GUNSTER

ATTORNEYS AT LAW

Writer's Direct Dial Number: 850-521-1706

November 16, 2010

100444-EU

BY HAND DELIVERY

Ms. Ann Cole
Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Re: Application by Chesapeake Utilities Corporation for Authorization to issue Common Stock, Preferred Stock, and Secured and/or Unsecured Debt, and to Enter into Agreements for Interest Rate Swap Products, Equity Products and Other Financial Derivatives and to Exceed Limitation Places on Short Term Borrowings in 2011

Dear Ms Cole:

Enclosed for filing, please find an original and 3 copies of the Application of Chesapeake Utilities Corporation for Authority to Issue Stock, and Secured and/or Unsecured Debt, and to Enter into Agreements for Interest Rate Swap Products, Equity Products and Other Financial Derivatives and to Exceed Limitation Places on Short Term Borrowings in 2011, along with a copy of the pleading on CD in Word format. A copy of this filing has also been provided to the Office of Public Counsel.

Your assistance in this matter is greatly appreciated. If you have any questions, please do

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ECR 2 + 1CD containing application also fwd.
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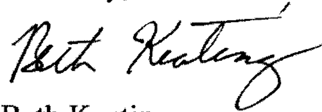
not hesitate to contact me.

Sincerely,



Beth Keating
Gunster, Yoakley, & Stewart, P.A.
215 S. Monroe St., Suite 618
Tallahassee, FL 32301
(850) 521-1706

BK

Cc: Office of Public Counsel

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application by Chesapeake Utilities Corporation for Authorization to Issue Common Stock, Preferred Stock and Secured and/or Unsecured Debt, and to Enter into Agreements For Interest Rate Swap Products, Equity Products and Other Financial Derivatives and to Exceed Limitation Placed on Short-Term Borrowings in 2011	))))))))	100444-GU

APPLICATION BY CHESAPEAKE UTILITIES CORPORATION FOR AUTHORIZATION TO ISSUE COMMON STOCK, PREFERRED STOCK AND SECURED AND/OR UNSECURED DEBT, AND TO ENTER INTO AGREEMENTS FOR INTEREST RATE SWAP PRODUCTS, EQUITY PRODUCTS AND OTHER FINANCIAL DERIVATIVES, AND TO EXCEED LIMITATION PLACED ON SHORT-TERM BORROWINGS IN 2011

Chesapeake Utilities Corporation (Chesapeake, the Company or Applicant) respectfully files this Application, pursuant to Section 366.04 (1), Florida Statutes, seeking authority in 2011 to issue up to 6,194,000 shares of Chesapeake common stock; up to 1,000,000 shares of Chesapeake preferred stock; up to $150,000,000 in secured and/or unsecured debt; to enter into agreements for up to $40,000,000 in Interest Rate Swap Products, Equity Products and other Financial Derivatives; and to obtain authorization to exceed the limitation placed on short-term borrowings by Section 366.04, Florida Statutes, so as to issue short-term obligations in 2011, in an amount not to exceed $100,000,000.

1. Name and principal business offices of Applicant:

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

   b) Chesapeake Utilities Corporation
   Florida Division
   1501 Sixth Street, NW
   Winter Haven, Florida 33881

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c) Florida Public Utilities Company (a wholly owned subsidiary of Chesapeake Utilities Corporation)
401 South Dixie Highway
West Palm Beach, FL 33401

d) Indiantown Gas Company
401 South Dixie Highway
West Palm Beach, FL 33401

2. Incorporated:

Chesapeake Utilities Corporation – Incorporated under the laws of the state of Delaware in 1947 and qualified to do business in Florida, Maryland, and Pennsylvania

Florida Public Utilities Company – Incorporated under the laws of the state of Florida in 1924 and qualified to do business in Florida

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

Beth Keating, Esquire
Gunster, Yoakley & Stewart, P.A.
Suite 618
215 South Monroe Street
Tallahassee, Florida 32301
(850) 521-1706

Attorneys for Chesapeake Utilities Corporation

4. Capital Stock and Funded Debt

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

a) Common stock having a par value of $0.4867 per share.

b) Amount authorized: 25,000,000 shares.

During 2010 Chesapeake amended its Certificate of Incorporation to increase the number of authorized shares of common stock from 12,000,000 to 25,000,000. A copy of the Amended and Restated

Certificate of Incorporation filed with the State of Delaware Secretary of State is included as Exhibit B

c) Amount outstanding as of June 30, 2010 : 9,476,419

d) Amount held in Treasury: 0 shares.

e) Amount pledged by Applicant: None.

f) Amount owned by affiliated corporations: None.

g) Amount held in any fund: None.

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

a) Preferred stock having a par value of $0.01 per share.

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

c) Amount outstanding as of June 30, 2010: 0 shares.

d) Amount held in Treasury: None.

e) Amount pledged by Applicant: None.

f) Amount owned by affiliated corporations: None.

g) Amount held in any fund: None.

The funded indebtedness by class and series are as follows:

(a) 1 Chesapeake Utilities Corporation 8.25% Convertible Debentures due March 1, 2014 are convertible prior to maturity, unless previously redeemed, into shares of common stock of Chesapeake at a conversion price of $17.01 per share. Interest on the Debentures is payable on the first day of March and September, commencing September 1, 1989. The Debentures are redeemable at 100% of the principal amount plus accrued interest (i) on March 1 in any year, commencing in 1991, at the option of the holder and (ii) at any time within 60 days after request on behalf of a deceased holder. At

Chesapeake's option, beginning March 1, 1990, the Debentures may be redeemed in whole or in part at redemption prices declining from 107.25%, plus accrued interest. No sinking fund will be established to redeem the Debentures. As of June 30, 2010, there is a remaining balance of $1,471,000 on this issue.

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

(a) 3 Chesapeake Utilities Corporation 6.85% Unsecured Senior Notes due January 1, 2012 and issued on December 15, 1997 in the principal amount of $10,000,000 bearing interest payable semi-annually with provisions for payment of interest only prior to January 1, 2003; thereafter, principal shall be payable, in addition to interest on the unpaid balance, over ten (10) years at the rate of $1,000,000 per annum. As of June 30, 2010, there is a remaining balance of $2,000,000 on this issue.

(a) 4 Chesapeake Utilities Corporation 7.83% Unsecured Senior Notes due January 1, 2015 and issued on December 29, 2000 in the principal amount of $20,000,000 bearing interest payable semi-annually with provisions for payment of interest only prior to January 1, 2006; thereafter, principal shall be payable, in addition to interest on the

unpaid balance, over ten (10) years at the rate of $2,000,000 per annum. As of June 30, 2010, there is a remaining balance of $10,000,000 on this issue.

(a) 5 Chesapeake Utilities Corporation 6.64% Unsecured Senior Notes due October 31, 2017 and issued on October 31, 2002 in the principal amount of $30,000,000 bearing interest payable semi-annually with provisions for payment of interest only prior to October 31, 2007; thereafter, principal shall be payable, in addition to interest on the unpaid balance, over eleven (11) years at the rate of $2,727,272 per annum. As of June 30, 2010, there is a remaining balance of $21,818,182 on this issue.

(a) 6 Chesapeake Utilities Corporation 5.50% Unsecured Senior Notes due October 12, 2020 and issued on October 12, 2006 in the principal amount of $20,000,000 bearing interest payable quarterly with provisions for payment of interest only prior to October 12, 2011; thereafter, principal shall be payable, in addition to interest on the unpaid balance, for ten (10) years at the rate of $2,000,000 per annum. As of June 30, 2010, there is a remaining balance of $20,000,000 on this issue.

(a) 7 Chesapeake Utilities Corporation 5.93% Unsecured Senior Notes due October 31, 2023 and issued on October 31, 2008 in the principal amount of $30,000,000 bearing interest payable semi-annually with provisions for payment of interest only prior to October 31, 2014; thereafter, principal shall be payable, in addition to interest on the unpaid balance for ten (10) years at the rate of $3,000,000 per

annum. Accordingly, as of June 30, 2010, there is a balance of $30,000,000 on this issue.

(a) 8 Florida Public Utilities Company 9.57% Secured First Mortgage Bonds due May 1, 2018 and issued on May 1, 1988 in the principal amount of $10,000,000 bearing interest payable semi-annually with provisions for payment of interest only prior to May 1, 2008; thereafter, principal shall be payable, in addition to interest on the unpaid balance for eleven (11) years at the rate of $909,091 per annum. Accordingly, as of June 30, 2010, there is a balance of $7,273,000 on this issue.

(a) 9 Florida Public Utilities Company 10.03% Secured First Mortgage Bonds due May 1, 2018 and issued on May 1, 1988 in the principal amount of $5,500,000 bearing interest payable semi-annually with provisions for payment of interest only prior to May 1, 2008; thereafter, principal shall be payable, in addition to interest on the unpaid balance for eleven (11) years at the rate of $500,000 per annum. Accordingly, as of June 30, 2010, there is a balance of $4,000,000 on this issue.

(a) 10 Florida Public Utilities Company 9.08% Secured First Mortgage Bonds due June 1, 2022 and issued on June 1, 1992 in the principal amount of $8,000,000 bearing interest payable semi-annually with provisions for payment of interest only prior to June 1, 2022; thereafter, principal shall be payable in full. Accordingly, as of June 30, 2010, there is a balance of $8,000,000 on this issue.

1. As of the filing date, Chesapeake has five unsecured bank lines of credit with two commercial lenders. Chesapeake currently maintains a total short-term

borrowing line capacity of $129,100,000. In January 2010, the Company increased its total committed short-term borrowing capacity from $55,000,000 to $60,000,000 (held through two separate lines of credit of $30,000,000 with two lenders), and increased its uncommitted short-term borrowing capacity from $35,000,000 to $40,000,000 (held through two separate lines of credit of $20,000,000 with two lenders). Subsequently, on March 16, 2010, the Company entered into a new $29.1 million credit facility with one of its commercial lenders. This credit facility, which was structured in the form of a term note was utilized to redeem FPU's 6.85 percent and 4.90 percent First Mortgage Bonds that were acquired as part of the merger in October 2009 and then redeemed in January 2010. The Company received an advance of the full amount under the term note under the LIBOR pricing option and has borrowed under the term note for a nine-month period, with the facility maturing in one year. As of June 30, 2010, the total short-term borrowing outstanding under the bank lines of credit was $ 29,100,000. On June 30, 2010 the Company entered into an agreement with Metropolitan Life Insurance Company to refinance the two redeemed First Mortgage Bonds mentioned above with unsecured senior notes to be drawn at the Company's discretion between June 30, 2010 and June 30, 2012. On June 15, 2010 the Delaware PSC issued Order 7787 approving the issuance. A copy of the Order is included with this filing as Exhibit D.

5. Authorizations Requested

Chesapeake requests authorization from the FPSC to issue up to 395,000 new shares of its common stock during 2011 for the purpose of administering Chesapeake's Retirement Savings Plan, Performance Incentive Plan,

Dividend Reinvestment and Stock Purchase Plan, conversion of the Company's Convertible Debentures, Directors Stock Compensation Plan, and Employee Stock Awards Plan. The share breakdown for each specific purpose is as follows:

Number of Shares	Purpose
70,000	Issuance pursuant to the Company's Retirement Savings Plan.
100,000	Issuance under the terms of the Company's Performance Incentive Plan.
120,000	Issuance pursuant to the Company's Dividend Reinvestment and Stock Purchase Plan.
84,000	Issuance under the terms of the Company's outstanding 8 ¼% Convertible Debentures.
15,000	Issuance pursuant to the Company's Directors Stock Compensation Plan.
5,000	Issuance under the terms of the Company's Employee Stock Awards Plan.

In addition, Chesapeake is requesting FPSC authorization to issue up to 800,000 shares of Chesapeake stock or an equity-linked instrument equivalent in value in 2011 to permanently finance Chesapeake's ongoing capital expenditure program. The capital expenditure program is subject to continuous review and modification and is funded from short-term borrowings and cash provided by operating activities. The Company, in an effort to manage its capital structure, may from time to time, permanently finance its short-term borrowings through the issuance of common stock or an equity-linked instrument, as opposed to long-term debt.

Chesapeake requests FPSC authorization to issue up to $90,000,000 in secured an/or unsecured debt during 2011 for general corporate purposes

including, but not limited to, working capital, retirement of short-term debt, retirement of long-term debt and capital improvements.

Chesapeake is also requesting FPSC authorization during 2011 to issue up to 5,000,000 shares of common stock and up to $60,000,000 in secured and/or unsecured debt for possible acquisitions. Due to the nature of typical cash for stock acquisitions, the $60,000,000 in secured and/or unsecured debt may be initially issued through a bridge loan in the form of notes held by banks or some similar form of short-term obligations. For this reason, Chesapeake seeks FPSC authorization to exceed the limitation placed on short-term borrowings by Section 366.04, Florida Statutes, so as to issue short-term obligations in an amount not to exceed $100,000,000 during 2011. The bridge financing would subsequently be refinanced as unsecured long-term debt with an estimated rate of interest of up to 300 basis points above U.S. Treasury rates (or extrapolated U.S. Treasury rates) with equivalent average life.

Chesapeake is also requesting authority to issue up to 1,000,000 shares of Chesapeake preferred stock in 2011, for possible acquisitions, financing transactions, and other general corporate purposes, including potential distribution under the Company's Shareholder Rights Agreement ("Rights Agreement") adopted by the Board of Directors on August 20, 1999, and subsequently, modified and extended by the Board of Directors on September 12, 2008. On September 12, 2008, the Board extended the expiration of the Rights from August 20, 2009 to August 20, 2019 and increased the Exercise Price per share from $54.56 to $105 A copy of the First Amendment to Rights Agreement and Securities and Exchange Commission Form 8-K pursuant to Chesapeake Utilities Corporation's First

Amendment to Rights Agreement has been previously filed with the FPSC within Exhibit D of the Application by Chesapeake Utilities Corporation for Authorization to Issue Common Stock, Preferred Stock and Secured and/or Unsecured Debt, and to Enter into Agreements for Interest Rate Swap Products, Equity Products and Other Financial Derivatives and to Exceed Limitation Placed on Short-Term Borrowings in 2009, Docket No. 080635-GU, dated November 19, 2009, and is hereby incorporated by reference.

Chesapeake further seeks FPSC approval to enter into financial agreements with institutions in 2011 to negotiate and execute financial derivatives enabling the Company to lock in its future financing costs and minimize its risk. A financial derivative is a risk-shifting agreement, the value of which is derived from the value of an underlying asset. The underlying asset could be a physical commodity, an interest rate, a company's stock, a stock index, a currency, or virtually any other tradable instrument upon which two parties can agree. A financial derivative can be used for hedging, protecting against financial risk, or can be used to speculate on the movement of commodity or security prices, interest rates or the levels of financial indices. Financial derivatives fall into two categories. One consists of customized, privately negotiated derivatives, referred to as over-the-counter (OTC) derivatives or swaps. The other category consists of standardized, exchangeable derivatives, known generically as futures. In addition, there are various types of products within each of the two categories. The Company has attempted to identify below some of the financial derivatives that the Company may evaluate in 2011, although the listing is not intended to be all-inclusive. Rather, the Company seeks

approval to evaluate and employ those financial derivatives that would mitigate its financial risk associated with a particular financing transaction(s).

Chesapeake is proposing to have the flexibility and authority to enter into the following (a) Treasury rate locks, credit spread locks, interest rate swaps, collars, caps and/or floors (the "Interest Rate Swap Products"); (b) equity collars, floors, prepaid forward contracts, covered calls, forward sales and purchases and/or equity-linked instruments (the "Equity Products"); or (c) any other Financial Derivatives that meet the objectives described above on such terms as Chesapeake considers to be appropriate, provided that the notional amount(s) for said Interest Rate Swap Products, Equity Products, and/or other Financial Derivatives do not, in the aggregate, exceed the sum of $40,000,000.

Chesapeake Utilities Corporation allocates funds to the Florida Division, Florida Public Utilities and Indiantown Gas Company on an as-needed basis.

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

(a) Chesapeake's Retirement Savings Plan ("RSP") was implemented on February 1, 1977. As of June 30, 2010, the RSP had 369 active participants; a total market valuation of approximately $40,224,292 and 524,948 shares of the Company's common stock. The Company filed a revised RSP Document with the Internal Revenue Service ("IRS"), and received a favorable determination letter. The changes made to the RSP Document were primarily associated with the IRS' most recent Code changes and did not change the underlying features of the administration of the RSP. The key driver in filing the revised RSP Document was the IRS' mandated determination letter filing cycle. A copy of the RSP Document filed with the IRS has been previously filed with the FPSC within Exhibit C of the

Application by Chesapeake Utilities Corporation for Authorization to Issue Common Stock, Preferred Stock and Secured and/or Unsecured Debt and to Exceed Limitation Placed on Short-Term Borrowings in 2008, Docket No. 070640-GU, dated November 29, 2007, and is hereby incorporated by reference. Pursuant to the RSP, the first 100% of an employee's contribution, up to a maximum 6% of his/her salary is matched by the Company in shares of Chesapeake common stock. Additional employee dollars that are matched by the Company are invested according to the respective employee's 401(k) designation. The RSP was amended at the end of 1998 to provide for a larger employer matching amount, from 60% to as much as 200%, and at the same time the Company's Pension Plan was closed off to new employees. Accordingly, as the employer-matching amount has increased, so has the number of shares being issued under the RSP.

To continue to balance the composition of debt and equity, Chesapeake wants to maintain flexibility in how the RSP is funded, i.e., with new shares of its stock, buying shares on the open market, and/or a combination of both funding methods. In addition, management is evaluating the possibility that all or a portion of the matching contribution for FPU's 401(k) Plan will be funded with Chesapeake stock.

On June 23, 1992, the Delaware Public Service Commission issued Order No. 3425 approving the issuance of up to 100,000 new shares of Chesapeake common stock for the purpose of administering Chesapeake's RSP. Please note that this Order by the Delaware Public Service Commission is "open ended" in the sense that there is no time limit by which the approved securities need to be issued. A copy of the Order has been previously filed with the FPSC within Exhibit J of the Application for Approval

of Issuance and Sale of Securities by Chesapeake Utilities Corporation, Docket No. 931112-GU, dated November 17, 1993, and is hereby incorporated by reference. On July 13, 1999, the Delaware Public Service Commission issued Order No. 5165 approving the issuance of an additional 100,000 new shares of Chesapeake common stock for the purpose of administering the RSP. Please note that this Order by the Delaware Public Service Commission is also "open ended" in the sense that there is no time limit by which approved securities need to be issued. A copy of this Order has been previously filed with the FPSC within Exhibit C of the Application by Chesapeake Utilities Corporation for Authorization to issue Common Stock, Preferred Stock and Secured and/or Unsecured Debt and to Exceed Limitation Placed on Short-Term Borrowings in 2000, Docket No. 991631-GU, dated October 20, 1999, and is hereby incorporated by reference. On December 19, 2000, the Delaware Public Service Commission issued Order No. 5609 approving the issuance of an additional 300,000 new shares of Chesapeake common stock for the purpose of administering the RSP. Please note that this Order by the Delaware Public Service Commission is also "open ended" in the sense that there is no time limit by which approved securities need to be issued. A copy of this Order has been previously filed with the FPSC as Exhibit E of the Consummation Report of Securities Issued by Chesapeake Utilities Corporation, Docket No. 991631-GU, dated March 29, 2001, and is hereby incorporated by reference. On May 4, 2010, the Delaware Public Service Commission issued Order No. 7769 approving the issuance of an additional 600,000 new shares of Chesapeake common stock for the purpose of administering the RSP. Please note that this Order by the Delaware Public Service Commission is also "open ended" in the sense that

there is no time limit by which approved securities need to be issued. A copy of the order is included as Exhibit C. Pursuant to these Orders, Chesapeake has issued 505,351 new shares of common stock for the RSP as of June 30, 2010. Thus, there remains to be issued 594,649 shares as authorized by the Delaware Public Service Commission. The FPSC approved the issuance and sale of up to 45,710 shares of common stock for the Plan during 2009 by Order No. PSC-08-0769-FOF-GU issued on November 19, 2008. Chesapeake now seeks FPSC authorization to issue up to 70,000 new shares of Chesapeake common stock for the purpose of administering Chesapeake's and FPU's Retirement Savings Plans during 2011.

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

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

To accomplish these objectives, the PIP authorizes the grant of nonqualified stock options, performance shares of the Company's common stock and stock appreciation rights, or any combination thereof. The PIP, as it was originally adopted by the common stock shareholders of Chesapeake in 1992, provided that over a ten-year period beginning in 1992, any one or more types of awards for up to a total of 200,000 shares of Chesapeake's common stock may be granted. On June 23, 1992, the Delaware Public Service Commission issued Order No. 3425 approving the issuance of up to 200,000 new shares of Chesapeake common stock for the purpose of administering Chesapeake's PIP. A copy of this Order has been previously filed with the FPSC within Exhibit J of the Application for Approval of Issuance and Sale of Securities by Chesapeake Utilities Corporation, Docket No. 931112-GU, dated November 17, 1993, and is hereby incorporated by reference. The amendments to the PIP adopted by the common stock shareholders of Chesapeake on May 19, 1998 changed the terms and provisions of the PIP as follows: (1) the aggregate number of shares of common stock subject to awards was increased from 200,000 shares to 400,000 shares; (2) the term of the PIP was extended for five years through December 31, 2005; and (3) the Board of Directors was granted greater flexibility to amend, modify or terminate the PIP, subject to shareholder approval requirements imposed by applicable law. On July 13, 1999, the Delaware Public Service Commission issued Order No. 5165 approving the issuance of an additional 200,000 new shares of Chesapeake common stock for the purpose of administering the PIP, coinciding with these amendments. A copy of this Order has been previously filed with the FPSC within Exhibit C of the Application by Chesapeake Utilities Corporation for Authorization to

Issue Common Stock, Preferred Stock and Secured and/or Unsecured Debt and to Exceed Limitation Placed on Short-Term Borrowings in 2000, Docket No. 991631-GU, dated October 20, 1999, and is hereby incorporated by reference.

The pre-existing PIP expired on December 31, 2005 and the Company's current PIP was effective January 1, 2006. Stock awards granted prior to 2006, were under the authority of the pre-existing PIP. Stock awards granted in 2006 through 2014, to the extent earned and awarded in such years, have been and will continue to be issued under the authority of the current PIP.

On February 24, 2005, Chesapeake's Board of Directors adopted the current PIP, which applied to performance beginning January 1, 2006, and approved 400,000 shares of common stock to be authorized and reserved for issuance. The current PIP as adopted by the common shareholders of Chesapeake on May 5, 2005 allows for the issuance of restricted stock in the form of performance share awards. In addition, the current PIP, allows performance shares to be awarded to those key employees of the Company whom a designated committee, composed of independent directors chosen by the Board determines, are in positions to contribute significantly to the long-term growth, development, and financial success of the Company, and will encourage those employees to obtain proprietary interest in the Company and to remain as employees of the Company as well as to assist the Company in recruiting able management personnel. Under the current PIP, no more than 25,000 shares are to be awarded to any one executive in any calendar year. The current PIP expires on December 31, 2014. On April 26, 2005, the Delaware Public Service Commission issued Order No. 6607 approving the issuance of 400,000 shares of Chesapeake common stock for

the purpose of administering the current PIP. A copy of the Application and Order have been previously filed with the FPSC within Exhibit D, as well as Chesapeake's Performance Incentive Plan document for 400,000 shares within Exhibit E, of the Application by Chesapeake Utilities Corporation for Authorization to Issue Common Stock, Preferred Stock and Secured and/or Unsecured Debt and to Exceed Limitation Placed on Short-Term Borrowings in 2006, Docket No. 050630-GU, dated September 21, 2005, and is hereby incorporated by reference.

Pursuant to the current PIP, Chesapeake has issued 54,972 shares of common stock as of June 30, 2010 related to the 2006 to 2014 plan. Thus, there remains to be issued 345,028 shares as authorized by the Delaware Public Service Commission. The FPSC approved the issuance and sale of up to 100,000 shares of common stock for the PIP during 2010 by Order No. PSC-09-0813-FOF-GU, issued on December 9, 2009. Chesapeake now seeks FPSC authorization to issue up to 100,000 new shares of Chesapeake common stock for the purpose of administering Chesapeake's Performance Incentive Plan during 2011. The 100,000 shares should be adequate to cover any shares issued in 2011 pursuant to awards granted to executives and other key officers of the Company and its subsidiaries for 2010.

(c) Chesapeake's Dividend Reinvestment and Stock Purchase Plan ("DRP") was implemented on April 27, 1989. The DRP Administrator currently has the flexibility of purchasing shares of Chesapeake common stock on the open market, using Treasury stock or issuing new common stock. The gradual issuance of new common stock enables Chesapeake to balance the composition of its capital between common stock and long-term debt. As of June 30, 2010, the DRP had 1,785 stockholder participants.

A copy of the DRP as filed on Registration Statement Form S-3 with the Securities and Exchange Commission has been previously filed with the FPSC as Exhibit D of the Application for Approval of Issuance and Sale of Securities by Chesapeake Utilities Corporation, Docket No. 961194-GU, dated October 1, 1996, and is hereby incorporated by reference. On May 23, 1989, the Delaware Public Service Commission issued Order No. 3071 approving the issuance of up to 200,000 new shares of Chesapeake common stock for the purpose of administering Chesapeake's DRP. Please note that this Order by the Delaware Public Service Commission is "open ended" in the sense that there is no time limit by which the approved securities need to be issued. A copy of this Order has been previously filed with the FPSC within Exhibit J of the Application for Approval of Issuance and Sale of Securities by Chesapeake Utilities Corporation, Docket No. 931112-GU, dated November 17, 1993, and is hereby incorporated by reference. On December 20, 1995, the Delaware Public Service Commission issued Order No. 4097 approving the issuance of an additional 300,000 new shares of Chesapeake common stock for the purpose of administering Chesapeake's DRP. Please note that this Order by the Delaware Public Service Commission is also "open ended" in the sense that there is no time limit by which the approved securities need to be issued. A copy of this Order has been previously filed with the FPSC within Exhibit E of the Application for Approval of Issuance and Sale of Securities by Chesapeake Utilities Corporation, Docket No. 961194-GU, dated October 1, 1996, and is hereby incorporated by reference. On August 5, 2004, Chesapeake's Board of Directors approved 750,000 additional shares of common stock to be authorized and reserved for issuance under the Dividend Reinvestment and Stock Purchase Plan, as well as several

amendments to the terms of the Plan. The amended plan (a) allows for direct stock purchases by persons who at the times of purchase are not shareholders of the Company; (b) establishes the minimum investment amount for direct stock purchases by persons who are not shareholders of the Company; (c) fixes the minimum monthly and maximum annual optional cash investment limits for participating shareholders; (d) allows for direct debiting of shareholder-designated bank accounts for purchases; and (e) adds a provision to the Plan, whereby the Company, with the prior approval of the Board of Directors or under guidelines adopted by the Board of Directors, could on a case-by-case basis waive the maximum annual optional cash investment limit and accept investments in excess of that amount. On December 21, 2004 the Delaware Public Service Commission issued Order No. 6543, approving the issuance of an additional 750,000 shares of Chesapeake common stock for the purpose of administering Chesapeake's amended Dividend Reinvestment and Stock Purchase Plan. Please note that this Order by the Delaware Public Service Commission is "open ended" in the sense that there is no time limit by which the approved securities need to be issued. A copy of this Order has been previously filed with the FPSC within Exhibit C of the Consummation Report of Securities Issued by Chesapeake Utilities Corporation, Docket No. 030942-GU, dated March 22, 2005, and is hereby incorporated by reference. In addition, on December 16, 2008, Chesapeake filed a Registration Statement on Form S-3 with the Securities and Exchange Commission relating to the registration of 631,756 shares of the Company's common stock under the Dividend Reinvestment and Direct Stock Purchase Plan. The Registration Statement was declared effective by the Securities and Exchange Commission on January 5, 2009 and replaces

the prior Registration Statement in place for the Plan that had previously expired. A copy of the Chesapeake Utilities Corporation Dividend Reinvestment and Direct Stock Purchase Plan as filed with the Securities and Exchange Commission on Registration Statement Form S-3 dated December 16, 2008 has previously been filed with the FPSC as Exhibit D of the Consummation Report of Securities Issued by Chesapeake Utilities Corporation, Docket No. 070640-GU, dated March 27, 2009, and is hereby incorporated by reference.

Pursuant to the Orders above, Chesapeake has issued 677,033 new shares of common stock as of June 30, 2010. Thus, there remains to be issued 572,967 shares as authorized by the Delaware Public Service Commission. The FPSC approved the issuance and sale of up to 100,000 shares for the DRP during 2010 by Order No. PSC 09 0813 FOF GU, issued on December 9, 2009.

Chesapeake now seeks FPSC approval to issue up to 120,000 new shares of Chesapeake common stock for the purpose of administering Chesapeake's amended Dividend Reinvestment and Stock Purchase Plan during 2011.

(d) On April 4, 1989, Chesapeake issued $5,000,000 in 8.25% Convertible Debentures as part of a public offering. As of June 30, 2010, $1,471,000 remained outstanding with a conversion price of $17.01 per share. Hence, the maximum number of shares of common stock that could be issued upon conversion is 86,479. A true and correct copy of the Registration Statement on Form S-2 dated February 16, 1989, as filed with the Securities and Exchange Commission, has been previously filed with the FPSC as Exhibit I of the Application for Approval of Issuance and Sale of Securities by

Chesapeake Utilities Corporation, Docket No. 931112-GU, dated November 17, 1993, and is hereby incorporated by reference.

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

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

As of June 30, 2010, a cumulative $2,603,848 of the Convertible Debentures has been converted. The FPSC approved the issuance and sale

of up to 92,063 new shares of Chesapeake common stock for the purpose of honoring conversion rights pursuant to the Company's Convertible Debentures during 2010, by Order No.PSC 09 0813 FOF GU, issued on December 9, 2009. Chesapeake now seeks FPSC authorization to issue up to 84,000 new shares of Chesapeake common stock for the purpose of honoring these conversion rights during 2011.

(e) On February 24, 2005, the Board adopted Chesapeake's Directors Stock Compensation Plan (DSCP) and on May 5, 2005, the DSCP received shareholder approval. Under the DSCP each non-employee director who is elected as a director or whose service as a director will continue after the date of the respective Annual Meeting will receive, as compensation for services during the ensuing year, an award of no more than 1,200 shares of the Company's common stock on the date of the Company's Annual Meeting. The DSCP enhances the Company's ability to attract, motivate and retain as non-employee directors persons of training, experience and ability and to encourage the highest level of non-employee director performance by providing such directors with a proprietary interest in the Company's growth and financial success. The DSCP expires on December 31, 2015.

On April 26, 2005, the Delaware Public Service Commission issued Order No. 6607 authorizing Chesapeake to issue up to 75,000 shares of common stock to administer the Company's DSCP.

A copy of the Application, and Order have been previously filed with the FPSC within Exhibit D, as well as the DSCP plan document within Exhibit F of the Application by Chesapeake Utilities Corporation for Authorization to Issue Common Stock, Preferred Stock and Secured and/or Unsecured Debt and to Exceed the Limitation Placed on Short-Term Borrowings in 2006,

Docket No. 050630-GU, dated September 21, 2005, and is hereby incorporated by reference. The FPSC approved the issuance of up to 14,400 shares of common stock for the DSCP during 2010 by Order No.PSC-09-0813-FOF-GU, issued on December 9, 2009. Pursuant to the DSCP, Chesapeake has issued a cumulative 40,785 new shares of common stock as of June 30, 2010. Thus, there remains to be issued 34,215 shares as previously authorized by the Delaware Public Service Commission.

Chesapeake now seeks FPSC authorization to issue up to 15,000 new shares of Chesapeake common stock for the purpose of administering Chesapeake's DSCP during 2011. The 15,000 shares should be adequate to cover any awards granted to non-employee directors of the Company in 2011.

(f) The Board adopted the Employee Stock Awards Plan (ESAP) on February 24, 2005; allowing the Company to grant stock awards to its top performing managers and employees of the year; and to have the flexibility to make other awards of stock to employees for exemplary performance. The ESAP received shareholder approval on May 5, 2005. The maximum number of shares that can be issued from the ESAP in any one year is 5,000. The ESAP expires on December 31, 2015.

On April 26, 2005, the Delaware Public Service Commission issued Order No. 6607 authorizing Chesapeake to issue up to 25,000 shares of common stock to administer the Company's ESAP.

A copy of the Application and Order have been previously filed with the FPSC within Exhibit D, as well as the ESAP document within Exhibit G of the Application by Chesapeake Utilities Corporation for Authorization to Issue Common Stock, Preferred Stock and Secured and/or Unsecured Debt and to

Exceed Limitation Placed on Short-Term Borrowings in 2006, Docket No. 050630-GU, dated September 21, 2005, and is hereby incorporated by reference. The FPSC approved the issuance of up to 5,000 shares of common stock for the ESAP during 2010 by Order No.PSC-09-0813-FOF-GU, issued on December 9, 2009. Pursuant to the ESAP, Chesapeake has issued a cumulative 1,400 shares of common stock as of June 30, 2010. Thus, there remains to be issued 23,600 shares as previously authorized by the Delaware Public Service Commission. Chesapeake now seeks FPSC authorization to issue up to 5,000 new shares of Chesapeake common stock for the purpose of administering Chesapeake's ESAP during 2011. The 5,000 shares should be adequate to cover any awards granted to managers and employees of the Company and its subsidiaries in 2011.

(g) On July 5, 2006, Chesapeake filed a Shelf Registration Statement on Form S-3 with the Securities Exchange Commission to issue up to $40,000,000 in new common stock and/or debt securities over a three-year period. Under the Shelf Registration, the net proceeds from the sale of common stock and/or debt securities would be added to Chesapeake's general corporate funds and used for general corporate purposes including, but not limited to, financing of capital expenditures, repayment of short-term debt, funding share repurchases, financing acquisitions, investing in subsidiaries and general working capital purposes. A copy of the Shelf Registration Statement has been previously filed with the FPSC within Exhibit D of the Application by Chesapeake Utilities Corporation for Authorization to Issue Common Stock, Preferred Stock and Secured and/or Unsecured Debt and to Exceed Limitation Placed on Short-Term Borrowings in 2008, Docket No. 070640-GU, dated November 29, 2007, and is hereby incorporated by

reference. On November 9, 2006, Chesapeake filed a Prospectus Supplement with the Securities Exchange Commission pursuant to Rule 424(b)(5). The Prospectus Supplement provided financial information about the Company and described the specific terms of the Company's upcoming common stock offering, including the securities the Company would offer, the price of the offered shares, updated number of shares, delivery date of the sold shares, shares outstanding after the issuance, underwriting discounts and commissions as well as proceeds to the Company. A copy of the Prospectus Supplement has been previously filed with the FPSC within Exhibit E of the Application by Chesapeake Utilities Corporation for Authorization to Issue Common Stock, Preferred Stock and Secured and/or Unsecured Debt and to Exceed Limitation Placed on Short-Term Borrowings in 2008, Docket No. 070640-GU, dated November 29, 2007, and is hereby incorporated by reference. On November 21, 2006, Chesapeake, pursuant to the Prospectus Supplement completed a public stock offering of 600,300 shares of its common stock at $30.10 per share. The net proceeds of approximately $17,200,000 million from the sale of the 600,300 shares of common stock were used to repay a portion of the Company's short-term debt under its unsecured lines of credit. Short-term debt has been used to temporarily finance the Company's utility expansion projects.

In connection with the stock offering of Chesapeake's 600,300 shares of common stock, Chesapeake, on November 30, 2006, completed the sale of 90,045 additional shares of its common stock at $30.10 per share. The sale of the 90,045 shares of common stock was pursuant to the exercise of the over-allotment option by the underwriters. The net proceeds of approximately

$2,600,000 from the sale of the 90,045 over-allotment shares were used to repay a portion of the Company's short-term debt.

On October 16, 2006, the Delaware Public Service Commission issued Order No. 7065 authorizing Chesapeake to issue up to $40,000,000 in common stock and/or debt securities over a three-year financing period under the Shelf Registration Statement. Of the $40,000,000 approved for issuance in common stock and/or debt securities, $20,000,000 was used for the issuance of common stock per the aforementioned November 30, 2006 stock offering, and the remaining $20,000,000 covered a portion of the October 23, 2008 issuance of $30,000,000 in principal unsecured long-term debt pursuant to the transaction described in detail in section 4, Funded Indebtedness, paragraph h(1). As of June 30, 2010, there is a zero (0) balance under the Shelf Registration Statement.

(h) Chesapeake now seeks FPSC approval to issue up to 800,000 shares of Chesapeake stock or an equity-linked instrument equivalent in value in 2011 to permanently finance Chesapeake's ongoing capital expenditure program. Financing for the Company's capital expenditure program is subject to continuous review and modification and is funded from short-term borrowings and cash provided by operating activities. The Company, in an effort to manage its capital structure, may, from time to time permanently finance through the issuance of common stock or an equity-linked instrument, as opposed to long-term debt. The FPSC approved the issuance of 800,000 shares of common stock for Chesapeake during 2010 by Order No. PSC-09-0813-FOF-GU, issued on December 9, 2009.

