and the associated environmental regulatory asset to the amount required to complete its obligations (primarily the final demobilization of the remedial system and final design and construction of the parking lot).

The second site is the Salisbury Town Gas Light Site in Salisbury, Maryland. In cooperation with the Maryland Department of the Environment ("MDE"), the Company is engaged in remediation that primarily includes the following: (1) operation of an air sparging/soil vapor extraction ("AS/SVE") remedial system; (2) monitoring and recovery of product from recovery wells; and (3) monitoring of ground-water quality. In February 2002, the MDE granted permission to permanently decommission the AS/SVE system and abandon nearly all of the monitoring wells on-site and off-site. The Company is currently seeking a No Further Action ("NFA") for the site. The NFA would be conditional upon the Company performing continued product monitoring and recovery at one well location and implementing land use controls. Evaluation of historical sampling results is currently being performed to determine the level of land use controls that will be required by the MDE for the site. A plan for decommissioning the AS/SVE system and monitoring well network is currently being prepared for approval from the MDE. The final decommissioning and well abandonment is anticipated to occur in the second quarter of 2002.

The Company has adjusted the liability with respect to the Salisbury site to \$100,000 at December 31, 2001. The Company had previously accrued \$175,000 as of December 31, 2000. This amount is based on the estimated costs to perform limited product monitoring and recovery efforts, abandon the monitoring well network, decommission the remedial system and fulfill ongoing reporting requirements. A corresponding regulatory asset has been recorded, reflecting the Company's belief that costs incurred will be recoverable in base rates.

Through December 31, 2001, the Company has incurred approximately \$2.8 million for remedial actions and environmental studies at the Maryland site. Of this amount, approximately \$1.7 million has been recovered through insurance proceeds or ratemaking treatment.

The third site is located in the state of Florida and in January 2001 the Company filed a remedial action plan ("RAP") with the Florida Department of the Environment ("FDEP"). The RAP was approved by the FDEP on May 4, 2001. The current estimate of costs to complete the RAP is \$1 million (discounted). Accordingly, at December 31, 2001, the Company accrued a liability of \$1 million. Through December 31, 2001, the Company has incurred approximately \$80,000 of environmental costs associated with the Florida site. At December 31, 2001, the Company had collected \$523,000 in excess of costs incurred. A regulatory asset of \$477,000 representing the uncollected portion of the estimated clean up costs has also been recorded. Once the FDEP approves the RAP, the Company will commence with the remediation procedures per the RAP.

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. In 2000, the Company entered into a

long-term contract with an energy marketing and risk management company to manage a portion of the Company's natural gas transportation and storage capacity. That contract remains in effect.

Other

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

N. QUARTERLY FINANCIAL DATA (UNAUDITED)

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

For the Quarters Ended	March 31	June 30	September 30	December 31
2001				
Operating Revenue	\$ 134,039,485	\$ 71,051,256	\$ 55,567,288	\$ 69,662,928
Operating Income	6,666,331	1,741,229	562,419	2,548,236
Net Income	5,365,469	666,726	(674,966)	1,364,307
Earnings per share:				
Basic	\$ 1.01	\$ 0.12	\$ (0.13)	\$ 0.25
Diluted	\$ 0.98	\$ 0.12	\$ (0.13)	\$ 0.25
2000				
Operating Revenue	\$ 98,509,179	\$ 65,950,982	\$ 59,212,768	\$ 111,739,915
Operating Income	6,640,727	1,235,233	(43,959)	3,806,045
Net Income	5,669,466	319,548	(1,044,709)	2,544,896
Earnings per share:				
Basic	\$ 1.09	\$ 0.06	\$ (0.20)	\$ 0.48
Diluted	\$ 1.05	\$ 0.06	\$ (0.20)	\$ 0.47

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" and Section 16(a) Beneficial Ownership Reporting Compliance" to be filed not later than April 30, 2002 in connection with the Company's Annual Meeting to be held on May 21, 2002.

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 portion of the Proxy Statement captioned "Management Compensation Committee Interlocks and Insider Participation", in the Proxy Statement to be filed not later than April 30, 2002, in connection with the Company's Annual Meeting to be held on May 21, 2002.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

This information is incorporated herein by reference to the portion of the Proxy Statement captioned "Beneficial Ownership of the Company's Securities" to be filed not later than April 30, 2002 in connection with the Company's Annual Meeting to be held on May 21, 2002.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

This information is incorporated herein by reference to the portion of the Proxy Statement captioned "Certain Transactions" to be filed not later than April 30, 2002, in connection with the Company's Annual Meeting to be held on May 21, 2002.

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 15, 2002 of PricewaterhouseCoopers LLP, Independent Accountants
- Consolidated Statements of Income for each of the three years ended December 31, 2001, 2000 and 1999
- Consolidated Balance Sheets at December 31, 2001 and December 31, 2000
- Consolidated Statements of Cash Flows for each of the three years ended December 31, 2001, 2000 and 1999
- Consolidated Statements of Common Stockholders' Equity for each of the three years ended December 31, 2001, 2000 and 1999
- Consolidated Statements of Income Taxes for each of the three years ended December 31, 2001, 2000 and 1999
- 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 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 4(e) Note Purchase Agreement entered into by the Company on December 27, 2000, pursuant to which the Company privately placed \$20 million of its 7.83% senior notes due 2015, is not being filed herewith,

in accordance with Item 601(b)(4)(iii) of Regulation S-K. The Company hereby agrees to furnish a copy of that agreement to the Commission upon request.

- *Exhibit 10(a) 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(b) Executive Employment Agreement dated January 1, 2001, by and between Chesapeake Utilities Corporation and Ralph J. Adkins is incorporated herein by reference to Exhibit 10 of the Company's Annual Report on Form 10-K for the year ended December 31, 2000, File No. 001-11590.
- *Exhibit 10(c) 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(d) Form of Performance Share Agreement dated January 1, 2002, pursuant to Chesapeake Utilities Corporation Performance Incentive Plan by and between Chesapeake Utilities Corporation and each of Ralph J. Adkins, John R. Schimkaitis, Michael P. McMasters, William C. Boyles and Stephen C. Thompson, filed herewith.
- *Exhibit 10(e) 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(f) 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(g) Form of Stock Appreciation Rights Agreement dated January 1, 2001, pursuant to Chesapeake Utilities Corporation Performance Incentive Plan by and between Chesapeake Utilities Corporation and each of Philip S. Barefoot, William C. Boyles, Thomas A. Geoffroy, James R. Schneider and William P. 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, 2000, File No. 001-11590.
- *Exhibit 10(h) 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 10(i) United Systems, Inc. Executive Appreciation Rights Plan dated December 31, 2000 is incorporated herein by reference to Exhibit 10 of the Company's Annual Report on Form 10-K for the year ended December 31, 2000, File No. 001-11590.
- *Exhibit 10(j) United Systems, Inc. Employee Appreciation Rights Plan dated December 31, 2000 is incorporated herein by reference to Exhibit 10 of the Company's Annual Report on Form 10-K for the year ended December 31, 2000, File No. 001-11590.
- Exhibit 12 Computation of Ratio of Earning to Fixed Charges, filed herewith.
- Exhibit 21 Subsidiaries of the Registrant, filed herewith.
- Exhibit 23 Consent of Independent Accountants, filed herewith.

* Management contract or compensatory plan or agreement.

SIGNATURES

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

CHESAPEAKE UTILITIES CORPORATION

By: /S/ JOHN R. SCHIMKAITIS
John R. Schimkaitis
President and Chief Executive Officer
Date: March 15, 2002

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 15, 2002

/S/ JOHN R. SCHIMKAITIS
John R. Schimkaitis, President,
Chief Executive Officer and Director
Date: March 15, 2002

/S/ MICHAEL P. MCMASTERS
Michael P. McMasters, Vice President,
Chief Financial Officer and Treasurer
(Principal Financial and Accounting Officer)
Date: March 15, 2002

/S/ RICHARD BERNSTEIN
Richard Bernstein, Director
Date: March 15, 2002

/S/ THOMAS J. BRESNAN
Thomas J. Bresnan, Director
Date: March 15, 2002

/S/ WALTER J. COLEMAN
Walter J. Coleman
Date: March 15, 2002

/S/ JOHN W. JARDINE, JR.
John W. Jardine, Jr., Director
Date: March 15, 2002

/S/ J. PETER MARTIN
J. Peter Martin, Director
Date: March 15, 2002

/S/ JOSEPH E. MOORE, ESQ.
Joseph E. Moore, Esq., Director
Date: March 15, 2002

/S/ CALVERT A. MORGAN, JR.
Calvert A. Morgan, Jr., Director
Date: March 15, 2002

/S/ RUDOLPH M. PEINS, JR.
Rudolph M. Peins, Jr., Director
Date: March 15, 2002

/S/ ROBERT F. RIDER
Robert F. Rider, Director
Date: March 15, 2002

/S/ JEREMIAH P. SHEA
Jeremiah P. Shea, Director
Date: March 15, 2002

Chesapeake Utilities Corporation and Subsidiaries
Schedule II
Valuation and Qualifying Accounts

For the Year Ended December 31,	Balance at	Additions			Balance at
	Beginning	Charged to	Other	Deductions	End of
	of Year	Income	Accounts ⁽¹⁾	⁽²⁾	Year
Reserve Deducted From Related Assets					
Reserve for Uncollectible Accounts					
2001	\$ 549,961	\$ 592,590	\$ 488,895	\$ (1,009,930)	\$ 621,516
2000	\$ 475,592	\$ 342,407	\$ 63,741	\$ (331,779)	\$ 549,961
1999	\$ 302,513	\$ 457,367	\$ 74,877	\$ (359,165)	\$ 475,592

⁽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,	2001	2000	1999
Income from continuing operations	\$ 6,721,537	\$ 7,489,201	\$ 8,270,986
Add:			
Income taxes	4,252,275	4,496,592	4,684,247
Portion of rents representative of interest factor	275,773	156,680	162,278
Interest on indebtedness	5,178,495	4,398,266	3,348,231
Amortization of debt discount and expense	101,183	111,122	117,966
Earnings as adjusted	\$ 16,529,263	\$ 16,651,861	\$ 16,583,708
Fixed Charges			
Portion of rents representative of interest factor	\$ 275,773	\$ 156,680	\$ 162,278
Interest on indebtedness	5,178,495	4,398,266	3,348,231
Amortization of debt discount and expense	101,183	111,122	117,966
Fixed Charges	\$ 5,555,451	\$ 4,666,068	\$ 3,628,475
Ratio of Earnings to Fixed Charges	2.98	3.57	4.57

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
Xeron, Inc.	Mississippi
Sam Shannahan Well Company, Inc.	Maryland
Sharp Water, Inc.	Delaware

<u>Subsidiaries of Sharp Energy, Inc.</u>	<u>State Incorporated</u>
Sharpgas, Inc.	Delaware
Tri-County Gas Co., Incorporated	Maryland

<u>Subsidiaries of Chesapeake Service Company</u>	<u>State Incorporated</u>
Skipjack, Inc.	Delaware
BravePoint, Inc.	Georgia
Chesapeake Investment Company	Delaware
Eastern Shore Real Estate	Maryland

<u>Subsidiaries of Sharp Water, Inc.</u>	<u>State Incorporated</u>
EcoWater Systems of Michigan, Inc.	Michigan
Carroll Water Systems, Inc.	Maryland
Absolute Water Care, Inc.	Florida
Sharp Water of Florida, Inc.	Delaware
Sharp Water of Idaho, Inc.	Delaware
Sharp Water of Minnesota, Inc.	Delaware
Sharp Water of Nevada, Inc.	Delaware

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statement on Form S-2 (No. 33-26582), Form S-3 (Nos. 33-28391, 33-64671, 333-63381 and 333-94159) and Form S-8 (No. 33-301175) of Chesapeake Utilities Corporation of our report dated February 15, 2002 relating to the financial statements and financial statement schedule, which appears in this Form 10-K.

PricewaterhouseCoopers LLP

PRICEWATERHOUSECOOPERS LLP

Philadelphia, Pennsylvania

March 29, 2002

*Upon written request,
Chesapeake will provide, free of
charge, a copy of any exhibit to
the 2001 Annual Report on
Form 10-K not included
in this document.*

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended: March 31, 2002

OR

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

For the transition period from _____ to _____

Commission File Number: 001-11590

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

Delaware
(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)

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 No

Common Stock, par value \$.4867 — 5,456,947 shares issued as of March 31, 2002.

PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

Chesapeake Utilities Corporation and Subsidiaries

Consolidated Statements of Income (Unaudited)

For the Three Months Ended March 31,	2002	2001
Operating Revenues	\$ 68,540,959	\$ 134,039,485
Cost of Sales	46,210,982	110,882,622
Gross Margin	22,329,977	23,156,863
Operating Expenses		
Operations	9,319,706	9,321,749
Maintenance	464,576	495,036
Depreciation and amortization	2,326,349	2,127,379
Other taxes	1,272,993	1,176,961
Income taxes	3,039,429	3,369,407
Total operating expenses	16,423,053	16,490,532
Operating Income	5,906,924	6,666,331
Other Income, net	211,050	134,872
Income Before Interest Charges	6,117,974	6,801,203
Interest Charges	1,234,496	1,435,734
Income Before Cumulative Effect of Change in Accounting Principle	4,883,478	5,365,469
Cumulative Effect of Change in Accounting Principle	(1,916,000)	0
Net Income	\$ 2,967,478	\$ 5,365,469
Earnings Per Share of Common Stock:		
Basic		
Before effect of change in accounting principle	\$ 0.90	\$ 1.01
Effect of change in accounting principle	(0.35)	-
Net Income	\$ 0.55	\$ 1.01
Diluted		
Before effect of change in accounting principle	\$ 0.87	\$ 0.98
Effect of change in accounting principle	(0.34)	-
Net Income	\$ 0.53	\$ 0.98

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

Capitalization and Liabilities	March 31, 2002	December 31, 2001
Capitalization		
Stockholders' equity		
Common Stock, par value \$.4867 per share; (authorized 12,000,000 shares; issued 5,456,947 and 5,424,962 shares, respectively)	\$ 2,655,628	\$ 2,640,060
Additional paid-in capital	30,258,031	29,653,992
Retained earnings	36,022,490	34,555,560
Total stockholders' equity	68,936,149	66,849,612
Long-term debt, net of current maturities	-	48,408,596
Total capitalization	115,329,197	115,258,208
Current Liabilities		
Current portion of long-term debt	3,686,596	2,686,145
Short-term borrowing	31,600,000	42,100,000
Accounts payable	13,260,565	14,551,621
Refunds payable to customers	546,397	971,575
Income taxes payable	3,355,283	-
Accrued interest	870,060	1,758,401
Dividends payable	1,500,547	1,491,832
Deferred income taxes payable	846,956	848,271
Other accrued liabilities	5,249,524	5,327,457
Total current liabilities	60,915,928	69,735,302
Deferred Credits and Other Liabilities		
Deferred income taxes	13,206,089	15,732,842
Deferred investment tax credits	588,653	602,357
Environmental liability	3,147,713	3,199,733
Accrued pension costs	1,621,114	1,595,650
Other liabilities	4,599,624	4,526,688
Total deferred credits and other liabilities	23,163,193	25,657,270
Total Capitalization and Liabilities	\$ 199,408,318	\$ 210,650,780

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Quarterly Financial Data

The financial information for Chesapeake Utilities Corporation (the "Company") included herein is unaudited and should be read in conjunction with the Company's Annual Report on Form 10-K. In the opinion of management, this financial information reflects normal recurring adjustments, including the cumulative effect of change in accounting principles, which are necessary for a fair presentation of the Company's interim results. Due to the seasonal nature of the Company's business, there are substantial variations in the results of operations reported on a quarterly basis and, accordingly, results for any particular quarter may not give a true indication of results for the year. Certain amounts in 2001 have been reclassified to conform to the presentation for the current year.

2. Calculation of Earnings Per Share

For the Three Months Ended March 31,	2002	2001
Calculation of Basic Earnings Per Share before Cumulative Effect of Change in Accounting Principle:		
Net Income before cumulative effect of change in accounting principle	\$ 4,883,478	\$ 5,365,469
Weighted average shares outstanding	5,443,980	5,317,760
Basic Earnings Per Share before Cumulative Effect of change in Accounting Principle	\$ 0.90	\$ 1.01
Calculation of Diluted Earnings Per Share before Cumulative Effect of Change in Accounting Principle:		
Reconciliation of Numerator:		
Net Income before cumulative effect of change in accounting principle — Basic	\$ 4,883,478	\$ 5,365,469
Effect of 8.25% Convertible debentures	41,541	42,821
Adjusted numerator — Diluted	\$ 4,925,019	\$ 5,408,290
Reconciliation of Denominator:		
Weighted shares outstanding — Basic	5,443,980	5,317,760
Effect of dilutive securities		
Stock options	-	12,782
Warrants	1,832	335
8.25% Convertible debentures	197,314	203,395
Adjusted denominator — Diluted	5,643,126	5,534,272
Diluted Earnings Per Share before Cumulative Effect of change in Accounting Principle	\$ 0.87	\$ 0.98

3. Commitments and Contingencies

Environmental Matters

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 the Dover Gas Light, Salisbury Town Gas Light and the Winter Haven Coal Gas sites. During the first quarter of 2002, the Company received a letter from the Maryland Department of the Environment requesting that the Company and two other parties enter into an Administrative Consent Order for cleanup of contamination at a fourth site located in Cambridge, Maryland.

The Dover Gas Light site is located in Dover, Delaware. In May 2001, the Company, General Public Utilities Corporation, Inc. ("GPU"), the State of Delaware and the United States Environmental Protection Agency ("EPA") signed a settlement term sheet reflecting the agreement in principle to settle a lawsuit

Through March 31, 2002, the Company has incurred approximately \$2.8 million for remedial actions and environmental studies at the Salisbury site. Of this amount, approximately \$1.8 million has been recovered through insurance proceeds or ratemaking treatment.

The Winter Haven Coal Gas site is located in Winter Haven, Florida. In January 2001, the Company filed a remedial action plan ("RAP") with the Florida Department of the Environment ("FDEP"). The RAP was approved by the FDEP on May 4, 2001. The current estimate of costs to complete the RAP is approximately \$1 million (discounted). Accordingly, at March 31, 2002, the Company has accrued a liability of \$1 million. Through March 31, 2002, the Company has incurred approximately \$947,000 of environmental costs associated with the Florida site. At March 31, 2002, the Company had collected \$523,000 in excess of costs incurred. A regulatory asset of \$477,000 representing the uncollected portion of the estimated cleanup costs has also been recorded. Once the FDEP approves the RAP, the Company will commence with the remediation procedures per the RAP.