(i) Chesapeake seeks FPSC authorization to issue during 2011 up to $90,000,000 in secured and/or unsecured long-term debt with an estimated

rate of interest of up to 300 basis points above U.S. Treasury rates (or extrapolated U.S. Treasury rates) with equivalent average life. $30,000,000 of the proceeds from this debt issuance would be used to refinance two of FPU's First Mortgage Bonds redeemed earlier this year. The FPSC approved the issuance and sale of $60,000,000 in secured and/or unsecured long-term debt during 2010 by Order No. PSC-09-0813-FOF-GU, issued on December 9, 2009. The remaining proceeds from this debt issuance would be used for general corporate purposes including, but not limited to, working capital, retirement of short-term debt, retirement of long-term debt and capital improvements.

(j)Chesapeake seeks further FPSC authorization to issue during 2011 up to an additional 5,000,000 shares of common stock and an additional $60,000,000 in secured and/or unsecured long-term debt with an estimated rate of interest of up to 300 basis points above U.S. Treasury rates (or extrapolated U.S. Treasury rates) with equivalent average life. This additional stock and debt would be used to finance Chesapeake's ongoing acquisition program. Chesapeake expects to continue to search for growth opportunities through acquisitions, which fit its long-range plan to achieve the proper mix of business activities. Financing of acquisitions will depend upon the nature and extent of potential acquisitions as well as current market and economic conditions.

The FPSC approved the issuance and sale of 3,828,537 shares of common stock and $60,000,000 in secured and/or unsecured long-term debt for this purpose during 2010 by Order No. PSC 09 0813 FOF GU, issued on December 9, 2009.

(k)Chesapeake seeks FPSC authorization to issue up to 1,000,000 shares of Chesapeake preferred stock during 2011 for possible acquisitions, financing transactions, and other general corporate purposes, including potential distribution under the Company's Rights Agreement adopted by the Board of Directors on August 20, 1999. The Rights Agreement was subsequently modified and extended by the Board of Directors on September 12, 2008. Pursuant to the Board's actions, the expiration of the Rights was extended from August 20, 2009 to August 20, 2019 and the Exercise Price was increased per share from $54.56 to 105. The Rights Agreement approved by the Board of Directors is designed to protect the value of the outstanding common stock in the event of an unsolicited attempt by an acquirer to take over the Company in a manner or on terms not approved by the Board of Directors. The Rights Agreement is not intended to prevent a takeover of the Company at a fair price and should not interfere with any merger or business combination approved by the Board of Directors. Copies of the Forms 8-A and 8-K filed with the Securities and Exchange Commission in conjunction with the Rights Agreement have been previously filed with the FPSC as Exhibit D of the Application by Chesapeake Utilities Corporation for Authorization to Issue Common Stock, Preferred Stock and Secured and/or Unsecured Debt and to Exceed Limitation Placed on Short-Term Borrowings in 2000, Docket No. 991631-GU, dated October 20, 1999, and are hereby incorporated by reference. A copy of the Company's First Amendment to the Rights Agreement and the Form 8-K filed with the Securities and Exchange Commission in conjunction with the First Amendment to the Rights Agreement has been previously filed with the FPSC as Exhibit D of the Application by Chesapeake Utilities Corporation for Authorization to Issue

Common Stock, Preferred Stock and Secured and/or Unsecured Debt and to Enter into Agreements For Interest Rate Swap Products, Equity Products and Other Financial Derivatives and to Exceed Limitation Placed on Short-Term Borrowings in 2010, Docket No. 080635-GU, dated November 19, 2008, and are hereby incorporated by reference. As of June 30, 2010, zero (0) shares of Chesapeake preferred stock have been issued. The FPSC approved the issuance and sale of 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 Rights Agreement, during 2010 by Order No. PSC-09-0813-FOF-GU, issued on December 9, 2009.

(l) Chesapeake is also requesting authority during 2011 to enter into an agreement for financial derivatives including, but not limited to Interest Rate Swap Products, Equity Products, and/or other Financial Derivatives on such terms as Chesapeake considers appropriate provided that the notional amount(s) for said Interest Rate Swap Products, Equity Products, and/or other Financial Derivatives do not, in the aggregate, exceed the sum of $40,000,000. On July 9, 2002, the Delaware Public Service Commission issued Order No. 5989 approving the Company's application for approval of the issuance of certain long-term debt, and acknowledging that the Company was considering entering into, or utilizing Interest Rate Swap Products. While the Company does not consider such Interest Rate Swap Products, Equity Products, and/or other Financial Derivatives to involve the actual issuance of securities within the ambit of Section 366.04 (1), Florida Statutes, in an abundance of caution, Chesapeake requests such authority to the extent the FPSC considers Interest Rate Swap Products, Equity Products, and/or other

Financial Derivatives subject to its jurisdiction. In the event that the FPSC does not consider Interest Rate Swap Products, Equity Products, and/or other Financial Derivatives to be jurisdictional, Chesapeake requests that that FPSC issue an Order acknowledging the Company's request and confirming the FPSC's absence of jurisdiction regarding these instruments.

A copy of this Order was filed as Exhibit C of the Application by Chesapeake Utilities Corporation for Authorization to Issue Common Stock, Preferred Stock and Secured and/or Unsecured Debt, and to Enter into Agreements for Interest Rate Swap Products, and to Exceed Limitation Placed on Short-Term Borrowings in 2004, Docket No. 030942-GU, and is hereby incorporated by reference.

7. Purposes for which Securities are to be issued:

The common stock, preferred stock and long-term debt authorized for issuance will be used for the purpose of administering Chesapeake's Retirement Savings Plan, Performance Incentive Plan, Dividend Reinvestment and Stock Purchase Plan, Directors Stock Compensation Plan, Employee Stock Awards Plan, conversion of the Company's Convertible Debentures, financing of the Company's acquisition program and for other corporate purposes including, but not limited to the following: working capital; retirement of short-term debt; retirement of long-term debt; capital improvements; and potential distribution under the Rights Agreement. Chesapeake believes that Interest Rate Swap Products, Equity Products and other Financial Derivatives would provide Chesapeake with an additional opportunity to achieve lower cost funding of existing and prospective debt and equity placements, as well as enhanced flexibility to manage the Company's exposure to risk as market conditions permit. These are all for

lawful objects within the corporate purposes of Chesapeake and compatible with the public interest and are reasonably necessary or appropriate for such purposes.

8. Counsel:

The legality of the common stock, preferred stock and debt issuances will be passed upon by William A. Denman, Esquire, Parkowski, Guerke and Swayze, P.A., 116 West Water Street, Dover, Delaware 19904, who will rely on Beth Keating, Esquire, Gunster, Yoakley & Stewart, Suite 618, 215 South Monroe Street, Tallahassee, Florida 32301, as to matters of Florida law.

9. Other Regulatory Agencies:

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

The address of the Delaware Commission is as follows:

Delaware Public Service Commission
861 Silver Lake Boulevard
Cannon Building
Dover, Delaware 19904
Attention: Janis Dillard, Executive Director

10. Control or ownership:

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

11. Exhibits:

The following exhibits submitted with Applicant's Applications in Docket Nos. 931112-GU, 961194-GU, 981213-GU, 991631-GU, 030942-GU, 050630-GU, 070640-GU, and 080635-GU, respectively, are incorporated in the instant Application by reference:

Docket No. 931112-GU

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

Exhibit J: Delaware Public Service Commission Order No. 3425 dated June 23, 1992 for the Issuance of Common Stock pursuant to Chesapeake Utilities Corporation Retirement Savings Plan (100,000 shares);

Delaware Public Service Commission Order No. 3425 dated June 23, 1992 for Issuance of Common Stock pursuant to Chesapeake Utilities Corporation Performance Incentive Plan (200,000 shares);

Delaware Public Service Commission Order No. 3071 dated May 23, 1989 for the Issuance of Common Stock pursuant to Chesapeake Utilities Corporation Dividend Reinvestment and Direct Stock Purchase Plan (200,000 shares);

and

Delaware Public Service Commission Order No. 3040 dated February 14, 1989 authorizing $5,000,000 for Chesapeake Utilities Corporation 8.25% Convertible Debentures.

Docket No. 961194-GU

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

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

Docket No. 981213-GU

Exhibit C: Chesapeake Utilities Corporation Amended Performance Incentive Plan.

Docket No. 991631-GU

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

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

Exhibit E: Delaware Public Service Commission Order No. 5609 dated December 19, 2000 pursuant to Chesapeake Utilities Corporation Retirement Savings Plan (300,000 shares) (as filed with the FPSC Consummation Report of Securities Issued by Chesapeake Utilities Corporation on March 29, 2001).

Docket No. 030942-GU

Exhibit C: Delaware Public Service Commission Order No. 6543 dated December 21, 2004 pursuant to Chesapeake Utilities Corporation Dividend Reinvestment and Direct Stock Purchase Plan (750,000 shares) (as filed with the FPSC 2004 Consummation Report of Securities Issued by Chesapeake Utilities Corporation on March 22, 2005).

Exhibit C: Delaware Public Service Commission Order No. 5989 dated July 9, 2002 authorizing the issuance of long-term debt.

Docket No. 050630-GU

Exhibit D: Delaware Public Service Commission Application and Order No. 6607 dated April 26, 2005 for the Issuance of up to 500,000 shares of Chesapeake Utilities Corporation Common Stock for administering Chesapeake Utilities Corporation

Performance Incentive Plan, Directors Stock Compensation Plan and Employee Stock Awards Plan.

Exhibit E: A copy of Chesapeake Utilities Corporation Performance Incentive Plan document (400,000 shares).

Exhibit F: A copy of Chesapeake Utilities Corporation Directors Stock Compensation Plan document (75,000 shares).

Exhibit G: A copy of Chesapeake Utilities Corporation's Employee Stock Awards Plan document (25,000 shares).

Docket No. 070640-GU

Exhibit C: Retirement Savings Plan Document filed with the Internal Revenue Service dated January 30, 2007, effective January 1, 2006.

Exhibit D: Chesapeake Utilities Corporation Public Offering of Common Stock as filed with the Securities and Exchange Commission on Registration Statement Form S-3 dated July 5, 2006.

Exhibit E: Chesapeake Utilities Corporation Prospectus Supplement as filed with the Securities and Exchange Commission pursuant to Rule 424(b)(5) dated November 9, 2006.

Exhibit F: Delaware Public Service Commission Application and Order No. 7065 dated October 16, 2006 for the issuance of up to $40,000,000 in common stock and/or debt securities over a three-year financing period pursuant to Chesapeake Utilities Corporation's Shelf Registration Statement.

Docket No. 080635-GU

Exhibit C: Delaware Public Service Commission Application dated September 29, 2008, requesting approval for the issuance of up to $10,000,000 of Chesapeake Utilities Corporation unsecured long-term debt securities.

Delaware Public Service Commission Order No. 7464 dated October 23, 2008, for the Issuance of up to $10,000,000 of Chesapeake Utilities Corporation 5.93% Unsecured Senior Notes (as filed with the FPSC Consummation Report of Securities Issued by Chesapeake Utilities Corporation on March 27, 2009).

Exhibit D: Chesapeake Utilities Corporation First Amendment to Rights Agreement and Securities and Exchange Commission Form 8-K pursuant to Chesapeake Utilities Corporation First Amendment to Rights Agreement

Chesapeake Utilities Corporation Dividend Reinvestment and Direct Stock Purchase Plan as filed with the Securities and Exchange Commission on Registration Statement Form S-3 dated December 16, 2008 (as filed with the FPSC Consummation Report of Securities Issued by Chesapeake Utilities Corporation on March 27, 2009).

Docket No. 09487-GU

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

Exhibit C: $30,000,000 Note Agreement for Chesapeake Utilities Corporation 5.93% Unsecured Senior Notes.

Exhibit D: Delaware Public Service Commission Application dated May 18, 2009, requesting approval for the issuance of up to 2.6 million shares of Chesapeake Utilities Corporation common stock in conjunction with the FPU merger.

Exhibit E: Delaware Public Service Commission Order No. 7951 dated June 11, 2009 for the issuance of up to 2.6 million shares of Chesapeake Utilities Corporation common stock in conjunction with the FPU merger

Exhibit F: Chesapeake Utilities Corporation Joint Proxy Statement/Prospectus as filed with the Securities and Exchange Commission on Registration Statement Form S-4 pursuant to Rule 424(b)(5) dated September 15, 2009.

Filed herewith:

Exhibit A: Exhibit A consists of the following attachments:

A (1) Chesapeake Utilities Corporation Annual Report on Form 10-K for the year ended December 31, 2009.

A (2) Chesapeake Utilities Corporation Quarterly Report on Form 10-Q for the quarter ended June 30, 2010.

Exhibit B: Amended and Restated Certificate of Incorporation dated July 22, 2010.

Exhibit C: Delaware Public Service Commission issued Order No. 7769 dated May 4, 2010 approving the issuance of an additional 600,000 new shares of Chesapeake common stock for the purpose of administering the RSP.

Exhibit D: Delaware Public Service Commission issued Order No. 7787 dated June 30, 2010 approving the issuance of $36,000,000 of

unsecured senior notes to refinance FPU First Mortgage Bonds acquired in the merger.

12. Constitutionality of Statute:

Chesapeake has taken the position that the statutory requirement of FPSC approval of the issuance and sale of securities by a public utility, under Section 366.04 (1), Florida Statutes, as applied to Chesapeake, a Delaware corporation engaged in interstate commerce, is unconstitutional, in that it creates an unreasonable burden on interstate commerce. Support for this position is set out in Chesapeake's Petition for declaratory statement disclaiming jurisdiction, as filed in FPSC Docket No. 930705-GU. By FPSC Order No. PSC-93-1548-FOF-GU, issued on October 21, 1993, the FPSC denied the Petition for declaratory statement, while approving the alternative Application for approval of the issuance of up to 100,000 new shares of common stock for the purpose of administering a Retirement Savings Plan. The FPSC found that "the facial constitutionality of a statute cannot be decided in an administrative proceeding," and that since the stock issuance was approved, "the question of constitutionality appears to be academic at this time."

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

Florida law provides for severe penalties for any willful violation of a statute administered by the FPSC or any of its rules or orders, Secs. 350.127

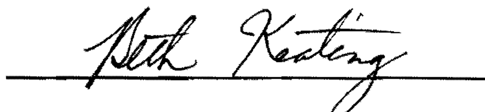
(1) and 366.095, Florida Statutes. Accordingly, Chesapeake believes it must submit to FPSC jurisdiction over its securities if it is to avoid assessment of such penalties and to otherwise remain in good standing before the FPSC. It therefore files the instant Application, under protest, and without waiver of its position regarding the unconstitutionality of the statute.

PRAYER FOR RELIEF

Based on the foregoing, Chesapeake Utilities Corporation requests that the FPSC issue an Order authorizing it in 2011 to issue up to 6,194,000 shares of common stock, up to 1,000,000 shares of preferred stock, and up to $150,000,000 of secured and/or unsecured debt, and authorizing it to enter into agreements up to $40,000,000 in Interest Rate Swap Products, Equity Products and other Financial Derivatives, and to exceed the limitation placed on short-term borrowings by Section 366.04, Florida Statutes, so as to issue up to $100,000,000 in short-term obligations.

Respectfully submitted,

Date: November 16, 2010



Beth Keating, Esquire
Gunster, Yoakley & Stewart, P.A.
Suite 618
215 South Monroe Street
Tallahassee, Florida 32301
(850) 521-1706

Attorneys for
Chesapeake Utilities Corporation

STATE OF DELAWARE *

*

COUNTY OF KENT * SS

BE IT REMEMBERED that on this the day of November 15, 2010, personally appeared before me, a Notary Public for the State of Delaware, Beth W. Cooper, who being by me duly sworn, did depose and say that she is Senior Vice President, Chief Financial Officer, Treasurer and Corporate Secretary of Chesapeake Utilities Corporation, a Delaware corporation, and that insofar as the Application of Chesapeake Utilities Corporation states facts, and insofar as those facts are within her personal knowledge, they are true; and insofar as those facts that are not within her personal knowledge, she believes them to be true, that the exhibits accompanying this Application and attached hereto are true and correct copies of the originals of the aforesaid exhibits, and that she has executed this Application on behalf of the Company and pursuant to the authorization of its Board of Directors.

Beth W. Cooper
Senior Vice President, Chief Financial Officer,
Treasurer and Corporate Secretary

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

Notary Public
My Commission Expires:

EXHIBIT A

A (1) Chesapeake Utilities Corporation Annual Report on Form 10-K for the year ended
December 31, 2009.

A (2) Chesapeake Utilities Corporation Quarterly Report on Form 10-Q for the quarter ended
June 30, 2010.

Exhibit B: Amended and Restated Certificate of Incorporation dated July 22, 2010.

Exhibit C: Delaware Public Service Commission issued Order No. 7769 dated May 4, 2010 approving the issuance of an additional 600,000 new shares of Chesapeake common stock for the purpose of administering the RSP.

Exhibit D: Delaware Public Service Commission issued Order No. 7787 dated June 30, 2010 approving the issuance of $36,000,000 of unsecured senior notes to refinance FPU First Mortgage Bonds acquired in the merger.

EXHIBIT A(1)

CHESAPEAKE UTILITIES CORP

FORM 10-K
(Annual Report)

Filed 03/08/10 for the Period Ending 12/31/09

Address	909 SILVER LAKE BLVD PO BOX 615 DOVER, DE 19903-0615
Telephone	3027346799
CIK	0000019745
Symbol	CPK
SIC Code	4923 - Natural Gas Transmission and Distribution
Industry	Natural Gas Utilities
Sector	Utilities
Fiscal Year	12/11

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

For the Fiscal Year Ended: December 31, 2009

Commission File Number: 001-11590

CHESAPEAKE UTILITIES CORPORATION

(Exact name of registrant as specified in its charter)

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

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

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

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

Title of each class	Name of each exchange on which registered
Common Stock — par value per share $.4867	New York Stock Exchange, Inc.

Securities registered pursuant to Section 12(g) of the Act:
8.25% Convertible Debentures Due 2014
(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ . No ☑ .

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

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 ☐ .

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ . 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. ☑

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

Large accelerated filer ☐ Accelerated filer ☑ Non-accelerated filer ☐ Smaller Reporting Company ☐

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

The aggregate market value of the common shares held by non-affiliates of Chesapeake Utilities Corporation as of June 30, 2009, the last business day of its most recently completed second fiscal quarter, based on the last trade price on that date, as reported by the New York Stock Exchange, was approximately $223.5 million.

As of February 28, 2010, 9,436,558 shares of common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the 2010 Annual Meeting of Stockholders are incorporated by reference in Part III.

CHESAPEAKE UTILITIES CORPORATION

FORM 10-K

YEAR ENDED DECEMBER 31, 2009

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GLOSSARY OF KEY TERMS

Frequently used abbreviations, acronyms, or terms used in this report:

Subsidiaries of Chesapeake Utilities Corporation

BravePoint	BravePoint, Inc., a wholly-owned subsidiary of Chesapeake Services Company, which is a wholly-owned subsidiary of Chesapeake
Chesapeake	The Registrant, the Registrant and its subsidiaries, or the Registrant's subsidiaries, as appropriate in the context of the disclosure
Company	The Registrant, the Registrant and its subsidiaries or the Registrant's subsidiaries, as appropriate in the context of the disclosure
ESNG	Eastern Shore Natural Gas Company, a wholly-owned subsidiary of Chesapeake
FPU	Florida Public Utilities Company, a new wholly-owned subsidiary of Chesapeake, effective October 28, 2009
OnSight	Chesapeake OnSight Services, LLC, a wholly-owned subsidiary of Chesapeake
PESCO	Peninsula Energy Services Company, Inc., a wholly-owned subsidiary of Chesapeake
PIPECO	Peninsula Pipeline Company, Inc., a wholly-owned subsidiary of Chesapeake
Sharp	Sharp Energy, Inc., a wholly-owned subsidiary of Chesapeake and Sharp's subsidiary, Sharpgas, Inc.
Xeron	Xeron, Inc., a wholly-owned subsidiary of Chesapeake

Regulatory Agencies

Delaware PSC	Delaware Public Service Commission
DOT	United States Department of Transportation
EPA	United States Environmental Protection Agency
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FDEP	Florida Department of Environmental Protection
Florida PSC	Florida Public Service Commission
IRS	Internal Revenue Service
Maryland PSC	Maryland Public Service Commission
MDE	Maryland Department of the Environment
PSC	Public Service Commission
SEC	Securities and Exchange Commission

Other

AOCI	Accumulated Other Comprehensive Income
DSCP	Directors Stock Compensation Plan
GSR	Gas sales service rates
HDD	Heating degree-days
Mcf	Thousand Cubic Feet
MWH	Megawatt Hour
MGP	Manufactured Gas Plant
NYSE	New York Stock Exchange
PIP	Performance Incentive Plan
S&P 500 Index	Standard & Poor's 500 Index
SFAS	Statement of Financial Accounting Standards

Accounting Standards

ASC	FASB Accounting Standards Codification ™ (Codification)
ASU	FASB Accounting Standards Update
FSP	Financial Accounting Standards Board Staff Position
GAAP	Generally Accepted Accounting Principles

PART I

References in this document to "Chesapeake," "the Company," "we," "us" and "our" mean Chesapeake Utilities Corporation and/or its wholly-owned subsidiaries, as appropriate in the context of the disclosure.

Safe Harbor for Forward-Looking Statements

We make statements in this Form 10-K that do not directly or exclusively relate to historical facts. Such statements are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. You can typically identify forward-looking statements by the use of forward-looking words, such as "project," "believe," "expect," "anticipate," "intend," "plan," "estimate," "continue," "potential," "forecast" or other similar words, or future or conditional verbs such as "may," "will," "should," "would" or "could." These statements represent our intentions, plans, expectations, assumptions and beliefs about future financial performance, business strategy, projected plans and objectives of the Company. These statements are subject to many risks and uncertainties. In addition to the risk factors described under Item 1A "Risks Factors," the following important factors, among others, could cause actual future results to differ materially from those expressed in the forward-looking statements:

- state and federal legislative and regulatory initiatives that affect cost and investment recovery, have an impact on rate structures, and affect the speed at and degree to which competition enters the electric and natural gas industries (including deregulation);
- the outcomes of regulatory, tax, environmental and legal matters, including whether pending matters are resolved within current estimates;
- industrial, commercial and residential growth or contraction in our service territories;
- the weather and other natural phenomena, including the economic, operational and other effects of hurricanes and ice storms;
- the timing and extent of changes in commodity prices and interest rates;
- general economic conditions, including any potential effects arising from terrorist attacks and any consequential hostilities or other hostilities or other external factors over which we have no control;
- changes in environmental and other laws and regulations to which we are subject;
- the results of financing efforts, including our ability to obtain financing on favorable terms, which can be affected by various factors, including credit ratings and general economic conditions;
- declines in the market prices of equity securities and resultant cash funding requirements for our defined benefit pension plans;
- the creditworthiness of counterparties with which we are engaged in transactions;
- growth in opportunities for our business units;
- the extent of success in connecting natural gas and electric supplies to transmission systems and in expanding natural gas and electric markets;
- the effect of accounting pronouncements issued periodically by accounting standard-setting bodies;
- conditions of the capital markets and equity markets during the periods covered by the forward-looking statements;
- the ability to successfully execute, manage and integrate merger, acquisition or divestiture plans, regulatory or other limitations imposed as a result of a merger, acquisition or divestiture, and the success of the business following a merger, acquisition or divestiture;
- the ability to manage and maintain key customer relationships;
- the ability to maintain key supply sources;
- the effect of spot, forward and future market prices on our distribution, wholesale marketing and energy trading businesses; and
- the effect of competition on our businesses.

ITEM 1. BUSINESS.

(a) Overview

We are a diversified utility company engaged in various energy and other businesses. Chesapeake is a Delaware corporation that was formed in 1947. On October 28, 2009, we completed a merger with Florida Public Utilities Company ("FPU"), pursuant to which FPU became a wholly-owned subsidiary of Chesapeake. We operate in regulated energy businesses through our natural gas distribution divisions in Delaware, Maryland and Florida, natural gas and electric distribution operations in Florida through FPU, and natural gas transmission operations on the Delmarva Peninsula and Florida through our subsidiaries, Eastern Shore Natural Gas Company ("ESNG") and Peninsula Pipeline Company, Inc. ("PIPECO"), respectively. Our unregulated businesses include natural gas marketing operation through Peninsula Energy Services Company, Inc. ("PESCO"); propane distribution operations through Sharp Energy, Inc. and its subsidiary Sharpgas, Inc. (collectively "Sharp") and FPU's propane distribution subsidiary, Flo-Gas Corporation; and propane wholesale marketing operation through Xeron, Inc. ("Xeron"). We also have an advance information services subsidiary, BravePoint, Inc. ("BravePoint").

(b) Operating Segments

As a result of the merger with FPU, we changed our operating segments to better align with how the chief operating decision maker (our Chief Executive Officer) views the various operations of the Company. Our three operating segments are now composed of the following:

- *Regulated Energy* . The regulated energy segment includes natural gas distribution, electric distribution and natural gas transmission operations. All operations in this segment are regulated, as to their rates and services, by the Public Service Commission ("PSC") having jurisdiction in each operating territory or by the Federal Energy Regulatory Commission ("FERC") in the case of ESNG.
- *Unregulated Energy*. The unregulated energy segment includes natural gas marketing, propane distribution and propane wholesale marketing operations, which are unregulated as to their rates and services.
- *Other* . The "Other" segment consists primarily of the advanced information services operation, unregulated subsidiaries that own real estate leased to Chesapeake and certain corporate costs not allocated to other operations.

The following table shows the size of each of our operating segments based on operating income and net property, plant and equipment:

(in thousands)	Operating Income		Net Property, Plant & Equipment	
Regulated Energy	$ 26,900	80%	$ 387,022	89%
Unregulated Energy	8,158	24%	37,900	8%
Other	(1,322)	-4%	11,506	3%
Total	$ 33,736	100%	$ 436,428	100%

Additional financial information by business segment is included in Item 8 under the heading "Notes to the Consolidated Financial Statements — Note C, Segment Information."

(i) Regulated Energy

Our regulated energy segment provides natural gas distribution services in Delaware, Maryland and Florida, electric distribution services in Florida and natural gas transmission services in Delaware, Maryland, Pennsylvania and Florida.

Natural Gas Distribution

Our Delaware and Maryland natural gas distribution divisions serve 51,736 residential and commercial customers and 155 industrial customers in central and southern Delaware and Maryland's Eastern Shore. For the year ended December 31, 2009, operating revenues and deliveries by customer class for our Delaware and Maryland distribution divisions were as follows:

	Operating Revenues (in thousands)		Deliveries (Mcfs)	
Residential	$ 51,309	58%	2,747,162	36%
Commercial	31,942	36%	2,693,724	35%
Industrial	3,696	4%	1,827,153	24%
Subtotal	86,947	98%	7,268,039	95%
Interruptible	977	1%	373,825	5%
Other [1]	1,291	1%	—	—
Total	$ 89,215	100%	7,641,864	100%

[1] Operating revenues from "Other" sources include unbilled revenue, rental of gas properties, and other miscellaneous charges.

Chesapeake's Florida natural gas distribution division provides unbundled natural gas distribution services (the delivery of natural gas separated from the sale of the commodity) to 13,268 residential and 1,176 commercial and industrial customers in 14 counties in Florida. For the year ended December 31, 2009, operating revenues and deliveries by customer class for our Florida distribution division were as follows:

	Operating Revenues (in thousands)		Deliveries (Mcfs)	
Residential	$ 3,682	30%	318,420	2%
Commercial	3,043	25%	1,151,071	8%
Industrial	4,260	34%	13,271,503	90%
Other [1]	1,377	11%	—	—
Total	$ 12,362	100%	14,740,994	100%

[1] Operating revenues from "Other" sources include unbilled revenue, conservation revenue, fees for billing services provided to third-parties and other miscellaneous charges.

Our recent merger with FPU provides 51,536 additional residential, commercial and industrial natural gas distribution customers in seven counties in Florida, which have significantly expanded our existing natural gas distribution operations in Florida. For the period from the merger closing (October 28, 2009) to December 31, 2009, operating revenues and deliveries by customer class for these new customers added through the merger were as follows:

	Operating Revenues (in thousands)		Deliveries (Mcfs)	
Residential	$ 3,028	27%	180,572	16%
Commercial	4,722	43%	496,183	45%
Industrial	1,346	12%	320,680	29%
Subtotal	9,096	82%	997,435	90%
Other [1]	2,045	18%	111,742	10%
Total	$ 11,141	100%	1,109,177	100%

[1] Operating revenues from "Other" sources include unbilled revenue, under (over) recoveries of fuel cost, conservation revenue, other miscellaneous charges and adjustments for pass-through taxes.

FPU's total natural gas deliveries in the full calendar year 2009, including deliveries for the period prior to the merger, were 1,157,100 Mcfs, 2,942,800 Mcfs and 1,784,500 Mcfs for residential, commercial and industrial customers, respectively.

Electric Distribution

Electric distribution is a new regulated energy business added to the Company as a result of the FPU merger. FPU distributes electricity to 31,030 customers in five counties in northeast and northwest Florida. For the period from the merger closing (October 28, 2009) to December 31, 2009, operating revenues and deliveries by customer class for FPU's electric distribution services were as follows:

	Operating Revenues (in thousands)		Deliveries (MWHs)	
Residential	$ 6,140	50%	43,435	41%
Commercial	6,273	52%	50,033	47%
Industrial	1,004	8%	9,700	10%
Subtotal	13,417	110%	103,168	98%
Other [1]	(1,174)	-10%	2,572	2%
Total	$ 12,243	100%	105,740	100%

[1] Operating revenues from "Other" sources include unbilled revenue, under (over) recoveries of fuel cost, conservation revenue, other miscellaneous charges and adjustments for pass-through taxes.

FPU's total deliveries of electricity in the full calendar year 2009, including deliveries for the period prior to the merger, were 316,306 MWHs, 316,412 MWHs and 64,950 MWHs for residential, commercial and industrial customers, respectively.

Natural Gas Transmission

ESNG operates a 384-mile interstate pipeline system that transports natural gas from various points in Pennsylvania to Chesapeake's Delaware and Maryland natural gas distribution divisions, as well as to other utilities and industrial customers in southern Pennsylvania, Delaware and on the Eastern Shore of Maryland. ESNG also provides swing transportation service and contract storage services. For the year ended December 31, 2009, operating revenues and deliveries by customer class for ESNG were as follows:

	Operating Revenues (in thousands)		Deliveries (Mcfs)	
Local distribution companies	$ 19,699	76%	9,941,436	38%
Industrial	4,907	19%	14,471,109	55%
Commercial	1,336	5%	1,809,970	7%
Other [1]	35	0%	—	—
Subtotal	25,977	100%	26,222,515	100%
Less: affiliated local distribution companies	(12,709)	(49)%	(5,578,918)	(21)%
Total non-affiliated	$ 13,268	51%	20,643,597	79%

(1) Operating revenues from "Other" sources are from rental of gas properties.

In 2005, we formed PIPECO to operate an intrastate pipeline to provide natural gas transportation services to industrial customers in Florida. In December 2007, the Florida Public Service Commission ("Florida PSC") approved PIPECO's natural gas transmission pipeline tariff, which established its operating rules and regulations. In January 2009, PIPECO began providing natural gas transmission services to a customer for a period of 20 years at a fixed monthly charge, through an 8-mile pipeline located in Suwanee County, Florida, which PIPECO owns. For the year ended December 31, 2009, PIPECO had $264,000 in operating revenues under the contract.

Supplies, Transmission and Storage

We believe that the availability of supply and transmission of natural gas and electricity is adequate under existing arrangements to meet the anticipated needs of customers.

Natural Gas Distribution

Our Delaware and Maryland natural gas distribution divisions have both firm and interruptible transportation service contracts with four interstate "open access" pipeline companies, including the ESNG pipeline. These divisions are directly interconnected with the ESNG pipeline, and have contracts with interstate pipelines upstream of ESNG, including Transcontinental Gas Pipe Line Corporation ("Transco"), Columbia Gas Transmission Corporation ("Columbia") and Columbia Gulf Transmission Company ("Gulf"). The Transco and Columbia pipelines are directly interconnected with the ESNG pipeline. The Gulf pipeline is directly interconnected with the Columbia pipeline and indirectly interconnected with the ESNG pipeline. None of the upstream pipelines is owned or operated by an affiliate of the Company. The Delaware and Maryland divisions use their firm transportation supply resources to meet a significant percentage of their projected demand requirements and they purchase natural gas supplies on the spot market from various suppliers as needed to match firm supply and demand. This gas is transported by the upstream pipelines and delivered to their interconnections with ESNG. These divisions also have the capability to use propane-air peak-shaving to supplement or displace the spot market purchases.

The following table shows the firm transmission and storage capacity that the Delaware and Maryland divisions currently have under contract with ESNG and pipelines upstream of the ESNG pipeline, including the respective contract expiration dates.

Delaware

Pipeline	Firm transmission capacity maximum peak-day daily deliverability (Mcfs)	Firm storage capacity maximum peak-day daily withdrawal (Mcfs)	Expiration
Transco	20,699	6,190	Various dates between 2010 and 2028
Columbia	17,836	7,946	Various dates between 2011 and 2020
Gulf	850	—	Expires in 2014
ESNG	63,482	4,006	Various dates between 2010 and 2024

Maryland

Pipeline	Firm transmission capacity maximum peak-day daily deliverability (Mcfs)	Firm storage capacity maximum peak-day daily withdrawal (Mcfs)	Expiration
Transco	5,921	2,373	Various dates between 2010 and 2012
Columbia	6,473	3,539	Various dates between 2011 and 2018
Gulf	570	—	Expires in 2014
ESNG	19,834	2,228	Various dates between 2010 and 2023

The Delaware and Maryland divisions currently have contracts with several suppliers for the purchase of firm natural gas supply in the amount of their capacities on the Transco and Columbia pipelines. They also have contracts for firm peaking gas supplies to be delivered to their systems in order to meet the differential between their capacities on the ESNG pipeline and capacities on pipelines upstream of ESNG. These supply contracts provide a maximum firm daily entitlement of 13,237 Mcfs and 2,029 Mcfs for the Delaware and Maryland divisions, respectively, delivered on the Transco, Columbia, and/or Gulf systems to ESNG for redelivery to these divisions under firm transmission contracts. These gas supply contracts have various expiration dates, and quantities may vary from day to day and month to month.

Chesapeake's Florida natural gas distribution division has firm transmission service contracts with Florida Gas Transmission Company ("FGT") and Gulfstream Natural Gas System, LLC ("Gulfstream"). Pursuant to a program approved by the Florida PSC, all of the capacity under these agreements has been released to various third-parties, including PESCO. Under the terms of these capacity release agreements, Chesapeake is contingently liable to FGT and Gulfstream, should any party that acquired the capacity through release fail to pay for the service.

Contracts by Chesapeake's Florida natural gas distribution division with FGT include: (a) a contract, which expires on July 31, 2010, for daily firm transmission capacity of 22,901 Mcfs for the months of November through April, capacity of 19,594 Mcfs for the months of May through September, and 21,524 Mcfs for October; and (b) a contract for daily firm transmission capacity of 974 Mcfs daily, which expires in 2015. Chesapeake's contract with Gulfstream is for daily firm transmission capacity of 9,737 Mcfs and expires in 2022.

FPU has firm transmission service contracts with FGT and firm transportation contracts with Florida City Gas ("FCG") and Indiantown Gas Company ("IGC"). The additional contracts with FGT include (a) a contract which expires on July 2020, for daily firm transmission capacity of 26,500 Mcfs for the months of November through March, 22,411 Mcfs for the month of April, 9,211 Mcfs for the months of May through September and 9,314 Mcfs for the month of October; (b) a contract which expires in 2015 for daily firm transmission capacity of 10,286 Mcfs for the months of November through April and 4,360 Mcfs for the months of May through October; (c) a contract which expires in July 2020 for daily firm transmission capacity of 2,147 Mcfs for the months of November through March, 1,745 Mcfs for the month of April, 470 Mcfs for the months of May through September, and 896 Mcfs for the month of October; and (d) a contract for daily firm transmission capacity of 1,774 Mcfs with various partial expiration dates between 2016 and 2023. The contract with FCG, which expires in 2013, provides daily firm transportation capacity of 292 Mcfs on its Pioneer Pipeline. The contract with IGC, which expires in 2016, provides daily firm transportation capacity of 487 Mcfs on its distribution system.

FPU uses gas marketers and producers to procure all its gas supplies for its natural gas distribution operations. FPU also uses TECO Peoples Gas to provide wholesale gas sales service in areas distant from its interconnections with FGT.

Natural Gas Transmission

ESNG has three contracts with Transco for a total of 7,045 Mcfs of firm peak day storage entitlements and total storage capacity of 278,264 Mcfs, each of which expires in 2013. ESNG has retained these firm storage services in order to provide swing transportation service and firm storage service to those customers that have requested such service(s).

Electric Distribution

Our electric distribution operation through FPU purchases all of its wholesale electricity from two suppliers: Gulf Power Company and JEA (formerly known as Jacksonville Electric Authority). Both of these contracts are all requirements contracts that expire in December 2017. The JEA contract provides generation, transmission and distribution service to northeast Florida. The Gulf Power Company contract provides generation, transmission and distribution service to northwest Florida.

Competition

See discussion of competition in Item 7 under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations — Competition."

Rates and Regulation

Our natural gas and electric distribution operations are subject to regulation by the Delaware, Maryland and Florida PSCs with respect to various aspects of their business, including rates for sales and transportation to all customers in each respective jurisdiction. All of our firm distribution sales rates are subject to fuel cost recovery mechanisms, which match revenues with gas and electric supply and transportation costs and normally allow full recovery of such costs. Adjustments under these mechanisms, which are limited to such costs, require periodic filings and hearings with the state regulatory authority having jurisdiction.

ESNG is subject to regulation as an interstate pipeline by the FERC, which regulates the terms and conditions of service and the rates ESNG can charge for its transmission and storage services. PIPECO is subject to regulation by the Florida PSC.

(ii) Unregulated Energy

Our unregulated energy segment provides natural gas marketing, propane distribution and propane wholesale marketing services to customers.

Natural Gas Marketing

Our natural gas marketing subsidiary, PESCO, provides natural gas supply and supply management services to 2,123 customers in Florida and 11 customers on the Delmarva Peninsula. It competes with regulated utilities and other unregulated third-party marketers to sell natural gas supplies directly to commercial and industrial customers through competitively-priced contracts. PESCO does not own or operate any natural gas transmission or distribution assets. The gas that PESCO sells is delivered to retail customers through affiliated and non-affiliated local distribution company systems and transmission pipelines. PESCO bills its customers through the billing services of the regulated utilities that deliver the gas, or directly, through its own billing capabilities. For the year ended December 31, 2009, PESCO's operating revenues and deliveries were as follows:

	Operating Revenues		**Deliveries**	
	(in thousands)		*(Mcfs)*	
Florida	$ 41,117	72%	7,066,144	71%
Delmarva	16,386	28%	2,818,844	29%
Total	$ 57,503	100%	9,884,988	100%

PESCO currently has contracts with natural gas production companies for the purchase of firm natural gas supplies. These contracts provide a maximum firm daily entitlement of 35,000 Mcfs, and expire in May of 2010. PESCO is currently in the process of obtaining and reviewing proposals from suppliers and anticipates executing agreements prior to the end of the term of the existing contracts.

Included in PESCO's operating revenue on the Delmarva Peninsula for 2009 was approximately $10.6 million of various natural gas spot sales and services to Valero Energy Corporation ("Valero") for its Delaware City refinery operation. We previously reported on November 25, 2009 in a Form 8-K that Valero announced its intention to permanently shut down its Delaware City refinery. Spot sales are not predictable, and, therefore, are not included in our long-term financial plans or forecasts; nor do we anticipate sales to Valero in the future.

Propane Distribution

Propane is a form of liquefied petroleum gas, which is typically extracted from natural gas or separated during the crude oil refining process. Although propane is a gas at normal pressure, it is easily compressed into liquid form for storage and transportation. Propane is a clean-burning fuel, gaining increased recognition for its environmental superiority, safety, efficiency, transportability and ease of use relative to alternative forms of fossil fuels. Propane is sold primarily in suburban and rural areas, which are not served by natural gas distributors.

The following table shows the regulatory jurisdictions under which our regulated energy businesses currently operate, including the effective dates of the most recent full rate proceedings and the rates of return that were authorized therein:

Regulated Business	Regulatory Jurisdiction	Effective Date of the Current Rates	Allowed Rate of Return
Chesapeake — Delaware Division	Delaware PSC	9/3/2008	10.25% (1)
Chesapeake — Maryland Division	Maryland PSC	12/1/2007	10.75% (1)
Chesapeake — Florida Division	Florida PSC	1/14/2010	10.80% (1)
FPU — Natural Gas	Florida PSC	1/14/2010 (3)	10.85% (1)
FPU — Electric	Florida PSC	5/22/2008	11.00% (1)
ESNG	FERC	9/1/2007	13.60% (2)

(1) Allowed return on equity.

(2) Allowed overall pre-tax, pre-interest rate of return.

(3) Effective date of the Order approving settlement agreement, which adjusted rates originally approved on June 4, 2009.

PIPECO, which is regulated by the Florida PSC, currently provides service to one customer at a negotiated rate.

Management monitors the achieved rates of return of each of our regulated energy operations in order to ensure timely filing of rate cases.

Regulatory Proceedings

See discussion of regulatory activities in Item 7 under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations — Rate Filings and Other Regulatory Activities."

Seasonality of Natural Gas and Electric Distribution Revenues

Revenues from our residential and commercial natural gas distribution activities are affected by seasonal variations in weather conditions, which directly influence the volume of natural gas sold and delivered. Specifically, customer demand substantially increases during the winter months, when natural gas is used for heating. Accordingly, the volumes sold for this purpose are directly affected by the severity of winter weather and can vary substantially from year to year. Sustained warmer-than-normal temperatures will tend to reduce use of natural gas, while sustained colder-than-normal temperatures will tend to increase consumption. We measure the relative impact of weather by using an accepted degree-day methodology. Degree-day data is used to estimate amounts of energy required to maintain comfortable indoor temperature levels based on each day's average temperature. A degree-day is the measure of the variation in the weather based on the extent to which the average daily temperature (from 10:00 am to 10:00 am) falls below 65 degrees Fahrenheit. Each degree of temperature below 65 degrees Fahrenheit is counted as one heating degree-day. Normal heating degree-days are based on the most recent 10-year average.

For the electric distribution operations in northeast and northwest Florida, hot summers and cold winters produce year-round electric sales that normally do not have large seasonal fluctuations.

In an effort to stabilize the level of net revenues collected from customers regardless of weather conditions, we received approval from the Maryland Public Service Commission ("Maryland PSC") on September 26, 2006 to implement a weather normalization adjustment for our residential heating and smaller commercial heating customers. A weather normalization adjustment is a billing adjustment mechanism that is designed to eliminate the effect of deviations from average seasonal temperatures on utility net revenues.

Sharp, our propane distribution subsidiary, serves 33,088 customers throughout Delaware, the Eastern Shore of Maryland and Virginia and southeastern Pennsylvania. Sharp's Florida operation offers propane distribution services to 1,941 customers in parts of Florida. After the merger with FPU, 1,642 customers previously served by Sharp's Florida propane distribution operation are now being served by FPU's propane distribution operation in an effort to integrate operations. For the year ended December 31, 2009, operating revenues and total gallons sold by Sharp's Delmarva and Florida propane distribution operations were as follows:

	Operating Revenues		Total Gallons Sold	
	(in thousands)		*(in thousands)*	
Delmarva	$ 54,850	96%	30,635	97%
Florida	2,357	4%	853	3%
Total	$ 57,207	100%	31,488	100%

FPU has 13,651 propane distribution customers, including the customers previously served by Sharp's propane distribution operation in Florida as previously discussed, which increased our propane customer base in Florida. For the period from the merger closing (on October 28, 2009) to December 31, 2009, operating revenue and total gallons delivered to these new customers were $3.0 million and 1.1 million gallons. FPU's total propane deliveries in the full calendar year 2009, including the deliveries for the period prior to the merger, were 5.7 million gallons.

Propane Wholesale Marketing.

Xeron, our propane wholesale marketing operation, markets propane to large, independent petrochemical companies, resellers and retail propane companies in the southeastern United States. The propane wholesale marketing business is affected by the propane wholesale price volatility and supply levels. In 2009, Xeron had operating revenues totaling approximately $2.3 million, net of the associated cost of propane sold. For further discussion on Xeron's trading and wholesale marketing activities, market risks and controls that monitor Xeron's risks, see Item 7 under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations — Market Risk."

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.

Supplies, Transportation and Storage

Our propane distribution operations purchase propane primarily from suppliers, including major oil companies, independent producers of natural gas liquids and from Xeron. Supplies of propane from these and other sources are readily available for purchase.

Our propane distribution operations use trucks and railroad cars to transport propane from refineries, natural gas processing plants or pipeline terminals to our bulk storage facilities. We own bulk propane storage facilities with an aggregate capacity of approximately 3.0 million gallons at various locations in Delaware, Maryland, Pennsylvania, Virginia and Florida. From these storage facilities, propane is delivered by "bobtail" trucks, owned and operated by us, to tanks located at the customers' premises.

Competition

See discussion of competition in Item 7 under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations — Competition."

Rates and Regulation

Natural gas marketing, propane distribution and propane wholesale marketing activities are not subject to any federal or state pricing regulation. Transport operations are subject to regulations concerning the transportation of hazardous materials promulgated by the Federal Motor Carrier Safety Administration within the United States Department of Transportation ("DOT") 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.

Seasonality of Propane Revenues

Revenues from our propane distribution sales activities are affected by seasonal variations in weather conditions. Weather conditions directly influence the volume of propane sold and delivered to customers; specifically, customers' demand substantially increases during the winter months when propane is used for heating. Accordingly, the propane volumes sold for this purpose are directly affected by the severity of winter weather and can vary substantially from year to year. Sustained warmer-than-normal temperatures will tend to reduce propane use, while sustained colder-than-normal temperatures will tend to increase consumption.

(iii) Other

The "Other" segment consists primarily of our advanced information services subsidiary, other unregulated subsidiaries that own real estate leased to Chesapeake and its subsidiaries and certain unallocated corporate costs. Certain corporate costs that have not been allocated to different operations consist of merger-related costs that have been expensed and have not been allocated because such costs are not directly attributable to the business unit operations.

Advanced Information Services

Our advanced information services subsidiary, BravePoint, is headquartered in Norcross, Georgia, and provides domestic and international clients with information technology services and solutions for both enterprise and e-business applications.

Other Subsidiaries

Skipjack, Inc. and Eastern Shore Real Estate, Inc. own and lease office buildings in Delaware and Maryland to affiliates of Chesapeake. Chesapeake Investment Company is an affiliated investment company registered in Delaware.

(c) Other information about the Business

(i) Capital Budget

A discussion of capital expenditures by business segment and capital expenditures for environmental remediation facilities is included in Item 7 under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources."

(ii) Employees

As of December 31, 2009, we had a total of 757 employees, including 332 employees who joined the Company as a result of the recent merger with FPU, 162 of whom are union employees represented by three labor unions: the International Brotherhood of Electrical Workers, the International Chemical Workers Union and United Food and Commercial Workers Union, all of whose collective bargaining agreements expire in 2010.

(iii) Financial Information about Geographic Areas

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

(d) Available Information

As a public company, we file annual, quarterly and other reports, as well as our annual proxy statement and other information, with the Securities and Exchange Commission ("SEC"). The public may read and copy any materials that we file with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, DC 20549-5546; the public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

The SEC also maintains an Internet site that contains reports, proxy and information statements and other information regarding the Company. The address of the SEC's Internet website is www.sec.gov. We make available, free of charge, on our Internet website, our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports, as soon as reasonably practicable after such reports are electronically filed with or furnished to the SEC. The address of our Internet website is www.chpk.com. The content of this website is not part of this report.

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

If we make any amendment to, or grant a waiver of, any provision of the Business Code of Ethics and Conduct or the Code of Ethics for Financial Officers applicable to our principal executive officer, president, principal financial officer, principal accounting officer or controller, the amendment or waiver will be disclosed within four business days in a press release, by website disclosure, or by filing a current report on Form 8-K with the SEC.

Our Chief Executive Officer certified to the NYSE on June 1, 2009 that, as of that date, he was unaware of any violation by Chesapeake of the NYSE's corporate governance listing standards.

ITEM 1A. RISK FACTORS.

The following is a discussion of the primary financial, operational, regulatory and legal, and environmental risk factors that may affect the operations and/or financial performance of our regulated and unregulated businesses. Refer to the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" under Item 7 of this report for an additional discussion of these and other related factors that affect our operations and/or financial performance.

Financial Risks

The anticipated benefits of the merger with FPU may not be realized.

We entered into the merger with FPU with the expectation that the merger would result in various benefits, including, among other things, synergies, cost savings and operating efficiencies. Achieving these synergies, cost savings and operating efficiencies cannot be assured and failure to achieve these benefits will adversely affect expected future performance of the Company. In addition, the regulatory agencies that have jurisdiction over our regulated energy businesses and operations may require us to pass on some, or all, of the achieved cost savings to ratepayers.

Instability and volatility in the financial markets could have a negative impact on our growth strategy.

Our business strategy includes the continued pursuit of growth, both organically and through acquisitions. To the extent that we do not generate sufficient cash from operations, we may incur additional indebtedness to finance our growth. The turmoil experienced in the credit markets in 2008 and 2009 and its potential impact on the liquidity of major financial institutions may have an adverse effect on our customers and our ability to fund our business strategy through borrowings, under either existing or newly created arrangements in the public or private markets on terms we believe to be reasonable. Specifically, we rely on access to both short-term and long-term capital markets as a significant source of liquidity for capital requirements not satisfied by the cash flows from our operations. Currently, $40 million of the total $100 million of short-term lines of credit utilized to satisfy our short-term financing requirements are discretionary, uncommitted lines of credit. We utilize discretionary lines of credit to reduce the cost associated with these short-term financing requirements. We are committed to maintaining a sound capital structure and strong credit ratings to provide the financial flexibility needed to access the capital markets when required. However, if we are not able to access capital at competitive rates, our ability to implement our strategic plan, undertake improvements and make other investments required for our future growth may be limited.

Unsound financial institutions could adversely affect the Company.

Our businesses have exposure to different industries and counterparties, and may periodically execute transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks and other institutional clients. These transactions may expose us to credit risk in the event of default of a counterparty or client. There can be no assurance that any such losses or impairments would not materially and adversely affect our businesses and results of operations.

A downgrade in our credit rating could adversely affect our access to capital markets and our cost of capital.

Our ability to obtain adequate and cost-effective capital depends on our credit ratings, which are greatly affected by our financial performance and the liquidity of financial markets. A downgrade in our current credit ratings could adversely affect our access to capital markets, as well as our cost of capital.

Debt covenant obligations, if triggered, may affect our financial condition.

Our long-term debt obligations and committed short-term lines of credit contain financial covenants related to debt-to-capital ratios and interest-coverage ratios. Failure to comply with any of these covenants could result in an event of default which, if not cured or waived, could result in the acceleration of outstanding debt obligations or the inability to borrow under certain credit agreements. Any such acceleration would cause a material adverse change in our financial condition.

The continuation of recent economic conditions could adversely affect our customers and negatively impact our financial results.

The slowdown in the U.S. economy, together with increased unemployment, mortgage and other credit defaults and significant decreases in the values of homes and investment assets, have adversely affected the financial resources of many domestic households. It is unclear whether governmental responses to these conditions will be successful in lessening the severity or duration of the current recession. As a result, our customers may use less natural gas, electricity or propane and it may become more difficult for them to pay their bills. This may slow collections and lead to higher than normal levels of accounts receivable, which in turn, could increase our financing requirements and result in higher bad debt expense.

Further changes in economic conditions and interest rates may adversely affect our results of operations and cash flows.

A continued downturn in the economies of the regions in which we operate might adversely affect our ability to increase our customer base and cash flows at historical rates. Further, an increase in interest rates, without the recovery of the higher cost of debt in the sales and/or transportation rates we charge our utility customers, could adversely affect future earnings. An increase in short-term interest rates would negatively affect our results of operations, which depend on short-term lines of credit to finance accounts receivable and storage gas inventories, and to temporarily finance capital expenditures.

Inflation may impact our results of operations, cash flows and financial position.

Inflation affects the cost of supply, labor, products and services required for operations, maintenance and capital improvements. To help cope with the effects of inflation on our capital investments and returns, we seek rate increases from regulatory commissions for regulated operations and closely monitor the returns of our unregulated operations. There can be no assurance that we will be able to obtain adequate and timely rate increases to offset the effects of inflation. To compensate for fluctuations in propane gas prices, we adjust our propane selling prices to the extent allowed by the market. There can be no assurance, however, that we will be able to increase propane sales prices sufficiently to compensate fully for such fluctuations in the cost of propane gas to us.

Our operations are exposed to market risks, beyond our control, which could adversely affect our financial results and capital requirements.

Our natural gas marketing operation and propane wholesale marketing operation are subject to market risks beyond their control, including market liquidity and commodity price volatility. Although we maintain a risk management policy, we may not be able to offset completely the price risk associated with volatile commodity prices, which could lead to volatility in earnings. Physical trading also has price risk on any net open positions at the end of each trading day, as well as volatility resulting from: (i) intra-day fluctuations of natural gas and/or propane prices, and (ii) daily price movements between the time natural gas and/or propane is purchased or sold for future delivery and the time the related purchase or sale is hedged. The determination of our net open position at the end of any trading day requires Xeron to make assumptions as to future circumstances, including the use of natural gas and/or propane by its customers in relation to its anticipated market positions. Because the price risk associated with any net open position at the end of such day may increase if the assumptions are not realized, we review these assumptions daily. Net open positions may increase volatility in our financial condition or results of operations if market prices move in a significantly favorable or unfavorable manner, because the timing of the recognition of profits or losses on the economic hedges for financial accounting purposes usually does not match up with the timing of the economic profits or losses on the item being hedged. This volatility may occur, with a resulting increase or decrease in earnings or losses, even though the expected profit margin is essentially unchanged from the date the transactions were consummated.

Our energy marketing subsidiaries have credit risk and credit requirements that may adversely affect our results of operations, cash flows and financial condition.

Our energy marketing subsidiaries extend credit to counterparties and continually monitor and manage collections aggressively. Each of these subsidiaries is exposed to the risk that it may not be able to collect amounts owed to it. If the counterparty to such a transaction fails to perform, and any underlying collateral is inadequate, we could experience financial losses. These subsidiaries are also dependent upon the availability of credit to buy propane and natural gas for resale or to trade. If financial market conditions decline generally, or the financial condition of these subsidiaries or of the Company declines, then the cost of credit available to these subsidiaries could increase. If credit is not available, or if credit is more costly, our results of operations, cash flows and financial condition may be adversely affected.

Current market conditions have had an adverse impact on the return on plan assets for our pension plans, which may require significant additional funding and adversely affect the Company's cash flows.

We have pension plans that have been closed to new employees. The costs of providing benefits and related funding requirements of these plans are subject to changes in the market value of the assets that fund the plans. As a result of the extreme volatility and disruption in the domestic and international equity and bond markets in recent years, the asset values of Chesapeake's and FPU's pension plans declined by $2.4 million and $2.8 million, respectively, since 2008. The funded status of the plans and the related costs reflected in our financial statements are affected by various factors that are subject to an inherent degree of uncertainty, particularly in the current economic environment. Future losses of asset values may necessitate accelerated funding of the plans in the future to meet minimum federal government requirements. Downward pressure on the asset values of our pension plans may require us to fund obligations earlier than originally planned, which would have an adverse impact on our cash flows from operations, decrease borrowing capacity and increase interest expense.

Operational Risks

We may be unable to successfully integrate operations after the merger.

The merger between Chesapeake and FPU involves the integration of two companies that have previously operated independently. The difficulties of combining the companies' operations include, among other things:

- the necessity of coordinating geographically separated organizations, systems and facilities;
- combining the best practices of the two companies, including operations, financial and administrative functions; and
- integrating personnel with diverse business backgrounds and different contractual terms and conditions of employment.

The process of integrating operations could cause an interruption of, or loss of momentum in, the activities of one or more of our businesses and the loss of key personnel. We will be subject to employee workforce factors, including loss of employees, availability of qualified personnel, collective bargaining agreements with unions and work stoppages that could affect our business and financial condition. Our management team comprised of key personnel from both Chesapeake and FPU has dedicated substantial efforts to integrating the businesses. Such efforts could divert management's focus and resources from other strategic opportunities during the integration process. The diversion of management's attention and any delays or difficulties encountered in connection with the merger and the integration of the two companies' operations could result in the disruption of our ongoing businesses or inconsistencies in standards, controls, procedures and policies that adversely affect our ability to maintain relationships with customers, suppliers, employees and others with whom we have business dealings.

Fluctuations in weather may adversely affect our results of operations, cash flows and financial condition.

Our natural gas and propane distribution operations are sensitive to fluctuations in weather conditions, which directly influence the volume of natural gas and propane sold and delivered. A significant portion of our natural gas and propane distribution revenues is derived from the sales and deliveries of natural gas and propane to residential and commercial heating customers during the five-month peak heating season (November through March). If the weather is warmer than normal, we sell and deliver less natural gas and propane to customers, and earn less revenue. In addition, hurricanes or other extreme weather conditions could damage production or transportation facilities, which could result in decreased supplies of natural gas, propane and electricity, increased supply costs and higher prices for customers.

Our electric operations, while generally less weather sensitive than natural gas and propane sales, are also affected by variations in general weather conditions and unusually severe weather.

The amount and availability of natural gas, electricity and propane supplies are difficult to predict; a substantial reduction in available supplies could reduce our earnings in those segments.

Natural gas, electricity and propane production can be affected by factors beyond our control, such as weather, closings of generation facilities and refineries. If we are unable to obtain sufficient natural gas, electricity and propane supplies to meet demand, results in those businesses may be adversely affected.

We rely on a limited number of natural gas, electric and propane suppliers, the loss of which could have a materially adverse effect on our financial condition and results of operations.

Our natural gas distribution and marketing operations, electric distribution operation and propane operations have entered into various agreements with suppliers to purchase natural gas, electricity and propane to serve their customers. The loss of any significant suppliers or our inability to renew these contracts at favorable terms upon their expiration could significantly affect our ability to serve our customers and have a material adverse impact on our financial condition and results of operations.

We rely on having access to interstate natural gas pipelines' transmission and storage capacity and electric transmission capacity; a substantial disruption or lack of growth in these services may impair our ability to meet customers' existing and future requirements.

In order to meet existing and future customer demands for natural gas and electricity, we must acquire both sufficient natural gas supplies, interstate pipeline transmission and storage capacity, and electric transmission capacity to serve such requirements. We must contract for reliable and adequate delivery capacity for our distribution systems while considering the dynamics of the interstate pipeline and storage and electric transmission markets, our own on-system resources, as well as the characteristics of our markets. Our financial condition and results of operations would be materially and adversely affected if the future availability of these capacities were insufficient to meet future customer demands for natural gas and electricity. Currently, all of FPU's natural gas is transported through one pipeline system. Any interruption to that system could adversely affect our ability to meet the demands of FPU's customers and our earnings.

Commodity price changes may affect the operating costs and competitive positions of our natural gas, electric and propane distribution operations, which may adversely affect our results of operations, cash flows and financial condition.

Natural Gas/Electric. Higher natural gas prices can significantly increase the cost of gas billed to our natural gas customers. Increases in the cost of coal and other fuels can significantly increase the cost of electricity billed to our electric customers. Such cost increases generally have no immediate effect on our revenues and net income because of our regulated fuel cost recovery mechanisms. Our net income, however, may be reduced by higher expenses that we may incur for uncollectible customer accounts and by lower volumes of natural gas and electricity deliveries when customers reduce their consumption. Therefore, increases in the price of natural gas, coal and other fuels can affect our operating cash flows and the competitiveness of natural gas/electricity as energy sources and consequently have an adverse effect on our operating cash flows.

Propane . Propane costs are subject to volatile changes as a result of product supply or other market conditions, including weather and economic and political factors affecting crude oil and natural gas supply or pricing. Such cost changes can occur rapidly and can affect profitability. There is no assurance that we will be able to pass on propane cost increases fully or immediately, particularly when propane costs increase rapidly. Therefore, average retail sales prices can vary significantly from year to year as product costs fluctuate in response to propane, fuel oil, crude oil and natural gas commodity market conditions. In addition, in periods of sustained higher commodity prices, declines in retail sales volumes due to reduced consumption and increased amounts of uncollectible accounts may adversely affect net income.

Our propane inventory is subject to inventory risk, which may adversely affect our results of operations and financial condition.

Our propane distribution operations own bulk propane storage facilities, with an aggregate capacity of approximately 3.0 million gallons. We purchase and store propane based on several factors, including inventory levels and the price outlook. We may purchase large volumes of propane at current market prices during periods of low demand and low prices, which generally occur during the summer months. Propane is a commodity, and, as such, its unit price is subject to volatile fluctuations in response to changes in supply or other market conditions. We have no control over these market conditions. Consequently, the unit price of the propane that we purchase can change rapidly over a short period of time. The market price for propane could fall below the price at which we made the purchases, which would adversely affect our profits or cause sales from that inventory to be unprofitable. In addition, falling propane prices may result in inventory write-downs as required by U.S. generally accepted accounting principles ("GAAP") if the market price of propane falls below our weighted average cost of inventory, which could adversely affect net income.

Operating events affecting public safety and the reliability our natural gas and electric distribution systems could adversely affect the results of operations, cash flows and financial condition.

Our business is exposed to operational events, such as major leaks, mechanical problems and accidents, that could affect the public safety and reliability of our natural gas distribution and transmission systems, significantly increase costs and cause loss of customer confidence. The occurrence of any such operational events could adversely affect the results of operations, financial condition and cash flows. If we are unable to recover from customers, through the regulatory process, all or some of these costs and our authorized rate of return on these costs, this also could adversely affect the results of operations, financial condition and cash flows.

Our electric operation is subject to various operational risks, including accidents, outages, equipment breakdowns or failures, or operations below expected levels of performance or efficiency. Problems such as the breakdown or failure of electric equipment or processes and interruptions in service which would result in performance below expected levels of output or efficiency, particularly if extended for prolonged periods of time, could have a materially adverse effect on our financial condition and results of operations.

Because we operate in a competitive environment, we may lose customers to competitors which could adversely affect our results of operations, cash flows and financial condition.

Natural Gas . Our natural gas marketing operations compete with third-party suppliers to sell natural gas to commercial and industrial customers. Our natural gas transmission and distribution operations compete with interstate pipelines when our transmission and/or distribution customers are located close enough to a competing pipeline to make direct connections economically feasible. Failure to retain and grow our customer base in the natural gas operations would have an adverse effect on our financial condition, cash flows and results of operations.

Electric . While there is active wholesale power sales competition in Florida, our retail electric business through FPU has remained substantially free from direct competition. Changes in the competitive environment caused by legislation, regulation, market conditions or initiatives of other electric power providers, particularly with respect to retail competition, could adversely affect our results of operations, cash flows and financial condition.

Propane . Our propane distribution operations compete with other propane distributors, primarily on the basis of service and price. Some of our competitors have significantly greater resources. Our ability to grow the propane distribution business is contingent upon capturing additional market share, expanding new service territories, and successfully utilizing pricing programs that retain and grow our customer base. Failure to retain and grow our customer base in our propane gas operations would have an adverse effect on our results of operations, cash flows and financial condition.

Our propane wholesale marketing operations will compete against various marketers, many of which have significantly greater resources and are able to obtain price or volumetric advantages.

Changes in technology may adversely affect our advanced information services subsidiary's results of operations, cash flows and financial condition.

BravePoint participates in a market that is characterized by rapidly changing technology and accelerating product introduction cycles. The success of our advanced information services operation depends upon our ability to address the rapidly changing needs of our customers by developing and supplying high-quality, cost-effective products, product enhancements and services, on a timely basis, and by keeping pace with technological developments and emerging industry standards. There is no assurance that we will be able to keep up with technological advancements to the degree necessary to keep our products and services competitive.

Our use of derivative instruments may adversely affect our results of operations.

Fluctuating commodity prices may affect our earnings and financing costs because our propane distribution and wholesale marketing operations use derivative instruments, including forwards, futures, swaps and puts, to hedge price risk. In addition, we have utilized in the past, and may decide, after further evaluation, to continue to utilize derivative instruments to hedge price risk. While we have a risk management policy and operating procedures in place to control our exposure to risk, if we purchase derivative instruments that are not properly matched to our exposure, our results of operations, cash flows, and financial condition may be adversely affected.

Changes in customer growth may affect earnings and cash flows.

Our ability to increase gross margins in our regulated energy and unregulated propane distribution businesses is dependent upon growth in the residential construction market, adding new commercial and industrial customers and conversion of customers to natural gas, electricity or propane from other fuel sources. Slowdowns in these markets have and will continue to adversely affect our gross margin in our regulated energy or propane distribution businesses, earnings and cash flows.

Our businesses are capital intensive, and the costs of capital projects may be significant.

Our businesses are capital intensive and require significant investments in internal infrastructure projects. Our results of operations and financial condition could be adversely affected if we do not pursue or are unable to manage such capital projects effectively or if full recovery of such capital costs is not permitted in future regulatory proceedings.

Our facilities and operations could be targets of acts of terrorism.

Our natural gas and electric distribution, natural gas transmission and propane storage facilities may be targets of terrorist activities that could disrupt our ability to meet customer requirements. Terrorist attacks may also disrupt capital markets and our ability to raise capital. A terrorist attack on our facilities, or those of our suppliers or customers, could result in a significant decrease in revenues or a significant increase in repair costs, which could adversely affect our results of operations, financial position and cash flows.

The risk of terrorism and political unrest and the current hostilities in the Middle East may adversely affect the economy and the price and availability of propane, refined fuels, electricity and natural gas.

Terrorist attacks, political unrest and the current hostilities in the Middle East may adversely affect the price and availability of propane, refined fuels and natural gas, as well as our results of operations, our ability to raise capital and our future growth. The impact that the foregoing may have on our industry in general, and on us in particular, is not known at this time. An act of terror could result in disruptions of crude oil, electricity or natural gas supplies and markets, and our infrastructure facilities could be direct or indirect targets. Terrorist activity may also hinder our ability to transport/transmit propane, electricity and natural gas if our means of supply transportation, such as rail, power grid or pipeline, become damaged as a result of an attack. A lower level of economic activity following such events could result in a decline in energy consumption, which could adversely affect our revenues or restrict our future growth. Instability in the financial markets as a result of terrorism could also affect our ability to raise capital. Terrorist activity and hostilities in the Middle East could likely lead to increased volatility in prices for propane, refined fuels, electricity and natural gas. We maintain insurance policies with insurers in such amounts and with such coverage and deductibles as we believe are reasonable and prudent. There can be no assurance, however, that such insurance will be adequate to protect us from all material expenses related to potential future claims for personal injury and property damage or that such levels of insurance will be available in the future at economical prices.

Operational interruptions to our natural gas transmission and natural gas and electric distribution activities, caused by accidents, malfunctions, severe weather (such as a major hurricane), a pandemic or acts of terrorism, could adversely impact earnings.

Inherent in natural gas transmission and natural gas and electric distribution activities are a variety of hazards and operational risks, such as leaks, ruptures, fires, explosions and mechanical problems. If they are severe enough or if they lead to operational interruptions, they could cause substantial financial losses. In addition, these risks could result in the loss of human life, significant damage to property, environmental damage and impairment of our operations. The location of pipeline, storage, transmission and distribution facilities near populated areas, including residential areas, commercial business centers, industrial sites and other public gathering places, could increase the level of damages resulting from these risks. The occurrence of any of these events could adversely affect our results of operations, cash flows and financial condition.

Our regulated energy business will be at risk if franchise agreements are not renewed.

Our regulated natural gas and electric distribution operations hold franchises in each of the incorporated municipalities that require franchise agreements in order to provide natural gas and electricity. Our natural gas and electric distribution operations are currently in negotiations for franchises with certain municipalities for new service areas and renewal of some existing franchises. Ongoing financial results would be adversely impacted from the loss of service to certain operating areas within our electric or natural gas territories in the event that franchise agreements were not renewed.

A strike, work stoppage or a labor dispute could adversely affect our results of operation.

We are party to collective bargaining agreements with various labor unions at some of our Florida operations. A strike, work stoppage or a labor dispute with a union or employees represented by a union could cause interruption to our operations. If a strike, work stoppage or other labor dispute were to occur, our results could be adversely affected.

Regulatory and Legal Risks

Regulation of the Company, including changes in the regulatory environment, may adversely affect our results of operations, cash flows and financial condition.

The Delaware, Maryland and Florida PSCs regulate our utility operations in those states. ESNG is regulated by the FERC. These commissions set the rates that we can charge customers for services subject to their regulatory jurisdiction. Our ability to obtain timely future rate increases and rate supplements to maintain current rates of return depends on regulatory approvals, and there can be no assurance that our regulated operations will be able to obtain such approvals or maintain currently authorized rates of return.

We are dependent upon construction of new facilities to support future growth in earnings in our natural gas and electric distribution and natural gas transmission operations.

Construction of new facilities required to support future growth is subject to various regulatory and developmental risks, including but not limited to: (a) our ability to obtain necessary approvals and permits from regulatory agencies on a timely basis and on terms that are acceptable to us; (b) potential changes in federal, state and local statutes and regulations, including environmental requirements, that prevent a project from proceeding or increase the anticipated cost of the project; (c) inability to acquire rights-of-way or land rights on a timely basis on terms that are acceptable to us; (d) lack of anticipated future growth in available natural gas and electricity supply; and (e) insufficient customer throughput commitments.

We are subject to operating and litigation risks that may not be fully covered by insurance.

Our operations are subject to the operating hazards and risks normally incidental to handling, storing, transporting/ transmitting and delivering natural gas, electricity and propane to end users. As a result, we are sometimes a defendant in legal proceedings arising in the ordinary course of business. We maintain insurance policies with insurers in the amount of $50 million covering general liabilities of the Company, which we believe are reasonable and prudent. There can be no assurance, however, that such insurance will be adequate to protect us from all material expenses related to potential future claims for personal injury and property damage or that such levels of insurance will be available in the future at economical prices.

We have recorded significant amounts of goodwill and regulatory assets prior to obtaining a rate order. An adverse outcome could result in an impairment of those assets.

The merger with FPU resulted in approximately $33.4 million in purchase premium which is currently recorded as goodwill. We also incurred approximately $3.0 million in merger-related costs, $1.5 million of which was deferred as a regulatory asset. We will be seeking regulatory approval to include these amounts in future rates in Florida. Other utilities in Florida, including Chesapeake and FPU in the past, have been successful in recovering similar costs by demonstrating benefits to customers attributable to the business combination. The ultimate outcome of such regulatory proceedings will depend on various factors, including but not limited to, our ability to achieve the anticipated benefits of the merger, the future regulatory environment in Florida and the future results of our Florida regulated operations. If we are not successful in obtaining regulatory approval to recover these costs in future rates, we will be required to perform impairment tests of goodwill and regulatory assets, the results of which could be an impairment of all or part of the goodwill and/or regulatory assets in the future.

Environmental Risks

Costs of compliance with environmental laws may be significant.

We are subject to federal, state and local laws and regulations governing environmental quality and pollution control. These evolving laws and regulations may require expenditures over a long period of time to control environmental effects at current and former operating sites, including former manufactured gas plant ("MGP") sites that we have acquired from third-parties. Compliance with these legal obligations requires us to commit capital. If we fail to comply with environmental laws and regulations, even if such failure is caused by factors beyond our control, we may be assessed civil or criminal penalties and fines.

To date, we have been able to recover, through regulatory rate mechanisms, the costs associated with the remediation of former MGP sites. There is no guarantee, however, that we will be able to recover future remediation costs in the same manner or at all. A change in our approved rate mechanisms for recovery of environmental remediation costs at former MGP sites could adversely affect our results of operations, cash flows and financial condition.

Further, existing environmental laws and regulations may be revised, or new laws and regulations seeking to protect the environment may be adopted and be applicable to us. Revised or additional laws and regulations could result in additional operating restrictions on our facilities or increased compliance costs, which may not be fully recoverable.

We may be exposed to certain regulatory and financial risks related to climate change.

Climate change is receiving ever increasing attention from scientists, legislators and regulators alike. The debate is ongoing as to the extent to which our climate is changing, the potential causes of this change and its potential impacts. Some attribute global warming to increased levels of greenhouse gases, including carbon dioxide, which has led to significant legislative and regulatory efforts to limit greenhouse gas emissions.

There are a number of legislative and regulatory proposals to address greenhouse gas emissions, which are in various phases of discussion or implementation. The outcome of federal and state actions to address global climate change could result in a variety of regulatory programs, including potential new regulations, additional charges to fund energy efficiency activities, or other regulatory actions. These actions could:

- result in increased costs associated with our operations;
- increase other costs to our business;
- affect the demand for natural gas, electricity and propane; and
- impact the prices we charge our customers.

Any action taken by federal or state governments mandating a substantial reduction in greenhouse gas emissions could have far-reaching and significant impacts on the energy industry. We cannot predict the potential impact of such laws or regulations on our future consolidated financial condition, results of operations or cash flows.

Pending environmental matters, particularly with respect to FPU's site in West Palm Beach, Florida, may have a materially adverse effect on the Company and our results of operations.

We have participated in the investigation, assessment or remediation of environmental matters with respect to certain of our properties and we believe the Company has certain exposures at six former MGP sites. Those sites are located in Salisbury, Maryland, and Winter Haven, Key West, Pensacola, Sanford and West Palm Beach, Florida. We have also been in discussions with the Maryland Department of the Environment ("MDE") regarding a seventh former MGP site located in Cambridge, Maryland. The Key West, Pensacola, Sanford and West Palm Beach sites are related to FPU, for which we assumed any existing and future contingencies in the merger with FPU.