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

The Maryland Department of the Environment submitted a letter to Chesapeake and two other parties requesting that the parties enter into an Administrative Consent Order for cleanup of contamination at the Todd Seafood property located in Cambridge, Maryland. It has been alleged that contamination at the Todd Seafood property is a result of manufactured gas plant operations. Neither Chesapeake nor any of its affiliates have ever owned or operated a manufactured gas plant in Cambridge, Maryland. A company acquired by Chesapeake did, at one time, own a piece of land where a manufactured gas plant had once stood. The plant was removed before they purchased the land and the land was sold prior to the company's acquisition by Chesapeake. Chesapeake's environmental consultants have examined some of the MDE's records under the Public Information Act ("PIA"). Key documents were not available during the PIA review. Chesapeake's attorneys have been in discussions with the MDE to obtain access to these files. Upon receipt of these files, a response to the MDE's letter will be prepared and discussed with the MDE. The outcome of this matter cannot be determined at this time.

Other Commitments and Contingencies

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. In 2000, the Company entered into a long-term contract with an energy marketing and risk management company to manage a portion of the Company's natural gas transportation and storage capacity. That contract remains in effect.

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.

Certain assets and liabilities of the Company are accounted for in accordance with Statement of Financial Accounting Standards ("SFAS") No. 71, which, among other matters, provides standards for regulated enterprises for the deferral of costs that will be recovered through future rate increases. If the Company were required to terminate the application of these standards to 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.

The impact of the non-amortization provision of SFAS No. 142 was as follows:

For the Three Months Ended March 31, 2001	Net Income	Basic Earnings Per Share	Diluted Earnings Per Share
Net Income	\$5,365,469	\$1.01	\$0.98
Amortization of goodwill, after tax	33,844	0.01	0.00
Net Income, exclusive of amortization	\$5,399,313	\$1.02	\$0.98

Intangible assets subject to amortization are as follows:

	March 31, 2002		December 31, 2001	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Customer Lists	\$1,111,651	\$108,852	\$1,111,651	\$82,141
Non-compete agreements	1,000,000	169,917	1,000,000	140,417
Acquisition costs	379,541	91,429	379,541	87,870
Total	\$2,491,192	\$370,198	\$2,491,192	\$310,428

Amortization of intangible assets was \$60,000 for the three months ended March 31, 2002. For the year ended December 31, 2001, amortization of intangibles, excluding goodwill, was \$132,000. The estimated annual amortization of intangibles for the next five years is: \$230,000 for 2002; \$224,000 for 2003; \$224,000 for 2004; \$213,000 for 2005; and \$213,000 for 2006.

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

Business Description

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

The Company's strategy is to grow earnings from a stable utility foundation by investing in related businesses and services that provide opportunities for higher, unregulated returns. This growth strategy includes acquisitions and investments in unregulated businesses as well as the continued investment and expansion of the Company's utility operations that provide the stable base of earnings. The Company continually reevaluates its investments to ensure that they are consistent with its strategy and the goal of enhancing shareholder value. The Company's unregulated businesses and services currently include propane distribution and marketing, advanced information services and water conditioning and treatment. By investing in these related business and services, the Company has created opportunities to earn higher returns than those typically earned by a traditional utility.

FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

The Company's capital requirements reflect the capital-intensive nature of its business and are principally attributable to the construction program and the retirement of outstanding debt. The Company relies on cash generated by operations and short-term borrowing to meet normal working capital requirements and to temporarily finance capital expenditures. During the first three months of 2002, net cash provided by operating activities, net cash used by investing activities and net cash used by financing activities were approximately \$14.6 million, \$2.7 million and \$12.5 million, respectively. Cash provided by operations was up \$5.7 million in the current quarter compared to the first quarter of 2001. The cash flow increased due to a reduction in

RESULTS OF OPERATIONS FOR THE QUARTER ENDED MARCH 31, 2002

Consolidated Overview

The Company recognized net income before cumulative effect of change in accounting principle of \$4.9 million, or \$0.90 per share, for the first quarter of 2002, a decrease of \$486,000, or \$0.11 per share, compared to the corresponding period in 2001. As indicated in the following table, the decline in income is primarily attributable to lower profitability of propane and the advanced information services segments, as well as increased cost to add a corporate infrastructure to the water business, partially offset by lower taxes and interest expenses.

Chesapeake adopted Financial Accounting Standards Board ("FASB") Statement of Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets," in the first quarter of 2002. As a result of the change in the goodwill impairment testing methods prescribed by SFAS No. 142, a non-cash charge for goodwill impairment of \$1.9 million, after tax, was recorded as the cumulative effect of a change in accounting principle. The charge was necessitated primarily by the performance of the Michigan water business. After giving effect to this charge, earnings per share for the first quarter were \$0.55. In accordance with the pronouncement, Chesapeake also ceased regular amortization of goodwill. In 2001, amortization of goodwill amounted to \$142,000 per year, after tax, or approximately \$0.026 per share. The Company's remaining goodwill balance was \$2.3 million as of March 31, 2002.

The Company is continuing the implementation of its water business strategy. Management changes have been implemented during the last six months, which are designed to improve the performance of the water business. The investments in the water business are a part of Chesapeake's strategy to diversify its earnings into unregulated, non-weather sensitive businesses, thereby providing opportunities for the Company to achieve higher earnings and earnings growth.

The impact of the change in accounting principle is discussed further in Note 5 to the Consolidated Financial Statements.

For the Three Months Ended March 31,	2002	2001	Change
Pre-tax Operating Income (Loss)			
Natural Gas Distribution & Transmission	\$ 6,355,270	\$ 6,267,995	\$ 87,275
Propane	2,778,555	3,695,473	(916,918)
Advanced Information Services	(72,016)	103,613	(175,629)
Other & Eliminations	(115,456)	(31,343)	(84,113)
Pre-tax Operating Income	8,946,353	10,035,738	(1,089,385)
Operating Income Taxes	3,039,429	3,369,407	(329,978)
Interest	1,234,496	1,435,734	(201,238)
Non-Operating Income, net	211,050	134,872	76,178
Net Income before cumulative effect of change in accounting principle	4,883,478	5,365,469	(481,991)
Cumulative effect of change in accounting principle	(1,916,000)	-	(1,916,000)
Net Income	\$ 2,967,478	\$ 5,365,469	\$ (2,397,991)

respectively due to the drop in propane commodity prices. Commodity cost changes, both increases and decreases are generally passed on to the distribution customers contingent upon competitive market conditions.

The Delmarva distribution operations experienced a drop of \$1.0 million in gross margin. Volumes sold for the first quarter were down 22.6%. Volumes were negatively impacted by temperatures that were 18% warmer than 2001, increased competition and lower sales to the poultry industry. Management estimates that \$500,000 in additional margin would have been earned if the temperatures had been normal. The reduction in sales to poultry customers resulted in a drop in margins of \$150,000 compared to 2001. A decrease in operating expenses of \$525,000 partially offset the decline in margins. Cost containment efforts that began in April 2001 remain in effect and have reduced customer accounting and sales and marketing costs. Other costs, such as delivery expenses, decreased due to the lower volumes sold. The Florida propane start-ups increased their pre-tax operating income by \$37,000 for the first quarter.

Propane wholesale marketing margins declined by \$572,000 and were partially offset by a reduction of \$146,000 in operating expenses. The 2001 results reflected increased opportunities due to the extreme price volatility in the propane wholesale market. The same level of price fluctuations have not been experienced in 2002. The 2002 results reflect increased margins of approximately \$650,000 that resulted from a bankrupt vendor defaulting on supply contracts during the first quarter of 2002. The supply was replaced by purchasing from different vendors at a lower cost than the original contract. Although the propane wholesale marketing business has not been as profitable as in 2001, it is still performing above the earnings targets established by the Company.

Advanced Information Services

The advanced information services business experienced a pre-tax operating loss of \$72,000 for the first quarter of 2002 compared to income of \$104,000 for the first quarter of last year. The decrease is the result of decreased revenues partially offset by decreased operating expenses.

For the Three Months Ended March 31,	2002	2001	Change
Revenue	\$ 3,059,256	\$ 3,490,786	\$ (431,530)
Cost of sales	1,618,812	1,767,615	(148,803)
Gross margin	1,440,444	1,723,171	(282,727)
Operations & maintenance	1,277,601	1,398,056	(120,455)
Depreciation & amortization	56,370	62,272	(5,902)
Other taxes	178,489	159,230	19,259
Pre-tax operating expenses	1,512,460	1,619,558	(107,098)
Total Pre-tax Operating (Loss) Income	\$ (72,016)	\$ 103,613	\$ (175,629)

This segment was adversely affected by the nation's economic slowdown as discretionary consulting projects have been postponed or cancelled. Additionally, training revenues have declined significantly due to a reluctance on the part of students to travel in the aftermath of September 11.

Delaware Public Service Commission that should result in an increase in rates of approximately \$380,000 per year.

On October 31, 2001, Eastern Shore, the Company's natural gas transmission subsidiary, filed a rate change with the FERC pursuant to the requirements of Article XII of the Stipulation and Agreement dated August 1, 1997. Eastern Shore's filing proposed a change in base rates for firm transportation services. On November 30, 2001, the Commission issued an Order, which accepted and suspended the effectiveness of the rates until May 1, 2002 subject to refund and the outcome of a hearing. A pre-hearing conference was held on December 18, 2001 and the hearing was scheduled for September 24, 2002. Discovery related to the rate proceeding began in January 2002 with FERC Staff data requests. The outcome of the proceedings is uncertain.

The Florida Division filed tariff revisions on March 29, 2002 to complete the unbundling process by requiring all customers, including residential, to migrate to transportation service and authorize the Florida Division to exit the merchant function. Transportation services are currently available to all non-residential customers. The Florida Public Service Commission has requested that the Company hold customer meetings to allow for an opportunity for comments by our customers. These meetings are scheduled for June 25 and 26 at four locations in our service territory. At this time, the outcome of the petition cannot be determined.

Competition

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

The Company's natural gas distribution operations located in Maryland, Delaware and Florida began offering transportation services to certain industrial customers during 1998, 1997 and 1994, respectively. In 2001, the Florida operation extended transportation service to commercial customers. 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 Company's competitors include the interstate transmission company if the distribution customer is located close enough to the transmission company's pipeline to make a connection economically feasible. The customers at risk are usually large volume commercial and industrial customers with the financial resources and capability to bypass the distribution operations in this manner. In certain situations, the distribution operations may adjust services and rates for these customers to retain their business. The Company expects to continue to expand the availability of transportation services to additional classes of distribution customers in the future. The Company established a natural gas brokering and supply operation in Florida in 1994 to compete for customers eligible for transportation services.

The Company's propane distribution operations compete with several other propane distributors in their service territories, primarily on the basis of service and price. Competitors include several large national propane distribution companies, as well as an increasing number of local suppliers. Some of these competitors have pricing strategies designed to acquire market share.

The Company's 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 Company or the counter party. The propane wholesale marketing operation also enters into futures contracts that are traded on the New York Mercantile Exchange. In certain cases, the futures contracts are settled by the payment of a net amount equal to the difference between the current market price of the futures contract and the original contract price.

The forward and futures contracts are entered into for trading and wholesale marketing purposes. The propane marketing business is subject to commodity price risk on its open positions to the extent that market prices for NGL deviate from fixed contract settlement prices. Market risk associated with the trading of futures and forward contracts are monitored daily for compliance with the Company's Risk Management Policy, which includes volumetric limits for open positions. To manage exposures to changing market prices, open positions are marked up or down to market prices and reviewed by oversight officials on a daily basis. Additionally, the Risk Management Committee reviews periodic reports on market and credit risk, approves any exceptions to the Risk Management Policy (within limits established by the Board of Directors) and authorizes the use of any new types of contracts. Quantitative information on forward and futures contracts at March 31, 2002 is presented in the following table. All of the contracts mature within twelve months.

At March 31, 2002	Quantity in gallons	Estimated Market Prices	Weighted Average Contract Prices
Forward Contracts			
Sale	7,946,400	\$0.4050 — \$0.4200	\$0.3645
Purchase	5,418,000	\$0.4050 — \$0.4200	\$0.3895
Futures Contracts			
Sale	210,000	\$0.4050 — \$0.4200	\$0.3985
Purchase	1,092,000	\$0.4050 — \$0.4200	\$0.3439
Estimated market prices and weighted average contract prices are in dollars per gallon.			

SIGNATURES

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

CHESAPEAKE UTILITIES CORPORATION

/s/ MICHAEL P. McMASTERS

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

Date: May 15, 2002

Chesapeake Utilities Corporation
Schedule No. 1
Capitalization Ratios Actual & Pro Forma as of March 31, 2002

UNAUDITED

<u>Type of Capital</u>	<u>Actual Before Issuance</u>		<u>Adjustment</u>	<u>Pro Forma Before Issuance</u>		<u>Issuance of Securities</u>	<u>Pro Forma After Issuance of Securities</u>	
	<u>Amount Outstanding</u>	<u>% of Total</u>		<u>Amount Outstanding</u>	<u>% of Total</u>		<u>Amount Outstanding</u>	<u>% of Total</u>
<u>Common Equity</u>								
Common Stock	\$2,655,628	1.76%	0	\$2,655,628	1.76%	\$0	\$2,655,628	1.76%
Paid In Capital	30,258,031	20.09%	0	30,258,031	20.09%	0	30,258,031	20.07%
Retained Earnings	36,022,490	23.92%	0	36,022,490	23.92%	0	36,022,490	23.90%
Total Common Equity	68,936,149	45.77%	0	68,936,149	45.77%	0	68,936,149	45.73%
<u>Preferred Stock</u>	<u>0</u>	<u>0.00%</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>
<u>Long-Term Debt</u>								
First Mortgage Bonds	1,512,000	1.00%	0	1,512,000	1.00%	0	1,512,000	1.00%
Convertible Debentures	3,348,000	2.22%	0	3,348,000	2.22%	0	3,348,000	2.22%
Other Long-Term Debt	41,533,047	27.58%	0	41,533,047	27.58%	30,000,000	71,533,047	47.45%
Total Long-Term Debt	46,393,047	30.80%	0	46,393,047	30.80%	30,000,000	76,393,047	50.67%
Total Permanent Capital	115,329,196	76.57%	0	115,329,196	76.57%	30,000,000	145,329,196	96.40%
<u>Current Portion of Long-Term Debt</u>	<u>3,686,596</u>	<u>2.45%</u>	<u>0</u>	<u>3,686,596</u>	<u>2.45%</u>	<u>0</u>	<u>3,686,596</u>	<u>2.45%</u>
<u>Short-Term Debt</u>	<u>31,600,000</u>	<u>20.98%</u>	<u>0</u>	<u>31,600,000</u>	<u>20.98%</u>	<u>(29,871,500)</u>	<u>1,728,500</u>	<u>1.15%</u>
Total Capitalization	\$150,615,792	100.00%	\$0	\$150,615,792	100.00%	\$128,500	\$150,744,292	100.00%

Chesapeake Utilities Corporation
Schedule No. 2
Rate of Return, Actual Historical and Pro Forma
For the Twelve Months Ended March 31, 2002

UNAUDITED

<u>Statement of Income</u>	<u>Actual Before Issuance</u>	<u>Adjustment</u>	<u>Pro Forma Before Issuance</u>	<u>Issuance of Securities</u>	<u>Pro Forma After Issuance of Securities</u>
1 Operating Revenue	\$264,822,431	\$0	\$264,822,431	\$0	\$264,822,431
2 Operating Expenses Before Income Taxes	\$250,366,058	\$0	\$250,366,058	\$0	\$250,366,058
3 Income Taxes (Including Deferrals)	\$3,697,565	\$0	\$3,697,565	(\$274,164)	\$3,423,401
4 Operating Income (1 - (2 + 3))	\$10,758,808	\$0	\$10,758,808	\$274,164	\$11,032,972
5 AFUDC (Equity Only)	\$0	\$0	\$0	\$0	\$0
6 Other Income, Net	\$559,177	\$0	\$559,177	\$0	\$559,177
7 Income Before Interest Charges (4 + 5 + 6)	\$11,317,985	\$0	\$11,317,985	\$274,164	\$11,592,149
8 Interest Charges (Including Debt Portion of AFUDC)	\$5,078,439	\$0	\$5,078,439	\$668,693	\$5,747,132
9 Effect of Change in Accounting Principle	(\$1,916,000)	\$0	(\$1,916,000)	\$0	(\$1,916,000)
10 Net Income (7 - 8 + 9)	\$4,323,546	\$0	\$4,323,546	(\$394,529)	\$3,929,017
11 Preferred Stock Dividends	\$0	\$0	\$0	\$0	\$0
12 Earnings Available to Common Equity (10 - 11)	\$4,323,546	\$0	\$4,323,546	(\$394,529)	\$3,929,017
13 Average Capitalization	\$118,741,692	\$0	\$118,741,692	\$30,000,000	\$148,741,692
14 Average Common Equity	\$67,753,246	\$0	\$67,753,246	\$0	\$67,753,246
15 Return on Average Capitalization (7 / 13)	9.53%		9.53%		7.79%
16 Return on Average Common Equity (12 / 14)	6.38%		6.38%		5.80%

Chesapeake Utilities Corporation
 Schedule No. 3
 Fixed Charge Coverage Ratios
 For the Twelve Months Ended March 31, 2002

UNAUDITED

<u>Type of Method</u>	<u>Historical</u>		<u>Annualized</u>	
	<u>Actual Before Issuance</u>	<u>Pro Forma After Issuance of Securities</u>	<u>Pro Forma Before Issuance</u>	<u>Pro Forma After Issuance of Securities</u>
<u>Per Financial Statements</u>				
Before Income Taxes, All interest	2.5102	2.2315	2.5102	2.2315
Before Income Taxes, All Interest, Before AFUDC	2.5102	2.2315	2.5102	2.2315
After Income Taxes, All Interest	0.8075	0.6523	0.8075	0.6523
After Income Taxes, All Interest, Before AFUDC	0.8075	0.6523	0.8075	0.6523
Overall Coverage, After Income Taxes	0.8075	0.6523	0.8075	0.6523
Overall Coverage, After Income Taxes, Before AFUDC	0.8075	0.6523	0.8075	0.6523
<u>Modified Indenture Method</u>				
Before Income Taxes, All interest	2.8838	2.5219	2.8838	2.5219
Before Income Taxes, All Interest, Before AFUDC	2.8838	2.5219	2.8838	2.5219
After Income Taxes, All Interest	1.0049	0.8048	1.0049	0.8048
After Income Taxes, All Interest, Before AFUDC	1.0049	0.8048	1.0049	0.8048
Overall Coverage, After Income Taxes	1.0049	0.8048	1.0049	0.8048
Overall Coverage, After Income Taxes, Before AFUDC	1.0049	0.8048	1.0049	0.8048



STATE OF DELAWARE
PUBLIC SERVICE COMMISSION

861 SILVER LAKE BOULEVARD
CANNON BUILDING, SUITE 100
DOVER, DELAWARE 19904

TELEPHONE: (302) 739 - 4247
FAX: (302) 739 - 4849

July 10, 2002

William A. Denman, Esquire
Parkowski & Guerke
116 West Water Street
Post Office Box 598
Dover, Delaware 19903

Re: In the Matter of the Application of
Chesapeake Utilities Corporation for
Approval of the Issuance of Long-
Term Debt (Filed June 13, 2002) -
PSC Docket No. 02-186

--

Dear Mr. Denman:

Enclosed are two (2) Certified Copies of Commission Order No.
5989 in the above-captioned matter, which are self-explanatory.