Pursuant to a consent order that FPU entered into with the Florida Department of Environmental Protection (the "FDEP") prior to our merger with FPU, FPU is obligated to assess and remediate environmental impacts to soil and groundwater resulting from operation of the former West Palm Beach MGP. Following completion of the assessment task, FPU retained a consultant to perform a feasibility study to evaluate appropriate remedies for the site to respond to the reported environmental impacts. The feasibility study was performed and subsequently revised as a result of additional testing conducted at the site and extensive discussions with FDEP. The revised feasibility study evaluates several alternative remedies for the site. Discussions with FDEP are continuing, regarding selection of an appropriate remedy for the West Palm Beach site. Our current estimate of total remediation costs and expenses, including legal and consulting expenses, for the West Palm Beach site based on the likely remedy we believe will be approved by FDEP is between $7.8 million and $19.4 million; however, actual costs may be higher or lower than such range based upon the final remedy required by FDEP.

As of December 31, 2009, we had recorded $531,000 in environmental liabilities related to Chesapeake's MGP sites in Maryland and Winter Haven, Florida, representing our estimate of the future costs associated with those sites. We had recorded approximately $1.7 million in assets for future recovery of environmental costs to be received from our customers through our approved rates. As of December 31, 2009, we had recorded approximately $12.3 million in environmental liabilities related to FPU's MGP sites in Florida, primarily related to the West Palm Beach site. Such amount represents our estimate as of December 31, 2009, of the future costs associated with those sites, although FPU is approved to recover its environmental costs up to $14.0 million from insurance and customers through approved rates. Of the approximately $12.3 million recorded as environmental liabilities related to FPU's MGP sites in Florida as of December 31, 2009, we have recovered approximately $5.7 million of environmental costs from insurance and customers through rates, and have recorded approximately $6.6 million in assets for future recovery of environmental costs to be received from FPU's customers through approved rates.

The costs and expenses we incur to address environmental issues at our sites may have a material adverse effect on our results of operations and earnings to the extent that such costs and expenses exceed the amounts we have accrued as environmental reserves or that we are otherwise permitted to recover from customers through rates,. At present, we believe that the amounts accrued as environmental reserves and that we are otherwise permitted to recover from customers through rates are sufficient to fund the pending environmental liabilities described above.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES.

(a) General

We own offices and operate facilities in the following locations: Pocomoke, Salisbury, Cambridge and Princess Anne, Maryland; Dover, Seaford, Laurel and Georgetown, Delaware; Lecanto, Virginia; and West Palm Beach, DeBary, Inglis, Marianna, Lantana, Lauderhill, Fernandina Beach and Winter Haven, Florida. We rent office space in Dover, Ocean View, and South Bethany, Delaware; Jupiter, Fernandina and Lecanto, Florida; Chincoteague and Belle Haven, Virginia; Easton, Maryland; Honey Brook and Allentown, Pennsylvania; Houston, Texas; and Norcross, Georgia. In general, we believe that our offices and facilities are adequate for the uses for which they are employed.

(b) Natural Gas Distribution

Our Delmarva natural gas distribution operation owns over 1,102 miles of natural gas distribution mains (together with related service lines, meters and regulators) located in our Delaware and Maryland service areas. Our Florida natural gas distribution operations, including Chesapeake's Florida division and FPU in its service areas, own 2,404 miles of natural gas distribution mains (and related equipment). Additionally, we have adequate gate stations to handle receipt of the gas in each of the distribution systems. We also own facilities in Delaware and Maryland, which we use for propane-air injection during periods of peak demand.

(c) Natural Gas Transmission

ESNG owns and operates approximately 384 miles of transmission pipeline, extending from supply interconnects at Parkesburg, Pennsylvania; Daleville, Pennsylvania; and Hockessin, Delaware, to approximately 80 delivery points in southeastern Pennsylvania, Delaware and the Eastern Shore of Maryland.

PIPECO owns and operates approximately eight miles of transmission pipeline in Suwanee County, Florida.

(d) Electric Distribution

The Company's electric distribution operation owns and operates 20 miles of electric transmission line located in northeast Florida and 1,125 miles of electric distribution line located in northeast and northwest Florida.

(e) Propane Distribution and Wholesale Marketing

Our Delmarva-based propane distribution operation owns bulk propane storage facilities, with an aggregate capacity of approximately 2.4 million gallons, at 42 plant facilities in Delaware, Maryland, Pennsylvania and Virginia, located on real estate that is either owned or leased by the Company. Our Florida-based propane distribution operation owns 21 bulk propane storage facilities with a total capacity of 642,000 gallons. Xeron does not own physical storage facilities or equipment to transport propane; however, it leases propane storage and pipeline capacity from non-affiliated third-parties.

(f) Lien

All of the properties owned by FPU are subject to a lien in favor of the holders of its first mortgage bonds securing its indebtedness under its Mortgage Indenture and Deed of Trust. FPU owns offices and operates facilities in the following locations: DeBary, Inglis, Marianna, Lantana, Lauderhill and Fernandina, Florida. FPU's natural gas distribution operation owns 1,637 miles of natural gas distribution mains (and related equipment) in its service areas. FPU's electric distribution operation owns and operates 20 miles of electric transmission line located in northeast Florida and 1,125 miles of electric distribution line located in northeast and northwest Florida. FPU's propane distribution operation owns 18 bulk propane storage facilities with a total capacity of 576,000 gallons located in south and central Florida.

ITEM 3. LEGAL PROCEEDINGS.

(a) General

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

(b) Environmental

See discussion of environmental commitments and contingencies in Item 8 under the heading "Notes to the Consolidated Financial Statements — Note O, Environmental Commitments and Contingencies."

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

A special meeting of the shareholders of the Company was held on October 22, 2009, to consider and vote upon the following proposals:

(1) A proposal related to adoption of the merger agreement and approval of the merger with Florida Public Utilities Company;

(2) A proposal relating to the issuance of Chesapeake common stock in the merger; and

(3) A proposal to approve adjournments or postponements of the special meeting, if necessary, to permit further solicitation of proxies if there are not sufficient votes at the end of the time in the special meeting to approve the above proposals.

The proposals were approved as follows:

	Votes For	Votes Against or Withheld	Abstentions
Adoption of the merger agreement and approval of the merger	5,186,617	85,243	27,204
Issuance of Chesapeake common stock in the merger	5,186,617	85,243	27,204
Approve adjournment or postponement	4,846,740	411,960	40,365

There were no broker non-votes.

ITEM 4A. EXECUTIVE OFFICERS OF THE REGISTRANT.

Set forth below are the names, ages, and positions of executive officers of the registrant with their recent business experience. The age of each officer is as of the filing date of this report.

Name	Age	Position
John R. Schimkaitis	62	Vice Chairman and Chief Executive Officer
Michael P. McMasters	51	President and Chief Operating Officer
Beth W. Cooper	43	Senior Vice President and Chief Financial Officer
Stephen C. Thompson	49	Senior Vice President and President, ESNG
Joseph Cummiskey	38	Vice President and President, PESCO

John R. Schimkaitis is Vice Chairman and Chief Executive Officer of Chesapeake and its subsidiaries. Mr. Schimkaitis assumed the role of Chief Executive Officer on January 1, 1999. Mr. Schimkaitis previously served as President, Chief Operating Officer, Executive Vice President, Senior Vice President, Chief Financial Officer, Vice President, Treasurer, Assistant Treasurer and Assistant Secretary of Chesapeake.

Michael P. McMasters is President and Chief Operating Officer of Chesapeake. Mr. McMasters assumed the role of President effective March 1, 2010. He has served as Chief Operating Officer since September of 2008. Prior to these appointments, Mr. McMasters served as Senior Vice President since 2004 and Chief Financial Officer of Chesapeake since 1996. He has previously held the positions of Vice President, Treasurer, Director of Accounting and Rates, and Controller. From 1992 to May 1994, Mr. McMasters was employed as Director of Operations Planning for Equitable Gas Company.

Beth W. Cooper was appointed as Senior Vice President and Chief Financial Officer in September 2008 in addition to her duties as Treasurer and Corporate Secretary. Prior to this appointment, Ms. Cooper served as Vice President and Corporate Secretary of Chesapeake Utilities Corporation since July 2005. She has served as Treasurer of Chesapeake since 2003. She previously served as Assistant Treasurer and Assistant Secretary, Director of Internal Audit, Director of Strategic Planning, Planning Consultant, Accounting Manager for Non-regulated Operations and Treasury Analyst. Prior to joining Chesapeake, she was employed as an auditor with Ernst & Young's Entrepreneurial Services Group.

Stephen C. Thompson is Senior Vice President of Chesapeake and President of ESNG. Prior to becoming Senior Vice President in 2004, he served as Vice President of Chesapeake. He has also served as Vice President, Director of Gas Supply and Marketing, Superintendent of ESNG and Regional Manager for the Florida distribution operations.

Joseph Cummiskey was appointed as Vice President of Chesapeake and President of PESCO in December 2009. Mr. Cummiskey joined Chesapeake in December 2005 as the Director of Propane Supply and Wholesale Marketing. In 2008 and 2009, he served as the Director of Strategic Planning/Corporate Development and Director of Propane Operations. Prior to joining Chesapeake, Mr. Cummiskey was employed as a Natural Gas Liquids Regional Director for Ferrell North America. In that position, he was responsible for the purchasing and distribution of Ferrell's propane supply.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

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

The Company's common stock is listed on the NYSE under the symbol "CPK." The high, low and closing prices of the Company's common stock and dividends declared per share for each calendar quarter during the years 2009 and 2008 were as follows:

Quarter Ended		High		Low		Close		Dividends Declared Per Share
2009								
March 31	**$**	**32.36**	**$**	**22.02**	**$**	**30.48**	**$**	**0.305**
June 30		**34.55**		**27.62**		**32.53**		**0.315**
September 30		**35.00**		**29.24**		**30.99**		**0.315**
December 31		**32.67**		**29.53**		**32.05**		**0.315**
2008								
March 31	$	33.60	$	27.21	$	29.64	$	0.295
June 30		31.88		25.02		25.72		0.305
September 30		34.84		24.65		33.21		0.305
December 31		34.66		21.93		31.48		0.305

Holders

At December 31, 2009, there were 2,670 holders of record of Chesapeake common stock.

Dividends

We have paid a cash dividend to common stock shareholders for 49 consecutive years. Dividends are payable at the discretion of our Board of Directors. Future payment of dividends, and the amount of these dividends, will depend on our financial condition, results of operations, capital requirements, and other factors. No securities were sold during the year 2009 that were not registered under the Securities Act of 1933, as amended.

Indentures to the long-term debt of the Company contain various restrictions. In terms of restrictions which limit the payment of dividends by Chesapeake, each of its Unsecured Senior Notes contains a "Restricted Payments" covenant. The most restrictive covenants of this type are included within the 7.83 percent Senior Notes, due January 1, 2015. The covenant provides that Chesapeake cannot pay or declare any dividends or make any other Restricted Payments (such as dividends) in excess of the sum of $10.0 million plus consolidated net income of the Company accrued on and after January 1, 2001. As of December 31, 2009, Chesapeake's cumulative consolidated net income base was $102.8 million, offset by Restricted Payments of $63.8 million, leaving $39.0 million of cumulative net income free of restrictions.

Each series of FPU's first mortgage bonds contains a similar restriction that limits the payment of dividends by FPU. The most restrictive covenants of this type are included within the series that is due in 2031, which provided that FPU cannot make dividend or other restricted payments in excess of the sum of $2.5 million plus FPU's consolidated net income accrued on and after January 1 2001. As of December 31, 2009, FPU had the cumulative net income base of $32.7 million, offset by restricted payments of $22.1 million, leaving $10.6 million of cumulative net income of FPU free of restrictions based on this covenant. In January 2010, this series of first mortgage bonds were redeemed prior to their maturities. The second most restricted covenant of this type is included in the series that is due in 2022, which provided that FPU cannot make dividend or other restricted payments in excess of the sum of $2.5 million plus FPU's consolidated net income accrued on and after January 1, 1992. This covenant provided FPU with the cumulative net income base of $56.0 million, offset by restricted payments of $37.6 million, leaving $18.4 million of cumulative net income of FPU free of restrictions as of December 31, 2009.

(b) Purchases of Equity Securities by the Issuer

The following table sets forth information on purchases by or on behalf of Chesapeake of shares of its common stock during the quarter ended December 31, 2009.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (2)	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs (2)
October 1, 2009 through October 31, 2009 (1)	587	$ 30.14	—	—
November 1, 2009 through November 30, 2009	—	—	—	—
December 1, 2009 through December 31, 2009	—	—	—	—
Total	587	$ 30.14	—	—

(1) Chesapeake purchased shares of stock on the open market for the purpose of reinvesting the dividend on deferred stock units held in the Rabbi Trust accounts for certain Directors and Senior Executives under the Deferred Compensation Plan. The Deferred Compensation Plan is discussed in detail in Note N to the Consolidated Financial Statements. During the quarter, 587 shares were purchased through the reinvestment of dividends on deferred stock units.

(2) Except for the purpose described in Footnote (1), Chesapeake has no publicly announced plans or programs to repurchase its shares.

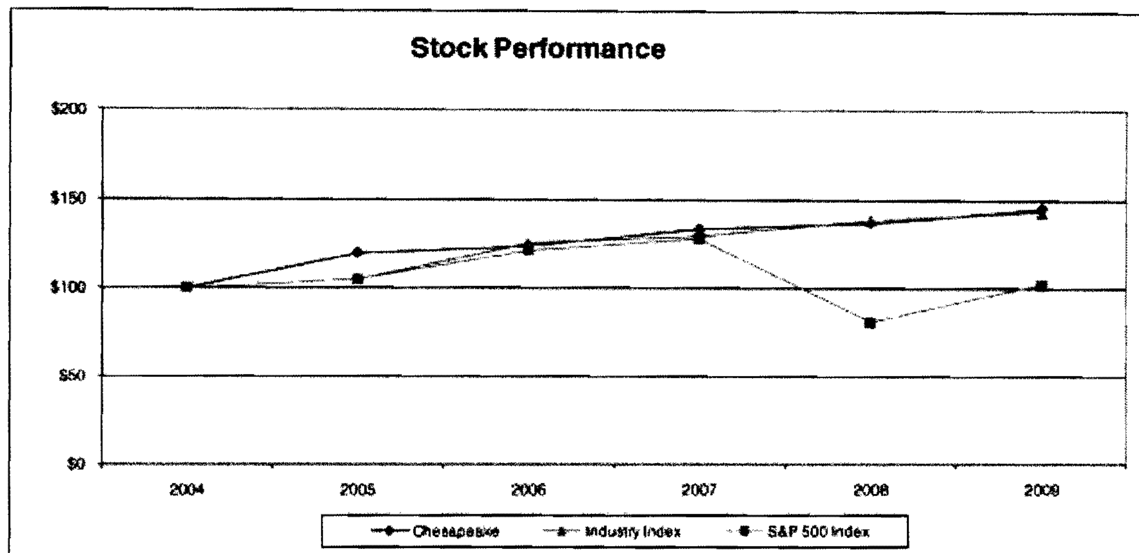
Discussion of compensation plans of Chesapeake and its subsidiaries, for which shares of Chesapeake common stock are authorized for issuance, is included in the portion of the Proxy Statement captioned "Equity Compensation Plan Information" to be filed no later than March 31, 2010, in connection with the Company's Annual Meeting to be held on or about May 5, 2010 and, is incorporated herein by reference.

(c) Chesapeake Utilities Corporation Common Stock Performance Graph

The following stock Performance Graph compares cumulative total shareholder return on a hypothetical investment in our common stock during the five fiscal years ended December 31, 2009, with the cumulative total shareholder return on a hypothetical investment in both (i) the Standard & Poor's 500 Index ("S&P 500 Index"), and (ii) an industry index consisting of Chesapeake and 11 of the companies in the current Edward Jones Natural Gas Distribution Group, a published listing of selected gas distribution utilities' results. The Performance Graph for the previous year included all but one of these same companies. Our Compensation Committee utilizes the Edward Jones Natural Gas Distribution Group as our peer group to which our performance is compared for purposes of determining the level of long-term performance awards earned by our named executives.

The eleven companies in the Edward Jones Natural Gas Distribution Group industry index include: AGL Resources, Inc., Atmos Energy Corporation, Delta Natural Gas Company, Inc., Energy Inc., The Laclede Group, Inc., New Jersey Resources Corporation, Northwest Natural Gas Company, Piedmont Natural Gas Co., Inc., RGC Resources, Inc., South Jersey Industries, Inc, and WGL Holdings, Inc.

The comparison assumes $100 was invested on December 31, 2004 in our common stock and in each of the foregoing indices and assumes reinvested dividends. The comparisons in the graph below are based on historical data and are not intended to forecast the possible future performance of our common stock.



	2004	2005	2006	2007	2008	2009
Chesapeake	$ 100	$ 120	$ 124	$ 133	$ 137	$ 145
Industry Index	$ 100	$ 105	$ 125	$ 129	$ 139	$ 143
S&P 500 Index	$ 100	$ 105	$ 121	$ 128	$ 81	$ 102

ITEM 6. SELECTED FINANCIAL DATA

For the Years Ended December 31,	2009 [3]	2008	2007
Operating [1]			
(in thousands)			
Revenues			
Regulated Energy	$ 139,099	$ 116,468	$ 128,850
Unregulated Energy	119,973	161,290	115,190
Other	9,713	13,685	14,246
Total revenues	$ 268,785	$ 291,443	$ 258,286
Operating income			
Regulated Energy	$ 26,900	$ 24,733	$ 21,809
Unregulated Energy	8,158	3,781	5,174
Other	(1,322)	(35)	1,131
Total operating income	$ 33,736	$ 28,479	$ 28,114
Net income from continuing operations	$ 15,897	$ 13,607	$ 13,218
Assets			
(in thousands)			
Gross property, plant and equipment	$ 543,746	$ 381,689	$ 352,838
Net property, plant and equipment [2]	$ 436,428	$ 280,671	$ 260,423
Total assets [2]	$ 617,102	$ 385,795	$ 381,557
Capital expenditures [1]	$ 26,294	$ 30,844	$ 30,142
Capitalization			
(in thousands)			
Stockholders' equity	$ 209,781	$ 123,073	$ 119,576
Long-term debt, net of current maturities	98,814	86,422	63,256
Total capitalization	$ 308,595	$ 209,495	$ 182,832
Current portion of long-term debt	35,299	6,656	7,656
Short-term debt	30,023	33,000	45,664
Total capitalization and short-term financing	$ 373,917	$ 249,151	$ 236,152

(1) These amounts exclude the results of distributed energy and water services due to their reclassification to discontinued operations. The Company closed its distributed energy operation in 2007. All assets of all of the water businesses were sold in 2004 and 2003.

(2) SFAS No. 143 (now codified within FASB ASC 360 and 410) was adopted in the year 2001; therefore, it was not applicable for the years prior to 2001.

(3) These amounts include the financial position and results of operation of FPU for the period from the merger (October 28, 2009) to December 31, 2009. These amounts also include the effects of acquisition accounting and issuance of Chesapeake common shares as a result of the merger. These amounts may not be indicative of future results due to the inclusion of merger effects. See Item 8 under the heading "Notes to the Consolidated Financial Statements — Note B, Acquisitions and Dispositions" for addition discussions and presentation of pro forma results.

(4) SFAS No. 123R (now codified within FASB ASC 718, 505 and 260) and SFAS No. 158 (codified within FASB ASC 715) were adopted in the year 2006; therefore, they were not applicable for the years prior to 2006.

2006 (4)	2005	2004	2003	2002	2001	2000
$ 124,631	$ 124,563	$ 98,139	$ 92,079	$ 82,098	$ 87,444	$ 82,490
94,320	90,995	67,607	59,197	40,728	56,970	50,428
12,249	13,927	12,209	12,292	12,430	13,992	12,259
$ 231,200	$ 229,485	$ 177,955	$ 163,568	$ 135,256	$ 158,406	$ 145,177
$ 18,593	$ 16,248	$ 16,258	$ 16,219	$ 14,867	$ 14,060	$ 12,672
3,675	4,197	3,197	4,310	1,158	1,259	2,261
1,064	1,476	722	1,050	580	902	1,152
$ 23,332	$ 21,921	$ 20,177	$ 21,579	$ 16,605	$ 16,221	$ 16,085
$ 10,748	$ 10,699	$ 9,686	$ 10,079	$ 7,535	$ 7,341	$ 7,665
$ 325,836	$ 280,345	$ 250,267	$ 234,919	$ 229,128	$ 216,903	$ 192,925
$ 240,825	$ 201,504	$ 177,053	$ 167,872	$ 166,846	$ 161,014	$ 131,466
$ 325,585	$ 295,980	$ 241,938	$ 222,058	$ 223,721	$ 222,229	$ 211,764
$ 49,154	$ 33,423	$ 17,830	$ 11,822	$ 13,836	$ 26,293	$ 22,057
$ 111,152	$ 84,757	$ 77,962	$ 72,939	$ 67,350	$ 67,517	$ 64,669
71,050	58,991	66,190	69,416	73,408	48,409	50,921
$ 182,202	$ 143,748	$ 144,152	$ 142,355	$ 140,758	$ 115,926	$ 115,590
7,656	4,929	2,909	3,665	3,938	2,686	2,665
27,554	35,482	5,002	3,515	10,900	42,100	25,400
$ 217,412	$ 184,159	$ 152,063	$ 149,535	$ 155,596	$ 160,712	$ 143,655

For the Years Ended December 31,	2009 (3)	2008	2007
Common Stock Data and Ratios			
Basic earnings per share from continuing operations (1)	**$ 2.17**	$ 2.00	$ 1.96
Diluted earnings per share from continuing operations (1)	**$ 2.15**	$ 1.98	$ 1.94
Return on average equity from continuing operations (1)	**11.2%**	11.2%	11.5%
Common equity / total capitalization	**68.0%**	58.7%	65.4%
Common equity / total capitalization and short-term financing	**56.1%**	49.4%	50.6%
Book value per share	**$ 22.33**	$ 18.03	$ 17.64
Market price:			
High	**$ 35.000**	$ 34.840	$ 37.250
Low	**$ 22.020**	$ 21.930	$ 28.000
Close	**$ 32.050**	$ 31.480	$ 31.850
Average number of shares outstanding	**7,313,320**	6,811,848	6,743,041
Shares outstanding at year-end	**9,394,314**	6,827,121	6,777,410
Registered common shareholders	**2,670**	1,914	1,920
Cash dividends declared per share	**$ 1.25**	$ 1.21	$ 1.18
Dividend yield (annualized) (2)	**3.9%**	3.9%	3.7%
Payout ratio from continuing operations (1) (4)	**57.6%**	60.5%	60.2%
Additional Data			
Customers (5)			
Natural gas distribution	**117,887**	65,201	62,884
Electric distribution	**31,030**	—	—
Propane distribution	**48,680**	34,981	34,143
Volumes (6)			
Natural gas deliveries (in Mcfs)	**44,586,158**	39,778,067	34,820,050
Electric Distribution (in MWHs)	**105,739**	—	—
Propane distribution (in thousands of gallons)	**32,546**	27,956	29,785
Heating degree-days (Delmarva Peninsula)			
Actual HDD	**4,729**	4,431	4,504
10-year average HDD (normal)	**4,462**	4,401	4,376
Propane bulk storage capacity (in thousands of gallons)	**3,042**	2,471	2,441
Total employees (1) (7)	**757**	448	445

(1) These amounts exclude the results of distributed energy and water services due to their reclassification to discontinued operations. The Companyclosed its distributed energy operation in 2007. All assets of all of the water businesses were sold in 2004 and 2003.

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

(3) These amounts include the financial position and results of operation of FPU for the period from the merger closing (October 28, 2009) to December 31, 2009. These amounts also include the effects of acquisition accounting and issuance of Chesapeake common shares as a result of the merger. These amounts may not be indicative of future results due to the inclusion of merger effects. See Item 8 under the heading "Notes to the Consolidated Financial Statements — Note B, Acquisitions and Dispositions" for addition discussions and presentation of pro forma results.

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

(5) Customer data for 2009 includes 51,536, 31,030 and 13,651 of natural gas distribution, electric distribution and propane distribution customers, respectively, from FPU.

(6) Volumes data for 2009 includes 1,109,177 Mcfs, 105,739 MWHs and 1.1 million gallons for natural gas distribution, electric distribution and propane distribution, respectively, delivered by FPU from October 28, 2009 through December 31, 2009.

(7) Total employees for 2009 include 332 FPU employees added to the Company upon the merger, effective October 28, 2009.

2006 [8]	2005	2004	2003	2002	2001	2000
$ 1.78	$ 1.83	$ 1.68	$ 1.80	$ 1.37	$ 1.37	$ 1.46
$ 1.76	$ 1.81	$ 1.64	$ 1.76	$ 1.37	$ 1.35	$ 1.43
11.0%	13.2%	12.8%	14.4%	11.2%	11.1%	12.2%
61.0%	59.0%	54.1%	51.2%	47.8%	58.2%	55.9%
51.1%	46.0%	51.3%	48.8%	43.3%	42.0%	45.0%
$ 16.62	$ 14.41	$ 13.49	$ 12.89	$ 12.16	$ 12.45	$ 12.21
$ 35.650	$ 35.780	$ 27.550	$ 26.700	$ 21.990	$ 19.900	$ 18.875
$ 27.900	$ 23.600	$ 20.420	$ 18.400	$ 16.500	$ 17.375	$ 16.250
$ 30.650	$ 30.800	$ 26.700	$ 26.050	$ 18.300	$ 19.800	$ 18.625
6,032,462	5,836,463	5,735,405	5,610,592	5,489,424	5,367,433	5,249,439
6,688,084	5,883,099	5,778,976	5,660,594	5,537,710	5,424,962	5,297,443
1,978	2,026	2,026	2,069	2,130	2,171	2,166
$ 1.16	$ 1.14	$ 1.12	$ 1.10	$ 1.10	$ 1.10	$ 1.07
3.8%	3.7%	4.2%	4.2%	6.0%	5.6%	5.8%
65.2%	62.3%	66.7%	61.1%	80.3%	80.3%	73.3%
59,132	54,786	50,878	47,649	45,133	42,741	40,854
—	—	—	—	—	—	—
33,282	32,117	34,888	34,894	34,566	35,530	35,563
34,321,160	34,980,939	31,429,494	29,374,818	27,934,715	27,263,542	30,829,509
—	—	—	—	—	—	—
24,243	26,178	24,979	25,147	21,185	23,080	28,469
3,931	4,792	4,553	4,715	4,161	4,368	4,730
4,372	4,436	4,389	4,409	4,393	4,446	4,356
2,315	2,315	2,045	2,195	2,151	1,958	1,928
437	423	426	439	455	458	471

[8] SFAS No. 123R (now codified within FASB ASC 718, 505 and 260) and SFAS No. 158 (codified within FASB ASC 715) were adopted in the year 2006; therefore, they were not applicable for the years prior to 2006.

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

This section provides management's discussion of Chesapeake and its consolidated subsidiaries, with specific information on results of operations and liquidity and capital resources, as well as discussion on how certain accounting principles affect our financial statements. It includes management's interpretation of financial results of the Company and its operating segments, the factors affecting these results, the major factors expected to affect future operating results, investment and financing plans. This discussion should be read in conjunction with our consolidated financial statements and notes thereto.

Several factors exist that could influence our future financial performance, some of which are described in Item 1A above, "Risk Factors." They should be considered in connection with evaluating forward-looking statements contained in this report, or otherwise made by or on behalf of us, since these factors could cause actual results and conditions to differ materially from those set out in such forward-looking statements.

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

In addition, certain information is presented, which excludes for comparison purposes, result of operations of FPU for the period from the merger closing (October 28, 2009) to December 31, 2009 and all merger-related costs incurred in connection with the FPU merger. Although the non-GAAP measures are not intended to replace the GAAP measures for evaluation of Chesapeake's performance, we believe that the portions of the presentation which excludes FPU's financial results for the post-merger period and merger-related costs provide a helpful comparative basis for investors to understand Chesapeake's performance.

(a) Introduction

Chesapeake is a diversified utility company engaged, directly or through subsidiaries, in regulated energy businesses, unregulated energy businesses, and other unregulated businesses, including advanced information services.

Our strategy is focused on growing earnings from a stable utility foundation and investing in related businesses and services that provide opportunities for returns greater than traditional utility returns. The key elements of this strategy include:

- executing a capital investment program in pursuit of organic growth opportunities that generate returns equal to or greater than our cost of capital;
- expanding the regulated energy distribution and transmission businesses through expansion into new geographic areas and providing new services in our current service territories;
- expanding the propane distribution business in existing and new markets through leveraging our community gas system services and our bulk delivery capabilities;
- utilizing our expertise across our various businesses to improve overall performance;
- enhancing marketing channels to attract new customers;
- providing reliable and responsive customer service to retain existing customers;

- maintaining a capital structure that enables us to access capital as needed;
- maintaining a consistent and competitive dividend for shareholders; and
- creating and maintaining diversified customer base, energy portfolio and utility foundation.

(b) Highlights and Recent Developments

On October 28, 2009, we completed the previously announced merger with FPU. As a result of the merger, FPU became a wholly-owned subsidiary of Chesapeake. The merger allowed us to become a larger energy company serving approximately 200,000 customers in the Mid-Atlantic and Florida markets, which is twice the number of energy customers we served previously. The merger increased our overall presence in Florida by adding approximately 51,000 natural gas distribution customers and 12,000 propane distribution customers to our existing natural gas and propane distribution operations in Florida. It also introduces us to the electric distribution business as it incorporates FPU's approximately 31,000 electric customers in northwest and northeast Florida.

Total consideration paid by Chesapeake in the merger was approximately $75.7 million, which included approximately $16,000 paid in cash and 2,487,910 shares of common stock issued at a price per share of $30.42. Net fair value of the assets acquired and liabilities assumed in the merger was estimated at $42.3 million. This resulted in a purchase premium of $33.4 million, which was reflected as goodwill. All of the purchase premium paid in the merger was related to the regulated energy segment. Chesapeake also incurred approximately $3.0 million in merger-related costs related to consummating the merger, merger-related litigation costs and costs incurred in integrating operations of the two companies. As we intend to seek recovery through future rates of the premium paid and merger-related costs we incurred, we have deferred approximately $1.5 million of the merger-related costs as a regulatory asset as of December 31, 2009.

Our net income for 2009 was $15.9 million, or $2.15 per share (diluted), compared to $13.6 million, or $1.98 per share (diluted), for 2008. These results include approximately $1.5 million in costs expensed in 2009 and $1.2 million in costs related to our initial merger discussions with FPU, which were terminated in 2008. The 2009 results also include approximately $1.8 million in net income contributed by FPU for the period from the merger closing (October 28, 2009) to December 31, 2009. Excluding these merger-related items and net income contributed by FPU, our net income would have been $15.3 million and $14.3 million, or $2.20 per share (diluted) and $2.08 per share (diluted), in 2009 and 2008, respectively.

The following is a summary of key factors affecting our businesses and their impacts on our 2009 results. More detailed discussion and analysis are provided in the "Results of Operations" section.

- *Weather* . Weather in 2009 was seven percent colder than 2008 and six percent colder than normal on the Delmarva Peninsula. We estimate that colder weather contributed approximately $1.6 million in additional gross margin for our regulated energy and unregulated energy operations on the Delmarva Peninsula in 2009 compared to 2008.
- *Growth* . Customer growth continued to be affected by current economic conditions. Despite the slowdown in growth in the region, our Delaware and Maryland natural gas distribution divisions achieved customer growth in 2009 compared to 2008, which contributed $1.2 million in gross margin for the year. Chesapeake's Florida natural gas distribution division experienced a net customer loss in 2009, which resulted in a gross margin decrease of $190,000. A loss of three large industrial customers in Florida in late 2008 and 2009 contributed primarily to this gross margin decrease. Our natural gas transmission subsidiary, ESNG, experienced continued growth in 2009 through new transmission services and new expansion facilities. New firm services to an industrial customer in 2009 contributed $811,000 to ESNG's gross margin in 2009 and are expected to contribute approximately $1.1 million to its gross margin in 2010. New system expansions in November 2008 and 2009 also contributed $939,000 to its gross margin growth in 2009.

- *Propane Prices* . A sharp decline in propane prices in late 2008 resulted in inventory and swap valuation adjustments of $1.8 million in 2008, but allowed our Delmarva propane distribution operation to keep its propane cost low during the first half of 2009. The absence of similar inventory valuation adjustments in 2009 and increased margin generated from the low propane cost during the first half of 2009, coupled with sustained retail prices, contributed to increased gross margin of $3.5 million in 2009 compared to 2008 for the Delmarva propane distribution operation. Overall lack of volatility in wholesale propane prices reduced opportunities for our propane wholesale marketing subsidiary, Xeron, and decreased its trading volume by 57 percent in 2009 compared to 2008, which reduced its gross margin by approximately $1.0 million.

- *Natural Gas Spot Sale Opportunities* . Our unregulated natural gas marketing subsidiary, PESCO, was able to identify various spot sale opportunities in 2009, which contributed significantly to the overall gross margin increase of $1.0 million in 2009. During 2009, PESCO sold natural gas and services of $10.6 million to Valero for its Delaware City refinery operation. Late in 2009, Valero announced its intention to permanently shut down that refinery. While PESCO's sale to Valero in 2009 represented approximately 19 percent of PESCO's total revenue for the year, spot sales are not predictable, and, therefore, are not included in our long-term financial plans or forecasts; nor do we anticipate sales to Valero in the future.

- *Rates and Regulatory Matters* . In July 2009, Chesapeake's Florida natural gas distribution division filed with the Florida PSC its petition for a rate increase. In August 2009, the Florida PSC approved an interim rate increase of approximately $418,000. In December 2009, the Florida PSC approved a permanent rate increase of approximately $2.5 million, applicable to all meters read on or after January 14, 2010. In December 2009, FPU's natural gas distribution operation settled its request for a permanent rate increase, which had been approved by the Florida PSC in May 2009; however in June 2009, certain parts of the order approving the increase were protested by the Office of Public Counsel. The settlement allows an annual rate increase of approximately $8.0 million for FPU's natural gas distribution operations.

- *Information Technology Spending* . The state of the economy continued to affect overall information technology spending in 2009. Our advanced information services subsidiary, BravePoint, continued to experience lower consulting revenues as billable consulting hours declined by 28 percent in 2009 compared to 2008. We implemented cost-containment actions, including layoffs and compensation adjustments, which reduced operating costs in 2009 by $1.0 million. BravePoint's professional database monitoring and support solution services, added $218,000 to its gross margin in 2009.

- *Interest Rates* . We continued to experience low short-term interest rates throughout 2009 as our short-term weighted average interest rate decreased to 1.28 percent in 2009, compared to 2.79 percent in 2008. The level of our short-term borrowings in 2009 was reduced by the placement of $30.0 million of 5.93 percent Unsecured Senior Notes in October 2008 and a decline in working capital requirements due to lower commodity prices, lower trading volume by the propane wholesale marketing subsidiary, lower income tax payments from bonus depreciation and the timing of our capital expenditures.

(c) Critical Accounting Policies

We prepare our financial statements in accordance with GAAP. Application of these accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosures of contingencies during the reporting period. We base our estimates on historical experience and on various assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Since most of our businesses are regulated and the accounting methods used by these businesses must comply with the requirements of the regulatory bodies, the choices available are limited by these regulatory requirements. In the normal course of business, estimated amounts are subsequently adjusted to actual results that may differ from estimates. Management believes that the following policies require significant estimates or other judgments of matters that are inherently uncertain. These policies and their application have been discussed with our Audit Committee.

Regulatory Assets and Liabilities

As a result of the ratemaking process, we record certain assets and liabilities in accordance with FASB Accounting Standards Codification ("ASC") Topic 980, "Regulated Operations," consequently, the accounting principles applied by our regulated energy businesses differ in certain respects from those applied by the unregulated businesses. Costs are deferred when there is a probable expectation that they will be recovered in future revenues as a result of the regulatory process. As more fully described in Item 8 under the heading "Notes to the Consolidated Financial Statements – Note A, Summary of Accounting Policies," we have recorded regulatory assets of $21.1 million and regulatory liabilities of $46.3 million, at December 31, 2009. If we were required to terminate application of this Topic, we would be required to recognize all such deferred amounts as a charge or a credit to earnings, net of applicable income taxes. Such an adjustment could have a material effect on our results of operations.

Valuation of Environmental Assets and Liabilities

As more fully described in Item 8 under the heading "Notes to the Consolidated Financial Statements – Note O, Environmental Commitments and Contingencies," we have completed our responsibilities related to one environmental site and are currently participating in the investigation, assessment or remediation of seven other former manufactured gas plant sites. Amounts have been recorded as environmental liabilities and associated environmental regulatory assets based on estimates of future costs provided by independent consultants. There is uncertainty in these amounts, because the United States Environmental Protection Agency ("EPA"), or other applicable state environmental authority, may not have selected the final remediation methods. In addition, there is uncertainty with regard to amounts that may be recovered from other potentially responsible parties.

Since we believe that recovery of these expenditures, including any litigation costs, is probable through the regulatory process, we have recorded a regulatory asset and corresponding environmental liability. At December 31, 2009, we have recorded an environmental regulatory asset of $7.5 million and a liability of $12.8 million for environmental costs.

Derivatives

We use derivative and non-derivative instruments to manage the risks related to obtaining adequate supplies and the price fluctuations of natural gas, electricity and propane. We also use derivative instruments to engage in propane marketing activities. We continually monitor the use of these instruments to ensure compliance with our risk management policies and account for them in accordance with appropriate GAAP. If these instruments do not meet the definition of derivatives or are considered "normal purchases and sales," they are accounted for on an accrual basis of accounting.

The following is a review of our use of derivative instruments at December 31, 2009 and 2008:

- During 2009 and 2008, our natural gas distribution, electric distribution, propane distribution and natural gas marketing operations entered into physical contracts for purchase or sale of natural gas, electricity and propane. These contracts either did not meet the definition of derivatives as they did not have a minimum requirement to purchase/sell or were considered "normal purchases and sales" as they provided for the purchase or sale of natural gas, electricity or propane to be delivered in quantities expected to be used and sold by our operations over a reasonable period of time in the normal course of business. Accordingly, these contracts were accounted for on the accrual basis of accounting.
- During 2008, the propane distribution operation entered into a swap agreement to protect it from the impact of price increases on the Pro-Cap (propane price-cap) Plan that we offer to customers. The propane prices declined significantly in late 2008 and we recorded a mark-to-market adjustment of approximately $939,000, which increased our cost of propane sales in 2008. In January 2009, we terminated this swap agreement. During 2009, we purchased a put option related to the Pro-Cap Plan, which we accounted for on a mark-to-market basis and recorded a loss of $41,000.

- Xeron, our propane wholesale marketing subsidiary, enters into forward, futures and other contracts that are considered derivatives. These contracts are marked-to-market, using prices at the end of each reporting period, and unrealized gains or losses are recorded in the Consolidated Statement of Income as revenue or expense. These contracts generally mature within one year and are almost exclusively for propane commodities. For the years ended December 31, 2009 and 2008, these contracts had net unrealized losses of $1.6 million and net unrealized gains of $1.4 million, respectively.

Operating Revenues

Revenues for our natural gas and electric distribution operations are based on rates approved by the PSCs of the jurisdictions in which we operate. The natural gas transmission operation's revenues are based on rates approved by the FERC. Customers' base rates may not be changed without formal approval by these commissions. The PSCs, however, have authorized our regulated operations to negotiate rates, based on approved methodologies, with customers that have competitive alternatives. The FERC has also authorized ESNG to negotiate rates above or below the FERC-approved maximum rates, which customers can elect as a recourse to negotiated rates.

For regulated deliveries of natural gas and electricity, we read meters and bill customers on monthly cycles that do not coincide with the accounting periods used for financial reporting purposes. We accrue unbilled revenues for natural gas and electricity that have been delivered, but not yet billed, at the end of an accounting period to the extent that they do not coincide. In connection with this accrual, we must estimate amounts of natural gas and electricity that have not been accounted for on our delivery systems and must estimate the amount of the unbilled revenue by jurisdiction and customer class. A similar computation is made to accrue unbilled revenues for propane customers with meters, such as community gas system customers, and natural gas marketing customers, whose billing cycles do not coincide with the accounting periods.

The propane wholesale marketing operation records trading activity for open contracts on a net mark-to-market basis in our income statement. For certain propane distribution customers without meters and advanced information services customers, we record revenue in the period the products are delivered and/or services are rendered.

Each of our natural gas distribution operations in Delaware and Maryland, our bundled natural gas distribution service in Florida and our electric distribution operation in Florida has a purchased fuel cost recovery mechanism. This mechanism provides us with a method of adjusting billing rates to customers to reflect changes in the cost of purchased fuel. The difference between the current cost of fuel purchased and the cost of fuel recovered in billed rates is deferred and accounted for as either unrecovered purchased fuel costs or amounts payable to customers. Generally, these deferred amounts are recovered or refunded within one year.

We charge flexible rates to industrial interruptible customers on our natural gas distribution systems to compete with the price of alternative fuel that they can use. Neither the Company nor its interruptible customers is contractually obligated to deliver or receive natural gas on a firm service basis.

Allowance for Doubtful Accounts

An allowance for doubtful accounts is recorded against amounts due to reduce the net receivable balance to the amount we reasonably expect to collect based upon our collections experiences, the condition of the overall economy and our assessment of our customers' inability or reluctance to pay. If circumstances change, however, our estimate of the recoverability of accounts receivable may also change. Circumstances which could affect our estimates include, but are not limited to, customer credit issues, the level of natural gas, electricity and propane prices and general economic conditions. Accounts are written off once they are deemed to be uncollectible.

Pension and Other Postretirement Benefits

Pension and other postretirement plan costs and liabilities are determined on an actuarial basis and are affected by numerous assumptions and estimates including the market value of plan assets, estimates of the expected returns on plan assets, assumed discount rates, the level of contributions made to the plans, current demographic and actuarial mortality data. The assumed discount rates and the expected returns on plan assets are the assumptions that generally have the most significant impact on the pension costs and liabilities. The assumed discount rates, the assumed health care cost trend rates and the assumed rates of retirement generally have the most significant impact on our postretirement plan costs and liabilities. Additional information is presented in Item 8 under the heading "Notes to the Consolidated Financial Statements – Note M, Employee Benefit Plans," including plan asset investment allocation, estimated future benefit payments, general descriptions of the plans, significant assumptions, the impact of certain changes in assumptions, and significant changes in estimates.

The total pension and other postretirement benefit costs included in operating income were $892,000, $537,000, and $370,000 in 2009, 2008 and 2007, respectively. The Company expects to record pension and postretirement benefit costs in the range of $900,000 to $1.0 million for 2010 of which $275,000 is attributed to FPU's pension and medical plans. Actuarial assumptions affecting 2010 include expected long-term rates of return on plan assets of 6.0 percent and 7.0 percent for Chesapeake's pension plan and FPU's pension plan, respectively, and discount rates of 5.25 percent and 5.50 percent for Chesapeake's plan and FPU's plan, respectively. The discount rate for each plan was determined by management considering high quality corporate bond rates based on Moody's Aa bond index, the Citigroup yield curve, changes in those rates from the prior year, and other pertinent factors, such as the expected lives of the plans and the lump-sum-payment option.

Acquisition Accounting

The merger with FPU was accounted for under the acquisition method of accounting, with Chesapeake treated as the acquirer. The acquisition method of accounting requires, among other things, that the assets acquired and liabilities assumed in the merger be recognized at their fair value as of the acquisition date. It also establishes that the consideration transferred be measured at the closing date of the merger at the then-current market price. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In addition, market participants are assumed to be buyers and sellers in the principal (or the most advantageous) market for the asset or liability and fair value measures for an asset assume the highest and best use by those market participants, rather than our intended use of those assets. Many of these fair value measurements can be highly subjective and it is also possible that others applying reasonable judgment to the same facts and circumstances could develop and support a range of alternative estimated amounts. In estimating the fair value of the assets and liabilities subject to rate regulation, we considered the nature and impact of regulations on those assets and liabilities as a factor in determining their appropriate fair value. We also considered the existence of a regulatory process that would allow, or sometimes require, regulatory assets and liabilities to be established to offset the fair value adjustment to certain assets and liabilities subject to rate regulation. If a regulatory asset or liability should be established to offset the fair value adjustment based on the current regulatory process, as was the case for fuel contracts and long-term debt, we did not "gross-up" our balance sheet to reflect the fair value adjustment and corresponding regulatory asset/liability, because such "gross-up" would not have resulted in a change to the value of net assets and future earnings of the Company.

Total consideration paid by Chesapeake in the merger was $75.7 million. Net fair value of the assets acquired and liabilities assumed in the merger was estimated to be $42.3 million. This resulted in a purchase premium of $33.4 million, which was reflected as goodwill. Item 8 under the heading "Notes to the Consolidated Financial Statements – Note B, Acquisitions and Dispositions" describes more fully the purchase price allocation.

The acquisition method of accounting also requires acquisition-related costs to be expensed in the period in which those costs are incurred, rather than including them as a component of consideration transferred. It also prohibits an accrual of certain restructuring costs at the time of the merger for the acquiree. As we intend to seek recovery in future rates in Florida of a certain portion of the purchase premium paid and merger-related costs incurred, we also considered the impact of ASC Topic 980, "Regulated Operations," in determining proper accounting treatment for the merger-related costs. During 2009, we incurred approximately $3.0 million to consummate the merger, including the cost associated with merger-related litigation, and to integrate operations following the merger. We deferred approximately $1.5 million of the total costs incurred as a regulatory asset at December 31, 2009, which represents our best estimate, based on similar proceedings in Florida in the past, of the costs, which we expect to be permitted to recover when we complete the appropriate rate proceedings. The remaining $1.5 million in costs have been expensed in our 2009 results.

(d) Results of Operations

(in thousands except per share) **For the Years Ended December 31,**	**2009**	**2008**	**Increase (decrease)**	**2008**	**2007**	**Increase (decrease)**
Business Segment:						
Regulated Energy	**$ 26,900**	$ 24,733	$ 2,167	$ 24,733	$ 21,809	$ 2,924
Unregulated Energy	**8,158**	3,781	4,377	3,781	5,174	(1,393)
Other	**(1,322)**	(35)	(1,287)	(35)	1,131	(1,166)
Operating Income	**33,736**	28,479	5,257	28,479	28,114	365
Other Income	**165**	103	62	103	291	(188)
Interest Charges	**7,086**	6,158	928	6,158	6,590	(432)
Income Taxes	**10,918**	8,817	2,101	8,817	8,597	220
Net Income from Continuing Operations	**15,897**	13,607	2,290	13,607	13,218	389
Loss from Discontinued Operations	**—**	—	—	—	(20)	20
Net Income	**$ 15,897**	$ 13,607	$ 2,290	$ 13,607	$ 13,198	$ 409
Diluted Earnings (Loss) Per Share						
Continuing operations	**$ 2.15**	$ 1.98	$ 0.17	$ 1.98	$ 1.94	$ 0.04
Discontinued operations	**—**	—	—	—	—	—
Diluted Earnings Per Share	**$ 2.15**	$ 1.98	$ 0.17	$ 1.98	$ 1.94	$ 0.04

As a result of the merger with FPU in 2009, we changed our operating segments to better align with how the chief operating decision maker (our Chief Executive Officer) views the various operations of the Company. We revised the segment information for all periods presented to reflect the new operating segments. Also during 2009, we decided not to allocate merger-related costs to our operating segments for the purpose of reporting their operating profitability, because such costs are not directly attributable to their operations. Consequently, all of the $1.5 million and $1.2 million of merger-related costs expensed in 2009 and 2008, respectively, are included in "Other" segment.

2009 compared to 2008

Our net income increased by approximately $2.3 million in 2009 compared to 2008. Net income was $15.9 million, or $2.15 per share (diluted), for 2009, compared to $13.6 million, or $1.98 per share (diluted), for 2008. Our 2009 results include approximately $1.8 million in net income from FPU for the period from the merger closing (October 28, 2009) to December 31, 2009. Our 2009 results also include approximately $1.5 million of merger-related costs expensed by the Company, compared to $1.2 million in merger-related costs expensed in 2008. Absent the effect of the merger and merger-related costs, we estimate that net income would have been $15.3 million, or $2.20 per share (diluted), in 2009, compared to $14.3 million, or $2.08 per share (diluted), in 2008.

During 2009, Chesapeake incurred approximately $3.0 million related to consummating the merger, merger-related litigation costs and costs of integrating operations of the two companies. New accounting standards applicable to acquisitions, which became effective in 2009, require companies to expense merger-related costs in the periods in which they are incurred. Under the previous accounting standards, most of these merger-related costs would have been considered a part of purchase price or liabilities assumed at the merger and thus not expensed. In accounting for our merger-related costs, we also considered the potential impact of the future regulatory process as we intend to seek recovery in future rates of the premium paid and merger-related costs incurred. Similar recovery treatment has been pursued successfully by other regulated utilities. As we account for our regulated operations in accordance with ASC Topic 980, "Regulated Operations," certain costs that would otherwise have been expensed by unregulated enterprises may be deferred to reflect the potential impact of the regulatory and rate-making actions. With regard to the $3.0 million in merger-related costs incurred in 2009, we deferred approximately $1.5 million as a regulatory asset, which represents our estimate, based on similar proceedings in Florida in the past, of the costs that we expect to be permitted to recover when we complete the appropriate rate proceedings.

During 2008, we incurred and expensed approximately $1.2 million in merger-related costs. These costs were related to our initial merger discussions with FPU, which were terminated in the second quarter of 2008.

Our operating income increased by $5.3 million in 2009 compared to 2008. Included in operating income for 2009 and 2008 are the $1.5 million and $1.2 million merger-related costs expensed in 2009 and 2008, respectively, which are included in the "Other" segments. Operating income from our regulated energy segment increased by $2.2 million in 2009. This increase is attributed to $3.0 million of FPU operating income for the period after the merger and an increase in operating income from the natural gas transmission operations through continued growth and new services. Offsetting those increases was a decrease in operating income from Chesapeake's Florida natural gas distribution operation as a result of lower-than-expected customer growth and loss of industrial customers. Operating income for our unregulated energy segment increased by $4.4 million, which includes $553,000 in operating income from FPU after the merger. The Delmarva propane distribution operation contributed most of the increase in operating income by this segment. Delmarva propane distribution operation recorded $1.8 million in unfavorable propane inventory and swap valuation adjustments in 2008, which did not recur in 2009. These adjustments to the inventory costs in late 2008 and relatively low propane prices during the first half of 2009 allowed the Delmarva propane distribution operation to maintain low propane inventory costs while sustaining its retail margins. Operating income for the "Other" segment decreased by $1.3 million, primarily due to lower operating results by the advanced information services operation and higher merger-related costs expensed in 2009. The operating results of the advanced information services operation continued to be negatively affected by the lower levels of information technology spending experienced in the economy at large.

During 2009, we recognized increased corporate overhead costs of $1.2 million compared to 2008, which were allocated to all of our segments. Payroll and benefits costs in corporate overhead increased by $961,000 and $225,000, respectively, due to higher incentive compensation based on improved operating results and increased costs associated with filling several key corporate positions in 2008 and 2009. Also contributing to the increase were additional costs associated with investor relations and financial reporting activities and increased pension costs as a result of a decline in the value of pension investments in late 2008.

An increase of $928,000 in interest charges in 2009 compared to 2008 partially offset the increased operating results. This increase reflects primarily the interest expense on FPU's long-term debt and customer deposits and the placement of the $30 million Unsecured Senior Notes in October 2008.

We continued to invest in property, plant and equipment in 2009 to support current and future growth opportunities, expending $26.3 million for such purposes.

2008 Compared to 2007

Our net income from continuing operations increased by $389,000 in 2008 compared to 2007. Net income from continuing operations was $13.6 million, or $1.98 per share (diluted), for 2008, compared to $13.2 million, or $1.94 per share (diluted), in 2007. Our 2008 results include a charge of $1.2 million for merger-related costs that were expensed in the second quarter of 2008 when our initial merger discussions with FPU were terminated. Absent the charge for the unconsummated acquisition, the Company estimates that period-over-period net income would have increased by $1.1 million in 2008 to $14.3 million, or $2.08 per share (diluted).

During 2007, we decided to close the distributed energy services company, Chesapeake OnSight Services, LLC ("OnSight"), which consistently experienced operating losses since 2004. The results of operations for OnSight were classified to discontinued operations and shown net of tax. The discontinued operations experienced a net loss of $20,000 for 2007.

Our operating income increased by $365,000 in 2008 compared to 2007, including $1.2 million in merger-related costs expensed in 2008, which are included in the "Other" segment. Operating income from recurring operations increased by $1.5 million in 2008 compared to 2007. Our regulated energy segment achieved an increase of $2.9 million in operating income from new services provided by the natural gas transmission operation, four-percent customer growth for Chesapeake's natural gas distribution operations and the successful completion of the Delaware rate proceedings. Our unregulated energy segment experienced a decrease in operating income of $1.4 million, primarily as a result of recording $1.8 million in unfavorable propane inventory and swap valuation adjustments for the Delmarva propane distribution operations in the second half of 2008. The propane inventory valuation adjustments were recorded to adjust the value of propane inventory and price swap agreements to current market prices as propane prices declined significantly during the second half of 2008. Operating income for the "Other" segment decreased by $1.2 million due to the merger-related costs.

During 2008, we experienced increased corporate overhead costs, which were allocated to all of our segments. The increase of $519,000 in corporate overhead costs in 2008 compared to 2007 resulted primarily from increased payroll and benefit costs of $132,000 and $83,000, respectively, as several key corporate positions that were vacant in 2007 were filled in 2008 and increased outside services of $263,000 were incurred primarily for consulting costs relating to an independent third-party compensation survey, strategic planning and growth initiatives.

A decrease of $432,000 in interest charges in 2008 compared to 2007 also contributed to the overall increase in net income in 2008. Even though banks were tightening their lending in response to the financial crisis, we were able to firm up our credit lines during this volatile period by increasing our total committed short-term borrowing capacity from $15.0 million to $55.0 million. In addition, on October 31, 2008, we executed a $30.0 million long-term debt placement of 5.93 percent Unsecured Senior Notes.

We continued to invest in property, plant and equipment in 2008 to support current and future growth opportunities, expending $30.8 million for such purposes.

Regulated Energy

For the Years Ended December 31,	2009	2008	Increase (decrease)	2008	2007	Increase (decrease)
(in thousands)						
Revenue	**$ 139,099**	$ 116,468	$ 22,631	$ 116,468	$ 128,850	$ (12,382)
Cost of sales	**64,803**	54,789	10,014	54,789	70,861	(16,072)
Gross margin	**74,296**	61,679	12,617	61,679	57,989	3,690
Operations & maintenance	**32,569**	25,369	7,200	25,369	25,061	308
Depreciation & amortization	**8,866**	6,694	2,172	6,694	6,918	(224)
Other taxes	**5,961**	4,883	1,078	4,883	4,201	682
Other operating expenses	**47,396**	36,946	10,450	36,946	36,180	766
Operating Income	**$ 26,900**	$ 24,733	$ 2,167	$ 24,733	$ 21,809	$ 2,924

Heating Degree-Day (HDD) and Customer Analysis

For the Years Ended December 31,	2009	2008	Increase (decrease)	2008	2007	Increase (decrease)
Heating degree-day data — Delmarva						
Actual HDD	**4,729**	4,431	298	4,431	4,504	(73)
10-year average HDD	**4,462**	4,401	61	4,401	4,376	25
Estimated gross margin per HDD	**$ 2,429**	$ 1,937	$ 492	$ 1,937	$ 1,937	$ 0
Estimated dollars per residential customer added:						
Gross margin	**$ 375**	$ 375	$ 0	$ 375	$ 372	$ 3
Other operating expenses	**$ 100**	$ 103	$ (3)	$ 103	$ 106	$ (3)
Average number of residential customers						
Delmarva	**46,717**	45,570	1,147	45,570	43,485	2,085
Florida	**13,268**	13,373	(105)	13,373	13,250	123
Total	**59,985**	58,943	1,042	58,943	56,735	2,208

2009 Compared to 2008

Operating income for the regulated energy segment increased by approximately $2.2 million, or nine percent, in 2009, compared to 2008, which was generated from a gross margin increase of $12.6 million, offset partially by an operating expense increase of $10.4 million.

Gross Margin

Gross margin for our regulated energy segment increased by $12.6 million, or 20 percent. FPU's natural gas and electric distribution operations had $9.2 million in gross margin for the period from the merger closing (October 28, 2009) to December 31, 2009, which contributed to this increase.

The natural gas distribution operations for the Delmarva Peninsula generated an increase in gross margin of $1.3 million in 2009. The factors contributing to this increase are as follows:

- Despite the continued slowdown in the new housing construction and industrial growth in the region, the Delmarva natural gas distribution operations experienced growth in residential, commercial, and industrial customers, which contributed $471,000, $149,000 and $589,000, respectively, to the gross margin increase. A two-percent residential customer growth experienced by the Delmarva natural gas distribution operation in 2009 was lower than the growth experienced in recent years and we expect that trend to continue in the near future.

- Colder weather on the Delmarva Peninsula contributed $449,000 to the increased gross margin, as heating degree days increased by 298, or seven percent, compared to 2008.

- The Delaware division's new rate structure allows collection of miscellaneous service fees of $256,000, which, although not representing additional revenue, had previously been offset against other operating expenses.
- Interruptible sales to industrial customers decreased in 2009 due to a reduction in the price of alternative fuels, which reduced gross margin by $355,000.
- Non-weather related customer consumption decreased in 2009, which reduced gross margin by $187,000. The decrease in consumption is a result of conservation primarily by residential customers.

Chesapeake's Florida natural gas distribution operation experienced a decrease in gross margin of $333,000, in 2009. This decrease was attributable to reduced consumption by residential and non-residential customers and loss of three industrial customers, one in 2008 and two in 2009, due to adverse economic conditions in the region. This decrease was partially offset by an increase to gross margin of $99,000 due to implementation of interim rates in the third quarter of 2009.

The natural gas transmission operations achieved gross margin growth of $2.5 million in 2009. The factors contributing to this increase are as follows:

- New long-term transmission services implemented by ESNG in November of 2008 and 2009, which provided for an additional 5,459 Mcfs per day and 3,976 Mcfs per day, respectively, added $939,000 to gross margin in 2009.
- New firm transmission services provided to an industrial customer for the period of February 6, 2009 through October 31, 2009, provided for an additional 6,957 Mcfs per day and added $574,000 to gross margin. In addition, ESNG entered into two additional firm transmission service agreements with this customer: (1) 6,006 Mcfs per day from November 1, 2009 through November 30, 2009, which added $56,000 to gross margin for 2009; and (2) 9,662 Mcfs per day from November 1, 2009 through October 31, 2012, which added $181,000 to gross margin in 2009 and will contribute $1.1 million in gross margin in 2010.
- In April 2009, ESNG changed its rates to recover specific project costs in accordance with the terms of precedent agreements with certain customers. These new rates generated $381,000 in gross margin for 2009 and will contribute $516,000 annually thereafter for a period of 20 years.
- During January 2009, PIPECO, our intra-state pipeline subsidiary in Florida, began to provide natural gas transmission service to a customer under a 20 year contract. This agreement contributed $264,000 to gross margin in 2009.

Other Operating Expenses

Other operating expenses for the regulated energy segment increased by $10.4 million, of which $6.2 million was related to other operating expenses of FPU for the period from the merger closing (October 28, 2009) to December 31, 2009. The remaining increase in other operating expenses is due primarily to the following factors:

- Depreciation expense, asset removal costs and property taxes, collectively, increased by approximately $1.4 million as a result of our continued capital investments to support customer growth. Depreciation expense for 2008 also includes a $305,000 depreciation credit as a result of the Delaware negotiated rate settlement agreement in the third quarter of 2008, of which $295,000 related to depreciation for the months of October through December 2007.
- Salaries and incentive compensation increased by $803,000, due primarily to compensation adjustments implemented on January 1, 2009 for non-executive employees, based on a compensation survey completed in the fourth quarter of 2008, and annual salary increases, coupled with a slight increase in the accrual for incentive compensation.
- The allowance for uncollectible accounts in the natural gas operation increased by $176,000 due to growth in customers and the general economic climate.
- Benefit costs increased by $373,000, due primarily to higher pension costs as a result of the decline in the value of pension assets in 2008 and other benefit costs relating to increased payroll costs.

- Increased information technology spending to continuously enhance our information technology infrastructure and level of support generated increased costs of $285,000.

- Corporate overhead allocated to the regulated energy segment increased by approximately $722,000 due to the factors previously discussed.

Other Developments

The following developments, which are not discussed above, may affect the future operating results of the regulated energy segment:

- ESNG received notice from a customer of its intention not to renew two firm transmission service contracts, one of which expired in October 2009 and the other is expiring in March 2010. If these contracts are not renewed, or equivalent firm service capacity is not contracted to other customers, gross margin could be reduced by approximately $427,000 in 2010. ESNG also received notice from a smaller customer that it does not intend to renew its firm transmission service contract, which expires in April 2010. Revenue from this contract provides annualized gross margin of approximately $54,000.

- In December 2009, the Florida PSC approved a permanent rate increase of approximately $2.5 million for Chesapeake's Florida natural gas distribution division, applicable to all meters read on or after January 14, 2010. Also in December 2009, FPU's natural gas distribution operation settled its request for a permanent rate increase, which was approved by the Florida PSC in May 2009; however, in June 2009, certain parts of the order were protested by the Office of Public Counsel. The settlement provides for an annual rate increase of approximately $8.0 million. As a result of the settlement, FPU refunded approximately $290,000 to its customers in February 2010, which represents revenues in excess of the amounts provided by the settlement agreement that had been billed to customers from June 4, 2009 to January 13, 2010.

- The Delaware division is currently involved in a regulatory proceeding regarding the price it charged for the temporary release of transmission pipeline capacity to our natural gas marketing subsidiary, PESCO. The Hearing Examiner recommended, among others, a refund to our Delaware firm customers, which could be up to approximately $700,000, exclusive of any interest, as of December 31, 2009. We disagree with the Hearing Examiner's recommendations and filed exceptions to those recommendations. We have not recorded a liability for this contingency based on our current assessment of the case. We anticipate a ruling by the Delaware PSC in March 2010. Item 8 under the heading, "Notes to the Consolidated Financial Statements – Note P, Other Commitments and Contingencies" provides further discussions on this matter.

2008 Compared to 2007

Operating income for the regulated energy segment increased by approximately $2.9 million in 2008 compared to 2007, which was attributable to a gross margin increase of $3.7 million, offset partially by an operating expense increase of $766,000.

Gross Margin

Gross margin for our regulated segment increased by $3.7 million, or six percent, of which $2.0 million was attributable to the natural gas distribution operations and $1.7 million to the natural gas transmission operation.

The Delmarva natural gas distribution operations generated an increase to gross margin of $1.8 million due to the following factors:

- The average number of residential customers on the Delmarva Peninsula increased by 2,085, or five percent, for 2008, and we estimate that these additional residential customers contributed approximately $850,000 to gross margin in 2008.

- Growth in commercial and industrial customers contributed $473,000 and $89,000, respectively, to gross margin in 2008.

- Interruptible services revenue, net of required margin-sharing, increased by $307,000 as customers took advantage of lower natural gas prices compared to prices for alternative fuels.

- We estimate that weather contributed $122,000 to gross margin, despite temperatures on the Delmarva Peninsula being two percent warmer in 2008, compared to 2007.

- Partially offsetting these increases to gross margin was the negative impact of lower consumption per customer in 2008 compared to 2007. We estimate that lower consumption per customer reduced gross margin by $118,000. The lower consumption reflects customer conservation efforts in light of higher energy costs, more energy-efficient housing, and current economic conditions.

Gross margin for the Florida natural gas distribution operation increased by $200,000 in 2008, compared to 2007. The higher gross margin for the period was attributable primarily to a one-percent growth in residential customers, an increase in non-residential customer volumes, and higher revenues from third-party natural gas marketers.

The natural gas transmission operation achieved gross margin growth of $1.7 million in 2008, $1.2 million of which was attributable to new transmission capacity contracts implemented in November 2007 and 2008. In addition, the implementation of rate case settlement rates, effective September 1, 2007, contributed an additional $439,000 to gross margin in 2008. The remaining $61,000 increase to gross margin was attributable primarily to higher interruptible sales revenue, net of required margin-sharing.

Other Operating Expenses

Other operating expenses for the regulated energy segment increased by approximately $766,000, due primarily to the following factors:

- Payroll and benefit costs increased by $486,000 and $152,000, respectively, reflecting annual compensation increases and increased staff to support compliance with new federal pipeline integrity regulations and to serve the additional growth.

- Depreciation expense and asset removal costs decreased by approximately $1.5 million, primarily as a result of our Delaware distribution operation's rate proceedings in 2008 and ESNG's rate settlement in September 2007, which provided for lower depreciation and asset removal cost allowances. Higher depreciation expense from the increased level of capital investment partially offset this decrease in 2008.

- Property taxes increased by approximately $609,000 due to the higher level of capital investment and adjusted property assessments by various jurisdictions.

- Vehicle-related costs increased by $132,000 due to higher fuel and depreciation charges.

- Information technology costs increased by approximately $517,000 as a result of higher spending to improve the infrastructure, including system performance, disaster recovery and support.

- Corporate overhead costs allocated to the regulated energy segment increased by approximately $385,000 as previously discussed.

Unregulated Energy

For the Years Ended December 31,	2009	2008	Increase (decrease)	2008	2007	Increase (decrease)
(in thousands)						
Revenue	**$ 119,973**	$ 161,290	$ (41,317)	$ 161,290	$ 115,190	$ 46,100
Cost of sales	**90,408**	138,302	(47,894)	138,302	91,727	46,575
Gross margin	**29,565**	22,988	6,577	22,988	23,463	(475)
Operations & maintenance	**18,016**	16,322	1,694	16,322	15,559	763
Depreciation & amortization	**2,415**	2,024	391	2,024	1,842	182
Other taxes	**976**	861	115	861	888	(27)
Other operating expenses	**21,407**	19,207	2,200	19,207	18,289	918
Operating Income	**$ 8,158**	$ 3,781	$ 4,377	$ 3,781	$ 5,174	$ (1,393)

Propane Heating Degree-Day (HDD) Analysis — Delmarva

For the Years Ended December 31,	2009	2008	Increase (decrease)	2008	2007	Increase (decrease)
Heating degree-days						
Actual	**4,729**	4,431	298	4,431	4,504	(73)
10-year average	**4,462**	4,401	61	4,401	4,376	25
Estimated gross margin per HDD	**$ 3,083**	$ 2,465	$ 618	$ 2,465	$ 1,974	$ 491

2009 compared to 2008

Operating income for the unregulated energy segment increased by approximately $4.4 million in 2009 compared to 2008, which was attributable to a gross margin increase of $6.6 million, offset partially by an operating expense increase of $2.2 million.

Gross Margin

Gross margin for our unregulated energy segment increased by $6.6 million, or 29 percent, in 2009 compared to 2008. FPU's propane distribution operation contributed $1.8 million to gross margin during the period from the merger closing (October 28, 2009) to December 31, 2009.

PESCO, our natural gas marketing operation, experienced an increase in gross margin of $1.0 million in 2009. PESCO increased its sales volume by 13 percent in 2009 compared to 2008, as it benefited from increased spot sale opportunities on the Delmarva Peninsula during 2009, which contributed significantly to the gross margin increase. Spot sales are opportunistic and unpredictable, and their future availability is highly dependent upon market conditions.

The propane distribution operation, excluding FPU, increased its gross margin by $4.8 million. The absence of inventory valuation adjustments in 2009 and lower propane costs, coupled with sustained retail prices, contributed $3.5 million of the gross margin increase. A sharp decline in propane prices in late 2008 resulted in a loss associated with the inventory and swap valuation adjustments of $1.8 million in 2008. These inventory adjustments in 2008 and relatively low propane prices during the first half of 2009 allowed the Delmarva propane distribution operation to keep its propane cost low. Colder weather on the Delmarva Peninsula in 2009 increased gross margin by $1.2 million, as temperatures were seven percent colder in 2009, compared to 2008. Gross margin for the Florida propane distribution operation in 2009 remained unchanged from 2008 as increased margins per retail gallon were offset by a decline in residential and non-residential consumption.

The propane wholesale marketing operation experienced a reduction in gross margin of $1.0 million in 2009. The propane wholesale marketing operation typically capitalizes on price volatility by selling at prices above cost and effectively managing the larger spreads between the market (spot) prices and forward prices. Overall lack of volatility in wholesale propane prices in 2009, compared to 2008, reduced such revenue opportunities and its trading volume by 57 percent.

Other Operating Expenses

Total other operating expenses for the unregulated energy segment increased by $2.2 million in 2009, of which $1.2 million was related to other operating expenses of FPU during the period from the merger closing (October 28, 2009) to December 31, 2009. The remaining increase in other operating expenses is due primarily to the following factors:

- Payroll costs increased by $301,000 in 2009 compared to 2008 due to annual salary increases.
- Benefit costs increased by $167,000, due primarily to increased pension costs in 2009 as a result of the decline in the value of pension plan assets.
- Depreciation expense increased by $249,000 as we continued to make capital investments in the propane distribution operations.
- Additional costs of approximately $115,000 were incurred in 2009 to maintain propane tanks in compliance with United States Department of Transportation standards.
- Corporate overhead allocated to the unregulated energy segment increased by approximately $568,000 as previously discussed.
- These increases were partially offset by lower vehicle-related costs of $176,000, primarily due to a decrease in the cost of fuel.

Other Developments

The following developments, which are not discussed above, may affect the future operating results of the unregulated energy segment:

- On November 20, 2009, Valero announced that it was permanently shutting down its refinery operation located in Delaware City, Delaware. During 2009, PESCO sold natural gas and services for $10.6 million to Valero. PESCO's natural gas sales to Valero were on a spot sale basis. PESCO's sale to Valero represented 19 percent of its total sales in 2009. Spot sales are not predictable, and therefore, are not included in our long-term financial plans or forecasts; nor do we anticipate sales to Valero in the future.
- In February 2010, Sharp, our Delmarva propane distribution subsidiary, purchased the operating assets of a regional propane distributor serving approximately 1,000 retail customers in Northampton and Accomack, Virginia.

2008 Compared to 2007

Operating income for the unregulated energy segment decreased by approximately $1.4 million, or 27 percent, in 2008 compared to 2007, which was attributable to a gross margin decline of $475,000 and an operating expense increase of $918,000.

Gross Margin

The period-over-period decrease in gross margin of $475,000, or two percent, for the unregulated energy segment was due to $2.9 million in decreased gross margin for the propane distribution operations, which was offset by the increase to gross margin of $901,000 for the propane wholesale marketing operation and $1.5 million for the natural gas marketing operation.

The Delmarva propane distribution operation's decrease in gross margin of $3.1 million resulted from the following:

- Gross margin decreased by $1.1 million in 2008, compared to 2007, primarily because of a $0.04 decrease in the average gross margin per retail gallon attributable to inventory write-downs of approximately $800,000 during 2008 in response to market prices below the Company's inventory price per gallon.

- Wholesale propane prices rose dramatically during the spring of 2008, when they traditionally fall. In efforts to protect the Company from the impact that additional price increases would have on our Pro-Cap (propane price cap) Plan, the propane distribution operation entered into a swap agreement. By the end of the period, the market price of propane had plummeted well below the unit price in the swap agreement. As a result, we marked the agreement relating to the January 2009 and February 2009 gallons to market, which increased cost of sales by $939,000 in 2008. In January 2009, we terminated this swap agreement.

- Non-weather-related volumes sold in 2008 decreased by 1.2 million gallons, or five percent. This decrease in gallons sold reduced gross margin by approximately $867,000 for the Delmarva propane distribution operation. Factors contributing to this decrease in gallons sold included customer conservation and the timing of propane deliveries.

- Margins per gallon on the Pro-Cap Plan for the last four months of 2008 recovered to a level just $113,000 below the prior year's levels, despite realizing a charge to cost of sales of $494,000 as the December gallons related to this plan were valued at current market prices.

- Temperatures on the Delmarva Peninsula were two percent warmer in 2008 compared to 2007, which contributed to a decrease of 248,000 gallons sold, or one percent. We estimated that the warmer weather and decreased volumes sold had a negative impact of approximately $180,000 on gross margin for the Delmarva propane distribution operation.

- Gross margin from miscellaneous fees, including items such as tank and meter rentals and marketing pricing programs, increased by $271,000.

The Florida propane distribution operation experienced an increase in gross margin of $181,000 in 2008, compared to 2007. The higher gross margin resulted from increases of four percent and 10 percent in the number of gallons sold to residential and commercial customers, respectively, combined with a higher average gross margin per retail gallon.

Gross margin for the propane wholesale marketing operation increased by $901,000 in 2008, compared to 2007. This increase reflects the operation capitalizing on a larger number of market opportunities that arose in 2008 due to price volatility in the propane wholesale market. This volatility created an opportunity for the operation to capture larger price-spreads between sales contracts and purchase contracts in addition to larger spreads between the market (spot) prices and forward propane prices.

Gross margin for the natural gas marketing operation increased by $1.5 million for 2008, compared to 2007. The increase in gross margin was due to enhanced sales contract terms, margins on spot sales of approximately $600,000 and 26-percent growth in its customer base. The increased customer base contributed to a 41-percent increase in volumes sold in 2008.

Other Operating Expenses

Other operating expenses for the unregulated energy segment increased by $918,000 due primarily to the following factors:

- Payroll and benefit costs decreased by $186,000, due primarily to lower accrual for incentive compensation as a result of lower operating results in 2008.

- Vehicle-related costs increased by $207,000 as a result of higher fuel costs and continued maintenance of our delivery trucks.

- Depreciation and amortization expense increased by $182,000 as a result of an increase in our capital investments, primarily in Community Gas Systems.

- The allowance for uncollectible accounts increased by $436,000 due to increased revenue.

- Maintenance expense decreased by $193,000, due primarily to additional costs in 2007 associated with propane tank recertifications and maintenance to comply with the Department of Transportation standards.

- Information technology costs increased by approximately $153,000 as a result of higher spending to improve the infrastructure, including system performance, disaster recovery and support.

- Corporate overhead costs increased by approximately $204,000 as previously discussed.