Very truly yours,

A handwritten signature in cursive script, appearing to read "Karen J. Nickerson".

Karen J. Nickerson
Secretary

KJN/njs

Enclosures: 2

Certified Mail #001699687457

cc: Gary A. Myers, Esq. (w/encl) ✓
Jeffrey R. Tietbohl (w/encl) ✓
Susan B. Neidig (w/encl)
G. Arthur Padmore (w/encl)

STATE OF DELAWARE

BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF THE APPLICATION)
OF CHESAPEAKE UTILITIES CORPORATION) PSC DOCKET NO. 02-186
FOR APPROVAL OF THE ISSUANCE OF)
LONG-TERM DEBT (FILED JUNE 13, 2002))

ORDER NO. 5989

This 9th day of July, 2002, the Commission finds, determines, and Orders the following:

1. On June 13, 2002, Chesapeake Utilities Corporation ("Chesapeake" or "the Company") filed an application seeking approval for the Company to issue (to be privately placed under a marketing agreement) up to \$30 million of unsecured senior notes. Those notes would pay interest not-to-exceed 7 percent per annum on a semi-annual basis and would have maturities ranging up to 15 years, with an average life of 10 years. According to Chesapeake, a portion of the proceeds from this debt would be used to finance Chesapeake's capital requirements related to its regulated utility business (including undertaking capital expenditures previously financed with short-term debt), as well as other corporate purposes.

2. In the same application, Chesapeake also informed the Commission that the Company was considering entering into derivative financial agreements with other financial institutions. The Company would use these derivative instruments, such as "interest rate-swaps," "collars," "caps," and "floors" (collectively referred to here as "Interest Rate Swap Products") to attempt to manage, in the context of fluctuating interest rates, its cost of debt. The Company may utilize

such instruments in relation to both existing and future debt, but subject to a limitation that the notional principal amount of such products, in the aggregate, would not exceed \$30 million. Chesapeake suggested that such derivative transactions would not constitute the actual issuance of securities or debt, as encompassed within 26 Del. C. § 215(a) and, hence, would not require Commission pre-approval. In the event that the Commission would conclude otherwise, Chesapeake asked for Commission approval to pursue such derivatives, subject to the \$30 million cap.

A. Issuance of Unsecured Senior Notes

3. Staff filed a memorandum recommending that the Commission approve the request by Chesapeake to issue up to \$30 million in long-term debt in the form of unsecured senior notes. In addition, the Commission heard presentations by the Company and Staff at its meeting on July 9, 2002.

4. Historically, the Commission has been limited in its authority with respect to utility financing and stock issuance applications pursuant to 26 Del. C. § 215. See Diamond State Tel. Co. v. Public Service Commission, Del. Supr., 367 A.2d 644 (1976) (holding that the future rate impact of the proposed financing transaction is not appropriate consideration in making a determination concerning such section 215 application). Here, based on the application and Staff's memorandum, the Commission determines that the proposed issuance of up to \$30 million in unsecured senior notes for the purposes set forth in the application is in accordance with law, for a proper purpose, and consistent with the public interest. Consequently, the application, as it seeks approval to issue such long-term debt, is granted.

B. Interest Rate Swap Products

5. The Commission has not previously been directly presented with the question of whether a utility must obtain Commission approval under section 215 before entering into, or utilizing, interest rate swap products, either generally or in the context of a particular debt obligation.¹ The Commission will not make such a definitive ruling here. The time limits for action imposed by 26 Del. C. § 215(d) simply do not allow sufficient time for the Commission to ask and answer, with confidence, not only the legal question of whether the wording of section 215 reaches these derivatives, but (maybe more importantly) the policy question of whether a pre-approval process for such derivatives is necessary for the Commission to exercise appropriate regulatory jurisdiction.²

6. Rather, here, the Commission will acknowledge that Chesapeake is considering the use of such interest rate swap products as a means to try to manage the cost of its debt obligations. To the extent that Chesapeake seeks some "safe-harbor" for a general right to use those derivatives, it can here rely on the "deemed approved" procedure in 26 Del. C. § 215(d). However, the Commission reserves the right to revisit the need for approval of these instruments at some later time, in some

¹It may be that other utilities have already utilized such derivatives and - having concluded that such type of agreements do not fall within the parameters of section 215 - simply have not made any filing with the Commission.

²This policy question would have to be considered in light of the courts' view of the limited authority granted to the Commission in exercising section 215 authority. See Diamond State Tel. Co., 367 A.2d at 647-48. The answer to the policy question may also be informed by the legislative decision to allow a public utility to file a three-year financing plan in lieu of seeking individual contemporaneous approval for each financing transaction. 26 Del. C. § 215(e)(1).

other proceeding. In the meantime, the Commission will direct Chesapeake to file information about particular Interest Rate Swap products which it might actually use. Such information will allow the Commission to gain a better working knowledge of the impact of these instruments. In addition, the action taken here should not be taken to answer other questions related to the use of such derivatives. For example, the Commission reserves the right in some later rate proceeding to determine to whom the benefits, or losses, under these derivative instruments, should flow.

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

1. That, pursuant to 26 Del. C. § 215(a)(2), the application filed by Chesapeake Utilities Corporation in this matter on June 13, 2002, is hereby approved and Chesapeake Utilities Corporation is hereby authorized to issue up to \$30 million in unsecured senior notes with maturity dates of up to 15 years. The proceeds from such debt shall be used for the purposes outlined in its application.

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

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

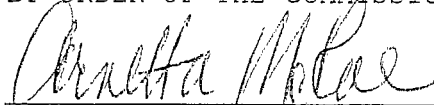
commission, or department hereof, with respect to the indebtedness to be issued pursuant to the application and this Order.

4. That Chesapeake Utilities Corporation shall, within thirty days of the consummation of any debt transactions approved herein, provide the Commission notice, by letter, of the date of consummation, the applicable interest rate, and the maturity dates for the 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.

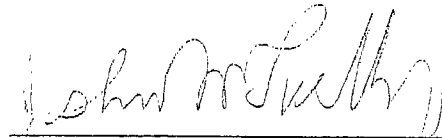
5. That the Commission acknowledges Chesapeake Utilities Corporation's representations that it may choose to enter into, or engage in, interest rate swaps, caps, floors, and collars with financial institutions as more particularly described in the application filed on June 13, 2002. To allow the Commission to gain knowledge about such transactions, Chesapeake Utilities Corporation shall, as soon as the applicable information is available for each particular derivative transaction to be actually entered into, provide the Commission information on the nature of the derivative product, the length of the transaction, and its terms and conditions. Chesapeake Utilities Corporation shall, at the same time, also provide to the Commission market data and other documents reflecting that the derivative product will likely be cost-effective.

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

BY ORDER OF THE COMMISSION:



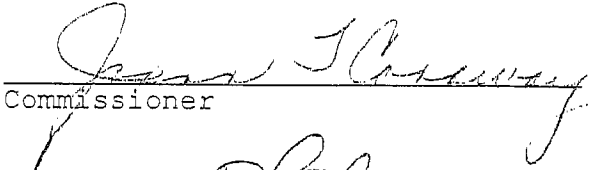
Chair



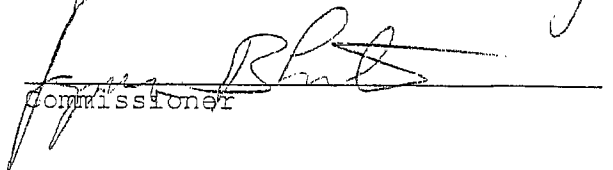
Vice Chair



Commissioner

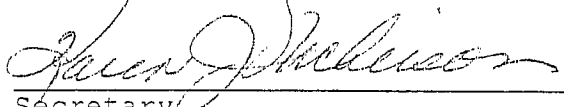


Commissioner



Commissioner

ATTEST:



Secretary

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, 2001 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 25, 2002, 5,456,536 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 25, 2002, as reported by the New York Stock Exchange, was approximately \$99.9 million.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the 2001 Annual Meeting of Stockholders are incorporated by reference in Part III.

CHESAPEAKE UTILITIES CORPORATION
FORM 10-K

YEAR ENDED DECEMBER 31, 2001

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PART I

ITEM 1. BUSINESS

Chesapeake has made statements in this Form 10-K that are considered to be forward-looking statements. These statements are not matters of historical fact. Sometimes they contain words such as “believes,” “expects,” “intends,” “plans,” “will,” or “may,” and other similar words of a predictive nature. These statements relate to matters such as customer growth, changes in revenues or margins, capital expenditures, environmental remediation costs, regulatory approvals, market risks 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. See Item 7 under the heading “Management’s Discussion and Analysis — Cautionary Statement.”

(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 42,700 residential, commercial and industrial customers in southern Delaware, Maryland’s Eastern Shore and 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 Southern Pennsylvania, Delaware and on the Eastern Shore of Maryland. The Company’s propane distribution operation serves approximately 34,600 customers in southern Delaware, the Eastern Shore of both Maryland and Virginia and parts of Florida. 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 subsidiaries in other service-related businesses.

(i) (a) Natural Gas Distribution and Transmission

General

Chesapeake distributes natural gas to approximately 42,700 residential, commercial and industrial customers in southern Delaware, the Salisbury and Cambridge, Maryland areas on Maryland’s Eastern Shore, and 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 and 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 32,400 customers, of which approximately 32,230 are residential and commercial customers purchasing gas primarily for heating purposes. The remainder are industrial customers. For the year 2001, residential and commercial customers accounted for approximately 78% of the volume delivered by

the divisions and 70% 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 approximately 10,500 residential and commercial and 92 industrial customers in Polk, Osceola, Hillsborough, Gadsden, Gilchrist, Union, Holmes, Jackson, Desoto, Suwannee and Citrus Counties. Currently the 92 industrial customers, which purchase and transport gas either on a firm or an interruptible basis, account for approximately 93% of the volume delivered by the Florida division and 40% of the revenues. These customers are primarily engaged in the citrus and phosphate industries and in electric cogeneration. The Company's Florida division, through Peninsula Energy Services Company provides natural gas supply management services to 203 customers.

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 a sales service 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 both firm and interruptible contracts with four interstate "open access" pipelines including Eastern Shore. The divisions are directly interconnected with Eastern Shore and services upstream of Eastern Shore are contracted with Transco Gas Pipeline Corporation ("Transco"), Columbia Gas Transmission ("Columbia") and Columbia Gulf Transmission Company ("Gulf"). The divisions use their firm transportation supply resources to meet a significant percentage of their projected demand requirements. In order to meet the difference between firm supply and firm demand, the divisions purchase natural gas supply on the "spot market" from various suppliers that is transported by the upstream pipelines and delivered to the divisions' interconnects with Eastern Shore. The divisions also have the capability to use propane-air peak-shaving to supplement or displace the "spot market" purchases. The Company believes that the availability of gas supply to the Delaware and Maryland divisions is adequate under existing arrangements 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, with provisions to continue from year to year, 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; (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 30,225 Dt per day for the period December through February, 29,003 Dt per day for the months of November, March and April, and 19,927 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 several suppliers. These supply contracts provide the availability of a maximum firm daily entitlement of 19,700 Dt and the supplies are transported by Transco, Columbia, Gulf and Eastern Shore under firm transportation contracts. The gas purchase contracts have various expiration dates and daily quantities may vary from day to day and month to month.

Maryland. 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, with provisions to continue from year to year, 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 several suppliers. These supply contracts provide the availability of a maximum firm daily entitlement of 7,600 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 day to day and month to month.

Florida. The Florida division receives transportation service from Florida Gas Transmission Company ("FGT"), a major interstate pipeline. Chesapeake has contracts with FGT for: (a) daily firm transportation capacity of 27,579 Dt in November through April, 21,200 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 1,600 in November through April under FGT's firm transportation service FTS-2 rate schedule. The firm transportation contract FTS-1 expires on August 1, 2010 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 its FTS-2 capacity. This turnback coincides with the in service dates of FGT's Phase 5 Project scheduled to be in service in the second quarter of 2002.

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

Eastern Shore. Eastern Shore has 2,888 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.

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 for its transportation services. 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.

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. 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

In March 1999, the Company, DPSC Staff and the Division of the Public Advocate settled all the issues in this matter and executed a proposed settlement agreement. 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 at 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.

Also under the agreements, the Company excludes 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.

The Company earned or retained \$500,000 of additional gross margin during 2000 as the Company met the requirements of the approved settlement in order to implement the approved mechanism. The mechanism had no impact on 2001 gross margins.

On August 2, 2001, the Delaware Division filed a general rate increase application. Interim rates, subject to refund went into effect on October 1, 2001. A settlement agreement was reached on February 20, 2002 that would result in an annual increase in rates of approximately \$380,000. The agreement is expected to be submitted to the DPSC for final approval in the second quarter of 2002.

As a result of filing the general rate increase application on August 2, 2001, the Delaware Division's previously approved rate design changes in 1999 to its margin sharing mechanism terminated. The previous rate design changes that addressed the level of recovery of fixed distribution costs from its residential and smaller commercial customers in relation to its margin sharing mechanism and the actual weather experienced, ended upon the implementation of interim rates on October 1, 2001.

Maryland. During the 1999 Maryland General Assembly legislative session, taxation of electric and gas utilities 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. 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.

Florida. On August 8, 2001, the Florida Division filed a petition for approval of tariff modifications relating to the Competitive Rate Adjustment Cost Recovery Clause (the “Clause”). On October 1, 2001, the Florida Public Service Commission (“FPSC”) issued an order approving the Clause. The Clause provides for the equitable distribution of surpluses or collection of shortfalls from both sales and transportation customers of any variances between our tariff rates and actual revenue derived from those customers who are provided service under our flexible rate tariff. All “market price sensitive” customers are excluded from the Clause.

On November 19, 2001, the Florida Division filed a petition with the Florida Public Service Commission for approval of certain transportation cost recovery factors. The Florida Public Service Commission approved the factors on January 24, 2002. In the Florida Division’s rate case approved in November 2000, the FPSC approved the concept but not the specifics of the recovery methodology or the level of costs to be recovered. The methodology and factors approved provide for the recovery, over a two year period, of the Florida Division’s actual and projected expenses incurred in the implementation of the transportation provisions of the tariff as approved in the November 2000 rate case.

On February 4, 2002, the FPSC approved a special contract with Suwannee American Limited Partnership. The agreement is for the construction of distribution facilities connecting Florida Gas Transmission’s (FGT) pipeline to the Suwannee American cement plant in order to provide natural gas service. The FGT pipeline and all of the Florida Division’s facilities are located on Suwannee America’s property located in Suwannee County, Florida.

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 was to enable Eastern Shore to provide 7,065 Dekatherms (“Dts”) of additional daily firm service capacity on Eastern Shore’s system. The FERC approved Eastern Shore’s application on April 28, 2000. The two miles of 16-inch mainline looping in Pennsylvania and the one mile of 4-inch lateral replacement in Delaware and Maryland were completed and placed in service during the fourth quarter of 2000. The ten miles of 6-inch mainline extension and associated delivery points in Delaware were completed and placed into service during the third quarter of 2001.

On January 11, 2001, Eastern Shore filed an application before the FERC requesting authorization for the following: (1) to construct and operate six miles of 16-inch pipeline looping in Pennsylvania and Maryland, (2) install 3,330 horsepower of additional capacity at the existing Daleville compressor station and (3) construct and operate a new delivery point in Chester County, Pennsylvania. The purpose of the construction was to enable Eastern Shore to provide 19,800 Dts of additional daily firm service capacity on its system. The expansion was completed and placed in service in the fourth quarter of 2001.

On January 25, 2002, Eastern Shore filed an application before FERC requesting authorization for the following: (1) Segment 1 – construct and operate 1.5 miles of 16-inch mainline looping in Pennsylvania on Eastern Shore’s existing

right-of-way; and (2) Segment 2 – construct and operate 1.0 mile of 16-inch mainline looping in Maryland and Delaware on, or adjacent to, Eastern Shore’s existing right-of-way. The purpose of the proposed construction is to enable Eastern Shore to provide 4,500 Dts of additional daily firm capacity on Eastern Shore’s system. The proposed expansion is targeted for completion by November 1, 2002 and is estimated to cost approximately \$2,654,000.

On October 31, 2001, Eastern Shore filed revised tariff sheets to reflect a general Natural Gas Act Section 4 rate increase before the FERC. The filing was made pursuant to the requirements of Article XII of the Stipulation and Agreement dated August 1, 1997. Eastern Shore’s filing proposed a change in base rates for firm transportation services.

On November 30, 2001, the Commission issued an Order, which accepted and suspended the effectiveness of the rates until May 1, 2002 subject to refund and the outcome of a hearing. A pre-hearing conference was held on December 18, 2001 and the hearing was scheduled has been September 24, 2002.

Discovery related to the rate proceeding began in January 2002 with FERC Staff data requests. The outcome of the proceedings is uncertain.

(i) (b) 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.

The Company’s consolidated propane distribution operation served approximately 34,600 propane customers on the Delmarva Peninsula and delivered approximately 22 million retail and wholesale gallons of propane during 2001.

In April 2000, Sharp Energy, Inc. started a propane distribution operation in West Palm Beach Florida doing business as Treasure Coast Propane.

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

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 supply and demand for 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 a gas 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

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

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

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

Competition

The Company's propane distribution operations compete with several other propane distributors in their service territories, primarily on the basis of service and price, emphasizing reliability of service and responsiveness. Competition is generally from local outlets of national distribution companies and local businesses because distributors located in close proximity to customers incur lower costs of providing service. Propane competes with electricity as an energy source, because it is typically less expensive than electricity, based on equivalent BTU value. 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, many of which have significantly greater 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 \$40,000,000 per occurrence, but there is no assurance that such insurance will be adequate.

(i) (c) Advanced Information Services

General

Chesapeake's advanced information services segment consists of BravePoint, Inc. ("BravePoint"), a wholly owned subsidiary of the Company. The Company changed its name from United Systems, Inc. in 2001 to reflect a change in service offerings.

BravePoint is based in Atlanta and primarily provides web-related products and services and support for users of PROGRESS™, a fourth generation computer language and Relational Database Management System. BravePoint offers consulting, training, placement, staffing, 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 does the Company. In addition, changes in the advanced information services business are occurring rapidly, which could adversely impact the markets for the products and services offered by these businesses.

(i) (d) Other Subsidiaries

Skipjack, Inc. ("Skipjack"), Eastern Shore Real Estate, Inc. and Chesapeake Investment Company are wholly owned subsidiaries of Chesapeake Service Company. Skipjack and Eastern Shore Real Estate, Inc. own and lease office buildings Delaware and Maryland to affiliates of Chesapeake. Chesapeake Investment Company is a Delaware affiliated investment company.

The Company owns several businesses involved in water conditioning and treatment and bottled water services. Sam Shannahan Well Co., Inc. (dba Sharp Water, Inc.) and Sharp Water, Inc. are wholly owned subsidiaries of Chesapeake. EcoWater Systems of Michigan, Inc. (dba Douglas Water Conditioning), Carroll Water Systems, Inc., Absolute Water Care, Inc., Sharp Water of Florida, Inc. (dba Aquarius Water Systems), Sharp Water of Minnesota, Inc. (dba EcoWater Systems of Rochester) and Sharp Water of Idaho, Inc. (dba Intermountain Water) are wholly owned subsidiaries of Sharp Water, Inc.

The water operations serve central and southern Delaware; the eastern shore of Virginia; Maryland; Detroit, Michigan; Rochester, Minnesota; Boise, Idaho and parts of Florida. They face competition from a variety of national and local suppliers of water conditioning and treatment services and bottled water.

(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, 2001, Chesapeake had 580 employees, including 177 in natural gas, 128 in propane, 103 in advanced information services and 122 in water conditioning. The remaining 44 employees are considered general and administrative and include officers of the Company, treasury, accounting, information technology, human resources and other administrative personnel. The 2001 acquisitions added 51 employees.

(v) Executive Officers of the Registrant

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

Ralph J. Adkins (age 59) Mr. Adkins is Chairman of the Board of Directors of Chesapeake. He has served as Chairman since 1997. Prior to January 1, 1999, Mr. Adkins served as Chief Executive Officer, a position he had held since 1990. During his tenure with Chesapeake Mr. Adkins has also served as President and Chief Executive Officer, President and Chief Operating Officer, Executive Vice President, Senior Vice President, Vice President and Treasurer of Chesapeake. He has been a director of Chesapeake since 1989.

John R. Schimkaitis (age 54) Mr. Schimkaitis assumed the role of Chief Executive Officer on January 1, 1999. He has served as President since 1997. His present term expires on May 21, 2002. Prior to his new post, Mr. Schimkaitis

has also served as President and Chief Operating Officer, Executive Vice President and Chief Operating Officer, Senior Vice President and Chief Financial Officer, Vice President, Treasurer, Assistant Treasurer and Assistant Secretary of Chesapeake. He has been a director of Chesapeake since 1996.

Michael P. McMasters (age 43) 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 41) 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.

William C. Boyles (age 44) 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; Winter Haven, Florida; and Fenton, Michigan. Chesapeake rents office space in Dover, Delaware; Jupiter, Lecanto, Venice and Stuart, Florida; Chincoteague and Belle Haven, Virginia; Easton, Salisbury, Westminster and Pocomoke, Maryland; Waterford, Michigan; Houston, Texas; Atlanta, Georgia; Boise and Moscow, Idaho; and Rochester, Minnesota. In general, the properties of the Company are adequate for the uses for which they are employed. Capacity and utilization of the Company's facilities can vary significantly due to the seasonal nature of the natural gas and propane distribution businesses.

(b) Natural Gas Distribution

Chesapeake owns over 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.

(c) 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 compressor stations are used to provide increased pressures required to meet demands on the system.

(d) Propane Distribution and Marketing

The company's Delmarva-based propane distribution operation own bulk propane storage facilities with an aggregate capacity of approximately 1.9 million gallons at 31 plant facilities in Delaware, Maryland and Virginia, located on real estate they either own or lease. The company's Florida-based propane distribution operation owns one bulk propane storage facility with a capacity of 30,000 gallons. Xeron does not own physical storage facilities or equipment to transport propane.

(e) Other

The Company owns and operates a resin regeneration facility in Salisbury, Maryland to serve exchange tank and metered water customers and a sales office in Fenton, Michigan. The other water operations operate out of rented facilities.

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 MGP.

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, including 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 of Delaware 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).

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 ("SVE") system (another major component of the soil remediation) and continued with the ongoing operation of the system at a cost of \$250,000. In 2000, the Company operated the SVE system and during the last quarter of 2000, the Company submitted to the EPA their finding along with a request to discontinue the SVE operations. The Company is awaiting a response from the EPA on their request. If discontinuation of the SVE procedures is approved, the company will 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 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.

Because the Company cannot predict what the EPA will require for the overall ground-water program, a liability of \$2.1 million was accrued 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 the 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 scheduled the trial for February 2001. In early February 2001, the Company and GPU reached a tentative settlement agreement that is subject to approval of the courts.

In May 2001, Chesapeake, General Public Utilities Corporation, Inc. ("GPU"), the State of Delaware and the United States Environmental Protection Agency ("EPA") signed a settlement term sheet reflecting the agreement in principle to settle a lawsuit with respect to the Dover Gas Light site. The parties are in the process of memorializing the terms of the final agreement in two consent decrees. The consent decrees will then be published for public comment and submitted to a federal judge for approval.

If the agreement in principle receives final approval, Chesapeake will:

- Design and construct a parking lot on the site and dismantle the soil vapor extraction system that had been erected at the site.
- Receive a net payment of \$1.15 million from other parties to the agreement. These proceeds will be passed on to Chesapeake's firm customers, in accordance with the environmental rate rider.
- Receive a release from liability and covenant not to sue from the EPA and the State of Delaware. This will relieve Chesapeake from liability for future remediation at the site, unless previously unknown conditions are discovered at the site, or information previously unknown to EPA is received that indicates the remedial action related to the prior manufactured gas plant is not sufficiently protective. These contingencies are standard, and are required by the United States in all liability settlements.

At December 31, 2001, the Company had accrued \$2.1 million of costs associated with the remediation of the Dover site and had recorded an associated regulatory asset for the same amount. Of that amount, \$1.5 million was for estimated ground-water remediation and \$600,000 was for remaining soil remediation. The \$1.5 million represented the low end of the ground-water remediation estimates prepared by an independent consultant and was used because the Company could not, at that time, predict the remedy the EPA might require.

Upon receiving final court approval of the consent decrees, Chesapeake will reduce both the accrued environmental liability and the associated environmental regulatory asset to the amount required to complete its obligations (primarily the final demobilization of the remedial system and final design and construction of the parking lot).

Through December 31, 2001, the Company has incurred approximately \$8.9 million in costs relating to environmental testing and remedial action studies at the Dover site. 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 the carrying cost savings associated with the timing of the deduction of environmental costs for tax purposes as compared 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 rider makes it unnecessary to file a rate case every year to recover expenses incurred. Through December 31, 2001, the unamortized balance and amount of environmental costs not included in the rider; effective January 1, 2002 were \$2,878,000 and \$67,000,

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 Company has requested approval from the MDE to shutdown the remediation procedures currently in place. The MDE approved a temporary shutdown and is evaluating a complete shutdown of the system.

The estimated cost of the remaining remediation is approximately \$100,000 for the final year's operating costs and capital costs to shut down the remediation process at the end of the year. Based on these estimated costs, the Company adjusted both its liability and related regulatory asset to \$100,000 on December 31, 2001, to cover the Company's projected remediation costs for this site. Through December 31, 2001, the Company has incurred approximately \$2.8 million for remedial actions and environmental studies. Of this amount, approximately \$1,062,000 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. In February 2001, the company filed a remedial action plan ("RAP") with the FDEP to address the contamination of the subsurface soil and groundwater in the northern portion of the site. The FDEP approved the RAP on May 4, 2001.

The Company has accrued a liability of \$1,000,000 as of December 31, 2001 for the Florida site. The Company has recovered all environmental costs incurred to date, approximately \$890,000, 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, 2001, Chesapeake had received \$523,000 related to future costs, which are expected to be incurred. There is a regulatory asset recorded at December 31, 2001 of \$477,000, which represents the estimated future liability for clean up (\$1,000,000), net of the amount received through rates in excess of the costs incurred to date (\$523,000).

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 2001 and 2000 were as follows:

Quarter Ended	High	Low	Close	Dividends Declared Per Share
2001				
March 31	\$19.1250	\$17.3750	\$18.2000	\$0.2700
June 30	19.5500	17.6000	18.8800	0.2700
September 30.....	19.2000	17.7500	18.3500	0.2750
December 31	19.9000	18.1000	19.8000	0.2750
2000				
March 31	\$18.8750	\$16.2500	\$16.9375	\$0.2600
June 30	18.5000	16.3750	17.7500	0.2600
September 30.....	18.1250	16.6250	18.1250	0.2700
December 31	18.7500	16.7500	18.6250	0.2700

Indentures pertaining to the long-term debt of the Company and its subsidiaries each 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, 2001, the amounts available for future dividends permitted by the Series I covenant are \$19.9 million.

At December 31, 2001, there were approximately 2,171 shareholders of record of the Common Stock.

ITEM 6. SELECTED FINANCIAL DATA

10-Year Financial & Statistical Information

For the Years Ended December 31,	2001	2000	1999
Operating (in thousands of dollars)			
Revenues			
Natural gas distribution and transmission	\$108,122	\$99,750	\$75,592
Propane	198,124	216,273	138,437
Advanced informations systems	14,104	12,353	13,531
Other	9,971	7,037	2,640
Total revenues	\$330,321	\$335,413	\$230,200
Gross margin			
Natural gas distribution and transmission	\$37,374	\$35,322	\$32,339
Propane	14,444	15,995	14,099
Advanced informations systems	6,719	5,656	6,575
Other	5,429	3,611	1,025
Total gross margin	\$63,966	\$60,584	\$54,038
Operating income before taxes			
Natural gas distribution and transmission	\$14,267	\$12,365	\$10,300
Propane	1,100	2,319	2,627
Advanced informations systems	517	336	1,470
Other	(339)	1,006	452
Total operating income before taxes	\$15,545	\$16,026	\$14,849
Net income from continuing operations ⁽²⁾	\$6,722	\$7,489	\$8,271
Assets (in thousands of dollars)			
Gross property, plant and equipment	\$216,903	\$192,940	\$172,088
Net property, plant and equipment	\$150,256	\$131,466	\$117,663
Total assets	\$210,054	\$210,700	\$166,989
Capital expenditures	\$29,186	\$23,056	\$25,917
Capitalization (in thousands of dollars)			
Stockholders' equity	\$66,850	\$63,972	\$60,164
Long-term debt, net of current maturities	\$48,408	\$50,921	\$33,777
Total capital	\$115,258	\$114,893	\$93,941
Current portion of long-term debt	\$2,686	\$2,665	\$2,665
Short-term debt	\$42,100	\$25,400	\$23,000
Total capitalization and short-term financing	\$160,044	\$142,958	\$119,606

⁽¹⁾ 1994 and prior years have not been restated to include the business combinations with Tri-County Gas Company, Inc., Tolan Water Service and Xeron, Inc.

⁽²⁾ For the year 1992, the Company had net income from discontinued operations included in earnings of \$73,500.

1998	1997	1996	1995	1994 ⁽¹⁾	1993 ⁽¹⁾	1992 ⁽¹⁾
\$68,745	\$88,105	\$90,093	\$79,105	\$71,716	\$64,380	\$55,877
102,063	125,159	161,812	147,596	20,684	16,908	16,489
10,331	7,636	6,903	7,307	2,288	1,706	1,122
1,781	1,589	1,294	1,277	3,884	2,879	2,447
\$182,920	\$222,489	\$260,102	\$235,285	\$98,572	\$85,873	\$75,935
\$29,516	\$30,064	\$29,612	\$29,094	\$23,943	\$22,833	\$22,055
12,071	12,492	17,579	13,235	9,359	8,579	7,954
5,316	3,856	2,503	1,823	1,281	955	628
901	737	915	1,016	1,472	1,078	942
\$47,804	\$47,149	\$50,609	\$45,168	\$36,055	\$33,445	\$31,579
\$8,814	\$9,219	\$9,625	\$10,811	\$7,715	\$7,207	\$7,083
971	1,158	2,669	2,128	2,288	1,588	1,440
1,316	1,046	1,017	587	(246)	136	70
504	671	672	508	0	(631)	(705)
\$11,605	\$12,094	\$13,983	\$14,034	\$9,757	\$8,300	\$7,888
\$5,303	\$5,868	\$7,782	\$7,696	\$4,460	\$3,972	\$3,549
\$152,991	\$144,251	\$134,001	\$120,746	\$110,023	\$100,330	\$91,039
\$104,266	\$99,879	\$94,014	\$85,055	\$75,313	\$69,794	\$64,596
\$145,234	\$145,719	\$155,787	\$130,998	\$108,271	\$100,775	\$89,214
\$12,650	\$13,471	\$15,399	\$12,887	\$10,653	\$10,064	\$6,720
\$56,356	\$53,656	\$50,700	\$45,587	\$37,063	\$34,817	\$33,105
\$37,597	\$38,226	\$28,984	\$31,619	\$24,329	\$25,682	\$25,668
\$93,953	\$91,882	\$79,684	\$77,206	\$61,392	\$60,499	\$58,773
\$520	\$1,051	\$3,526	\$1,787	\$1,348	\$1,286	\$5,026
\$11,600	\$7,600	\$12,735	\$5,400	\$8,000	\$8,900	\$0
\$106,073	\$100,533	\$95,945	\$84,393	\$70,740	\$70,685	\$63,799

10-Year Financial & Statistical Information

For the Years Ended December 31,	2001	2000	1999
Common Stock Data and Ratios			
Basic earnings per share ⁽²⁾ ⁽³⁾ ⁽⁴⁾	\$1.25	\$1.43	\$1.61
Return on average equity	10.3%	12.1%	14.2%
Common equity / total capital	58.0%	55.7%	64.0%
Common equity / total capital and short-term financing	41.8%	44.7%	50.3%
Book value per share	\$12.32	\$12.08	\$11.60
Market price:			
High	\$19.900	\$18.875	\$19.813
Low	\$17.375	\$16.250	\$14.875
Close	\$19.800	\$18.625	\$18.375
Average number of shares outstanding	5,367,433	5,249,439	5,144,449
Shares outstanding end of year	5,424,962	5,297,443	5,186,546
Registered common shareholders	2,171	2,166	2,212
Cash dividends per share	\$1.09	\$1.06	\$1.02
Dividend yield (annualized)	5.6%	5.8%	5.7%
Payout ratio	87.2%	74.1%	63.4%
Additional Data			
Customers			
Natural gas distribution and transmission	42,741	40,854	39,029
Propane distribution	34,632	35,345	35,267
Volumes			
Natural gas deliveries (in MMCF)	27,264	30,830	27,383
Propane distribution (in thousands of gallons)	23,080	28,469	27,788
Heating degree-days (Delmarva Peninsula)	4,368	4,730	4,082
Propane bulk storage capacity (in thousands of gallons)	1,958	1,928	1,926
Total employees	580	542	522

⁽¹⁾ 1994 and prior years have not been restated to include the business combinations with Tri-County Gas Company, Inc., Tolan Water Service and Xeron, Inc.

⁽²⁾ Earnings per share amounts shown prior to 1995 represent primary and fully diluted earnings per share.

⁽³⁾ 1993 excludes earnings per share of \$0.02 for the cumulative effect of change in accounting principle.

⁽⁴⁾ 1992 excludes earnings per share of \$0.02 for discontinued operations.

1998	1997	1996	1995	1994 ⁽¹⁾	1993 ⁽¹⁾	1992 ⁽¹⁾
\$1.05	\$1.18	\$1.58	\$1.59	\$1.23	\$1.12	\$1.02
9.6%	11.3%	16.2%	18.6%	12.4%	11.2%	10.5%
60.0%	58.4%	63.6%	59.0%	60.4%	57.5%	56.3%
53.1%	53.4%	52.8%	54.0%	52.4%	49.3%	51.9%
\$11.06	\$10.72	\$10.26	\$9.38	\$10.15	\$9.76	\$9.50
\$20.500	\$21.750	\$18.000	\$15.500	\$15.250	\$17.500	\$15.000
\$16.500	\$16.250	\$15.125	\$12.250	\$12.375	\$13.000	\$11.500
\$18.313	\$20.500	\$16.875	\$14.625	\$12.750	\$15.375	\$13.000
5,060,328	4,972,086	4,912,136	4,836,430	3,628,056	3,551,932	3,477,244
5,093,788	5,004,078	4,939,515	4,860,588	3,653,182	3,575,068	3,487,778
2,271	2,178	2,213	2,098	1,721	1,743	1,674
\$1.00	\$0.97	\$0.93	\$0.90	\$0.88	\$0.86	\$0.86
5.5%	4.7%	5.5%	6.2%	6.9%	5.6%	6.6%
95.2%	82.2%	58.9%	56.6%	71.5%	76.8%	84.3%
37,128	35,797	34,713	33,530	32,346	31,270	30,407
34,113	33,123	31,961	31,115	22,180	21,622	21,132
21,400	23,297	24,835	29,260	22,728	19,444	17,344
25,979	26,682	29,975	26,184	18,395	17,250	17,125
3,704	4,430	4,717	4,594	4,398	4,705	4,645
1,890	1,866	1,860	1,818	1,230	1,140	1,140
456	397	338	335	320	326	317

Management's Discussion and Analysis

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, advanced information services and other related businesses.