Other

For the Years Ended December 31, *(in thousands)*	2009	2008	Increase (decrease)	2008	2007	Increase (decrease)
Revenue	**$ 11,998**	$ 15,373	$ (3,375)	$ 15,373	$ 15,721	$ (348)
Cost of sales	**6,036**	8,034	(1,998)	8,034	8,260	(226)
Gross margin	**5,962**	7,339	(1,377)	7,339	7,461	(122)
Operations & maintenance	**4,859**	5,206	(347)	5,206	5,333	(127)
Transaction-related costs	**1,478**	1,153	325	1,153	—	1,153
Depreciation & amortization	**310**	290	20	290	304	(14)
Other taxes	**640**	728	(88)	728	697	31
Other operating expenses	**7,287**	7,377	(90)	7,377	6,334	1,043
Operating Income — Other	**(1,325)**	(38)	(1,287)	(38)	1,127	(1,165)
Operating Income — Eliminations	**3**	3	—	3	4	(1)
Operating Income	**$ (1,322)**	$ (35)	$ (1,287)	$ (35)	$ 1,131	$ (1,166)

2009 compared to 2008

Operating loss for the Other segment increased by approximately $1.3 million in 2009 compared to 2008. The increased loss was attributable primarily to the gross margin decrease of $1.4 million in the advanced information services operation.

Gross margin

The period-over-period decrease in gross margin for the "Other" segment was a result of a decrease in consulting revenues by the advanced information services operation due primarily to a 28-percent decrease in the number of billable consulting hours, coupled with a decline in training revenues. The reduction in the number of billable consulting hours is a result of current economic conditions in which information technology spending has not rebounded. The decrease in consulting revenues was partially offset with an increase of $218,000 from BravePoint's professional database monitoring and support solution services, and increased product sales of $140,000. While there have been some improvement in recent months, we do not expect customers' information technology spending to return to historical levels in the foreseeable future given the current economic climate.

Operating expenses

Other operating expenses decreased by $90,000 in 2009. The decrease in operating expenses was attributable primarily to the cost containment actions, including layoffs and compensation adjustments, implemented by the advanced information service operation in 2009 to reduce costs to offset the decline in revenues. This decrease was offset by the increased merger-related costs.

2008 Compared to 2007

Operating income for the "Other" segment decreased by approximately $1.2 million in 2008 compared to 2007, which was attributable to a gross margin decrease of $122,000 and an operating expense increase of $1.0 million.

Gross margin

Our advanced information services operation contributed most of the gross margin for the "Other" segment. Gross margin for our advanced services operation declined by approximately $152,000, which was attributable to a decrease of $610,000 in consulting revenues as higher average billing rates were not able to overcome a nine-percent decrease in the number of billable consulting hours. The reduction in the number of billable hours was a result of economic conditions in which information technology spending broadly declined. The decrease in consulting revenues was partially offset with increased product sales and training revenues of $403,000 and $47,000, respectively.

The increase in other operating expenses in 2008 was primarily related to $1.2 million in merger-related costs in 2008 that were expensed in the second quarter of 2008 when initial discussions with FPU regarding a potential merger were terminated. Other operating expenses for our advanced information services operation remained relatively unchanged in 2008 compared to 2007.

Other Income

Other income for 2009, 2008 and 2007 was $163,000, $103,000 and $291,000, respectively, which includes interest income, late fees charged to customers and gains or losses from the sale of assets.

Interest Expense

2009 Compared to 2008

Total interest expense for 2009 increased by approximately $928,000, or 15 percent, compared to 2008. Total interest expense for 2009 includes approximately $741,000 in FPU's interest expense for the period from the merger closing (October 28, 2009) to December 31, 2009, which is primarily related to $610,000 in interest on FPU's long-term debt and $115,000 in interest on customer deposits. FPU's weighted average interest rate was 7.41 percent for the period from the merger closing to December 31, 2009.

The remaining increase in interest expense in 2009 was attributable to the following factors:

- Excluding FPU's long-term debt, interest expense on long-term debt increased by $990,000 as our average long-term debt balance increased to $92.1 million in 2009 from $76.2 million in 2008. This increase was primarily related to the placement of $30.0 million of 5.93 percent Unsecured Senior Notes in October 2008. The weighted average interest rate on our long-term debt remained unchanged at 6.37 percent in 2009, compared to 6.40 percent in 2008.
- Interest expense in short-term borrowing decreased by $852,000 in 2009, compared to 2008, as our average short-term borrowing balance decreased to $13.0 million in 2009 from $38.3 million in 2008. The $30.0 million long-term placement in October 2008 contributed to this decrease as well as a decrease in working capital requirements in 2009, compared to 2008, due to lower capital expenditures, lower income tax payments from bonus depreciation, net tax operating losses carried forward from 2008 and lower commodity costs. The impact from these factors was offset slightly by the increased working capital needs as a result of the FPU merger. Also contributing to the decrease in interest expense in short-term borrowing was a decrease in the weighted average short-term interest rate to 1.28 percent in 2009 from 2.79 percent in 2008 as we continued to experience low interest rates throughout 2009.
- Other interest charges increased by $49,000.

In January 2010, we redeemed $28.7 million of the secured first mortgage bonds with a carrying value of $27.2 million to increase financial flexibility by reducing the amount of the FPU secured long-term debt and maintaining compliance with the covenants in our unsecured senior notes.

2008 Compared to 2007

Total interest expense for 2008 decreased by approximately $432,000, or seven percent, compared to 2007. The lower interest expense is primarily the result of the following:

- Interest on long-term debt decreased by $263,000 in 2008, compared to 2007, as we reduced our average long-term debt balance and weighted average interest rate. Our average long-term debt balance during 2008 was $76.2 million, with a weighted average interest rate of 6.40 percent, compared to $76.5 million, with a weighted average interest rate of 6.71 percent, for the same period in 2007.

- Other interest charges decreased by $127,000 as higher amounts of interest capitalized were partially offset by interest accrued on pending customer refunds.
- Interest on short-term borrowings decreased by $42,000 in 2008 compared to 2007, as the weighted average interest rate was nearly 2.7 percentage points lower in 2008 offsetting a $17.7 million increase in our average short-term borrowing balance. Our average short-term borrowing during 2008 was $38.3 million, with a weighted average interest rate of 2.79 percent, compared to $20.6 million, with a weighted average interest rate of 5.46 percent, for 2007.

Income Taxes

2009 Compared to 2008

Income tax expense was $10.9 million in 2009, compared to $8.8 million in 2008, representing an increase of $2.1 million. During 2009, we expensed approximately $871,000 in merger-related costs that were determined to be non-deductible for income tax purposes. Excluding the impact of these costs, our effective income tax rate for 2009 and 2008 remained primarily unchanged at 39.4 percent and 39.3 percent, respectively. The increase in income tax expense reflects the increased taxable income in 2009.

2008 Compared to 2007

Income tax expense was $8.8 million in 2008, compared to $8.6 million in 2007, representing an increase of $200,000. Our effective income tax rate for 2008 and 2007 remained primarily unchanged at 39.3 percent and 39.4 percent, respectively. The increase in income tax expense reflects the increased taxable income in 2008.

Discontinued Operations

During 2007, we decided to close the distributed energy services subsidiary, OnSight, which had experienced operating losses since its inception in 2004. The results of operations for OnSight have been reclassified to discontinued operations and shown net of tax for all periods presented. The discontinued operations experienced a net loss of $20,000 for 2007. We did not have any discontinued operations in 2008 and 2009.

(e) Liquidity and Capital Resources

Our capital requirements reflect the capital-intensive nature of our business and are principally attributable to investment in new plant and equipment and retirement of outstanding debt. We rely on cash generated from operations, short-term borrowing, and other sources to meet normal working capital requirements and to finance capital expenditures.

During 2009, net cash provided by operating activities was $45.8 million, cash used in investing activities was $23.1 million, and cash used in financing activities was $21.4 million. Cash provided during 2009 includes approximately $359,000 of net cash acquired in the merger with FPU.

During 2008, net cash provided by operating activities was $28.5 million, cash used by investing activities was $31.2 million, and cash provided by financing activities was $1.7 million.

During 2007, net cash provided by operating activities was $25.7 million, cash used by investing activities was $31.3 million, and cash provided by financing activities was $3.7 million.

As of December 31, 2009, we had four unsecured bank lines of credit with two financial institutions, for a total of $90.0 million, none of which requires compensating balances. In January 2010, the total unsecured bank lines of credit increased to $100.0 million, none of which requires compensating balances. These bank lines are available to provide funds for our short-term cash needs to meet seasonal working capital requirements and to fund temporarily portions of the capital expenditure program. We are currently authorized by our Board of Directors to borrow up to $85.0 million of short-term debt, as required, from these short-term lines of credit. In response to the instability and volatility of the financial markets during 2008, we solidified our lines of credit by converting $40.0 million of available credit under uncommitted lines to committed lines of credit. Currently, two of the bank lines, totaling $60.0 million, are committed. Advances offered under the uncommitted lines of credit are subject to the discretion of the banks. The outstanding balance of short-term borrowing at December 31, 2009 and 2008 was $30.0 million and $33.0 million, respectively. The level of short-term debt was reduced in late 2008 and throughout 2009 with funds provided from the placement of $30 million of 5.93 percent Unsecured Senior Notes in October 2008. This reduction was offset in late 2009 by the increased working capital requirements after the FPU merger.

We have budgeted $53.9 million for capital expenditures during 2010. This amount includes $49.2 million for the regulated energy segment, $3.3 million for the unregulated energy segment and $1.4 million for the "Other" segment. The amount for the regulated energy segment includes estimated capital expenditures for the following: natural gas distribution operation ($20.2 million), natural gas transmission operation ($25.4 million) and electric distribution operation ($3.6 million) for expansion and improvement of facilities. The amount for the unregulated energy segment includes estimated capital expenditures for the propane distribution operations for customer growth and replacement of equipment. The amount for the "Other" segment includes an estimated capital expenditure of $288,000 for the advanced information services operation with the remaining balance for other general plant, computer software and hardware. We expect to fund the 2010 capital expenditures program from short-term borrowing, cash provided by operating activities, and other sources. The capital expenditure program is subject to continuous review and modification. Actual capital requirements may vary from the above estimates due to a number of factors, including changing economic conditions, customer growth in existing areas, regulation, new growth or acquisition opportunities and availability of capital.

Capital Structure

In consummating the FPU merger, Chesapeake issued 2,487,910 shares of its common stock, valued at approximately $75.7 million, in exchange for all outstanding common stock of FPU. We also became subject to FPU's long-term debt of $47.8 million as a result of the merger. The following presents our capitalization as of December 31, 2009 and 2008:

(in thousands)	**December 31, 2009**		**December 31, 2008**	
Long-term debt, net of current maturities	**$ 98,814**	**32%**	$ 86,422	41%
Stockholders' equity	**209,781**	**68%**	123,073	59%
Total capitalization, excluding short-term debt	**$ 308,595**	**100%**	$ 209,495	100%

As of December 31, 2009, common equity represented 68 percent of total capitalization, compared to 59 percent at December 31, 2008. As of December 31, 2009, we classified as a current portion of long-term debt two series of FPU's secured first mortgage bonds in the amount of approximately $27.2 million because we redeemed them in January 2010 prior to their stated maturities in order to maintain increased financial flexibility and compliance with the covenants in our Unsecured Senior Notes. We used the short-term borrowing to finance the redemption of these bonds.

The following presents our capitalization as of December 31, 2009 and 2008, if short-term borrowing and the current portion of long-term debt were included in capitalization:

(in thousands)	December 31, 2009		December 31, 2008	
Short-term debt	$ 30,023	8%	$ 33,000	13%
Long-term debt, including current maturities	134,113	36%	93,078	38%
Stockholders' equity	209,781	56%	123,073	49%
Total capitalization, including short-term debt	$ 373,917	100%	$ 249,151	100%

Excluding $75.7 million of the value of Chesapeake's common stock issued in the merger and $47.8 million of FPU's long-term debt included in our Consolidated Balance Sheet at December 31, 2009, total capitalization increased by $1.3 million in 2009.

We remain committed to maintaining a sound capital structure and strong credit ratings to provide the financial flexibility needed to access capital markets when required. This commitment, along with adequate and timely rate relief for our regulated operations, is intended to ensure our ability to attract capital from outside sources at a reasonable cost. We believe that the achievement of these objectives will provide benefits to our customers, creditors and investors.

Cash Flows Provided by Operating Activities

Our cash flows provided by operating activities were as follows:

For the Years Ended December 31,	2009	2008	2007
(in thousands)			
Net income	$ 15,897	$ 13,607	$ 13,198
Non-cash adjustments to net income	28,319	22,919	15,829
Changes in assets and liabilities	1,593	(7,982)	(3,346)
Net cash from operating activities	$ 45,809	$ 28,544	$ 25,681

Period-over-period changes in our cash flows from operating activities are attributable primarily to changes in net income, depreciation, deferred taxes and working capital. Changes in working capital are determined by a variety of factors, including weather, the prices of natural gas, electricity and propane, the timing of customer collections, payments for purchases of natural gas, electricity and propane, and deferred fuel cost recoveries.

We generate a large portion of our annual net income and subsequent increases in our accounts receivable in the first and fourth quarters of each year due to significant volumes of natural gas and propane delivered by our natural gas and propane distribution operations to customers during the peak heating season. In addition, our natural gas and propane inventories, which usually peak in the fall months, are largely drawn down in the heating season and provide a source of cash as the inventory is used to satisfy winter sales demand.

In 2009, our net cash flow provided by operating activities was $45.8 million, an increase of $17.3 million compared to 2008. This increase includes $4.7 million in net cash flow provided by the operating activities of FPU after the merger. The remaining increase was due primarily to the following:

- Net cash flows from the change in income taxes receivable and non-cash adjustments for deferred income taxes were related to continued higher tax deductions provided by bonus depreciation, which resulted in net federal income tax refunds received in 2009 and continued to create higher book-to-tax timing differences;
- Net cash flows from changes in accounts receivable and accounts payable were due primarily to the timing of collections and payments of trading contracts entered into by our propane wholesale marketing operation; and
- Net cash flows from the increase in regulatory liabilities were due primarily to higher over-collection of purchased gas costs by our Delmarva natural gas distribution operation.

In 2008, our net cash flow provided by operating activities was $28.5 million, an increase of $2.9 million compared to 2007. The increase was due primarily to the following:

- Net cash flows from changes in accounts receivable and accounts payable were due primarily to the timing of collections and payments of trading contracts entered into by our propane wholesale and marketing operation;
- Timing of payments for the purchase of propane inventory, natural gas purchases injected into storage, and the relative decline in the unit price of these commodities;
- Reduction in regulatory liabilities, which resulted primarily from lower deferred gas cost recoveries in our natural gas distribution operations as the price of natural gas declined in the second half of 2008;
- Reduced payments for income taxes payable as a result of higher tax deductions provided by the 2008 Economic Stimulus Act; and
- Cash flows provided by non-cash adjustments for deferred income taxes. The increase in deferred income taxes is the result of higher book-to-tax timing differences during the period that were generated by the Economic Stimulus Act, which authorized bonus depreciation for certain assets.

Cash Flows Used in Investing Activities

In 2009, net cash flows used by investing activities totaled $23.1 million, a decrease of $8.1 million compared to 2008. In 2008, net cash flows used by investing activities totaled $31.2 million, which remained relatively unchanged from net cash flows used by investing activities of $31.3 million in 2007.

- We acquired $359,000 in cash, net of cash paid, in the merger with FPU in 2009.
- We received $3.5 million in proceeds from an investment account related to future environmental costs, which was previously included as a non-current investment, as we transferred the amount to our general account that invests in overnight income-producing securities. Our general account is considered cash equivalent.
- Cash utilized for capital expenditures was $26.6 million, $30.8 million and $31.3 million for 2009, 2008, and 2007, respectively.
- Environmental expenditures exceeded amounts recovered through rates charged to customers in 2009, 2008 and 2007 by $418,000, $480,000 and $228,000, respectively.
- Sales of property, plant, and equipment generated $205,000 of cash in 2007.

Cash Flows Provided by Financing Activities

In 2009, net cash flows used by financing activities totaled $21.4 million, compared to net cash flow provided by financing activities of $1.7 million and $3.7 million in 2008 and 2007, respectively. Significant financing activities included the following:

- During 2009 and 2008, we reduced our short-term debt by $3.8 million and $12.0 million, respectively. During 2007, net borrowing of short-term debt increased by $18.7 million, primarily to support our capital investments.
- In October 2008, we completed the placement of $30.0 million of 5.93 percent Unsecured Senior Notes.
- We repaid $10.9 million of long-term debt during 2009, compared to $7.7 million of long-term debt repaid during each of 2008 and 2007.
- We paid $8.0 million, $7.8 million and $7.0 million in cash dividends in 2009, 2008 and 2007, respectively. An increase in cash dividends paid in each year reflects the growth in the annualized dividend rate.

Contractual Obligations

We have the following contractual obligations and other commercial commitments as of December 31, 2009:

	Payments Due by Period				
Contractual Obligations	**Less than 1 year**	**1 - 3 years**	**3 - 5 years**	**More than 5 years**	**Total**
(in thousands)					
Long-term debt [1]	$ 36,765	$ 17,293	$ 20,793	$ 60,818	$ 135,669
Operating leases [2]	866	1,449	865	2,031	5,211
Purchase obligations [3]					
Transmission capacity	11,133	38,589	20,447	63,028	133,197
Storage — Natural Gas	530	6,600	2,001	968	10,099
Commodities	54,802	341	—	—	55,143
Electric supply	574	1,149	1,149	2,298	5,170
Forward purchase contracts — Propane [4]	12,570	—	—	—	12,570
Other	1,557	16	—	—	1,573
Unfunded benefits [5]	371	1,504	847	4,926	7,648
Funded benefits [6]	2,090	79	670	1,170	4,009
Total Contractual Obligations	**$ 121,258**	**$ 67,020**	**$ 46,772**	**$ 135,239**	**$ 370,289**

(1) Principal payments on long-term debt, see Item 8 under the heading "Notes to the Consolidated Financial Statements — Note J, Long-Term Debt", for additional discussion of this item. The expected interest payments on long-term debt are $7.5 million, $12.6 million, $10.1 million and $17.3 million, respectively, for the periods indicated above. Expected interest payments for all periods total $47.6 million.

(2) See Item 8 under the heading "Notes to the Consolidated Financial Statements — Note L, Lease Obligations," for additional discussion of this item.

(3) See Item 8 under the heading "Notes to the Consolidated Financial statement — Note P, Other Commitments and Contingencies," in the Notes to the Consolidated Financial Statements for further information.

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

(5) We have recorded long-term liabilities of $7.6 million at December 31, 2009 for unfunded post-employment and post-retirement benefit plans. The amounts specified in the table are based on expected payments to current retirees and assumes a retirement age of 62 for currently active employees. There are many factors that would cause actual payments to differ from these amounts, including early retirement, future health care costs that differ from past experience and discount rates implicit in calculations.

(6) We have recorded long-term liabilities of $12.7 million at December 31, 2009 for two qualified, defined benefit pension plans. The assets funding these plans are in a separate trust and are not considered assets of the Company or included in the Company's balance sheets. The Contractual Obligations table above includes $2.0 million, reflecting the expected payments the Company will make to the trust funds in 2010. Additional contributions may be required in future years based on the actual return earned by the plan assets and other actuarial assumptions, such as the discount rate and long-term expected rate of return on plan assets. See Item 8 under the heading "Notes to the Consolidated Financial Statements — Note M, Employee Benefit Plans," for further information on the plans. Additionally, the Contractual Obligations table includes

deferred compensation obligations totaling $2.0 million funded with Rabbi Trust assets in the same amount. The Rabbi Trust assets are recorded under Investments on the Balance Sheet. We assume a retirement age of 65 for purposes of distribution from this account.

Off-Balance Sheet Arrangements

We have issued corporate guarantees to certain vendors of our subsidiaries, primarily the propane wholesale marketing subsidiary and the natural gas marketing subsidiary. These corporate guarantees provide for the payment of propane and natural gas purchases in the event of the respective subsidiary's default. None of these subsidiaries has ever defaulted on its obligations to pay its suppliers. The liabilities for these purchases are recorded in the Consolidated Financial Statements when incurred. The aggregate amount guaranteed at December 31, 2009 was $22.7 million, with the guarantees expiring on various dates in 2010.

In addition to the corporate guarantees, we have issued a letter of credit to our primary insurance company for $725,000, which expires on August 31, 2010. The letter of credit is provided as security to satisfy the deductibles under our various insurance policies. There have been no draws on this letter of credit as of December 31, 2009.

(f) Rate Filings and Other Regulatory Activities

Our natural gas distribution operations in Delaware, Maryland and Florida and electric distribution operation in Florida are subject to regulation by their respective PSC; ESNG is subject to regulation by the FERC; and PIPECO is subject to regulation by the Florida PSC. At December 31, 2009, Chesapeake was involved in rate filings and/or regulatory matters in each of the jurisdictions in which it operates. Each of these rate filings or regulatory matters is fully described in Item 8 under the heading "Notes to the Consolidated Financial Statements – Note P, Other Commitments and Contingencies."

(g) Environmental Matters

We continue to work with federal and state environmental agencies to assess the environmental impact and explore corrective action at seven environmental sites (see Item 8 under the heading "Notes to the Consolidated Financial Statements – Note O, Environmental Commitments and Contingencies" for further detail on each site). We believe that future costs associated with these sites will be recoverable in rates or through sharing arrangements with, or contributions by, other responsible parties.

(h) 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 changes in interest rates. Our long-term debt consists of fixed-rate senior notes, secured debt and convertible debentures (see Item 8 under the heading "Notes to the Consolidated Financial Statements — Note J, Long-term Debt" for annual maturities of consolidated long-term debt). All of our long-term debt is fixed-rate debt and was not entered into for trading purposes. The carrying value of long-term debt, including current maturities, was $134.1 million at December 31, 2009, as compared to a fair value of $145.5 million, based on a discounted cash flow methodology that incorporates a market interest rate that is based on published corporate borrowing rates for debt instruments with similar terms and average maturities with adjustments for duration, optionality, credit risk, and risk profile. We evaluate whether to refinance existing debt or permanently refinance existing short-term borrowing, based in part on the fluctuation in interest rates.

Our propane distribution business is exposed to market risk as a result of propane storage activities and entering into fixed price contracts for supply. We can store up to approximately four million gallons (including leased storage and rail cars) of propane during the winter season to meet our customers' peak requirements and to serve metered customers. Decreases in the wholesale price of propane may cause the value of stored propane to decline. To mitigate the impact of price fluctuations, we have adopted a Risk Management Policy that allows the propane distribution operation to enter into fair value hedges or other economic hedges of our inventory.

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

The forward and futures contracts are entered into for trading and wholesale marketing purposes. The propane wholesale marketing business is subject to commodity price risk on its open positions to the extent that market prices for natural gas liquids deviate from fixed contract settlement prices. Market risk associated with the trading of futures and forward contracts is monitored daily for compliance with our 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 daily by our oversight officials. In addition, the Risk Management Committee reviews periodic reports on markets and the credit risk of counter-parties, 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 December 31, 2009 and 2008 is presented in the following tables.

At December 31, 2009	Quantity in gallons	Estimated Market Prices	Weighted Average Contract Prices
Forward Contracts			
Sale	11,944,800	$0.6900 — $1.3350	$ 1.1264
Purchase	11,256,000	$0.7275 — $1.3350	$ 1.1367
Other Contract			
Put option	1,260,000	$—	$ 0.1500

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

All contracts expire in the first quarter of 2010.

At December 31, 2008	Quantity in gallons	Estimated Market Prices	Weighted Average Contract Prices
Forward Contracts			
Sale	10,626,000	$0.5450 — $1.9100	$ 0.9984
Purchase	9,949,800	$0.7000 — $1.9600	$ 1.0233

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

All contracts expired in 2009.

At December 31, 2009 and 2008, we marked these forward and other contracts to market, using market transactions in either the listed or OTC markets, which resulted in the following assets and liabilities:

(in thousands)	December 31, 2009	December 31, 2008
Mark-to-market energy assets	**$ 2,379**	$ 4,482
Mark-to-market energy liabilities	**$ 2,514**	$ 3,052

Our natural gas distribution, electric distribution and natural gas marketing operations have entered into agreements with natural gas and electricity suppliers to purchase natural gas and electricity for resale to their customers. Purchases under these contracts either do not meet the definition of derivatives or are considered "normal purchases and sales" and are accounted for on an accrual basis.

(i) Competition

Our natural gas and electric distribution operations and our natural gas transmission operation compete with other forms of energy including natural gas, electricity, oil and propane. The principal competitive factors are price and, to a lesser extent, accessibility. Our natural gas distribution operations have several large-volume industrial customers that are able to use fuel oil as an alternative to natural gas. When oil prices decline, these interruptible customers may convert to oil to satisfy their fuel requirements, and our interruptible sales volumes may decline. Oil prices, as well as the prices of other fuels, fluctuate for a variety of reasons; therefore, future competitive conditions are not predictable. To address this uncertainty, we use flexible pricing arrangements on both the supply and sales sides of this business to compete with alternative fuel price fluctuations. As a result of the transmission operation's conversion to open access and Chesapeake's Florida natural gas distribution division's restructuring of its services, these businesses have shifted from providing bundled transportation and sales service to providing only transmission and contract storage services. Our electric distribution operation currently does not face substantial competition as the electric utility industry in Florida has not been deregulated. In addition, natural gas is the only viable alternative fuel to electricity in our electric service territories and is available only in a small area.

Our natural gas distribution operations in Delaware, Maryland and Florida offer unbundled transportation services to certain commercial and industrial customers. In 2002, Chesapeake's Florida natural gas distribution division extended such service to residential customers. With such transportation service available on our distribution systems, we are competing with third-party suppliers to sell gas to industrial customers. With respect to unbundled transportation services, our competitors include interstate transmission companies, if the distribution customers are located close enough to a transmission company's pipeline to make connections economically feasible. The customers at risk are usually large volume commercial and industrial customers with the financial resources and capability to bypass our existing distribution operations in this manner. In certain situations, our distribution operations may adjust services and rates for these customers to retain their business. We expect to continue to expand the availability of unbundled transportation service to additional classes of distribution customers in the future. We have also established a natural gas marketing operation in Florida, Delaware and Maryland to provide such service to customers eligible for unbundled transportation services.

Our propane distribution operations compete with several other propane distributors in their respective geographic markets, primarily on the basis of service and price, emphasizing responsive and reliable service. Our competitors generally include local outlets of national distributors and local independent distributors, whose proximity to customers entails lower costs to provide service. Propane competes with electricity as an energy source, because it is typically less expensive than electricity, based on equivalent BTU value. Propane also competes with home heating oil as an energy source. Since natural gas has historically been less expensive than propane, propane is generally not distributed in geographic areas served by natural gas pipeline or distribution systems.

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

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

(j) Inflation

Inflation affects the cost of supply, labor, products and services required for operations, 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. In the regulated natural gas and electric distribution operations, fluctuations in natural gas and electricity prices are passed on to customers through the fuel cost recovery mechanism in our tariffs. To help cope with the effects of inflation on our capital investments and returns, we seek rate increases from regulatory commissions for our regulated operations and closely monitor the returns of our unregulated business operations. To compensate for fluctuations in propane gas prices, we adjust propane selling prices to the extent allowed by the market.

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 SUPPLEMENTARY DATA.

Management's Report on Internal Control Over Financial Reporting

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

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

On October 28, 2009, the previously announced merger between Chesapeake and FPU was consummated. Chesapeake is in the process of integrating FPU's operations and has not included FPU's activity in its evaluation of internal control over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act of 2002. See "Notes to the Consolidated Financial Statements — Note B, Acquisitions and Dispositions" for additional information relating to the FPU merger. FPU's operations constituted approximately 30 percent of total assets (excluding goodwill and other intangible assets) as of December 31, 2009, and 10 percent of operating revenues for the year then ended. FPU's operations will be included in Chesapeake's assessment as of December 31, 2010.

Chesapeake's management has evaluated and concluded that Chesapeake's internal control over financial reporting was effective as of December 31, 2009.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and
Stockholders of Chesapeake Utilities Corporation

We have audited the accompanying consolidated balance sheets of Chesapeake Utilities Corporation as of December 31, 2009 and 2008, and the related consolidated statements of income, stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2009. Chesapeake Utilities Corporation's management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Chesapeake Utilities Corporation as of December 31, 2009 and 2008, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2009 in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Chesapeake Utilities Corporation's internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 8, 2010 expressed an unqualified opinion.

/s/ ParenteBeard LLC

ParenteBeard LLC
Malvern, Pennsylvania
March 8, 2010

Consolidated Statements of Income

For the Years Ended December 31,	2009	2008	2007
(in thousands, except shares and per share data)			
Operating Revenues			
Regulated Energy	$ 139,099	$ 116,468	$ 128,850
Unregulated Energy	119,973	161,290	115,190
Other	9,713	13,685	14,246
Total operating revenues	268,785	291,443	258,286
Operating Expenses			
Regulated energy cost of sales	64,803	54,789	70,861
Unregulated energy cost of sales	95,467	145,854	99,987
Operations	50,706	43,476	42,243
Transaction-related costs	1,478	1,153	—
Maintenance	3,430	2,215	2,236
Depreciation and amortization	11,588	9,005	9,060
Other taxes	7,577	6,472	5,785
Total operating expenses	235,049	262,964	230,172
Operating Income	33,736	28,479	28,114
Other income, net of other expenses	165	103	291
Interest charges	7,086	6,158	6,590
Income Before Income Taxes	26,815	22,424	21,815
Income taxes	10,918	8,817	8,597
Net Income from continuing operations	15,897	13,607	13,218
Loss from discontinued operations, net of tax benefit of $0, $0 and $11	—	—	(20)
Net Income	$ 15,897	$ 13,607	$ 13,198
Weighted Average Common Shares Outstanding:			
Basic	7,313,320	6,811,848	6,743,041
Diluted	7,440,201	6,927,483	6,854,716
Earnings Per Share of Common Stock:			
Basic			
From continuing operations	$ 2.17	$ 2.00	$ 1.96
From discontinued operations	—	—	—
Net Income	$ 2.17	$ 2.00	$ 1.96
Diluted			
From continuing operations	$ 2.15	$ 1.98	$ 1.94
From discontinued operations	—	—	—
Net Income	$ 2.15	$ 1.98	$ 1.94
Cash Dividends Declared Per Share of Common Stock	$ 1.250	$ 1.210	$ 1.175

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

Consolidated Statements of Cash Flows

For the Years Ended December 31, *(in thousands)*	2009	2008	2007
Operating Activities			
Net Income	$ **15,897**	$ 13,607	$ 13,198
Adjustments to reconcile net income to net operating cash:			
Depreciation and amortization	**11,588**	9,005	9,060
Depreciation and accretion included in other costs	**2,789**	2,239	3,337
Deferred income taxes, net	**10,065**	11,442	1,831
Gain on sale of assets	—	—	(205)
Unrealized (gain) loss on commodity contracts	**1,606**	(1,252)	(65)
Unrealized (gain) loss on investments	**(212)**	509	(123)
Employee benefits and compensation	**1,217**	152	1,004
Share based compensation	**1,306**	820	990
Other, net	**(40)**	4	—
Changes in assets and liabilities:			
Sale (purchase) of investments	**(146)**	(201)	229
Accounts receivable and accrued revenue	**(13,652)**	19,411	(28,189)
Propane inventory, storage gas and other inventory	**2,597**	(1,730)	1,193
Regulatory assets	**(1,842)**	411	(345)
Prepaid expenses and other current assets	**(747)**	(1,182)	(1,186)
Other deferred charges	**(83)**	(153)	(2,478)
Long-term receivables	**191**	207	84
Accounts payable and other accrued liabilities	**10,185**	(15,033)	22,024
Income taxes receivable	**5,020**	(6,155)	(159)
Accrued interest	**66**	158	33
Customer deposits and refunds	**(75)**	(502)	2,535
Accrued compensation	**(2,066)**	(175)	946
Regulatory liabilities	**1,071**	(3,107)	2,124
Other liabilities	**1,074**	69	(157)
Net cash provided by operating activities	**45,809**	28,544	25,681
Investing Activities			
Property, plant and equipment expenditures	**(26,603)**	(30,756)	(31,277)
Proceeds from sale of assets	—	—	205
Proceeds from investments	**3,519**	—	—
Cash acquired in the merger, net of cash paid	**359**	—	—
Environmental expenditures	**(418)**	(480)	(228)
Net cash used by investing activities	**(23,143)**	(31,236)	(31,300)
Financing Activities			
Common stock dividends	**(7,957)**	(7,810)	(7,030)
Issuance of stock for Dividend Reinvestment Plan	**392**	(118)	299
Change in cash overdrafts due to outstanding checks	**835**	(684)	(541)
Net borrowing (repayment) under line of credit agreements	**(3,812)**	(11,980)	18,651
Proceeds from issuance of long-term debt	—	29,961	—
Repayment of long-term debt	**(10,907)**	(7,658)	(7,656)
Net cash provided by (used in) financing activities	**(21,449)**	1,711	3,723
Net Increase (Decrease) in Cash and Cash Equivalents	**1,217**	(981)	(1,896)
Cash and Cash Equivalents — Beginning of Period	**1,611**	2,592	4,488
Cash and Cash Equivalents — End of Period	$ **2,828**	$ 1,611	$ 2,592

Supplemental Cash Flow Disclosures (see Note D)

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

Consolidated Balance Sheets

Assets	December 31, 2009	December 31, 2008
(in thousands, except shares and per share data)		
Property, Plant and Equipment		
Regulated energy	$ 463,856	$ 316,125
Unregulated energy	61,360	51,827
Other	16,054	12,255
Total property, plant and equipment	541,270	380,207
Less: Accumulated depreciation and amortization	(107,318)	(101,018)
Plus: Construction work in progress	2,476	1,482
Net property, plant and equipment	436,428	280,671
Investments	1,959	1,601
Current Assets		
Cash and cash equivalents	2,828	1,611
Accounts receivable (less allowance for uncollectible accounts of $1,609 and $1,159, respectively)	70,029	52,905
Accrued revenue	12,838	5,168
Propane inventory, at average cost	7,901	5,711
Other inventory, at average cost	3,149	1,479
Regulatory assets	1,205	826
Storage gas prepayments	6,144	9,492
Income taxes receivable	2,614	7,443
Deferred income taxes	1,498	1,578
Prepaid expenses	5,843	4,679
Mark-to-market energy assets	2,379	4,482
Other current assets	147	147
Total current assets	116,575	95,521
Deferred Charges and Other Assets		
Goodwill	34,095	674
Other intangible assets, net	3,951	164
Long-term receivables	343	533
Regulatory assets	19,860	2,806
Other deferred charges	3,891	3,825
Total deferred charges and other assets	62,140	8,002
Total Assets	$ 617,102	$ 385,795

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

Consolidated Balance Sheets

Capitalization and Liabilities	**December 31, 2009**	**December 31, 2008**
(in thousands, except shares and per share data)		
Capitalization		
Stockholders' equity		
Common stock, par value $0.4867 per share (authorized 12,000,000 shares)	$ 4,572	$ 3,323
Additional paid-in capital	144,502	66,681
Retained earnings	63,231	56,817
Accumulated other comprehensive loss	(2,524)	(3,748)
Deferred compensation obligation	739	1,549
Treasury stock	(739)	(1,549)
Total stockholders' equity	209,781	123,073
Long-term debt, net of current maturities	98,814	86,422
Total capitalization	308,595	209,495
Current Liabilities		
Current portion of long-term debt	35,299	6,656
Short-term borrowing	30,023	33,000
Accounts payable	51,948	40,202
Customer deposits and refunds	24,960	9,534
Accrued interest	1,887	1,024
Dividends payable	2,959	2,082
Accrued compensation	3,445	3,305
Regulatory liabilities	8,882	3,227
Mark-to-market energy liabilities	2,514	3,052
Other accrued liabilities	8,683	2,970
Total current liabilities	170,600	105,052
Deferred Credits and Other Liabilities		
Deferred income taxes	66,923	37,720
Deferred investment tax credits	193	235
Regulatory liabilities	4,154	875
Environmental liabilities	11,104	511
Other pension and benefit costs	17,505	7,335
Accrued asset removal cost — Regulatory liability	33,214	20,641
Other liabilities	4,814	3,931
Total deferred credits and other liabilities	137,907	71,248
Other commitments and contingencies (Note P)		
Total Capitalization and Liabilities	$ 617,102	$ 385,795

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

Consolidated Statements of Stockholders' Equity

(in thousands, except per share and share data)	Common Stock: Number of Shares [7]	Common Stock: Par Value	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Deferred Compensation	Treasury Stock	Total
Balances at December 31, 2006	**6,688,084**	**$ 3,255**	**$ 61,960**	**$ 46,271**	**$ (334)**	**$ 1,119**	**$ (1,119)**	**$111,152**
Net Income				13,198				13,198
Other comprehensive income, net of tax:								
Employee Benefit Plans, net of tax:								
Amortization of prior service costs [4]					(3)			(3)
Net loss [5]					(515)			(515)
Total comprehensive income								12,680
Dividend Reinvestment Plan	35,333	17	1,121					1,138
Retirement Savings Plan	29,563	14	935					949
Conversion of debentures	8,106	4	135					139
Share based compensation [1] [3]	16,324	8	1,442					1,450
Deferred Compensation Plan						285	(285)	—
Purchase of treasury stock	(971)						(30)	(30)
Sale and distribution of treasury stock	971						30	30
Cash dividends [2]				(7,931)				(7,931)
Balances at December 31, 2007	**6,777,410**	**3,298**	**65,593**	**51,538**	**(852)**	**1,404**	**(1,404)**	**119,577**
Net Income				13,607				13,607
Other comprehensive income, net of tax:								
Employee Benefit Plans, net of tax:								
Amortization of prior service costs [4]					(71)			(71)
Net loss [5]					(2,825)			(2,825)
Total comprehensive income								10,711
Dividend Reinvestment Plan	9,060	5	269					274
Retirement Savings Plan	5,260	3	156					159
Conversion of debentures	10,397	5	171					176
Share based compensation [1] [3]	24,994	12	442					454
Tax benefit on stock warrants			50					50
Deferred Compensation Plan						145	(145)	—
Purchase of treasury stock	(2,425)						(72)	(72)
Sale and distribution of treasury stock	2,425						72	72
Dividends on stock-based compensation				(81)				(81)
Cash dividends [2]				(8,247)				(8,247)
Balances at December 31, 2008	**6,827,121**	**3,323**	**66,681**	**56,817**	**(3,748)**	**1,549**	**(1,549)**	**123,073**
Net Income				15,897				15,897
Other comprehensive income, net of tax:								
Employee Benefit Plans, net of tax:								
Amortization of prior service costs [4]					7			7
Net Gain [5]					1,217			1,217
Total comprehensive income								17,121
Dividend Reinvestment Plan	31,607	15	921					936
Retirement Savings Plan	32,375	16	966					982
Conversion of debentures	7,927	4	131					135
Share based compensation [1] [3]	7,374	3	1,332					1,335
Deferred Compensation Plan [6]						(810)	810	—
Purchase of treasury stock	(2,411)						(73)	(73)
Sale and distribution of treasury stock	2,411						73	73
Common stock issued in the merger	2,487,910	1,211	74,471					75,682
Dividends on stock-based compensation				(104)				(104)
Cash dividends [2]				(9,379)				(9,379)
Balances at December 31, 2009	**9,394,314**	**$ 4,572**	**$ 144,502**	**$ 63,231**	**$ (2,524)**	**$ 739**	**$ (739)**	**$209,781**

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

(2) Cash dividends per share for the periods ended December 31, 2009, 2008 and 2007 were $1.250, $1.210 and $1.175 respectively.