Liquidity and Capital Resources

Chesapeake's capital requirements reflect the capital-intensive nature of its business and are principally attributable 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 2001, net cash provided by operating activities was \$15.5 million, cash used by investing activities was \$29.2 million and cash provided by financing activities was \$10.3 million. Based upon anticipated cash requirements in 2002, Chesapeake expects to refinance its short-term debt through the issuance of long-term debt. The timing of such an issuance will depend on the nature of the securities involved, the Company's financial needs and current market and economic conditions.

The Board of Directors has authorized the Company to borrow up to \$55.0 million of short-term debt from various banks and trust companies. As of December 31, 2001, Chesapeake had three unsecured bank lines of credit with two financial institutions, totaling \$65.0 million, for short-term cash needs to meet seasonal working capital requirements and to temporarily fund portions of its capital expenditures. One of the bank lines is committed. The other two lines are subject to the banks' availability of funds. The outstanding balances of short-term borrowing at December 31, 2001 and 2000 were \$42.1 million and \$25.4 million, respectively. In 2001, Chesapeake used funds provided by operations, short-term borrowing and cash on hand to fund capital expenditures. In 2000, Chesapeake used funds provided from operations and the issuance of long-term debt to fund capital expenditures and the increase in working capital associated with high gas costs. At December 31, 2001, the Company had an under-recovered purchased gas cost balance of \$6.5 million, a decrease of \$829,000 from the \$7.3 million balance in 2000.

During 2001, 2000 and 1999, capital expenditures were approximately \$29.2, \$21.8 and \$25.1 million, respectively. Capital expenditures increased in 2001 primarily as a result of Eastern Shore Natural Gas expenditures, totaling \$16.2 million, related to system expansion. Natural gas distribution also spent approximately \$7.7 million for expansion of facilities to serve new customers and for improvements of facilities. Chesapeake has budgeted \$16.8 million for capital expenditures during 2002. This amount includes \$11.8 million for natural gas distribution and transmission, \$2.3 million for propane distribution and marketing, \$200,000 for advanced information services and \$2.5 million for other operations. The natural gas distribution and transmission expenditures are for expansion and improvement of facilities. The propane expenditures are to support customer growth and for the replacement of equipment. The advanced information services expenditures are for computer hardware, software and related equipment. Expenditures for other operations include expenditures to support customer growth and replace equipment for water operations and general plant, computer software and hardware. Financing for the 2002 capital expenditure program is expected to be provided from short-term borrowing, cash provided by operating activities and the expected issuance of long-term debt. The capital expenditure program is subject to continuous review and modification. Actual capital requirements may vary from the above estimates due to a number of factors including acquisition opportunities, changing economic conditions, customer growth in existing areas, regulation, availability of capital and new growth opportunities.

Chesapeake has budgeted \$846,000 for environmental-related expenditures during 2002 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, 2001, common equity represented 58.0 percent of total permanent capitalization, compared to 55.7 percent in 2000. Including short-term borrowing and the current portion of long-term debt, the equity component of the Company's capitalization would have been 41.8 percent and 44.7 percent, respectively. Chesapeake remains committed to maintaining a sound capital structure and strong credit ratings to provide the financial flexibility needed to access the capital markets when required. This commitment, along with adequate and timely rate relief for the Company's regulated operations, is intended to ensure that Chesapeake will be able to attract capital from outside sources at a reasonable cost. The Company believes that the achievement of these objectives will provide benefits to customers and creditors, as well as to the Company's investors.

Financing Activities

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

In May 2001, Chesapeake issued a note payable of \$300,000 at 8.5 percent, due April 6, 2006, in conjunction with a real estate purchase. In December 2000, Chesapeake completed a private placement of \$20.0 million of 7.83 percent Senior Notes due January 1, 2015. The Company used the proceeds to repay short-term borrowing.

Chesapeake repaid approximately \$2.7 million of long-term debt in both 2001 and 2000. Chesapeake issued common stock in connection with its Automatic Dividend Reinvestment and Stock Purchase Plan, in the amounts of 43,101 shares in 2001, 41,056 shares in 2000 and 36,319 shares in 1999.

Results of Operations

Net income for 2001 was \$6.7 million compared to \$7.5 million for 2000 and \$8.3 million for 1999. The reduction in earnings in 2001 was due to declines in the propane segment and other businesses' contribution to earnings, partially offset by increases in natural gas and advanced information services. Propane margins declined due to a 13 percent drop in sales because of warmer temperatures, a reduction in sales to poultry customers and the continuation of competitive pressures in some markets the Company serves on the Delmarva Peninsula. Heating degree-days on the Delmarva Peninsula indicate that temperatures were 8 percent warmer than 2000 and 1 percent warmer than normal. The margin decrease was partially offset by savings in operating expenses resulting from cost containment measures implemented during 2001. The decrease in other operations is due principally to a drop in pre-tax operating income for the water businesses resulting from increased overhead due to the development of a management infrastructure and expansion to new locations. The natural gas segment improved over 2000 as a result of enhanced margins in the transmission segment and from a rate increase in Florida and reductions in operating expenses in Delaware and Maryland. Interest expense increased \$770,000 due to an increase in long-term debt, partially offset by lower short-term interest rates.

Pre-Tax Operating Income Summary (in thousands)

For the Years Ended December 31,	2001	2000	Increase (decrease)	2000	1999	Increase (decrease)
Business Segment:						
Natural gas distribution & transmission	\$ 14,267	\$ 12,365	\$ 1,902	\$ 12,365	\$ 10,300	\$ 2,065
Propane	1,100	2,319	(1,219)	2,319	2,627	(308)
Advanced information services	518	336	182	336	1,470	(1,134)
Other & Eliminations	(339)	1,006	(1,345)	1,006	452	554
Total Pre-tax Operating Income	\$ 15,546	\$ 16,026	\$ (480)	\$ 16,026	\$ 14,849	\$ 1,177

The reduction in net income in 2000 compared to 1999 is primarily due to a one-time after tax gain of \$863,000 on the sale of the Company's investment in Florida Public Utilities Company recorded in the fourth quarter of 1999 (see Note E to the Consolidated Financial Statements). Exclusive of this gain, net income for 2000 increased by \$81,000; however, earnings per share decreased \$0.01 per share. This increase in net income for 2000 reflected improved pre-tax operating income for the natural gas business segment, offset by a reduction in contribution from the advanced information services

Management's Discussion and Analysis

and the propane gas segments. The natural gas segment benefited from cooler temperatures, a 5 percent growth in customers and increased transportation services. In terms of heating degree-days, temperatures for the year were 16 percent cooler than the prior year and 4 percent cooler than normal. The reduced contribution from the advanced information services segment reflects lower revenues from their traditional lines of business in 2000. The propane gas segment also benefited from cooler weather and an increase in marketing margins; however, higher operating expenses offset these increases. Also contributing to the increase in net income for 2000 was the Company's other business operations, which included a full year of operations from the water business acquisitions that occurred in late 1999 and early 2000.

The \$863,000 after-tax gain on the sale of the Company's investment in Florida Public Utilities Company is shown in non-operating income on the Company's financial statements.

Natural Gas Distribution and Transmission

Pre-tax operating income increased \$1.9 million from 2000 to 2001. The increase in pre-tax operating income was due to increases contributed by the Company's Florida operations and the natural gas transmission subsidiary. The Florida unit's increase was driven by higher margins due to a rate increase implemented in August 2000 and increased margins from the marketing operation, partially due to the expansion of transportation services in Florida. In addition, the transmission subsidiary's margins increased by approximately \$1.1 million due to an increase in firm transportation services provided to its customers. The transmission subsidiary increased its capacity to provide firm transportation services by expanding its system. While the margins in Delaware and Maryland were down by more than \$700,000 primarily due to weather, cost reduction measures implemented in 2001 enabled the Company to maintain earnings in these two units. The Delaware Division also implemented an interim rate increase, subject to refund, on October 1, 2001. Included in the Company's operating expense reduction is a one-time credit adjustment of approximately \$280,000 to establish a regulatory asset for other post retirement benefits which are being collected through the Company's rates on a "pay-as-you-go" basis in Delaware.

Natural Gas Distribution and Transmission (in thousands)

For the Years Ended December 31,			Increase		Increase	
	2001	2000	(decrease)	2000	1999	(decrease)
Revenue	\$ 108,234	\$ 99,870	\$ 8,364	\$ 99,870	\$ 75,653	\$ 24,217
Cost of gas	70,749	64,429	6,320	64,429	43,253	21,176
Gross margin	37,485	35,441	2,044	35,441	32,400	3,041
Operations & maintenance	15,008	15,527	(519)	15,527	14,927	600
Depreciation & amortization	5,667	5,253	414	5,253	4,803	450
Other taxes	2,543	2,296	247	2,296	2,370	(74)
Pre-tax operating expenses	23,218	23,076	142	23,076	22,100	976
Total Pre-tax Operating Income	\$ 14,267	\$ 12,365	\$ 1,902	\$ 12,365	\$ 10,300	\$ 2,065

Pre-tax operating income increased \$2.1 million from 1999 to 2000. The increase was the result of a \$3.0 million increase in gross margin offset by a \$1.0 million increase in operating expenses. The principal factors responsible for this increase in gross margin were:

- increased levels of firm transportation services;
- customer growth of 5 percent, primarily residential and commercial;
- greater deliveries due to temperatures in 2000 which were 16 percent cooler than 1999;
- an adjustment to the Delaware operation's margin sharing mechanism to compensate for warmer temperatures in late 1999 and early 2000; and
- interim rates in the Florida operation beginning in August 2000, with final rate increase taking effect in December 2000.

The customer growth and cooler temperatures resulted in a 14 percent increase in volumes delivered to residential and commercial customers.

Under normal temperatures and customer usage, the Company estimates that 5 percent customer growth would generate an additional margin of \$850,000 on an annual basis.

Propane

Pre-tax operating income declined from \$2.3 million in 2000 to \$1.1 million in 2001. The Delmarva propane operations pre-tax operating income decreased \$1.2 million. In addition, the propane start-ups in Florida lost approximately \$293,000 on a pre-tax basis in 2001. The Company's wholesale marketing subsidiary continued to contribute earnings above the Company's target expectations in 2001.

Propane (in thousands)						
For the Years Ended December 31,	2001	2000	Increase (decrease)	2000	1999	Increase (decrease)
Revenue	\$ 198,124	\$ 216,273	\$ (18,149)	\$ 216,273	\$ 138,437	\$ 77,836
Cost of sales	183,680	200,278	(16,598)	200,278	124,338	75,940
Gross margin	14,444	15,995	(1,551)	15,995	14,099	1,896
Operations & maintenance	11,181	11,608	(427)	11,608	9,623	1,985
Depreciation & amortization	1,437	1,429	8	1,429	1,202	227
Other taxes	726	639	87	639	647	(8)
Pre-tax operating expenses	13,344	13,676	(332)	13,676	11,472	2,204
Total Pre-tax Operating Income	\$ 1,100	\$ 2,319	\$ (1,219)	\$ 2,319	\$ 2,627	\$ (308)

During 2001, the Company's gross margins on the Delmarva Peninsula declined by approximately \$1.75 million due to a 13 percent decline in sales volumes. Cost containment measures taken during the second quarter of 2001 generated a \$575,000 reduction in operations and maintenance expenses. However, this was not enough to offset the reduced margins on the lower sales volumes. The decline in margins was due to warmer temperatures, a reduction in sales to poultry customers and the continuation of competitive pressures in some of the markets the Company serves on the Peninsula. The decline in sales to the poultry customers comprised 32 percent of the decline in margins. The decreases in volume have been exacerbated by the decline in wholesale prices over the course of the year. Declines in wholesale prices, which are generally good for the long-term, negatively impact the Company in the short-term by devaluing its inventories and fixed price supply contracts. During 2001, the Company wrote down inventory totaling \$850,000 due to wholesale price declines. Increased competition has also affected volumes sold. Over the last couple of years, several independent dealers have entered the propane business with pricing strategies designed to acquire market share. The Company's position as the largest or second largest distributor in several of the markets that it serves makes it particularly vulnerable to these tactics.

In 2000, the Company started up three propane distribution operations in Florida. The operations contributed \$238,000 to gross margin in 2001.

Although the margins contributed by the marketing operation declined by four percent in 2001, they were still well above the earnings target established by the Company.

Pre-tax operating income for 2000 was \$2.3 million compared to \$2.6 million for 1999. This decline of \$308,000 was the result of an increase in operating expenses of \$2.2 million offset by an increase of \$1.9 million in gross margin. Operating expenses were higher due to several initiatives the Company undertook to enhance long-term customer service. The initiatives included the opening of a customer service/marketing office in a location convenient to retail shopping, an increase in merchandise sales and service activities and the extension of customer service hours. The Company expects that the Florida propane start-ups may take up to three years to achieve profitability. Gross margin was higher in 2000

Management's Discussion and Analysis

due primarily to an increase of 102 percent in wholesale margins earned. Additionally, gallons delivered by the distribution operations increased by 2 percent.

Advanced Information Services

The advanced information services segment provides consulting, custom programming, training, development tools and website development for national and international clients. The segment's contribution to pre-tax operating income increased \$182,000 over the depressed levels in 2000, to \$518,000 in 2001. The \$1.7 million increase in revenue was partially offset by the increase in the cost of providing the services and the cost of the marketing program implemented during the first half of the year. Marketing costs during 2001 were approximately \$400,000 over the normal levels the Company expects. WebProEX sales and related consulting contributed approximately \$450,000 of the increase in revenues during 2001.

Advanced Information Services (in thousands)						
For the Years Ended December 31,	2001	2000	Increase (decrease)	2000	1999	Increase (decrease)
Revenue	\$ 14,104	\$ 12,390	\$ 1,714	\$ 12,390	\$ 13,531	\$ (1,141)
Cost of sales	7,384	6,696	688	6,696	6,956	(260)
Gross margin	6,720	5,694	1,026	5,694	6,575	(881)
Operations & maintenance	5,361	4,576	785	4,576	4,353	223
Depreciation & amortization	256	280	(24)	280	268	12
Other taxes	585	502	83	502	484	18
Pre-tax operating expenses	6,202	5,358	844	5,358	5,105	253
Total Pre-tax Operating Income	\$ 518	\$ 336	\$ 182	\$ 336	\$ 1,470	\$ (1,134)

The advanced information services segment's contribution to consolidated pre-tax operating income for 2000 decreased \$1.1 million or 77 percent from 1999. The decline is directly related to a reduction in revenues earned from the traditional information technology business. This reduction occurred primarily due to many clients implementing their year 2000 contingency plans in 1999, then significantly reducing their information technology expenditures in 2000. This reduction was somewhat offset by continued growth in revenue earned on web-related products and services. Operating expenses increased 6 percent, primarily in the areas of compensation, marketing and uncollectible accounts.

Other Operations

The pre-tax operating loss for the Company's other operations is primarily due to the decline in the performance of the water businesses.

Other Operations (in thousands)						
For the Years Ended December 31,	2001	2000	Increase (decrease)	2000	1999	Increase (decrease)
Revenue	\$ 9,859	\$ 6,881	\$ 2,978	\$ 6,881	\$ 2,579	\$ 4,302
Cost of sales	4,542	3,426	1,116	3,426	1,616	1,810
Gross margin	5,317	3,455	1,862	3,455	963	2,492
Operations & maintenance	4,284	2,021	2,263	2,021	161	1,860
Depreciation & amortization	974	180	794	180	251	(71)
Other taxes	398	248	150	248	99	149
Pre-tax operating expenses	5,656	2,449	3,207	2,449	511	1,938
Total Pre-tax Operating (Loss) Income	\$ (339)	\$ 1,006	\$ (1,345)	\$ 1,006	\$ 452	\$ 554

The water businesses contribution to pre-tax operating income declined by \$915,000 in 2001. Water's contribution declined from \$190,000 in 2000 to a loss of \$725,000 in 2001. Approximately \$574,000 of the decline is due to the cost of establishing a corporate infrastructure for the group. In addition, the Michigan unit's performance declined by \$218,000 (net of corporate charges). The decrease resulted from a decline in sales and from an increase in depreciation, primarily related to changing out rental equipment. Finally, the two companies acquired in Florida during 2001

experienced a pre-tax loss of \$177,000 (net of corporate charges) during 2001. Transition costs were incurred after the acquisition, primarily the relocation of offices and related expenses.

Overall, other operations' margins increased by approximately \$1.9 million or 54 percent. However, other operations' pre-tax costs increased by \$3.2 million or 131 percent.

Income Taxes

Operating income taxes were lower in 2001 than 2000, due to lower operating income and higher interest expense, partially offset by the utilization of a higher effective tax rate in 2001. In 2001, the Company accrued income taxes at a federal tax rate of 35 percent as opposed to a 34 percent rate in 2000.

Operating income taxes were higher in 2000 compared to 1999 due to higher pre-tax operating income and a higher composite income tax rate. The higher composite tax rate in 2000 is the net effect of adjusting the 1999 accumulated deferred tax balances to a 35 percent federal rate, partially offset by a reduction in the tax accrual of \$238,000 due to a reassessment of known tax exposures.

Other Income

Non-operating income net of tax was \$483,000, \$361,000 and \$1,066,000 for the years 2001, 2000 and 1999, 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 net of tax for 1999 was \$203,000.

Interest Expense

Interest expense for 2001 increased due to a higher level of long-term debt, partially offset by lower interest rates on short-term borrowing. Interest expense increased in 2000 due to a higher average short-term borrowing balance of \$24.2 million in 2000 compared to \$9.9 million in 1999. Also contributing to the increase in interest expense is a higher short-term borrowing rate of 6.89 percent in 2000, up from 5.51 percent in 1999.

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 ("FERC").

On August 2, 2001, the Delaware Division filed a general rate increase application. Interim rates, subject to refund, went into effect on October 1, 2001. A proposed settlement agreement was reached that would result in an annual increase in rates of approximately \$380,000. The proposed settlement is expected to be submitted to the Delaware Public Service Commission for approval in the second quarter of 2002.

In 1999, the Company requested and received approval from the Delaware Public Service Commission to annually adjust its interruptible margin sharing mechanism to address the level of recovery of fixed distribution costs from residential and small commercial heating customers. The annual period runs from August 1 to July 31. During 2000, the weather for the period ending August 31, 2000 was warmer than the threshold, resulting in a reduction in margin sharing. This reduction resulted in a \$417,000 increase in margin for 2000.

As a result of filing the general rate increase application on August 2, 2001, the Delaware Division's previously approved rate design changes in 1999 to its margin sharing mechanism terminated. The previous rate design changes that addressed the level of recovery of fixed distribution costs from its residential and smaller commercial customers in relation to its margin sharing mechanism and the actual weather experienced, ended upon the implementation of interim rates on October 1, 2001. There was no impact on margins in 2001 due to this mechanism.

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On October 31, 2001, Eastern Shore filed a rate change with the FERC pursuant to the requirements of Article XII of the Stipulation and Agreement dated August 1, 1997. Eastern Shore's filing proposed a change in base rates for firm transportation services. At this time, the outcome of the rate filing is uncertain.

On November 30, 2001, the Commission issued an order, which accepted and suspended the effectiveness of the rates until May 1, 2002 subject to refund and the outcome of a hearing. A pre-hearing conference was held on December 18, 2001 and the hearing was scheduled for September 24, 2002. Discovery related to the rate proceeding began in January 2002 with FERC Staff data requests. The outcome of the proceedings is uncertain.

In January 2000, the Company filed a request for approval of a rate increase with the Florida Public Service Commission. Interim rates subject to refund, went into effect in August 2000. In November 2000, an order was issued approving the rate increase, which became effective in early December 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. The Company requested and received approval from the Maryland Public Service Commission to increase its natural gas delivery service rates by \$83,000 on an annual basis to recover the estimated impact of the Tax Act.

Environmental Matters

The Company continues to work with federal and state environmental agencies to assess the environmental impact and explore corrective action at three 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 or through sharing arrangements with, or contributions by, other responsible parties.

Market Risk

Market risk represents the potential loss arising from adverse changes in market rates and prices. Long-term debt is subject to potential losses based on the change in interest rates. The Company's long-term debt consists of first mortgage bonds, senior notes and convertible debentures (see Note H to the Consolidated Financial Statements for annual maturities of consolidated long-term debt). All of Chesapeake's long-term debt is fixed-rate debt and was not entered into for trading purposes. The carrying value of the Company's long-term debt was \$51.1 million at December 31, 2001 as compared to a fair value of \$56.9 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 Company's propane distribution business is exposed to market risk as a result of propane storage activities and entering into fixed price contracts for supply. The Company can store up to approximately 4 million gallons of propane during the winter season to meet its customers' peak requirements and to serve metered customers. Decreases in the wholesale price of propane may cause the value of stored propane to decline.

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 Company or the counter 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 market prices for NGL deviate from fixed contract settlement amounts. Market risk associated with the trading of futures and forward contracts are monitored daily for compliance with Chesapeake's Risk Management Policy, which includes volumetric limits for open positions. To manage exposures to changing market prices, open positions are marked up or down to market prices and reviewed by oversight officials on a daily basis. Additionally, the Risk Management Committee reviews periodic reports on market and credit risk, approves any exceptions to the Risk Management Policy (within the limits established by the Board of Directors) and authorizes the use of any new types of contracts. Quantitative information on the forward and futures contracts at December 31, 2001 and 2000 is shown below.

At December 31, 2001	Quantity in gallons	Estimated Market Prices	Weighted Average Contract Prices
Forward Contracts			
Sale	11,877,600	\$0.3275 - \$0.3375	\$0.3876
Purchase	9,660,000	\$0.3275 - \$0.3375	\$0.4032
Futures Contracts			
Sale	840,000	\$0.3275 - \$0.3300	\$0.3325

Estimated market prices and weighted average contract prices are in dollars per gallon.
All contracts expire in 2002.

At December 31, 2000	Quantity in gallons	Estimated Market Prices	Weighted Average Contract Prices
Forward Contracts			
Sale	33,007,800	\$0.6800 - \$1.2000	\$0.7869
Purchase	33,419,400	\$0.5625 - \$1.0200	\$0.7597
Futures Contracts			
Sale	2,814,000	\$0.6800 - \$0.8700	\$0.7714
Purchase	1,260,000	\$0.5625 - \$0.7700	\$0.5397

Estimated market prices and weighted average contract prices are in dollars per gallon.
All contracts expired in 2001.

The Company's natural gas distribution operations have entered into agreements with natural gas suppliers to purchase natural gas for resale to their customers. Purchases under these contracts are considered "normal purchases and sales" under Statement of Financial Accounting Standards ("SFAS") No. 133 and are not marked-to-market.

Competition

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

The Company's natural gas distribution operations located in Maryland, Delaware and Florida began offering transportation services to certain industrial customers during 1998, 1997 and 1994, respectively. In 2001, the Florida operations extended transportation service to commercial customers. 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.

Management's Discussion and Analysis

The Company's competitors include the interstate transmission company if the distribution customer is located close enough to the transmission company's pipeline to make a connection economically feasible. The customers at risk are usually large volume commercial and industrial customers with the financial resources and capability to bypass the distribution operations in this manner. In certain situations, the distribution operations may adjust services and rates for these customers to retain their business. The Company expects to continue to expand the availability of transportation services to additional classes of distribution customers in the future. The Company established a natural gas brokering and supply operation in Florida in 1994 to compete for customers eligible for transportation services.

The Company's propane distribution operations compete with several other propane distributors in their service territories, primarily on the basis of service and price. Competitors include several large national propane distribution companies, as well as an increasing number of local suppliers. Some of these competitors have pricing strategies designed to acquire market share.

The Company's advanced information services segment faces competition from a number of competitors, some of which have greater resources available to them than those of the Company. This segment competes on the basis of technological expertise, reputation and price.

The water businesses face competition from a variety of national and local suppliers of water conditioning and treatment services and bottled water.

Inflation

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

Recent Pronouncements

Effective January 1, 2001, the Company adopted Financial Accounting Standards Board ("FASB") SFAS No. 133 as amended by SFAS No. 137 and 138, which established accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. Their adoption did not have a material impact on the Company's financial position or results of operations.

On June 30, 2001, the FASB issued SFAS Nos. 141, 142 and 143. SFAS No. 141, "Business Combinations," eliminates the pooling-of-interest method of accounting for business combinations and requires the use of the purchase method. In addition, the reassessment of intangible assets to determine whether they are appropriately classified either separately or within goodwill is required. SFAS No. 141 is effective for business combinations initiated after June 30, 2001. The Company adopted SFAS No. 141 on July 1, 2001 with no material impact on net income.

SFAS No. 142, "Goodwill and Other Intangible Assets," eliminates the amortization of goodwill and other acquired intangible assets with indefinite economic useful lives. SFAS No. 142 requires an annual impairment test of goodwill and other intangible assets that are not subject to amortization. SFAS No. 142 is effective for fiscal years beginning after December 15, 2001; however, amortization of goodwill for acquisitions completed after June 30, 2001 was prohibited. The impact of adopting SFAS No. 142 has not yet been determined, but could be significant if future results of the new water businesses do not meet expectations.

SFAS No. 143, "Accounting for Asset Retirement Obligations," provides guidance on the accounting for obligations associated with the retirement of long-lived assets. SFAS No. 143 requires a liability to be recognized in the financial statements for retirement obligations meeting specific criteria. Measurement of the initial obligation is to approximate fair value with an equivalent amount recorded as an increase in the value of the capitalized asset. The asset will be depreciable in accordance with normal depreciation policy and the liability will be increased, with a charge to the income statement, until the obligation is settled. SFAS No. 143 is effective for fiscal years beginning after June 15, 2002. The potential impact of adopting SFAS No. 143 has not yet been determined.

SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," replaces SFAS No. 121. The statement develops one accounting model for long-lived assets to be disposed of by sale and addresses significant implementation issues. SFAS No. 144 is effective for fiscal years beginning after December 15, 2001. The effect of implementing SFAS No. 144 has not yet been determined.

Cautionary Statement

Chesapeake has made statements in this report that are considered to be forward-looking statements. These statements are not matters of historical fact. Sometimes they contain words such as "believes," "expects," "intends," "plans," "will," or "may," and other similar words of a predictive nature. These statements relate to matters such as customer growth, changes in revenues or margins, capital expenditures, environmental remediation costs, regulatory approvals, market risks associated with the Company's propane marketing operation, competition 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 prices of natural gas and propane and market movements in these prices;
- the effects of competition on the Company's unregulated and regulated businesses;
- the effect of changes in federal, state or local regulatory requirements, including deregulation;
- the ability of the Company's new and planned facilities and acquisitions to generate expected revenues; and
- the Company's ability to obtain the rate relief and cost recovery requested from utility regulators and the timing of the requested regulatory actions.

Management's Discussion and Analysis

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

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA

REPORT OF INDEPENDENT ACCOUNTANTS

To the Stockholders of Chesapeake Utilities Corporation

In our opinion, the consolidated financial statements listed in the 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, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 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 of America, 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 our opinion.



PRICEWATERHOUSECOOPERS LLP
Philadelphia, Pennsylvania
February 15, 2002

Consolidated Statements of Income

For the Years Ended December 31,	2001	2000	1999
Operating Revenues	\$330,320,958	\$335,412,844	\$230,200,335
Cost of Sales	266,355,278	274,828,371	176,162,693
Gross Margin	63,965,680	60,584,473	54,037,642
Operating Expenses			
Operations	34,055,855	31,862,975	27,543,188
Maintenance	1,778,760	1,868,260	1,521,302
Depreciation and amortization	8,333,482	7,142,611	6,523,669
Other taxes	4,251,825	3,684,656	3,600,345
Income taxes	4,027,543	4,387,925	4,174,896
Total operating expenses	52,447,465	48,946,427	43,363,400
Operating Income	11,518,215	11,638,046	10,674,242
Other Income			
Gain on sale of investment	0	0	1,415,343
Interest income	456,240	220,462	99,660
Other income	251,491	248,748	60,799
Income taxes	(224,731)	(108,667)	(509,351)
Total other income	483,000	360,543	1,066,451
Income Before Interest Charges	12,001,215	11,998,589	11,740,693
Interest Charges			
Interest on long-term debt	3,998,264	2,628,781	2,793,712
Interest on short-term borrowing	1,215,528	1,699,402	551,937
Amortization of debt expense	101,183	111,122	117,966
Other	(35,297)	70,083	6,092
Total interest charges	5,279,678	4,509,388	3,469,707
Net Income	\$6,721,537	\$7,489,201	\$8,270,986
Earnings Per Share of Common Stock:			
Basic	\$1.25	\$1.43	\$1.61
Diluted	\$1.24	\$1.40	\$1.57

See accompanying notes

Consolidated Balance Sheets

Assets

At December 31,	2001	2000
Property, Plant and Equipment		
Natural gas distribution and transmission	\$170,254,892	\$149,121,319
Propane	32,877,317	31,630,208
Advanced information services	1,521,144	1,699,968
Other plant	12,249,442	10,488,581
Total property, plant and equipment	216,902,795	192,940,076
Less: Accumulated depreciation and amortization	(66,646,944)	(61,473,757)
Net property, plant and equipment	150,255,851	131,466,319
Investments, at fair market value	517,901	616,293
Current Assets		
Cash and cash equivalents	1,188,335	4,606,316
Accounts receivable (less allowance for uncollectibles of \$621,516 and \$549,961 in 2001 and 2000, respectively)	21,266,309	37,941,172
Materials and supplies, at average cost	1,106,995	1,566,126
Merchandise inventory, at average cost	1,610,786	1,234,072
Propane inventory, at average cost	2,518,871	4,379,599
Storage gas prepayments	4,326,416	3,500,323
Underrecovered purchased gas costs	6,519,754	5,388,725
Income taxes receivable	675,504	1,159,761
Prepaid expenses and other current assets	1,932,246	2,015,276
Total current assets	41,145,216	61,791,370
Deferred Charges and Other Assets		
Environmental regulatory assets	2,677,010	2,910,000
Environmental expenditures	3,189,156	3,626,475
Underrecovered purchased gas costs	0	1,959,562
Other deferred charges and intangible assets	12,342,923	8,329,484
Total deferred charges and other assets	18,209,089	16,825,521
Total Assets	\$210,128,057	\$210,699,503

See accompanying notes

Capitalization and Liabilities

At December 31,	2001	2000
Capitalization		
Stockholders' equity		
Common stock	\$2,640,060	\$2,577,992
Additional paid-in capital	29,653,992	27,672,005
Retained earnings	34,555,560	33,721,747
Total stockholders' equity	66,849,612	63,971,744
Long-term debt, net of current maturities	48,408,596	50,920,818
Total capitalization	115,258,208	114,892,562
Current Liabilities		
Current maturities of long-term debt	2,686,145	2,665,091
Short-term borrowing	42,100,000	25,400,000
Accounts payable	14,551,621	33,654,718
Refunds payable to customers	971,575	1,015,128
Accrued interest	1,758,401	595,175
Dividends payable	1,491,832	1,429,945
Deferred income taxes payable	848,271	985,349
Other accrued liabilities	5,327,457	5,674,419
Total current liabilities	69,735,302	71,419,825
Deferred Credits and Other Liabilities		
Deferred income taxes	15,732,842	15,086,951
Deferred investment tax credits	602,357	657,172
Environmental liability	3,199,733	2,910,000
Accrued pension costs	1,595,650	1,625,128
Other liabilities	4,003,965	4,107,865
Total deferred credits and other liabilities	25,134,547	24,387,116
Commitments and Contingencies		
(Notes L and M)		
Total Capitalization and Liabilities	\$210,128,057	\$210,699,503

See accompanying notes

Consolidated Statements of Cash Flows

For the Years Ended December 31,	2001	2000	1999
Operating Activities			
Net Income	\$6,721,537	\$7,489,201	\$8,270,986
Adjustments to reconcile net income to net operating cash:			
Depreciation and amortization	9,094,068	8,044,315	7,509,841
Investment tax credit adjustments, net	(54,815)	(54,815)	(54,815)
Deferred income taxes, net	508,813	2,922,815	385,103
Mark-to-market adjustments	906,551	(689,032)	65,076
Employee benefits	(29,478)	80,165	8,659
Employee compensation	223,255	217,000	298,756
Other, net	(27,897)	(816,049)	212,711
Changes in assets and liabilities:			
Accounts receivable, net	16,549,829	(16,745,492)	(6,814,506)
Inventories, storage gas and materials	1,117,052	(3,307,421)	(1,704,543)
Prepaid expenses and other current assets	83,031	217,126	(11,850)
Other deferred charges	(1,725,090)	95,657	1,120,355
Accounts payable, net	(19,103,098)	16,789,601	5,794,475
Refunds payable to customers	(43,553)	235,620	143,355
Over (under) recovered purchased gas costs	828,533	(6,111,373)	315,351
Other current liabilities	401,860	(688)	1,058,357
Net cash provided by operating activities	15,450,598	8,366,630	16,597,311
Investing Activities			
Property, plant and equipment expenditures	(29,185,807)	(21,821,005)	(25,128,669)
Sale of investments	0	0	2,189,312
Net cash used by investing activities	(29,185,807)	(21,821,005)	(22,939,357)
Financing Activities			
Common stock dividends, net of amounts reinvested of \$609,793, \$520,712 & \$456,962 in 2001, 2000 & 1999, respectively	(5,216,044)	(5,022,313)	(4,774,338)
Issuance of stock:			
Dividend Reinvestment Plan optional cash	191,765	197,797	187,369
Retirement Savings Plan	1,023,919	916,159	816,306
Net borrowing under line of credit agreements	16,700,000	2,400,000	11,400,000
Proceeds from issuance of long-term debt, net	300,000	19,887,194	0
Repayment of long-term debt	(2,682,412)	(2,675,319)	(1,528,202)
Net cash provided by financing activities	10,317,228	15,703,518	6,101,135
Net (Decrease) Increase in Cash and Cash Equivalents	(3,417,981)	2,249,143	(240,911)
Cash and Cash Equivalents at Beginning of Year	4,606,316	2,357,173	2,598,084
Cash and Cash Equivalents at End of Year	\$1,188,335	\$4,606,316	\$2,357,173
Supplemental Disclosure of Cash Flow Information			
Cash paid for interest	\$4,128,477	\$4,410,230	\$3,409,070
Cash paid for income taxes	\$3,601,400	\$3,212,080	\$4,413,155

See accompanying notes

Consolidated Statements of Stockholders' Equity

For the Years Ended December 31,	2001	2000	1999
Common Stock			
Balance — beginning of year	\$2,577,992	\$2,524,018	\$2,479,019
Dividend Reinvestment Plan	20,977	19,983	17,530
Retirement Savings Plan	26,730	25,353	22,489
Conversion of debentures	3,117	5,173	4,201
Performance shares and options exercised	11,244	3,465	779
Balance — end of year	2,640,060	2,577,992	2,524,018
Additional Paid-in Capital			
Balance — beginning of year	27,672,005	25,782,824	24,192,188
Dividend Reinvestment Plan	780,582	698,526	626,801
Retirement Savings Plan	997,187	890,806	793,817
Conversion of debentures	105,639	175,599	142,597
Performance shares and options exercised	98,579	124,250	27,421
Balance — end of year	29,653,992	27,672,005	25,782,824
Retained Earnings			
Balance — beginning of year	33,721,747	31,857,732	28,892,384
Net income	6,721,537	7,489,201	8,270,986
Cash dividends ⁽¹⁾	(5,887,724)	(5,625,186)	(5,305,638)
Balance — end of year	34,555,560	33,721,747	31,857,732
Unearned Compensation			
Balance — beginning of year	0	0	(71,041)
Amortization of prior years' awards	0	0	71,041
Balance — end of year	0	0	0
Total Stockholders' Equity	\$66,849,612	\$63,971,744	\$60,164,574

⁽¹⁾ Cash dividends per share for 2001, 2000 and 1999 were \$1.09, \$1.06 and \$1.02, respectively.