(3) The shares issued under the Performance Incentive Plan ("PIP") are net of shares withheld for employee taxes. For 2008 and 2007, the Company withheld 12,511 and 2,420 respectively shares for taxes. The Company did not issue any shares for the PIP in 2009.

(4) Tax expense (benefit) recognized on the prior service cost component of employees benefit plans for the periods ended December 31, 2009, 2008 and 2007 were approximately $5, ($52) and ($2) respectively.

(5) Tax expense (benefit) recognized on the net gain (loss) component of employees benefit plans for the periods ended December 31, 2009, 2008 and 2007 were $794, ($1,900) and ($340) respectively.

(6) In May and November 2009, certain participants of the Deferred Compensation Plan received distributions totaling $883. There were no distributions in 2008 and 2007.

(7) Includes 28,452, 62,221 and 57, 309 shares at December 31, 2009, 2008 and 2007, respectively, held in a Rabbi Trust established by the Company relating to the Deferred Compensation Plan.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

A. SUMMARY OF ACCOUNTING POLICIES

Nature of Business

Chesapeake, incorporated in 1947 in Delaware, is a diversified utility company engaged in regulated energy, unregulated energy and other unregulated businesses. On October 28, 2009, we completed a merger with FPU, pursuant to which FPU became a wholly-owned subsidiary of Chesapeake. Our regulated energy business delivers natural gas to approximately 118,000 customers located in central and southern Delaware, Maryland's Eastern Shore and Florida and electricity to approximately 31,000 customers in northeast and northwest Florida. Our regulated energy business also provides natural gas transmission service primarily through a 384-mile interstate pipeline from various points in Pennsylvania and northern Delaware to our natural gas distribution affiliates in Delaware and Maryland as well as to other utility and industrial customers in Pennsylvania, Delaware and the Eastern Shore of Maryland.

Our unregulated energy business includes natural gas marketing, propane distribution and propane wholesale marketing operations. The natural gas marketing operation sells natural gas supplies directly to commercial and industrial customers in Florida, Delaware and Maryland. The propane distribution operation provides distribution service to 49,000 customers in Delaware, the Eastern Shore of Maryland and Virginia, southeastern Pennsylvania and Florida. The propane wholesale marketing operation markets propane to wholesale customers including large independent oil and petrochemical companies, resellers and propane distribution companies in the southeastern United States.

We also engage in non-energy businesses, primarily through our advanced information services subsidiary, which provides information-technology-related business services and solutions for both enterprise and e-business applications.

Principles of Consolidation

The Consolidated Financial Statements include the accounts of the Company and its wholly-owned subsidiaries. As a result of the merger with FPU on October 28, 2009, FPU's financial position, results of operations and cash flows have been consolidated into our results from the effective date of the merger. We do not have any ownership interests in investments accounted for using the equity method or any variable interests in a variable interest entity. All intercompany transactions have been eliminated in consolidation.

System of Accounts

Our natural gas and electric distribution operations in Delaware, Maryland and Florida are subject to regulation by their respective PSC with respect to their rates for service, maintenance of their accounting records and various other matters. ESNG is an open access pipeline regulated by the FERC. Our financial statements are prepared in accordance with GAAP, which give appropriate recognition to the ratemaking and accounting practices and policies of the various regulatory commissions. The unregulated energy and other unregulated businesses are not subject to regulation with respect to rates, service or maintenance of accounting records.

Property, Plant, Equipment and Depreciation

Property, plant and equipment is stated at original cost less accumulated depreciation or fair value, if impaired. Property, plant and equipment acquired in the merger were stated at fair value at the time of the merger. Costs include direct labor, materials and third-party construction contractor costs, allowance for capitalized interest and certain indirect costs related to equipment and employees engaged in construction. The costs of repairs and minor replacements are charged against income as incurred, and the costs of major renewals and betterments are capitalized. Upon retirement or disposition of property of unregulated businesses, the gain or loss, net of salvage value, is charged to income. Upon retirement or disposition of property of regulated businesses, the gain or loss, net of salvage value, is charged to accumulated depreciation. The provision for depreciation is computed using the straight-line method at rates that amortize the unrecovered cost of depreciable property over the estimated remaining useful life of the asset. Depreciation and amortization expenses for the regulated energy operations are provided at various annual rates, as approved by the regulators.

(In thousands)	December 31, 2009	December 31, 2008	Useful Life [1]
Plant in service			
Mains	**$ 237,133**	$ 184,125	27-62 years
Services — utility	**61,803**	37,947	12-48 years
Compressor station equipment	**24,981**	24,981	42 years
Liquefied petroleum gas equipment	**30,211**	26,304	5-31 years
Meters and meter installations	**28,419**	19,479	Unregulated energy 3-33 years, regulated energy 14-49 years
Measuring and regulating station equipment	**19,131**	15,092	14-54 years
Office furniture and equipment	**15,587**	12,536	Unregulated energy 4-7 years, regulated energy14-25 years
Transportation equipment	**16,805**	11,267	1-20 years
Structures and improvements	**15,007**	10,602	3-44 years [2]
Land and land rights	**12,789**	7,901	Not depreciable, except certain regulated assets
Propane bulk plants and tanks	**12,181**	6,296	12-40 years
Electric transmission lines and transformers	**29,736**	—	10-41 years
Poles and towers	**8,752**	—	21-40 years
Various	**28,735**	23,677	Various
Total plant in service	**541,270**	380,207	
Plus construction work in progress	**2,476**	1,482	
Less accumulated depreciation	**(107,318)**	(101,018)	
Net property, plant and equipment	**$ 436,428**	$ 280,671	

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

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

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

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

Plant in service includes $1.4 million of assets owned by one of our natural gas transmission subsidiaries, which it uses to provide natural gas transmission service under a contract with a third-party. This contract is accounted for as an operating lease due to exclusive use of the assets by the customer. The service under this contract commenced in January 2009 and provides $264,000 in annual revenues for a term of 20 years. Accumulated depreciation for these assets total $74,000 at December 31, 2009.

Cash and Cash Equivalents

Our policy is to invest cash in excess of operating requirements in overnight income-producing accounts. Such amounts are stated at cost, which approximates market value. Investments with an original maturity of three months or less when purchased are considered cash equivalents.

Inventories

We use the average cost method to value propane, materials and supplies, and other merchandise inventory. If market prices drop below cost, inventory balances that are subject to price risk are adjusted to market values.

Regulatory Assets, Liabilities and Expenditures

We account for our regulated operations in accordance with ASC Topic 980, "Regulated Operations." This Topic includes accounting principles for companies whose rates are determined by independent third-party regulators. When setting rates, regulators often make decisions, the economics of which require companies to defer costs or revenues in different periods than may be appropriate for unregulated enterprises. When this situation occurs, a regulated company defers the associated costs as regulatory assets on the balance sheet and records them as expense on the income statement as it collects revenues. Further, regulators can also impose liabilities upon a regulated company for amounts previously collected from customers, and for recovery of costs that are expected to be incurred in the future as regulatory liabilities.

At December 31, 2009 and 2008, the regulated utility operations had recorded the following regulatory assets and liabilities on the Balance Sheets. These assets and liabilities will be recognized as revenues and expenses in future periods as they are reflected in customers' rates.

(in thousands)	December 31, 2009	December 31, 2008
Regulatory Assets		
Underrecovered purchased gas costs	$ 1,149	$ 651
Income tax related amounts due from customers	1,783	1,285
Deferred post retirement benefits	3,636	83
Deferred transaction and transition costs	1,486	—
Deferred piping and conversion costs	1,061	—
Deferred development costs	1,698	—
Environmental regulatory assets and expenditures	7,510	779
Acquisition adjustment [1]	795	—
Loss on reacquired debt	154	—
Other	1,793	834
Total Regulatory Assets	$ 21,065	$ 3,632
Regulatory Liabilities		
Self insurance	$ 982	$ 912
Overrecovered purchased gas costs	7,304	1,542
Shared interruptible margins	84	232
Conservation cost recovery	1,035	744
Rate refund [2]	258	—
Income tax related amounts due to customers	729	125
Storm reserve	2,554	—
Accrued asset removal cost	33,214	20,641
Other	90	547
Total Regulatory Liabilities	$ 46,250	$ 24,743

(1) Net carrying value of goodwill from FPU's previous acquisition that is allowed to be amortized pursuant to a rate order.

(2) Refunded to FPU natural gas customers in February 2010.

Included in the regulatory assets listed above is $1.5 million related to deferred merger-related costs at December 31, 2009 for which we intend to seek recovery in future rates in Florida. Also included in the regulatory assets listed above are $838,000 and $711,000 at December 31, 2009 and 2008, respectively, in other costs primarily related to income tax related amounts, for which we are awaiting regulatory approval from various jurisdictions for recovery. For certain regulatory assets, such as under-recovered purchased fuel costs, deferred rate case costs and development costs, only recovery of the deferred costs is allowed in rates and we do not earn a return on those regulatory assets.

We monitor our regulatory and competitive environment to determine whether the recovery of our regulatory assets continues to be probable. If we were to determine that recovery of these assets is no longer probable, we would write off the assets against earnings. We believe that provisions of ASC Topic 980 "Regulated Operations" continue to apply to our regulated operations, and that the recovery of our regulatory assets is probable.

Goodwill and Other Intangible Assets

Goodwill is not amortized but is tested for impairment at least annually. In addition, goodwill of a reporting unit is tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value. Other intangible assets are amortized on a straight-line basis over their estimated economic useful lives. Please refer to Note H, "Goodwill and Other Intangible Assets," to the Consolidated Financial Statements for additional discussion of this subject.

Other Deferred Charges

Other deferred charges include discount, premium and issuance costs associated with long-term debt. Debt costs are deferred and then are amortized to interest expense over the original lives of the respective debt issuances.

Pension and Other Postretirement Plans

Pension and other postretirement plan costs and liabilities are determined on an actuarial basis and are affected by numerous assumptions and estimates including the market value of plan assets, estimates of the expected returns on plan assets, assumed discount rates, the level of contributions made to the plans, and current demographic and actuarial mortality data. Management annually reviews the estimates and assumptions underlying our pension and other postretirement plan costs and liabilities with the assistance of third-party actuarial firms. The assumed discount rates and the expected returns on plan assets are the assumptions that generally have the most significant impact on our pension costs and liabilities. The assumed discount rates, health care cost trend rates and rates of retirement generally have the most significant impact on our postretirement plan costs and liabilities.

The discount rates are utilized principally in calculating the actuarial present value of our pension and postretirement obligations and net pension and postretirement costs. When establishing its discount rates, we consider high quality corporate bond rates based on Moody's Aa bond index, the Citigroup yield curve, changes in those rates from the prior year, and other pertinent factors, such as the expected life of each of our plans and their respective payment options.

The expected long-term rates of return on assets are utilized in calculating the expected returns on plan assets component of our annual pension and plan costs. We estimate the expected returns on plan assets of each of our plans by evaluating expected bond returns, asset allocations, the effects of active plan management, the impact of periodic plan asset rebalancing and historical performance. We also consider the guidance from our investment advisors in making a final determination of our expected rates of return on assets.

We estimate the assumed health care cost trend rates used in determining our postretirement net expense based upon actual health care cost experience, the effects of recently enacted legislation and general economic conditions. Our assumed rate of retirement is estimated based upon our annual reviews of participant census information as of the measurement date.

Income Taxes and Investment Tax Credit Adjustments

Deferred tax assets and liabilities are recorded for the tax effect of temporary differences between the financial statements bases and tax bases of assets and liabilities and are measured using the enacted tax rates in effect in the years in which the differences are expected to reverse. The portions of our deferred tax liabilities applicable to regulated energy operations, which have not been reflected in current service rates, represent income taxes recoverable through future rates. Deferred tax assets are recorded net of any valuation allowance when it is more likely than not that such tax benefits will be realized. Investment tax credits on utility property have been deferred and are allocated to income ratably over the lives of the subject property.

We account for uncertainty in income taxes in the financial statements only if it is "more likely than not" that an uncertain tax position is sustainable based on technical merits. Recognizable tax positions are then measured to determine the amount of benefit recognized in the financial statements.

Financial Instruments

Xeron, our propane wholesale marketing operation, engages in trading activities using forward and futures contracts, which have been accounted for using the mark-to-market method of accounting. Under mark-to-market accounting, our trading contracts are recorded at fair value, net of future servicing costs. The changes in market price are recognized as gains or losses in revenues on the consolidated income statement in the period of change. There were unrealized losses of $1.6 million in 2009 and unrealized gains of $1.4 million in 2008. Trading liabilities are recorded in mark-to-market energy liabilities. Trading assets are recorded in mark-to-market energy assets.

Our natural gas, electric and propane distribution operations have entered into agreements with suppliers to purchase natural gas, electricity and propane for resale to their customers. Purchases under these contracts either do not meet the definition of derivatives or are considered "normal purchases and sales" and are accounted for on an accrual basis.

The propane distribution operation may enter into a fair value hedge of its inventory in order to mitigate the impact of wholesale price fluctuations. During 2008, we entered into a swap agreement to protect the Company from the impact that propane price increases would have on the Pro-Cap (propane price cap) Plan that the Delmarva propane distribution operation offers to our customers. Propane prices declined significantly in late 2008 and we recorded a mark-to-market loss of approximately $939,000 on the swap agreement in 2008, which increased the cost of propane sales. In January 2009, we terminated the swap agreement. During 2009, we purchased a put option related to the Pro-Cap Plan, which we accounted for on a mark-to-market basis, and recorded a loss of $41,000. At December 31, 2009 and 2008, we had $0 in fair value of the put agreement and $(105,000) in fair value of the swap agreement, respectively.

Earnings Per Share

Basic earnings per share are computed by dividing income available for common shareholders by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share are computed by dividing income available for common shareholders by the weighted average number of shares of common stock outstanding during the period adjusted for the exercise and/or conversion of all potentially dilutive securities, such as convertible debt and share-based compensation. The calculations of both basic and diluted earnings per share are presented in the following chart.

For the Years Ended December 31, *(in thousands, except shares and per share data)*	**2009**	**2008**	**2007**
Calculation of Basic Earnings Per Share:			
Net Income	$ 15,897	$ 13,607	$ 13,198
Weighted average shares outstanding	7,313,320	6,811,848	6,743,041
Basic Earnings Per Share	$ 2.17	$ 2.00	$ 1.96
Calculation of Diluted Earnings Per Share:			
Reconciliation of Numerator:			
Net Income	$ 15,897	$ 13,607	$ 13,198
Effect of 8.25% Convertible debentures	79	89	96
Adjusted numerator — Diluted	$ 15,976	$ 13,696	$ 13,294
Reconciliation of Denominator:			
Weighted shares outstanding — Basic	7,313,320	6,811,848	6,743,041
Effect of dilutive securities:			
Share-based Compensation	34,229	12,083	—
8.25% Convertible debentures	92,652	103,552	111,675
Adjusted denominator — Diluted	7,440,201	6,927,483	6,854,716
Diluted Earnings Per Share	$ 2.15	$ 1.98	$ 1.94

Common stock issued in connection with the FPU merger (See Note B, "Acquisitions and Dispositions," to the Consolidated Financial Statements) increased weighted average shares outstanding during 2009.

Operating Revenues

Revenues for our natural gas and electric distribution operations are based on rates approved by the PSCs of the states in which they operate. The natural gas transmission operation's revenues are based on rates approved by the FERC. Customers' base rates may not be changed without formal approval by these commissions. The PSCs, however, have authorized our regulated operations to negotiate rates, based on approved methodologies, with customers that have competitive alternatives. The FERC has also authorized ESNG to negotiate rates above or below the FERC-approved maximum rates, which customers can elect as a recourse to negotiated rates.

For regulated deliveries of natural gas and electricity, we read meters and bill customers on monthly cycles that do not coincide with the accounting periods used for financial reporting purposes. We accrue unbilled revenues for natural gas and electricity that have been delivered, but not yet billed, at the end of an accounting period to the extent that they do not coincide. In connection with this accrual, we must estimate the amount of natural gas and electricity that have not been accounted for on our delivery systems and must estimate the amount of the unbilled revenue by jurisdiction and customer class. A similar computation is made to accrue unbilled revenues for propane customers with meters, such as community gas system customers, and natural gas marketing customers, whose billing cycles do not coincide with the accounting periods.

The propane wholesale marketing operation records trading activity for open contracts on a net mark-to-market basis in our consolidated statement of income. For propane distribution customers without meters and advanced information services customers, we record revenue in the period the products are delivered and/or services are rendered.

Each of our natural gas distribution operations in Delaware and Maryland, bundled natural gas distribution service in Florida and electric distribution operation in Florida has a purchased fuel cost recovery mechanism. This mechanism provides a method of adjusting the billing rates to reflect changes in the cost of purchased fuel. The difference between the current cost of fuel purchased and the cost of fuel recovered in billed rates is deferred and accounted for as either unrecovered purchased fuel costs or amounts payable to customers. Generally, these deferred amounts are recovered or refunded within one year.

We charge flexible rates to our natural gas distribution industrial interruptible customers to compete with prices of alternative fuels, which these customers are able to use. Neither the Company nor any of its interruptible customers is contractually obligated to deliver or receive natural gas on a firm service basis.

Cost of Sales

Cost of sales includes the direct costs attributable to the products sold or services provided by the Company for its regulated and unregulated energy segments. These costs include primarily the variable cost of natural gas, electricity and propane commodities, pipeline capacity costs needed to transport and store natural gas, transmission costs for electricity, transportation costs to transport propane purchases to our storage facilities, and the direct cost of labor for our advanced information services operation.

Operations and Maintenance Expenses

Operations and maintenance expenses are costs associated with the operation and maintenance of our regulated and unregulated operations. Major cost components include operation and maintenance salaries and benefits, materials and supplies, usage of vehicles, tools and equipment, payments to contractors, utility plant maintenance, customer service, professional fees and other outside services, insurance expense, minor amounts of depreciation, accretion of cost of removal for future retirements of utility assets, and other administrative expenses.

Depreciation and Accretion Included in Operations Expenses

Depreciation and accretion included in operations expenses consist of the accretion of the costs of removal for future retirement of utility assets, vehicle depreciation, computer software and hardware depreciation, and other minor amounts of depreciation expense.

Allowance for Doubtful Accounts

An allowance for doubtful accounts is recorded against amounts due to reduce the net receivables balance to the amount we reasonably expect to collect based upon our collections experiences and management's assessment of our customers' inability or reluctance to pay. If circumstances change, our estimates of recoverable accounts receivable may also change. Circumstances which could affect such estimates include, but are not limited to, customer credit issues, the level of natural gas, electricity and propane prices and general economic conditions. Accounts are written off when they are deemed to be uncollectible.

Certain Risks and Uncertainties

Our financial statements are prepared in conformity with GAAP, which require management to make estimates in measuring assets and liabilities and related revenues and expenses (see Note O, "Environmental Commitments and Contingencies," and Note P, "Other Commitments and Contingencies," 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.

We record certain assets and liabilities in accordance with ASC Topic 980, "Regulated Operations." In applying provisions of this Topic, our regulated operations may defer costs or revenues in different periods than our unregulated operations would recognize, resulting in their being recorded as assets or liabilities on the applicable operation's balance sheet. If we were required to terminate the application of these provisions to our 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.

Acquisition Accounting

The merger with FPU was accounted for under the acquisition method of accounting, with Chesapeake treated as the acquirer. The acquisition method of accounting requires, among other things, that the assets acquired and liabilities assumed in the merger be recognized at their fair value as of the acquisition date. It also establishes that the consideration transferred be measured at the closing date of the merger at the then-current market price. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In addition, market participants are assumed to be buyers and sellers in the principal (or the most advantageous) market for the asset or liability and fair value measures for an asset assume the highest and best use by those market participants, rather than the acquirer's intended use of those assets. Many of these fair value measurements can be highly subjective and it is also possible that others applying reasonable judgment to the same facts and circumstances could develop and support a range of alternative estimated amounts. In estimating the fair value of the assets and liabilities subject to rate regulation, we considered the nature and impact of such regulations on those assets and liabilities as a factor in determining their appropriate fair value. We also considered the existence of a regulatory process that would allow, or sometimes require, regulatory assets and liabilities to be established for fair value adjustment to certain assets and liabilities subject to rate regulation. If a regulatory asset or liability should be established to offset the fair value adjustment based on the current regulatory process, as was the case for fuel contracts and long-term debt, we did not "gross-up" our balance sheet to reflect the fair value adjustment and corresponding regulatory asset/liability, because such "gross-up" would not have resulted in a change to the value of net assets and future earnings of the Company.

Total value of the consideration transferred by Chesapeake in the merger was $75.7 million. Net fair value of the assets acquired and liabilities assumed in the merger was estimated to be $42.3 million. This resulted in a purchase premium of $33.4 million, which was reflected as goodwill. Note B, "Acquisitions and Dispositions," to the Consolidated Financial Statements describes more fully the purchase price allocation.

The acquisition method of accounting also requires acquisition-related costs to be expensed in the period in which those costs are incurred, rather than including them as a component of considerations transferred. It also prohibits an accrual of certain restructuring costs at the time of the merger for the acquiree. As we intend to seek recovery in future rates in Florida of a certain portion of the purchase premium paid and merger-related costs incurred, we also considered the impact of ASC Topic 980, "Regulated Operations," in determining proper accounting treatment for the merger-related costs. During 2009, we incurred approximately $3.0 million to consummate the merger, including the cost associated with merger-related litigation, and integrate operations following the merger. We deferred approximately $1.5 million of the total costs incurred as a regulatory asset at December 31, 2009, which represents our estimate, based on similar proceedings in Florida in the past, of the costs which we expect to be permitted to recover when we complete the appropriate rate proceedings.

Subsequent Events

We have assessed and reported on subsequent events through the date of issuance of these Consolidated Financial Statements.

Reclassifications

As a result of the merger with FPU in 2009, we changed our operating segments (see Note C, "Segment Information," to the Consolidated Financial Statements). We revised the 2008 and 2007 segment information to reflect the new segments. We also revised the 2008 segment information by reclassifying transaction costs, which were previously allocated to all segments, to the "Other" segment. We reclassified certain amounts in the statements of income and cash flows for the years ended December 31, 2008 and 2007, to conform to the current year's presentation. These reclassifications are considered immaterial to the overall presentation of our Consolidated Financial Statements.

Codification

Beginning in the third quarter of 2009, we adopted the Financial Accounting Standards Board ("FASB") ASC, which is now the single source of authoritative accounting principles in the United States. The adoption of the ASC did not have a material impact on our financial position and results of operations. As a result of this adoption, we updated all references to accounting and reporting standards included in this Form 10-K and in some instances provided references to both pre-and post-Codification standards, as appropriate.

FASB Statements and Other Authoritative Pronouncements

Recent Accounting Pronouncements Yet to be Adopted by the Company

In November 2008, the SEC released a proposed roadmap regarding the potential use by U.S. issuers of financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"), a comprehensive series of accounting standards published by the International Accounting Standards Board ("IASB"). Under the proposed roadmap, we may be required to prepare financial statements in accordance with IFRS as early as 2014. The SEC will make a determination in 2011 regarding the mandatory adoption of IFRS. In July 2009, the IASB issued an exposure draft of "Rate-regulated Activities," which sets out the scope, recognition and measurement criteria, and accounting disclosures for assets and liabilities that arise in the context of cost-of-service regulation, to which we are subject in our rate-regulated businesses. We will continue to monitor the development of the potential implementation of IFRS.

The FASB has issued ASU 2010-06, "Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements . " This ASU requires some new disclosures and clarifies some existing disclosure requirements about fair value measurement as set forth in ASC Subtopic 820-10. The FASB's objective is to improve these disclosures and, thus, increase the transparency in financial reporting. Specifically, ASU 2010-06 amends ASC Subtopic 820-10 to now require a reporting entity to disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers; and in the reconciliation for fair value measurements using significant unobservable inputs, a reporting entity should present separately information about purchases, sales, issuances, and settlements. In addition, ASU 2010-06 clarifies certain requirements of the existing disclosures. ASU 2010-06 is effective for interim and annual reporting periods beginning after December 15, 2009, except for disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. We are currently assessing the potential impact of this pronouncement.

Other Accounting Amendments Adopted by the Company in 2009:

In December 2007, the FASB issued Statement of Financial Accounting Standard ("SFAS") No. 141(R), now codified within ASC Topic 805, "Business Combinations." SFAS No.141(R): (a) defines the acquirer as the entity that obtains control of one or more businesses in a business combination; (b) establishes the acquisition date as the date that the acquirer achieves control; and (c) requires the acquirer to recognize the assets acquired, liabilities assumed and any non-controlling interests at their fair values as of the acquisition date. It also requires that acquisition-related costs be expensed as incurred. Provisions of this standard were adopted effective January 1, 2009. The merger with FPU, effective October 28, 2009, was accounted for using provisions of this standard. For further discussion, see Note B, "Acquisition and Dispositions" to the Consolidated Financial Statements.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133." SFAS No. 161 was codified within ASC Sections 815-10-15 and 65, of the Topic, "Derivatives and Hedging," and it requires enhanced disclosures for derivative instruments and hedging activities including: (i) how and why a company uses derivative instruments; (ii) how derivative instruments and related hedged items are accounted for under the Derivatives and Hedging Topic, and (iii) how derivative instruments and related hedged items affect a company's financial position, financial performance and cash flows. Disclosures required by this standard were adopted by the Company, effective January 1, 2009. Adoption of this standard did not have an impact on our consolidated financial position and results of operations. These disclosures are discussed in Note E, "Derivative Instruments," to the Consolidated Financial Statements.

In April 2008, the FASB issued FASB Staff Position ("FSP") FAS 142-3, "Determination of the Useful Life of Intangible Assets," which is codified within ASC Sections 350-30-50, 55 and 65 of the Topic, "Intangibles — Goodwill and Other," and ASC Section 275-10-50, of the Topic, "Risks and Uncertainties." It amended factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset. The intent of these provisions is to improve the consistency between the useful life of a recognized intangible asset and the period of expected cash flows used to measure the fair value of the asset. We adopted this standard, effective January 1, 2009. Adoption of this standard did not have an impact on our consolidated financial position and results of operations.

In May 2008, the FASB issued FSP APB 14-1, "Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)," which was codified within: (a) ASC Sections 470-20-10, 15, 25, 30, 35, 40, 45, 50, 55 and 65 of the Topic, "Debt," (b) ASC Section 815-15-55, of the Topic, "Derivatives and Hedging," and (c) ASC Section 825-10-15, of the Topic, "Financial Instruments." FSP APB 14-1 clarifies that companies with convertible debt instruments, which may be settled in cash upon either mandatory or optional conversion (including partial cash settlement), should separately account for the liability and equity components in a manner that will reflect the entity's nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. We adopted this standard, effective, January 1, 2009. The adoption of this standard did not have an impact on our consolidated financial position and results of operations.

In September 2008, the FASB issued FSP Emerging Issues Task Force 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities." This FSP, codified within FASB ASC Sections 260-10-45, 55 and 65, of the Topic, "Earnings Per Share," clarifies that holders of outstanding unvested share-based payment awards containing rights to nonforfeitable dividends participate with common shareholders in undistributed earnings. Awards of this nature are considered participating securities, and the two-class method of computing basic and diluted earnings per share must be applied. We adopted this standard, effective January 1, 2009. The adoption of this standard did not have an impact on our consolidated financial position and results of operations.

In December 2008, the FASB issued FSP SFAS 132(R)-1, "Employers' Disclosures about Postretirement Benefit Plan Assets." This FSP is codified within ASC Section 715-20-65, of the Topic, "Compensation — Retirement Benefits." It expands the disclosure requirements of a defined benefit pension or other postretirement plan by including the following discussions about plan assets: (i) how investment allocation decisions are made, including the plan's investment policies and strategies; (ii) the major categories of plan assets; (iii) the inputs and valuation techniques used to measure the fair value of plan assets; (iv) the effect of fair value measurements, using significant unobservable inputs on changes in plan assets for the period; and (v) significant concentrations of risk within plan assets. The disclosures required by this standard are discussed in Note M, "Employee Benefit Plans," to the Consolidated Financial Statements.

In April 2009, the FASB issued FSP FAS 107-1 and APB 28-1, "Interim Disclosures about Fair Value of Financial Instruments." This FSP, codified within ASC Section 825-10-65 of the Topic, "Financial Instruments," enhances consistency in financial reporting by increasing the frequency of fair value disclosures. The provisions of this standard are effective for interim and annual reporting periods ending after June 15, 2009, and they did not have an impact on our consolidated financial position and results of operations. The disclosures required by this standard are discussed in Note F, "Fair Value of Financial Instruments," to the Consolidated Financial Statements.

In May 2009, the FASB issued SFAS No. 165, "Subsequent Events," which we adopted in the second quarter of 2009. The provisions of this standard, now residing in ASC Sections 855-10-05, 15, 25, 45, 50 and 55 of the Topic, "Subsequent Events," establish general standards of accounting for, and disclosure of, events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The adoption of this standard did not have an impact on our consolidated financial position and results of operations.

In August 2009, the FASB issued FASB Accounting Standards Update ("ASU") No. 2009-05, "Fair Value Measurement and Disclosures — Measuring Liabilities at Fair Value." This ASU provides clarification that in circumstances in which a quoted price in an active market for an identical liability is not available, a reporting entity is required to measure fair value, using either: (a) a valuation technique that applies the quoted price of the identical liability when traded as an asset or quoted prices for similar liabilities when traded as assets; or (b) another valuation technique that is consistent with the principles of the Topic, "Fair Value Measurements and Disclosures." We adopted this ASU in the third quarter of 2009, and the adoption of this standard did not have an impact on our consolidated financial position and results of operations.

B. Acquisitions and Dispositions

FPU

On October 28, 2009, we completed the previously announced merger with FPU, pursuant to which FPU became a wholly-owned subsidiary of Chesapeake. The merger was accounted for under the acquisition method of accounting, with Chesapeake treated as the acquirer for accounting purposes.

The merger allowed us to become a larger energy company serving approximately 200,000 customers in the Mid-Atlantic and Florida markets, which is twice the number of energy customers we served previously. The merger increases our overall presence in Florida by adding approximately 51,000 natural gas distribution customers and 12,000 propane distribution customers to our existing operations in Florida. It also introduces us to the electric distribution business as we incorporate FPU's approximately 31,000 electric customers in northwest and northeast Florida.

In consummating the merger, we issued 2,487,910 shares of Chesapeake common stock at a price per share of $30.42 in exchange for all outstanding common stock of FPU. We also paid approximately $16,000 in lieu of issuing fractional shares in the exchange. There is no contingent consideration in the merger. Total value of considerations transferred by Chesapeake in the merger was approximately $75.7 million.

The assets acquired and liabilities assumed in the merger were recorded at their respective fair values at the completion of the merger. For certain assets acquired and liabilities assumed, such as pension and post-retirement benefit obligations, income taxes and contingencies without readily determinable fair value, for which GAAP provides specific exception to the fair value recognition and measurement, we applied other specified GAAP or accounting treatment as appropriate.

The following table summarizes the allocation of the purchase price to the assets acquired and liabilities assumed at the date of the merger. Estimates of deferred income taxes and certain accruals are subject to change, pending the finalization of income tax returns and availability of additional information about the facts and circumstances that existed as of the merger closing. We will complete the purchase price allocation as soon as practicable but no later than one year from the merger closing.

(in thousands)	October 28, 2009
Purchase price	$ 75,699
Current assets	26,761
Property, plant and equipment	141,907
Regulatory assets	17,918
Investments and other deferred charges	3,659
Intangible assets	4,019
Total assets acquired	194,264
Long term debt	47,812
Borrowings from line of credit	4,249
Other current liabilities	17,504
Other regulatory liabilities	19,414
Pension and post retirement obligations	14,276
Environmental liabilities	12,414
Deferred income taxes	20,850
Customer deposits and other liabilities	15,467
Total liabilities assumed	151,986
Net identifiable assets acquired	42,278
Goodwill	$ 33,421

Goodwill of $33.4 million was recorded in connection with the merger, none of which is deductible for tax purposes. All of the goodwill recorded in connection with the merger is related to the regulated energy segment. We believe the goodwill recognized is attributable primarily to the strength of FPU's regulated energy businesses and the synergies and opportunities in the combined company. Intangible assets acquired in connection with the merger are related to propane customer relationships ($3.5 million) and favorable propane contracts ($519,000). The intangible value assigned to FPU's existing propane customer relationships will be amortized over a 12-year period based on the expected duration of benefit arising from the relationships. The intangible value assigned to favorable propane contracts, will be amortized over a period ranging from one to 14 months based on contractual terms. See Note H, "Goodwill and Other Intangible Assets," to the Consolidated Financial Statements.

Current assets of $26.7 million acquired during the merger include notes receivable of approximately $5.8 million, for which we expect to receive payment in March 2010, and accounts receivable of approximately $3.1 million, $6.0 million and $891,000 for natural gas, electric and propane distribution businesses, respectively.

The financial position and results of operations and cash flows of FPU from the effective date of the merger are consolidated in our Consolidated Financial Statements in 2009. The revenue and net income from FPU for the post-merger period in 2009 included in our Consolidated Statements of Income were $26.4 million and $1.8 million, respectively. The following table shows pro forma results of operations for the year ended December 31, 2009, as if the merger had been completed at January 1, 2009, as well as pro forma results of operations for the year ended December 31, 2008, as if the merger had been completed at January 1, 2008.

For the Years Ended December 31, *(in thousands, except per share data)*		2009		2008
Operating revenues	$	**394,772**	$	451,292
Operating Income		**44,382**		38,468
Net Income		**20,872**		17,544
Earnings per share — basic	$	**2.23**	$	1.89
Earnings per share — diluted	$	**2.20**	$	1.86

Pro forma results are presented for informational purposes only, and are not necessarily indicative of what the actual results would have been had the acquisitions actually occurred on January 1, 2009, and January 1, 2008, respectively.

OnSight

During 2007, we decided to close our distributed energy services subsidiary, OnSight, which had experienced operating losses since its inception in 2004. The results of operations for OnSight have been reclassified to discontinued operations and shown net of tax for all periods presented. The discontinued operations experienced a net loss of $20,000 for 2007. We did not have any discontinued operations in 2008 and 2009.

C. Segment Information

We use the management approach to identify operating segments. We organize our business around differences in regulatory environment and/or products or services, and the operating results of each segment are regularly reviewed by the chief operating decision maker (our Chief Executive Officer) in order to make decisions about resources and to assess performance. The segments are evaluated based on their pre-tax operating income.