See accompanying notes

Consolidated Statements of Income Taxes

For the Years Ended December 31,	2001	2000	1999
Current Income Tax Expense			
Federal	\$3,194,125	\$1,598,184	\$3,948,746
State	602,548	264,294	807,214
Investment tax credit adjustments, net	(54,815)	(54,815)	(54,815)
Total current income tax expense	3,741,858	1,807,663	4,701,145
Deferred Income Tax Expense ⁽¹⁾			
Property, plant and equipment	769,264	1,071,852	734,765
Deferred gas costs	(236,971)	2,404,994	(124,576)
Pensions and other employee benefits	(71,089)	(115,615)	(153,697)
Unbilled revenue	303,136	(736,700)	(45,290)
Contributions in aid of construction	0	0	(160,971)
Environmental expenditures	(142,362)	879	97,480
Other ⁽²⁾	(111,562)	63,519	(364,609)
Total deferred income tax expense	510,416	2,688,929	(16,898)
Total Income Tax Expense	\$4,252,274	\$4,496,592	\$4,684,247
Reconciliation of Effective Income Tax Rates			
Federal income tax expense ⁽³⁾	\$3,840,832	\$4,075,170	\$4,404,779
State income taxes, net of federal benefit	492,850	489,831	553,444
Other ⁽²⁾	(81,408)	(68,409)	(273,976)
Total Income Tax Expense	\$4,252,274	\$4,496,592	\$4,684,247
Effective income tax rate	38.7%	37.5%	36.2%
At December 31,			
Deferred Income Taxes			
Deferred income tax liabilities:			
Property, plant and equipment	\$15,730,682	\$15,088,379	
Environmental costs	1,286,226	1,478,259	
Deferred gas costs	2,607,170	2,844,140	
Other	935,104	736,255	
Total deferred income tax liabilities	20,559,182	20,147,033	
Deferred income tax assets:			
Unbilled revenue	1,487,428	1,790,563	
Pension and other employee benefits	1,464,878	1,382,628	
Self insurance	535,141	502,416	
Other	490,622	399,126	
Total deferred income tax assets	3,978,069	4,074,733	
Deferred Income Taxes Per Consolidated Balance Sheet	\$16,581,113	\$16,072,300	

⁽¹⁾ Includes \$102,000, \$298,000 and \$39,000 of deferred state income taxes for the years 2001, 2000 and 1999, 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⁾ Federal income taxes for 2001 were recorded at 35%. The years 2000 and 1999 were recorded at 34%.

See accompanying notes

A. SUMMARY OF ACCOUNTING POLICIES

Nature of Business

Chesapeake Utilities Corporation (“Chesapeake” or “the Company”) is engaged in natural gas distribution to approximately 42,700 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 Pennsylvania, Delaware and the Eastern Shore of Maryland. The Company’s propane distribution and marketing segment provides distribution service to approximately 34,600 customers in central and southern Delaware, the Eastern Shore of Maryland, Florida 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. The Company does not have any ownership interests in special purpose entities. 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 non-utility segments 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 that amortize the unrecovered cost of depreciable property over the estimated useful life of the asset. 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 9 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.

Inventories

The Company uses the average cost method to value inventory. If the market prices drop below average cost, inventory balances are adjusted to market values.

Notes to Consolidated Financial Statements

Environmental Regulatory Assets

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

Other Deferred Charges and Intangible Assets

Other deferred charges include discount, premium and issuance costs associated with long-term debt and rate case expenses. Debt costs are deferred, then amortized over the original lives of the respective debt issuances. 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. Except for goodwill on acquisitions that were completed after June 30, 2001, intangible assets are amortized on a straight-line basis over a weighted average period of 21 years. Goodwill related to acquisitions completed after June 30, 2001 is not amortized, in accordance with SFAS No. 142. Gross intangibles and the net unamortized balance at December 31, 2001 were \$8.7 million and \$7.7 million, respectively. Gross intangibles and the net unamortized balance at December 31, 2000 were \$7.7 million and \$5.9 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 portions of the Company's deferred tax liabilities applicable to utility operations, which have not been reflected in current service rates, represent income taxes recoverable through future rates. Investment tax credits on utility property have been deferred and are allocated to income ratably over the lives of the subject property.

Financial Instruments

Xeron, 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, 2001, there was an unrealized loss of \$75,000. At December 31, 2000, there was an unrealized gain of \$831,000. Trading liabilities are recorded in other accrued liabilities. Trading assets are recorded in prepaid expenses and other current assets.

The Company's natural gas distribution operations have entered into agreements with natural gas suppliers to purchase natural gas for resale to their customers. Purchases under these contracts are considered "normal purchases and sales" under SFAS No. 133 and are not marked-to-market.

Operating Revenues

Revenues for the natural gas distribution operations of the Company are based on rates approved by the various public service commissions. The natural gas transmission operation revenues are based on rates approved by FERC. 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 the end of the month. 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 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.

The advanced information services and other segments record revenue in the period the products are delivered and/or services are rendered.

Earnings Per Share

The calculations of both basic and diluted earnings per share are presented below. In 2001, the effect of assuming the exercise of the outstanding stock options would have been anti-dilutive; therefore it was not included in the calculations.

For the Years Ended December 31,	2001	2000	1999
Calculation of Basic Earnings Per Share:			
Net Income	\$ 6,721,537	\$ 7,489,201	\$ 8,270,986
Weighted Average Shares Outstanding	5,367,433	5,249,439	5,144,449
Basic Earnings Per Share	\$ 1.25	\$ 1.43	\$ 1.61
Calculation of Diluted Earnings Per Share:			
Reconciliation of Numerator:			
Net Income — basic	\$ 6,721,537	\$ 7,489,201	\$ 8,270,986
Effect of 8.25% Convertible debentures	171,725	179,701	188,982
Adjusted numerator — diluted	\$ 6,893,262	\$ 7,668,902	\$ 8,459,968
Reconciliation of Denominator:			
Weighted Shares Outstanding — basic	5,367,433	5,249,439	5,144,449
Effect of 8.25% Convertible debentures	201,125	209,893	220,732
Effect of stock options	-	11,484	11,875
Effect of stock warrants	849	-	-
Adjusted denominator — diluted	5,569,407	5,470,816	5,377,056
Diluted Earnings per Share	\$ 1.24	\$ 1.40	\$ 1.57

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 judgments with respect to, among other things, various future economic factors that are difficult to predict and are beyond the control of the Company. Therefore, actual results could differ from those estimates.

The Company records certain assets and liabilities in accordance with 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

Effective January 1, 2001, the Company adopted Financial Accounting Standards Board ("FASB") SFAS No. 133 as amended by SFAS No. 137 and 138, which established accounting and reporting standards for derivative instruments,

Notes to Consolidated Financial Statements

including certain derivative instruments embedded in other contracts, and for hedging activities. Their adoption did not have a material impact on the Company's financial position or results of operations.

On June 30, 2001, the FASB issued SFAS Nos. 141, 142 and 143. SFAS No. 141, "Business Combinations," eliminates the pooling-of-interest method of accounting for business combinations and requires the use of the purchase method. In addition, the reassessment of intangible assets to determine whether they are appropriately classified either separately or within goodwill is required. SFAS No. 141 is effective for business combinations initiated after June 30, 2001. The Company adopted SFAS No. 141 on July 1, 2001 with no material impact on net income.

SFAS No. 142, "Goodwill and Other Intangible Assets," eliminates the amortization of goodwill and other acquired intangible assets with indefinite economic useful lives. SFAS No. 142 requires an annual impairment test of goodwill and other intangible assets that are not subject to amortization. SFAS No. 142 is effective for fiscal years beginning after December 15, 2001; however, amortization of goodwill for acquisitions completed after June 30, 2001 was prohibited. The impact of adopting SFAS No. 142 has not yet been determined but could be material if future results of the new water businesses do not meet expectations.

SFAS No. 143, "Accounting for Asset Retirement Obligations," provides guidance on the accounting for obligations associated with the retirement of long-lived assets. SFAS No. 143 requires a liability to be recognized in the financial statements for retirement obligations meeting specific criteria. Measurement of the initial obligation is to approximate fair value with an equivalent amount recorded as an increase in the value of the capitalized asset. The asset will be depreciable in accordance with normal depreciation policy and the liability will be increased, with a charge to the income statement, until the obligation is settled. SFAS No. 143 is effective for fiscal years beginning after June 15, 2002. The potential impact of adopting SFAS No. 143 has not yet been determined.

SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," replaces SFAS No. 121. The statement develops one accounting model for long-lived assets to be disposed of by sale and addresses significant implementation issues. SFAS No. 144 is effective for fiscal years beginning after December 15, 2001. The effect of implementing SFAS No. 144 has not yet been determined.

Restatement and Reclassification of Prior Years' Amounts

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

B. BUSINESS COMBINATIONS

During 2001, Chesapeake acquired Absolute Water Care, Inc. and selected assets of Aquarius Systems, Inc. and Automatic Water Conditioning, Inc., three water conditioning and treatment dealerships operating in Florida. In July 2001, Chesapeake purchased selected assets of EcoWater Systems of Rochester, located in Rochester, Minnesota and Intermountain Water, Inc. and Blue Springs Water, located in Boise, Idaho. These companies provide water treatment, water conditioning and bottled water to customers in those geographic regions.

In January 2000, Chesapeake acquired Carroll Water Systems, Inc. ("Carroll") of Westminster, Maryland. Carroll was a privately owned EcoWater dealership serving the suburban areas around Baltimore, Maryland.

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.

These acquisitions were all accounted for as purchases and the Company's financial results include the results of operations from the dates of acquisition.

C. SEGMENT INFORMATION

Chesapeake uses the management approach to identify operating segments. Chesapeake organizes its business around differences in products or services and the operating results of each segment are regularly reviewed by the Company's chief operating decision maker in order to make decisions about resources and to assess performance. The following table presents information about the Company's reportable segments.

For the Years Ended December 31,	2001	2000	1999
Operating Revenues, Unaffiliated Customers			
Natural gas distribution and transmission	\$108,122,037	\$99,750,303	\$75,592,453
Propane	198,124,011	216,272,941	138,436,520
Advanced information services	14,103,890	12,353,056	13,531,261
Other	9,971,020	7,036,544	2,640,101
Total operating revenues, unaffiliated customers	\$330,320,958	\$335,412,844	\$230,200,335
Intersegment Revenues ⁽¹⁾			
Natural gas distribution and transmission	\$112,006	\$119,480	\$61,141
Advanced information services	0	36,535	0
Other	783,051	814,995	659,624
Total intersegment revenues	\$895,057	\$971,010	\$720,765
Operating Income Before Income Taxes			
Natural gas distribution and transmission	\$14,267,044	\$12,364,535	\$10,300,455
Propane	1,100,440	2,319,461	2,627,123
Advanced information services	517,427	335,849	1,469,958
Other and eliminations	(339,153)	1,006,126	451,602
Total operating income before income taxes	\$15,545,758	\$16,025,971	\$14,849,138
Depreciation and Amortization			
Natural gas distribution and transmission	\$5,667,001	\$4,930,445	\$4,762,285
Propane	1,436,550	1,429,405	1,201,693
Advanced information services	255,760	280,053	268,082
Other	974,171	502,708	291,609
Total depreciation and amortization	\$8,333,482	\$7,142,611	\$6,523,669
Capital Expenditures			
Natural gas distribution and transmission	\$23,791,057	\$17,882,724	\$17,853,885
Propane	1,847,913	3,235,288	2,168,269
Advanced information services	252,159	240,727	372,501
Other	3,294,678	1,696,990	5,522,615
Total capital expenditures	\$29,185,807	\$23,055,729	\$25,917,270
At December 31,			
Identifiable Assets			
Natural gas distribution and transmission	\$153,576,226	\$141,335,457	\$117,024,633
Propane	32,413,785	47,495,133	31,888,633
Advanced information services	2,583,740	2,372,407	2,854,670
Other	21,554,306	19,496,506	15,220,578
Total identifiable assets	\$210,128,057	\$210,699,503	\$166,988,514

⁽¹⁾ All significant intersegment revenues are billed at market rates and 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, 2001 and December 31, 2000 had a net unrealized loss in fair value of \$75,000 and a net unrealized gain in fair value of \$831,000, 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, 2001, including current maturities, had an estimated fair value of \$56.9 million as compared to a carrying value of \$51.1 million. At December 31, 2000, the estimated fair value was approximately \$56.0 million as compared to a carrying value of \$53.6 million. These estimates are based on published corporate borrowing rates for debt instruments with similar terms and average maturities.

E. INVESTMENTS

The investment balances at December 31, 2001 and 2000 consisted primarily of a Rabbi Trust ("the trust") associated with the acquisition of Xeron, Inc. The Company has classified the underlying investments held by the trust as trading securities, which require all gains and losses to be recorded into non-operating income. The trust was established during the acquisition as a retention bonus for an executive of Xeron. The Company has an associated liability recorded which is adjusted, along with non-operating expense, for the gains and losses incurred by the trust.

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.

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,	2001	2000	1999
Common Stock: Shares issued and outstanding (1)			
Balance — beginning of year	5,297,443	5,186,546	5,093,788
Dividend Reinvestment Plan (2)	43,101	41,056	36,319
Sale of stock to the Company's Retirement Savings Plan	54,921	52,093	46,208
Conversion of debentures	6,395	10,628	8,631
Performance shares and options exercised	23,102	7,120	1,600
Balance — end of year (3)	5,424,962	5,297,443	5,186,546

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

(2) Includes dividends and reinvested optional cash payments.

(3) The Company had 30,446 and 7,442 shares held in Rabbi Trusts at December 31, 2001 and 2000, respectively.

In 2000 and 2001, the Company entered into agreements with an investment banker to assist in identifying acquisition candidates. Under the agreements, the Company issued warrants to the investment banker to purchase 15,000 shares of Company stock in 2001 at a price of \$18.25 per share and 15,000 shares in 2000 at a price of \$18.00. The warrants are exercisable during a seven-year period after the date granted. The Company has recognized expenses of \$47,500 related to the warrants. No warrants have been exercised.

G. SHORT-TERM BORROWING

The Board of Directors has authorized the Company to borrow up to \$55.0 million from various banks and trust companies. As of December 31, 2001, the Company had three unsecured bank lines of credit totaling \$65.0 million, none of which required compensating balances. Under these lines of credit, the Company had short-term debt outstanding of \$42.1 million and \$25.4 million at December 31, 2001 and 2000, respectively, with weighted average interest rates of 4.43 percent and 6.89 percent, respectively.

H. LONG-TERM DEBT

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

At December 31,	2001	2000
First mortgage sinking fund bonds:		
9.37% Series I, due December 15, 2004	\$ 1,512,000	\$ 2,268,000
Uncollateralized senior notes:		
7.97% note, due February 1, 2008	6,000,000	7,000,000
6.91% note, due October 1, 2010	7,272,727	8,181,818
6.85% note, due January 1, 2012	10,000,000	10,000,000
7.83% note, due January 1, 2015	20,000,000	20,000,000
Convertible debentures:		
8.25% due March 1, 2014	3,358,000	3,471,000
Mortgage payable	265,869	-
Total long-term debt	\$ 48,408,596	\$ 50,920,818

Annual maturities of consolidated long-term debt for the next five years are as follows: \$2,686,145 for 2002, \$3,688,006 for 2003, \$3,690,031 for 2004, \$2,936,236 for 2005 and \$5,099,959 for 2006.

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 2001 and 2000, debentures totaling \$109,000 and \$181,000, respectively, 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. During 2001 and 2000, debentures totaling \$4,000 and \$10,000 were redeemed.

Indentures to the long-term debt of the Company and its subsidiaries contain various restrictions. The most stringent restrictions state that the Company must maintain equity of at least 40 percent of total capitalization and the times interest earned ratio must be at least 2.5.

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

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 \$827,000, \$652,000 and \$357,000 for 2001, 2000 and 1999, respectively. Future minimum payments under the Company's current lease agreements are \$858,000, \$795,000, \$693,000, \$531,000 and \$289,000 for the years of 2002 through 2006, respectively; and \$793,000 thereafter, totaling \$4.0 million.

Notes to Consolidated Financial Statements

J. EMPLOYEE BENEFIT PLANS

Pension Plan

In December 1998, the Company restructured the employee benefit plans to be competitive with those in similar industries. Chesapeake offered existing participants of the defined benefit plan the option to remain in the existing plan or receive a one-time payout and enroll in an enhanced retirement savings plan. Chesapeake closed the defined benefit plan to new participants, effective December 31, 1998. 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, 2001 and 2000:

At December 31,	2001	2000
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 8,826,534	\$ 8,241,995
Service cost	347,955	354,031
Interest cost	646,205	605,185
Change in discount rate	659,629	-
Actuarial loss	47,068	8,153
Benefits paid	(407,027)	(382,830)
Benefit obligation at end of year	10,120,364	8,826,534
Change in plan assets:		
Fair value of plan assets at beginning of year	11,738,984	10,185,394
Actual return on plan assets	413,617	1,936,420
Benefits paid	(407,027)	(382,830)
Fair value of plan assets at end of year	11,745,574	11,738,984
Funded Status	1,625,210	2,912,450
Unrecognized transition obligation	(66,059)	(81,163)
Unrecognized prior service cost	(53,055)	(57,754)
Unrecognized net gain	(2,413,816)	(3,883,807)
Accrued pension cost	\$ (907,720)	\$ (1,110,274)
Assumptions:		
Discount rate	7.00%	7.50%
Rate of compensation increase	4.75%	4.75%
Expected return on plan assets	8.50%	8.50%

Net periodic pension costs for the defined pension benefit plan for 2001, 2000 and 1999 include the components as shown below:

For the Years Ended December 31,	2001	2000	1999
Components of net periodic pension cost:			
Service cost	\$ 347,955	\$ 354,031	\$ 400,921
Interest cost	646,205	605,185	688,198
Expected return on assets	(981,882)	(859,245)	(1,046,254)
Amortization of:			
Transition assets	(15,104)	(15,104)	(15,104)
Prior service cost	(4,699)	(4,699)	(4,699)
Actuarial gain	(195,029)	(141,533)	(118,142)
Net periodic pension benefit	(202,554)	(61,365)	(95,080)

The Company sponsors an unfunded executive excess benefit plan. The accrued benefit obligation and accrued pension costs were \$1,170,000 and \$687,000, respectively, as of December 31, 2001 and \$676,000 and \$515,000, respectively, at December 31, 2000.

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 are matched with Chesapeake common stock. The remaining match is invested in the Company's 401(k) plan according to each employee's election options. On December 1, 2001, the Company converted the 401(k) fund holding Chesapeake stock to an Employee Stock Ownership Plan.

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

The Company's contributions to the 401(k) plans totaled \$1,352,000, \$1,231,000 and \$1,066,000 for the years ended December 31, 2001, 2000 and 1999, respectively. As of December 31, 2001, there are 273,333 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.

Net periodic post-retirement costs for 2001, 2000 and 1999 include the following components:

For the Years Ended December 31,	2001	2000	1999
Components of net periodic post-retirement cost:			
Service cost	\$ 887	\$ 1,803	\$ 3,322
Interest cost	49,799	57,584	55,023
Amortization of:			
Transition obligation	27,859	27,859	27,859
Actuarial (gain) loss	(1,717)	-	3,130
Net periodic post-retirement cost	76,828	87,246	89,334
Amounts amortized	-	25,028	25,254
Total post-retirement cost accruals	\$ 76,828	\$ 112,274	\$ 114,588

Notes to Consolidated Financial Statements

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

At December 31,	2001	2000
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 832,535	\$ 788,532
Retirees	(58,485)	23,708
Fully-eligible active employees	(24,453)	48,992
Other active	(25,671)	(28,697)
Benefit obligation at end of year	\$ 723,926	\$ 832,535
Funded Status	\$ (723,926)	\$ (832,535)
Unrecognized transition obligation	133,718	161,577
Unrecognized net (gain) loss	(73,737)	61,543
Accrued post-retirement cost	\$ (663,945)	\$ (609,415)
Assumptions:		
Discount rate	7.00%	7.50%

The health care inflation rate for 2001 is assumed to be 7.5 percent. This rate is projected to gradually decrease to an ultimate rate of 5 percent by the year 2007. 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 \$68,000 as of January 1, 2002, and would increase the aggregate of the service cost and interest cost components of the net periodic post-retirement benefit cost for 2002 by approximately \$5,000.

K. EXECUTIVE INCENTIVE PLANS

The Performance Incentive Plan ("the Plan") adopted in 1992 allows for the granting of stock options, stock appreciation rights and performance shares to certain officers of the Company over a 10-year period. Stock options granted under the Plan entitle participants 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 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. In 2000, the Company replaced the third year of this Stock Option Agreement with Stock Appreciation Rights ("SARs"). The SARs are awarded based on performance with a minimum number of SARs established for each participant. During 2001 and 2000, the Company granted 10,650 and 13,150 SARs, respectively, in conjunction with the agreement. Chesapeake currently awards Performance Share Agreements annually for certain other executive officers. Each year participants are eligible to earn a maximum number of performance shares, based on the Company's achievement of certain performance goals. The Company recorded compensation expense of \$123,000, \$118,000 and \$131,000 associated with these performance shares in 2001, 2000 and 1999, respectively.

Changes in outstanding options were as shown on the chart below:

	2001		2000		1999	
	Number of shares	Option Price	Number of shares	Option Price	Number of shares	Option Price
Balance — beginning of year	110,093	\$12.75 — \$20.50	163,637	\$12.75 — \$20.50	163,637	\$12.75 — \$20.50
Options exercised	(53,220)	\$12.75				
Options expired	(14,925)	\$12.75				
Options forfeited or replaced			(53,544)	\$20.50		
Balance — end of year	41,948	\$20.50	110,093	\$12.75 — \$20.50	163,637	\$12.75 — \$20.50
Exercisable	41,948	\$20.50	110,093	\$12.75 — \$20.50	85,735	\$12.75 — \$20.50

In December 1997, the Company granted stock options to certain executive officers of the Company. SFAS No. 123 requires the disclosure of pro forma net income and earnings per share as if fair value based accounting had been used to account for the stock-based compensation costs. Accordingly, pro forma net income, basic earnings per share and diluted earnings per share for 2000 were \$7,475,885, \$1.42 and \$1.40, respectively. Pro forma net income, basic earnings per share and diluted earnings per share for 1999 were \$8,230,868, \$1.60 and \$1.57, respectively. The assumptions used in calculating the pro forma information were: dividend yield, 4.73 percent; expected volatility, 15.53 percent; risk-free interest rate, 5.89 percent; and an expected life of 4 years. No options have been granted since 1997; therefore, there is no pro forma impact for 2001.

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 the Dover Gas Light, Salisbury Town Gas Light and the Winter Haven Coal Gas sites.

In May 2001, Chesapeake, General Public Utilities Corporation, Inc. (“GPU”), the State of Delaware and the United States Environmental Protection Agency (“EPA”) signed a settlement term sheet reflecting the agreement in principle to settle a lawsuit with respect to the Dover Gas Light site. The parties are in the process of memorializing the terms of the final agreement in two consent decrees. The consent decrees will then be published for public comment and submitted to a federal judge for approval.

If the agreement in principle receives final approval, Chesapeake will:

- Design and construct a parking lot on the site and dismantle the soil vapor extraction system that has been erected at the site.
- Receive a net payment of \$1.15 million from other parties to the agreement. These proceeds will be passed on to Chesapeake’s firm customers, in accordance with the environmental rate rider.
- Receive a release from liability and covenant not to sue from the EPA and the State of Delaware. This will relieve Chesapeake from liability for future remediation at the site, unless previously unknown conditions are discovered at the site, or information previously unknown to EPA is received that indicates the remedial action related to the former manufactured gas plant is not sufficiently protective. These contingencies are standard, and are required by the United States in all liability settlements.

At December 31, 2001, the Company had accrued \$2.1 million (discounted) of costs associated with the remediation of the Dover site and had recorded an associated regulatory asset for the same amount. Of that amount, \$1.5 million was for estimated ground-water remediation and \$600,000 was for remaining soil remediation. The \$1.5 million represented the low end of the ground-water remediation estimates prepared by an independent consultant and was used because the Company could not, at that time, predict the remedy the EPA might require.

Notes to Consolidated Financial Statements

Through December 31, 2001, the Company has incurred approximately \$8.9 million in costs relating to environmental testing and remedial action studies at the Dover site. Approximately \$6.0 million has been recovered through December 2001 from other parties or through rates.

Upon receiving final court approval of the consent decrees, Chesapeake will reduce both the accrued environmental liability and the associated environmental regulatory asset to the amount required to complete its obligations (primarily the final demobilization of the remedial system and final design and construction of the parking lot).

The second site is the Salisbury Town Gas Light Site in Salisbury, Maryland. In cooperation with the Maryland Department of the Environment ("MDE"), the Company is engaged in remediation that primarily includes the following: (1) operation of an air sparging/soil vapor extraction ("AS/SVE") remedial system; (2) monitoring and recovery of product from recovery wells; and (3) monitoring of ground-water quality. In February 2002, the MDE granted permission to permanently decommission the AS/SVE system and abandon nearly all of the monitoring wells on-site and off-site. The Company is currently seeking a No Further Action ("NFA") for the site. The NFA would be conditional upon the Company performing continued product monitoring and recovery at one well location and implementing land use controls. Evaluation of historical sampling results is currently being performed to determine the level of land use controls that will be required by the MDE for the site. A plan for decommissioning the AS/SVE system and monitoring well network is currently being prepared for approval from the MDE. The final decommissioning and well abandonment is anticipated to occur in the second quarter of 2002.

The Company has adjusted the liability with respect to the Salisbury site to \$100,000 at December 31, 2001. The Company had previously accrued \$175,000 as of December 31, 2000. This amount is based on the estimated costs to perform limited product monitoring and recovery efforts, abandon the monitoring well network, decommission the remedial system and fulfill ongoing reporting requirements. A corresponding regulatory asset has been recorded, reflecting the Company's belief that costs incurred will be recoverable in base rates.

Through December 31, 2001, the Company has incurred approximately \$2.8 million for remedial actions and environmental studies at the Maryland site. Of this amount, approximately \$1.7 million has been recovered through insurance proceeds or ratemaking treatment.

The third site is located in the state of Florida and in January 2001 the Company filed a remedial action plan ("RAP") with the Florida Department of the Environment ("FDEP"). The RAP was approved by the FDEP on May 4, 2001. The current estimate of costs to complete the RAP is \$1 million (discounted). Accordingly, at December 31, 2001, the Company accrued a liability of \$1 million. Through December 31, 2001, the Company has incurred approximately \$80,000 of environmental costs associated with the Florida site. At December 31, 2001, the Company had collected \$523,000 in excess of costs incurred. A regulatory asset of \$477,000 representing the uncollected portion of the estimated clean up costs has also been recorded. Once the FDEP approves the RAP, the Company will commence with the remediation procedures per the RAP.

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. In 2000, the Company entered into a

long-term contract with an energy marketing and risk management company to manage a portion of the Company's natural gas transportation and storage capacity. That contract remains in effect.

Other

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

N. QUARTERLY FINANCIAL DATA (UNAUDITED)

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

For the Quarters Ended	March 31	June 30	September 30	December 31
2001				
Operating Revenue	\$ 134,039,485	\$ 71,051,256	\$ 55,567,288	\$ 69,662,928
Operating Income	6,666,331	1,741,229	562,419	2,548,236
Net Income	5,365,469	666,726	(674,966)	1,364,307
Earnings per share:				
Basic	\$ 1.01	\$ 0.12	\$ (0.13)	\$ 0.25
Diluted	\$ 0.98	\$ 0.12	\$ (0.13)	\$ 0.25
2000				
Operating Revenue	\$ 98,509,179	\$ 65,950,982	\$ 59,212,768	\$ 111,739,915
Operating Income	6,640,727	1,235,233	(43,959)	3,806,045
Net Income	5,669,466	319,548	(1,044,709)	2,544,896
Earnings per share:				
Basic	\$ 1.09	\$ 0.06	\$ (0.20)	\$ 0.48
Diluted	\$ 1.05	\$ 0.06	\$ (0.20)	\$ 0.47

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" and Section 16(a) Beneficial Ownership Reporting Compliance" to be filed not later than April 30, 2002 in connection with the Company's Annual Meeting to be held on May 21, 2002.

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 portion of the Proxy Statement captioned "Management Compensation Committee Interlocks and Insider Participation", in the Proxy Statement to be filed not later than April 30, 2002, in connection with the Company's Annual Meeting to be held on May 21, 2002.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

This information is incorporated herein by reference to the portion of the Proxy Statement captioned "Beneficial Ownership of the Company's Securities" to be filed not later than April 30, 2002 in connection with the Company's Annual Meeting to be held on May 21, 2002.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

This information is incorporated herein by reference to the portion of the Proxy Statement captioned "Certain Transactions" to be filed not later than April 30, 2002, in connection with the Company's Annual Meeting to be held on May 21, 2002.

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 15, 2002 of PricewaterhouseCoopers LLP, Independent Accountants
- Consolidated Statements of Income for each of the three years ended December 31, 2001, 2000 and 1999
- Consolidated Balance Sheets at December 31, 2001 and December 31, 2000
- Consolidated Statements of Cash Flows for each of the three years ended December 31, 2001, 2000 and 1999
- Consolidated Statements of Common Stockholders' Equity for each of the three years ended December 31, 2001, 2000 and 1999
- Consolidated Statements of Income Taxes for each of the three years ended December 31, 2001, 2000 and 1999
- 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 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 4(e) Note Purchase Agreement entered into by the Company on December 27, 2000, pursuant to which the Company privately placed \$20 million of its 7.83% senior notes due 2015, is not being filed herewith,

in accordance with Item 601(b)(4)(iii) of Regulation S-K. The Company hereby agrees to furnish a copy of that agreement to the Commission upon request.

- *Exhibit 10(a) 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(b) Executive Employment Agreement dated January 1, 2001, by and between Chesapeake Utilities Corporation and Ralph J. Adkins is incorporated herein by reference to Exhibit 10 of the Company's Annual Report on Form 10-K for the year ended December 31, 2000, File No. 001-11590.
- *Exhibit 10(c) 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(d) Form of Performance Share Agreement dated January 1, 2002, pursuant to Chesapeake Utilities Corporation Performance Incentive Plan by and between Chesapeake Utilities Corporation and each of Ralph J. Adkins, John R. Schimkaitis, Michael P. McMasters, William C. Boyles and Stephen C. Thompson, filed herewith.
- *Exhibit 10(e) 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(f) 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(g) Form of Stock Appreciation Rights Agreement dated January 1, 2001, pursuant to Chesapeake Utilities Corporation Performance Incentive Plan by and between Chesapeake Utilities Corporation and each of Philip S. Barefoot, William C. Boyles, Thomas A. Geoffroy, James R. Schneider and William P. 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, 2000, File No. 001-11590.
- *Exhibit 10(h) 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 10(i) United Systems, Inc. Executive Appreciation Rights Plan dated December 31, 2000 is incorporated herein by reference to Exhibit 10 of the Company's Annual Report on Form 10-K for the year ended December 31, 2000, File No. 001-11590.
- *Exhibit 10(j) United Systems, Inc. Employee Appreciation Rights Plan dated December 31, 2000 is incorporated herein by reference to Exhibit 10 of the Company's Annual Report on Form 10-K for the year ended December 31, 2000, File No. 001-11590.
- Exhibit 12 Computation of Ratio of Earning to Fixed Charges, filed herewith.
- Exhibit 21 Subsidiaries of the Registrant, filed herewith.
- Exhibit 23 Consent of Independent Accountants, filed herewith.

* Management contract or compensatory plan or agreement.

SIGNATURES

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

CHESAPEAKE UTILITIES CORPORATION

By: /S/ JOHN R. SCHIMKAITIS
John R. Schimkaitis
President and Chief Executive Officer
Date: March 15, 2002

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 15, 2002

/S/ JOHN R. SCHIMKAITIS
John R. Schimkaitis, President,
Chief Executive Officer and Director
Date: March 15, 2002

/S/ MICHAEL P. MCMASTERS
Michael P. McMasters, Vice President,
Chief Financial Officer and Treasurer
(Principal Financial and Accounting Officer)
Date: March 15, 2002

/S/ RICHARD BERNSTEIN
Richard Bernstein, Director
Date: March 15, 2002

/S/ THOMAS J. BRESNAN
Thomas J. Bresnan, Director
Date: March 15, 2002

/S/ WALTER J. COLEMAN
Walter J. Coleman
Date: March 15, 2002

/S/ JOHN W. JARDINE, JR.
John W. Jardine, Jr., Director
Date: March 15, 2002

/S/ J. PETER MARTIN
J. Peter Martin, Director
Date: March 15, 2002

/S/ JOSEPH E. MOORE, ESQ.
Joseph E. Moore, Esq., Director
Date: March 15, 2002

/S/ CALVERT A. MORGAN, JR.
Calvert A. Morgan, Jr., Director
Date: March 15, 2002

/S/ RUDOLPH M. PEINS, JR.
Rudolph M. Peins, Jr., Director
Date: March 15, 2002

/S/ ROBERT F. RIDER
Robert F. Rider, Director
Date: March 15, 2002

/S/ JEREMIAH P. SHEA
Jeremiah P. Shea, Director
Date: March 15, 2002

Chesapeake Utilities Corporation and Subsidiaries
Schedule II
Valuation and Qualifying Accounts

For the Year Ended December 31,	Balance at	Additions			Balance at
	Beginning	Charged to	Other	Deductions	End of
	of Year	Income	Accounts	(2)	Year
Reserve Deducted From Related Assets					
Reserve for Uncollectible Accounts					
2001	\$ 549,961	\$ 592,590	\$ 488,895	\$ (1,009,930)	\$ 621,516
2000	\$ 475,592	\$ 342,407	\$ 63,741	\$ (331,779)	\$ 549,961
1999	\$ 302,513	\$ 457,367	\$ 74,877	\$ (359,165)	\$ 475,592

⁽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,	2001	2000	1999
Income from continuing operations	\$ 6,721,537	\$ 7,489,201	\$ 8,270,986
Add:			
Income taxes	4,252,275	4,496,592	4,684,247
Portion of rents representative of interest factor	275,773	156,680	162,278
Interest on indebtedness	5,178,495	4,398,266	3,348,231
Amortization of debt discount and expense	101,183	111,122	117,966
Earnings as adjusted	\$ 16,529,263	\$ 16,651,861	\$ 16,583,708
Fixed Charges			
Portion of rents representative of interest factor	\$ 275,773	\$ 156,680	\$ 162,278
Interest on indebtedness	5,178,495	4,398,266	3,348,231
Amortization of debt discount and expense	101,183	111,122	117,966
Fixed Charges	\$ 5,555,451	\$ 4,666,068	\$ 3,628,475
Ratio of Earnings to Fixed Charges	2.98	3.57	4.57

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
Xeron, Inc.	Mississippi
Sam Shannahan Well Company, Inc.	Maryland
Sharp Water, Inc.	Delaware

<u>Subsidiaries of Sharp Energy, Inc.</u>	<u>State Incorporated</u>
Sharpgas, Inc.	Delaware
Tri-County Gas Co., Incorporated	Maryland

<u>Subsidiaries of Chesapeake Service Company</u>	<u>State Incorporated</u>
Skipjack, Inc.	Delaware
BravePoint, Inc.	Georgia
Chesapeake Investment Company	Delaware
Eastern Shore Real Estate	Maryland

<u>Subsidiaries of Sharp Water, Inc.</u>	<u>State Incorporated</u>
EcoWater Systems of Michigan, Inc.	Michigan
Carroll Water Systems, Inc.	Maryland
Absolute Water Care, Inc.	Florida
Sharp Water of Florida, Inc.	Delaware
Sharp Water of Idaho, Inc.	Delaware
Sharp Water of Minnesota, Inc.	Delaware
Sharp Water of Nevada, Inc.	Delaware

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statement on Form S-2 (No. 33-26582), Form S-3 (Nos. 33-28391, 33-64671, 333-63381 and 333-94159) and Form S-8 (No. 33-301175) of Chesapeake Utilities Corporation of our report dated February 15, 2002 relating to the financial statements and financial statement schedule, which appears in this Form 10-K.

PricewaterhouseCoopers LLP

PRICEWATERHOUSECOOPERS LLP

Philadelphia, Pennsylvania

March 29, 2002

*Upon written request,
Chesapeake will provide, free of
charge, a copy of any exhibit to
the 2001 Annual Report on
Form 10-K not included
in this document.*