As a result of the merger with FPU, we changed our operating segments to better align with how the chief operating decision maker views the various operations of the Company. Our three operating segments are now composed of the following:

- *Regulated Energy* . The regulated energy segment includes natural gas distribution, electric distribution and natural gas transmission operations. All operations in this segment are regulated, as to their rates and services, by the PSC having jurisdiction in each operating territory or by the FERC in the case of ESNG.
- *Unregulated Energy*. The unregulated energy segment includes natural gas marketing, propane distribution and propane wholesale marketing operations, which are unregulated as to their rates and services.
- *Other* . The "Other" segment consists primarily of the advanced information services operation, unregulated subsidiaries that own real estate leased to Chesapeake and certain corporate costs not allocated to other operations.

We also reclassified the segment information for 2008 and 2007 to reflect the new segments. During 2009, we also decided not to allocate merger-related transaction costs to different operations for the purpose of reporting their operating profitability because such costs are not directly attributable to their operations. To conform to the current year's presentation, we revised the 2008 segment information by reclassifying transaction costs, which were previously allocated to all segments, to the "Other" segment.

The following table presents information about our reportable segments. The table excludes financial data related to its former distributed energy service subsidiary, OnSight, which was reclassified to discontinued operations for 2007.

For the Years Ended December 31, (in thousands)	2009	2008	2007
Operating Revenues, Unaffiliated Customers			
Regulated Energy	$ 137,847	$ 115,544	$ 128,491
Unregulated Energy	119,719	161,287	115,190
Other	11,219	14,612	14,606
Total operating revenues, unaffiliated customers	$ 268,785	$ 291,443	$ 258,287
Intersegment Revenues [1]			
Regulated Energy	$ 1,252	$ 924	$ 359
Unregulated Energy	254	3	—
Other	779	761	$ 1,115
Total intersegment revenues	$ 2,285	$ 1,688	$ 1,474
Operating Income			
Regulated Energy	$ 26,900	$ 24,733	$ 21,809
Unregulated Energy	8,158	3,781	5,174
Other	(1,322)	(35)	1,131
Operating Income	33,736	28,479	28,114
Other income	165	103	291
Interest charges	7,086	6,158	6,590
Income taxes	10,918	8,817	8,597
Net income from continuing operations	$ 15,897	$ 13,607	$ 13,218
Depreciation and Amortization			
Regulated Energy	$ 8,866	$ 6,694	$ 6,918
Unregulated Energy	2,415	2,024	1,842
Other	307	287	300
Total depreciation and amortization	$ 11,588	$ 9,005	$ 9,060
Capital Expenditures			
Regulated Energy	$ 22,917	$ 25,386	$ 23,087
Unregulated Energy	1,873	3,417	5,290
Other	1,504	2,041	1,765
Total capital expenditures	$ 26,294	$ 30,844	$ 30,142

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

(in thousands)	December 31, 2009	December 31, 2008
Identifiable Assets		
Regulated Energy	$ 480,903	$ 297,407
Unregulated Energy	101,437	72,955
Other	34,724	15,394
Total identifiable assets	$ 617,064	$ 385,756

Our operations are almost entirely domestic. Our advanced information services subsidiary, BravePoint, has infrequent transactions with foreign companies, located primarily in Canada, which are denominated and paid in U.S. dollars. These transactions are immaterial to the consolidated revenues.

D. Supplemental Cash Flow Disclosures

Cash paid for interest and income taxes during the years ended December 31, 2009, 2008, and 2007 were as follows:

For the Years Ended December 31,	2009	2008	2007
(in thousands)			
Cash paid for interest	$ **6,703**	$ 5,835	$ 5,592
Cash paid for income taxes	$ **1,111**	$ 3,885	$ 7,009

Non-cash investing and financing activities during the years ended December 31, 2009, 2008, and 2007 were as follows:

For the Years Ended December 31,	2009	2008	2007
(in thousands)			
Capital property and equipment acquired on account, but not paid as of December 31	$ **1,151**	$ 696	$ 366
Merger with FPU	$ **75,682**	$ —	$ —
Retirement Savings Plan	$ **982**	$ 159	$ 949
Dividends Reinvestment Plan	$ **692**	$ 208	$ 841
Conversion of Debentures	$ **135**	$ 177	$ 138
Performance Incentive Plan	$ —	$ 568	$ 435
Director Stock Compensation Plan	$ **214**	$ 181	$ 184
Tax benefit on stock warrants	$ —	$ 50	$ —

E. Derivative Instruments

As of December 31, 2009, we had the following outstanding trading contracts which we accounted for as derivatives:

At December 31, 2009	Quantity in gallons	Estimated Market Prices	Weighted Average Contract Prices
Forward Contracts			
Sale	11,944,800	$0.6900 — $1.3350	$ 1.1264
Purchase	11,256,000	$0.7275 — $1.3350	$ 1.1367
Other Contract			
Put option	1,260,000	$ —	$ 0.1500

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

All contracts expire in the first quarter of 2010.

The following tables present information about the fair value and related gains and losses of our derivative contracts. We did not have any derivative contracts with a credit-risk-related contingency.

Fair values of the derivative contracts recorded in the Consolidated Balance Sheet as of December 31, 2009 and 2008, are the following:

(in thousands)	Balance Sheet Location	Asset Derivatives Fair Value December 31, 2009	Asset Derivatives Fair Value December 31, 2008
Derivatives not designated as fair value hedges:			
Forward contracts	Mark-to-market energy assets	$ 2,379	$ 4,482
Put option [1]	Mark-to-market energy assets	—	—
Total asset derivatives		$ 2,379	$ 4,482

(in thousands)	Balance Sheet Location	Liability Derivatives Fair Value December 31, 2009	Liability Derivatives Fair Value December 31, 2008
Derivatives designated as fair value hedges:			
Propane swap agreement [2]	Other current liabilities	$ —	$ 105
Derivatives not designated as fair value hedges:			
Forward contracts	Mark-to-market energy liabilities	2,514	3,052
Total liability derivatives		$ 2,514	$ 3,157

(1) We purchased a put option for the Pro-Cap (propane price cap) plan in September 2009. The put option, which expires on March 31, 2010, had a fair value of $0 at December 31, 2009.

(2) Our propane distribution operation entered into a propane swap agreement to protect it from the impact that wholesale propane price increases would have on the Pro-Cap plan that was offered to customers. We terminated this swap agreement in January 2009.

The effects of gains and losses from derivative instruments on the Consolidated Statement of Income for the years ended December 31, 2009 and 2008, are the following:

		Amount of Gain (Loss) on Derivatives: For the Years Ended December 31,	
(in thousands)	Location of Gain (Loss) on Derivatives	2009	2008
Derivatives designated as fair value hedges			
Propane swap agreement [1]	Cost of Sales	$ (42)	$ 1,476
Derivatives not designated as fair value hedges			
Put Option [2]	Revenue	(41)	—
Derivatives not designated as fair value hedges			
Unrealized gains (losses) on forward contracts	Revenue	(1,565)	1,357
Total		$ (1,648)	$ 2,833

(1) Our propane distribution operation entered into a propane swap agreement to protect it from the impact that wholesale propane price increases would have on the Pro-Cap (propane price cap) Plan that was offered to customers. We terminated this swap agreement in January 2009.

(2) We purchased a put option for the Pro-Cap plan in September 2009. The put option, which expires on March 31, 2010, had a fair value of $0 at December 31, 2009.

The effects of trading activities on the Consolidated Statement of Income for the years ended December 31, 2009 and 2008, are the following:

		Amount of Trading Revenue:	
	Location in the	For the Years Ended December 31,	
(in thousands)	Statement of Income	2009	2008
Realized gains on forward contracts	Revenue	$ 3,830	$ 1,935
Unrealized gains (losses) on forward contracts	Revenue	(1,565)	1,357
Total		$ 2,265	$ 3,292

F. Fair Value of Financial Instruments

GAAP establishes a fair value hierarchy that prioritizes the inputs to valuation methods used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are the following:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2: Quoted prices in markets that are not active, or inputs which are observable, either directly or indirectly, for substantially the full term of the asset or liability;

Level 3: Prices or valuation techniques requiring inputs that are both significant to the fair value measurement and unobservable (i.e. supported by little or no market activity).

The following table summarizes our financial assets and liabilities that are measured at fair value on a recurring basis and the fair value measurements, by level, within the fair value hierarchy used at December 31, 2009:

		Fair Value Measurements Using:		
(in thousands)	Fair Value	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Investments	$ 1,959	$ 1,959	$ —	$ —
Mark-to-market energy assets, including put option	$ 2,379	$ —	$ 2,379	$ —
Liabilities:				
Mark-to-market energy liabilities	$ 2,514	$ —	$ 2,514	$ —

The following table summarizes our financial assets and liabilities that are measured at fair value on a recurring basis and the fair value measurements, by level, within the fair value hierarchy used at December 31, 2008:

(in thousands)	Fair Value	Fair Value Measurements Using: Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Investments	$ 1,601	$ 1,601	$ —	$ —
Mark-to market energy assets	$ 4,482	$ —	$ 4,482	$ —
Liabilities:				
Mark-to market energy liabilities	$ 3,052	$ —	$ 3,052	$ —
Propane swap agreement	$ 105	$ —	$ 105	$ —

The following valuation techniques were used to measure fair value assets in the table above on a recurring basis as of December 31, 2009 and 2008:

Level 1 Fair Value Measurements:

Investments — The fair values of these trading securities are recorded at fair value based on unadjusted quoted prices in active markets for identical securities.

Level 2 Fair Value Measurements:

Mark-to-market energy assets and liabilities — These forward contracts are valued using market transactions in either the listed or OTC markets.

Propane price swap agreement and put option — The fair value of the propane price swap agreement and put option is valued using market transactions for similar assets and liabilities in either the listed or OTC markets.

At December 31, 2009, there were no non-financial assets or liabilities required to be reported at fair value. We review our non-financial assets for impairment at least on an annual basis, as required.

Other Financial Assets and Liabilities

Financial assets with carrying values approximating fair value include cash and cash equivalents and accounts receivable. Financial liabilities with carrying values approximating fair value include accounts payable and other accrued liabilities and short-term debt. The carrying value of these financial assets and liabilities approximates fair value due to their short maturities and because interest rates approximate current market rates for short-term debt.

At December 31, 2009, long-term debt, which includes the current maturities of long-term debt, had a carrying value of $134.1 million, compared to a fair value of $145.5 million, using a discounted cash flow methodology that incorporates a market interest rate based on published corporate borrowing rates for debt instruments with similar terms and average maturities, with adjustments for duration, optionality, and risk profile. At December 31, 2008, the estimated fair value was approximately $92.3 million, compared to a carrying value of $93.1 million.

G. INVESTMENTS

The investment balances at December 31, 2009 and 2008 represent a Rabbi Trust associated with our Supplemental Executive Retirement Savings Plan and a Rabbi Trust related to a stay bonus agreement with a former executive. We classify these investments as trading securities and report them at their fair value. Any unrealized gains and losses, net of other expenses, are included in other income in the consolidated statements of income. We also have an associated liability that is recorded and adjusted each month for the gains and losses incurred by the Rabbi Trusts. At December 31, 2009 and 2008, total investments had a fair value of $2.0 million and $1.6 million, respectively.

H. Goodwill and Other Intangible Assets

On October 28, 2009, we completed the merger with FPU, which resulted in $33.4 million in goodwill, for the regulated energy segment. The regulated energy segment did not have goodwill prior to the merger. As of December 31, 2009 and 2008, the unregulated energy segment reported $674,000 in goodwill. No goodwill was recorded in the unregulated energy segment as a result of the merger with FPU. We test for impairment of goodwill at least annually. The impairment testing for 2009 and 2008 indicated no impairment of goodwill.

We intend to seek recovery of the purchase premium related to the regulated operations through future rates in Florida. If and when approval is obtained from the Florida PSC to recover all or part of the purchase premium in future rates from customers, we will reclassify that portion of goodwill, for which recovery has been authorized, to a regulatory asset.

The carrying value and accumulated amortization of intangible assets subject to amortization for the years ended December 31, 2009 and 2008 are as follows:

	December 31, 2009		December 31, 2008	
(in thousands)	Gross Carrying amount	Accumulated amortization	Gross Carrying amount	Accumulated amortization
Favorable propane contracts	$ 519	$ 169	$ —	$ —
Customer relationships — FPU	3,500	49	—	—
Customer list	115	97	115	90
Acquisition costs	264	132	264	125
	$ 4,398	$ 447	$ 379	$ 215

In the FPU merger, we acquired intangible assets related to propane customer relationships and favorable propane contracts, which are shown separately on the table above, and are amortized over a 12-year period and a period ranging from one to 14 months, respectively. Customer list and acquisition costs are related to our acquisitions in the late 1980's and 1990's, which are amortized over a 16-year period and a 40-year period, respectively.

Amortization expense of intangible assets for 2010 to 2014 is: $655,000 for 2010, $305,000 for 2011, $302,000 for 2012, $298,000 for 2013, and $298,000 for 2014.

I. Income Taxes

We file a consolidated federal income tax return. Income tax expense allocated to our subsidiaries is based upon their respective taxable incomes and tax credits. FPU will be included in our 2009 consolidated federal return for the post-merger period. State income tax returns are filed on a separate company basis in most states where we have operations and/or are required to file. FPU will continue to file a separate state income tax return in Florida.

In September 2008, the IRS completed its examination of our 2005 and 2006 consolidated federal returns and issued its Examination Report. As a result of the examination, we reduced our income tax receivable by $27,000 for the tax liability associated with disallowed expense deductions included on the tax returns. We have amended our 2005 and 2006 federal and state corporate income tax returns to reflect the disallowed expense deductions. We are no longer subject to income tax examinations by the Internal Revenue Service for years before December 31, 2006. FPU filed a separate federal income tax return for the period prior to the merger and is not subject to income tax examinations by the IRS for years before December 31, 2005.

We generated net operating losses in 2008, for federal income tax purposes, which were generated primarily from increased book-to-tax timing differences authorized by the 2008 American Recovery and Reinvestment Act, which allowed bonus depreciation for certain assets. A federal tax net operating loss of $9,049,132 was carried forward to 2009 and fully offset taxable income for the year. As of December 31, 2009, we have a federal tax net operating loss of $202,000 which expires in 2027. As of December 31, 2009, we also had tax net operating losses from various states totaling $2.7 million, almost all of which expire in 2027. We have recorded a deferred tax asset of $305,000 related to these carry-forwards. We have not recorded a valuation allowance to reduce the future benefit of the tax net operating losses because we believe they will all be utilized.

The tables below provide the following: (a) the components of income tax expense; (b) reconciliation between the statutory federal income tax rate and the effective income tax rate; and (c) the components of accumulated deferred income tax assets and liabilities at December 31, 2009 and 2008.

For the Years Ended December 31,	2009	2008	2007
(in thousands)			
Current Income Tax Expense			
Federal	$ —	$ (2,551)	$ 5,512
State	878	—	1,223
Investment tax credit adjustments, net	(69)	(42)	(51)
Total current income tax expense (benefit)	809	(2,593)	6,684
Deferred Income Tax Expense (1)			
Property, plant and equipment	7,187	10,347	2,959
Deferred gas costs	(786)	781	(629)
Pensions and other employee benefits	(612)	(174)	(9)
Environmental expenditures	7	145	46
Net operating loss carryforwards	4,043	—	—
Merger related costs	967	—	—
Reserve for insurance deductibles	518	462	27
Other	(1,215)	(151)	(492)
Total deferred income tax expense (benefit)	10,109	11,410	1,902
Total Income Tax Expense	$ 10,918	$ 8,817	$ 8,586

For the Years Ended December 31,	2009	2008	2007
Reconciliation of Effective Income Tax Rates			
(in thousands)			
Continuing Operations			
Federal income tax expense (2)	$ 9,171	$ 7,863	$ 7,635
State income taxes, net of federal benefit	1,490	1,162	1,087
Merger related costs	299	—	—
ESOP dividend deduction	(213)	(205)	(199)
Other	171	(3)	74
Total continuing operations	10,918	8,817	8,597
Discontinued operations	—	—	(11)
Total Income Tax Expense	$ 10,918	$ 8,817	$ 8,586
Effective income tax rate	40.72%	39.32%	39.41%

At December 31,	2009	2008
(in thousands)		
Deferred Income Taxes		
Deferred income tax liabilities:		
Property, plant and equipment	$ 75,898	$ 41,248
Environmental costs	—	395
Deferred gas costs	689	—
Other	3,162	2,414
Total deferred income tax liabilities	79,749	44,057
Deferred income tax assets:		
Pension and other employee benefits	6,406	4,679
Environmental costs	1,802	—
Self insurance	1,318	370
Storm reserve liability	985	—
Deferred gas costs	—	364
Other	3,813	2,502
Total deferred income tax assets	14,324	7,915
Net Deferred Income Taxes Per Consolidated Balance Sheet	$ 65,425	$ 36,142

(1) Includes $985,000, $1,588,000 and $260,000 of deferred state income taxes for the years 2009, 2008 and 2007, respectively.

(2) Federal income taxes were recorded at 35% for each year represented.

J. Long-term Debt

Our outstanding long-term debt is as shown below.

(in thousands)	December 31, 2009	December 31, 2008
Secured first mortgage bonds:		
9.57% bond, due May 1, 2018	**$ 8,156**	$ —
10.03% bond, due May 1, 2018	**4,486**	—
9.08% bond, due June 1, 2022	**7,950**	—
6.85% bond, due October 1, 2031	**14,012**	—
4.90% bond, due November 1, 2031	**13,222**	—
Uncollateralized senior notes:		
6.91% note, due October 1, 2010	**909**	1,818
6.85% note, due January 1, 2012	**2,000**	3,000
7.83% note, due January 1, 2015	**10,000**	12,000
6.64% note, due October 31, 2017	**21,818**	24,545
5.50% note, due October 12, 2020	**20,000**	20,000
5.93% note, due October 31, 2023	**30,000**	30,000
Convertible debentures:		
8.25% due March 1, 2014	**1,520**	1,655
Promissory note	**40**	60
Total long-term debt	**134,113**	93,078
Less: current maturities	**(35,299)**	(6,656)
Total long-term debt, net of current maturities	**$ 98,814**	$ 86,422

Annual maturities of consolidated long-term debt are as follows: $36,765 for 2010; $9,156 for 2011; $8,136 for 2012; $8,136 for 2013; $12,656 for 2014 and $60,818 thereafter. The annual maturity for 2010 of $37,765 includes $28,700 of the secured first mortgage bonds redeemed prior to stated maturity in January 2010.

Secured First Mortgage Bonds

In October 2009, we became subject to the obligations of FPU's secured first mortgage bonds in connection with the merger. FPU's secured first mortgage bonds had a carrying value of $47.8 million ($49.3 million in outstanding principal balance). The first mortgage bonds are secured by a lien covering all of FPU's property. The 9.57 percent bond and 10.03 percent bond require annual sinking fund payments of $909,000 and $500,000, respectively.

In January 2010, we redeemed the 6.85 percent and 4.90 percent series of FPU's secured first mortgage bonds prior to their respective maturity for $28.7 million, which represented the outstanding principal balance of those bonds. We used short-term borrowing to finance the redemption of these bonds. The difference between the carrying value of those bonds and the amount paid at redemption totaling $1.5 million was deferred as a regulatory asset.

Uncollateralized Senior Notes

On October 31, 2008, we issued $30 million of 5.93 percent uncollateralized senior notes to two institutional investors. The terms of the senior notes require a semi-annual principal repayment of $1.5 million in April and October of each year, commencing on April 30, 2014. The senior notes will mature on October 31, 2023. The proceeds of the sale of the Senior Notes were used to refinance capital expenditures and for general corporate purposes.

Convertible Debentures

The convertible debentures may be converted, at the option of the holder, into shares of our common stock at a conversion price of $17.01 per share. During 2009 and 2008, debentures totaling $135,000 and $177,000, respectively, were converted to stock. The debentures are also redeemable for cash at the option of the holder, subject to an annual non-cumulative maximum limitation of $200,000. In 2009 and 2008, no debentures were redeemed for cash. At the Company's option, the debentures may be redeemed at stated amounts.

Debt Covenants

Indentures to our long-term debt contain various restrictions. The most stringent restrictions state that we must maintain equity of at least 40 percent of total capitalization, and the pro-forma fixed charge coverage ratio must be at least 1.2 times. In connection with the merger, the uncollateralized senior notes were amended to include an additional covenant requiring the Company to maintain no more than a 20-percent ratio of secured and subsidiary long-term debt to consolidated tangible net worth by October 2011. Failure to comply with those covenants could result in accelerated due dates and/or termination of the uncollateralized senior note agreements. As of December 31, 2009, we are in compliance with all of our debt covenants and with the redemption of FPU's 6.85 percent and 4.90 percent secured first mortgage bonds in January 2010, the additional covenant requiring us to maintain no more than a 20-percent ratio of secured and subsidiary long-term debt to consolidated tangible net worth has been met.

Each of Chesapeake's uncollateralized senior notes contains a "Restricted Payments" covenant as defined in the note agreements. The most restrictive covenants of this type are included within the 7.83 percent senior notes, due January 1, 2015. The covenant provides that we cannot pay or declare any dividends or make any other Restricted Payments (such as dividends) in excess of the sum of $10.0 million, plus consolidated net income of the Company accrued on and after January 1, 2001. As of December 31, 2009, the cumulative consolidated net income base was $102.8 million, offset by Restricted Payments of $63.8 million, leaving $39.0 million of cumulative net income free of restrictions.

Each series of FPU's first mortgage bonds contains a similar restriction that limits the payment of dividends by FPU. The most restrictive covenants of this type are included within the series that is due in 2031, which provided that FPU cannot make dividend or other restricted payments in excess of the sum of $2.5 million plus FPU's consolidated net income accrued on and after January 1, 2001. As of December 31, 2009, FPU had the cumulative net income base of $32.7 million, offset by restricted payments of $22.1 million, leaving $10.6 million of cumulative net income of FPU free of restrictions based on this covenant. In January 2010, this series of first mortgage bonds were redeemed prior to their maturities. The second most restrictive covenant of this type is included in the series that is due in 2022, which provided that FPU cannot make dividend or other restricted payments in excess of the sum of $2.5 million plus FPU's consolidated net income accrued on and after January 1, 1992. This covenant provides FPU with the cumulative net income base of $56.0 million, offset by restricted payments of $37.6 million, leaving $18.4 million of cumulative net income of FPU free of restrictions as of December 31, 2009.

K. SHORT-TERM BORROWING

At December 31, 2009 and 2008, the Company had $30.0 million and $33.0 million, respectively, of short-term borrowing outstanding under our bank credit facilities. The annual weighted average interest rates on its short-term borrowing were 1.28 percent and 2.79 percent for 2009 and 2008, respectively. We incurred commitment fees of $79,000 and $16,000 in 2009 and 2008, respectively.

In October 2009 in connection with the FPU merger, we became subject to $4.2 million in outstanding borrowings under FPU's revolving line of credit. All of the outstanding borrowings were repaid in full in November 2009 and FPU's revolving line of credit was terminated on November 23, 2009.

As of December 31, 2009, we had four unsecured bank lines of credit with two financial institutions, totaling $90.0 million, none of which requires compensating balances. The unsecured bank lines of credit were increased to $100.0 million in January 2010. These bank lines are available to provide funds for our short-term cash needs to meet seasonal working capital requirements and to temporarily fund portions of our capital expenditures. We are currently authorized by our Board of Directors to borrow up to $85.0 million of short-term debt, as required, from these short-term lines of credit. We maintain both committed and uncommitted credit facilities. Advances offered under the uncommitted lines of credit are subject to the discretion of the banks.

Committed credit facilities

As of December 31, 2009 we had two committed revolving credit facilities totaling $55.0 million, which were subsequently increased to $60.0 million in January 2010. The first facility is an unsecured $30.0 million revolving line of credit that bears interest at the respective LIBOR rate, plus 1.25 percent per annum. At December 31, 2009, there was $7.5 million available under this credit facility.

The second facility is a $25.0 million committed revolving line of credit that bears interest at a base rate plus 1.25 percent, if requested and advanced on the same day, or LIBOR for the applicable period plus 1.25 percent if requested three days prior to the advance date. At December 31, 2009, there was $18.3 million available under this credit facility. In January 2010, the second facility was increased to a $30.0 million committed revolving line of credit with the same terms, resulting in total committed revolving credit facilities of $60.0 million.

The availability of funds under our credit facilities is subject to conditions specified in the respective credit agreements, all of which we currently satisfy. These conditions include our compliance with financial covenants and the continued accuracy of representations and warranties contained in these agreements. The Company is required by the financial covenants in our revolving credit facilities to maintain, at the end of each fiscal year:

- a funded indebtedness ratio of no greater than 65 percent; and
- a fixed charge coverage ratio of at least 1.20 to 1.0.

We are in compliance with all of our debt covenants.

Uncommitted credit facilities

As of December 31, 2009, we had two uncommitted lines of credit facilities totaling $35.0 million, which were subsequently increased to $40.0 million in January 2010. Advances offered under the uncommitted lines of credit are subject to the discretion of the banks.

The first facility is an uncommitted $20.0 million line of credit that bears interest at a rate per annum as offered by the bank for the applicable period. At December 31, 2009, the entire borrowing capacity of $20.0 million was available under this credit facility.

The second facility is a $15.0 million uncommitted line of credit that bears interest at a rate per annum as offered by the bank for the applicable period. At December 31, 2009, there was $14.3 million available under this credit facility, which was reduced by $725,000 for a letter of credit issued to our primary insurance company. The letter of credit is provided as security to satisfy the deductibles under our various insurance policies and expires on August 31, 2010. We do not anticipate that this letter of credit will be drawn upon by the counter-party and we expect that it will be renewed as necessary. In January 2010, the second facility was increased to a $20.0 million uncommitted line of credit with the same terms, resulting in total uncommitted revolving credit facilities of $40.0 million.

L. Lease Obligations

We have entered into several operating lease arrangements for office space, equipment and pipeline facilities. Rent expense related to these leases was $997,000, $880,000 and $736,000 for 2009, 2008 and 2007, respectively. Future minimum payments under our current lease agreements are $866,000, $771,000, $677,000, $502,000 and $364,000 for the years 2010 through 2014, respectively; and $2.0 million thereafter, with an aggregate total of $5.2 million.

M. Employee Benefit Plans

Retirement Plans

We sponsor a defined benefit pension plan ("Chesapeake Pension Plan"), an unfunded pension supplemental executive retirement plan ("Chesapeake SERP"), and an unfunded postretirement health care and life insurance plan ("Chesapeake Postretirement Plan"). As a result of the merger with FPU, we now sponsor and maintain a separate defined benefit pension plan for FPU ("FPU Pension Plan") and a separate unfunded postretirement medical plan for FPU ("FPU Medical Plan").

We measure the assets and obligations of the defined benefit pension plans and other postretirement benefits plans to determine the plans' funded status as of the end of the year as an asset or a liability on our consolidated balance sheets. We recognize as a component of accumulated other comprehensive income/loss the changes in funded status that occurred during the year but that are not recognized as part of net periodic benefit costs, except for the portion related to FPU's regulated energy operations, which is deferred as a regulatory asset to be recovered in the future pursuant to a previous order by the Florida PSC. The measurement dates were December 31, 2009 and 2008.

The amounts in accumulated other comprehensive income/loss for our pension and postretirement benefits plans that are expected to be recognized as a component of net benefit cost in 2010 are set forth in the following table.

(in thousands)	Chesapeake Pension Plan	FPU Pension Plan	Chesapeake SERP	Chesapeake Postretirement Plan	FPU Medical Plan	Total
Prior service cost (credit)	$ (5)	$ —	$ 19	$ —	$ —	$ 14
Net (gain) loss	$ (137)	$ —	$ 47	$ 71	$ —	$ (19)

The following table presents the amounts not yet reflected in net periodic benefit cost and included in accumulated other comprehensive income/loss as of December 31, 2009.

(in thousands)	Chesapeake Pension Plan	FPU Pension Plan	Chesapeake SERP	Chesapeake Postretirement Plan	FPU Medical Plan	Total
Prior service cost (credit)	$ (15)	$ —	$ 102	$ —	$ —	$ 87
Net loss (gain)	2,672	(540)	673	1,351	(14)	4,142
Subtotal	2,657	(540)	775	1,351	(14)	4,229
Tax expense (benefit)	(1,065)	208	(311)	(542)	5	(1,705)
Accumulated other comprehensive (income) loss	$ 1,592	$ (332)	$ 464	$ 809	$ (9)	$ 2,524

Defined Benefit Pension Plans

The Chesapeake Pension Plan was closed to new participants effective January 1, 1999 and was frozen with respect to additional years of service or additional compensation effective January 1, 2005. Benefits under the Chesapeake Pension Plan were based on each participant's years of service and highest average compensation, prior to the freezing of the plan.

The FPU Pension Plan covers eligible FPU non-union employees hired before January 1, 2005 and union employees hired before the respective union contract expiration dates in 2005 and 2006. Prior to the merger, the FPU Pension Plan was frozen with respect to additional years of service and additional compensation effective December 31, 2009.

Our funding policy provides that payments to the trustee of each plan shall be equal to the minimum funding requirements of the Employee Retirement Income Security Act of 1974. We were not required to make any funding payments to the Chesapeake Pension Plan in 2009 or to the FPU Pension Plan subsequent to the merger closing in October 2009.

The following schedule summarizes the assets of the Chesapeake Pension Plan, by investment type, at December 31, 2009, 2008 and 2007 and the assets of the FPU Pension Plan, by investment type, at December 31, 2009:

At December 31,	Chesapeake Pension Plan			FPU Pension Plan
	2009	2008	2007	2009
Asset Category				
Equity securities	**66.22%**	48.70%	49.03%	**63.00%**
Debt securities	**33.76%**	51.24%	50.26%	**29.00%**
Other	**0.02%**	0.06%	0.71%	**8.00%**
Total	**100.00%**	100.00%	100.00%	**100.00%**

The asset listed as "Other" in the above table represents monies temporarily held in money market funds, which invest at least 80 percent of their total assets in:

- United States government obligations; and
- Repurchase agreements that are fully collateralized by such obligations.

All of the assets held by the Chesapeake Pension Plan and FPU Pension Plan are classified under Level 1 of the fair value hierarchy and are recorded at fair value based on unadjusted quoted prices in active markets for identical securities.

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

The investment policy for the FPU Pension Plan is designed to achieve a long-term rate of return, including investment income and appreciation, sufficient to meet the actuarial requirements of the plan. The plan's investment strategy is to achieve its return objectives by investing in a diversified portfolio of equity, fixed income and cash securities seeking a balance of growth and stability as well as an adequate level of liquidity for pension distributions as they fall due. Plan assets are constrained such that no more than 10 percent of the portfolio will be invested in any one issue. Investment allocation decisions for the FPU Pension Plan are made by the Pension Committee.

The following schedule sets forth the funded status at December 31, 2009 and 2008:

At December 31,	Chesapeake Pension Plan 2009	Chesapeake Pension Plan 2008	FPU Pension Plan 2009
(in thousands)			
Change in benefit obligation:			
Benefit obligation — beginning of year [1]	$ 11,593	$ 11,074	$ 46,851
Interest cost	547	594	418
Change in assumptions	(188)	268	—
Actuarial loss	(307)	84	(1,544)
Benefits paid	(518)	(427)	(305)
Benefit obligation — end of year	11,127	11,593	45,420
Change in plan assets:			
Fair value of plan assets — beginning of year [1]	6,689	10,799	35,037
Actual return on plan assets	1,278	(3,683)	1,695
Benefits paid	(518)	(427)	(305)
Fair value of plan assets — end of year	7,449	6,689	36,427
Reconciliation:			
Funded status	(3,678)	(4,904)	(8,993)
Accrued pension cost	$ (3,678)	$ (4,904)	$ (8,993)
Assumptions:			
Discount rate	5.25%	5.25%	5.75%
Expected return on plan assets	6.00%	6.00%	7.00%

(1) FPU Pension Plan's beginning balance reflects the benefit obligations as of the merger date of October 28, 2009.

Net periodic pension cost (benefit) for the plans for 2009, 2008, and 2007 include the components shown below:

For the Years Ended December 31,	Chesapeake Pension Plan 2009	Chesapeake Pension Plan 2008	Chesapeake Pension Plan 2007	FPU Pension Plan [1] 2009
(in thousands)				
Components of net periodic pension cost (benefit):				
Interest cost	$ 547	$ 594	$ 622	$ 418
Expected return on assets	(362)	(629)	(696)	(396)
Amortization of prior service cost	(5)	(5)	(5)	—
Amortization of actuarial loss/gain	237	—	—	—
Net periodic pension cost (benefit)	$ 417	$ (40)	$ (79)	$ 22
Assumptions:				
Discount rate	5.25%	5.50%	5.50%	5.50%
Expected return on plan assets	6.00%	6.00%	6.00%	7.00%

(1) FPU Pension Plan's net periodic pension cost includes only the cost from the merger closing (October 28, 2009) through December 31, 2009.

Pension Supplemental Executive Retirement Plan

The Chesapeake SERP was frozen with respect to additional years of service and additional compensation as of December 31, 2004. Benefits under the Chesapeake SERP were based on each participant's years of service and highest average compensation, prior to the freezing of the plan. The accumulated benefit obligation for the Chesapeake SERP, which is unfunded, was $2.5 million at both December 31, 2009 and 2008.

At December 31,	2009	2008
(In thousands)		
Change in benefit obligation:		
Benefit obligation — beginning of year	$ 2,520	$ 2,326
Interest cost	129	125
Actuarial (gain) loss	(55)	39
Amendments	—	119
Benefits paid	(89)	(89)
Benefit obligation — end of year	2,505	2,520
Change in plan assets:		
Fair value of plan assets — beginning of year	—	—
Employer contributions	89	89
Benefits paid	(89)	(89)
Fair value of plan assets — end of year	—	—
Reconciliation:		
Funded status	(2,505)	(2,520)
Accrued pension cost	$ (2,505)	$ (2,520)
Assumptions:		
Discount rate	5.25%	5.25%

Net periodic pension costs for the Chesapeake SERP for 2009, 2008, and 2007 include the components shown below:

For the Years Ended December 31,	2009	2008	2007
(in thousands)			
Components of net periodic pension cost:			
Interest cost	$ 130	$ 125	$ 123
Amortization of prior service cost	18	—	—
Amortization of actuarial loss	54	45	52
Net periodic pension cost	$ 202	$ 170	$ 175
Assumptions:			
Discount rate	5.25%	5.50%	5.50%

Other Postretirement Benefits Plans

The following schedule sets forth the status of other postretirement benefit plans:

At December 31,	Chesapeake Postretiment Plan 2009	Chesapeake Postretiment Plan 2008	FPU Medical Plan 2009
(in thousands)			
Change in benefit obligation:			
Benefit obligation — beginning of year [1]	$ 2,179	$ 1,756	$ 2,457
Service cost	3	3	18
Interest cost	131	114	23
Plan participants contributions	90	104	6
Actuarial (gain) loss	378	345	(71)
Benefits paid	(196)	(143)	(16)
Benefit obligation — end of year	2,585	2,179	2,417
Change in plan assets:			
Fair value of plan assets — beginning of year [1]	—	—	—
Employer contributions [2]	106	39	10
Plan participants contributions	90	104	6
Benefits paid	(196)	(143)	(16)
Fair value of plan assets — end of year	—	—	—
Reconciliation:			
Funded status	(2,585)	(2,179)	(2,417)
Accrued pension cost	$ (2,585)	$ (2,179)	$ (2,417)
Assumptions:			
Discount rate	5.25%	5.25%	5.75%

(1) FPU Medical Plan's beginning balance reflects the benefit obligation as of the merger date of October 28, 2009.

(2) Chesapeake's Postretirement Plan does not receive a Medicare Part-D subsidy. The FPU Medical Plan did not receive a significant subsidy for the post-merger period.

Net periodic postretirement costs for 2009, 2008, and 2007 include the following components:

For the Years Ended December 31,	Chesapeake Postretirement Plan 2009	Chesapeake Postretirement Plan 2008	Chesapeake Postretirement Plan 2007	FPU Medical Plan [1] 2009
(in thousands)				
Components of net periodic postretirement cost:				
Service cost	$ 3	$ 3	$ 6	$ 18
Interest cost	131	114	102	23
Amortization of:				
Actuarial loss	76	290	166	—
Net periodic postretirement cost	$ 210	$ 407	$ 274	$ 41

(1) FPU Medical Plan's net periodic postretiment includes only the cost from the merger date (October 28, 2009) through December 31, 2009.

Assumptions

The assumptions used for the discount rate to calculate the benefit obligation of all the plans were based on the interest rates of high-quality bonds in 2009, reflecting the expected life of the plans. In determining the average expected return on plan assets for each applicable plan, various factors, such as historical long-term return experience, investment policy and current and expected allocation, were considered. Since the Chesapeake's plans and FPU's plans have a different expected life of the plan and investment policy, particularly in light of the lump-sum-payment option provided in the Chesapeake Pension Plan, different discount rate and expected return on plan asset assumptions were selected for Chesapeake's plans and FPU's plans. Since all of the pension plans are frozen with respect to additional years of service and compensation, the rate of assumed compensation rate increases is not applicable.

The health care inflation rate for 2009 used to calculate the benefit obligation is 7.50 percent for medical and 8.50 percent for prescription drugs for the Chesapeake Postretirement Plan; and 10.50 percent for the FPU Medical Plan. A one-percentage point increase in the health care inflation rate from the assumed rate would increase the accumulated postretirement benefit obligation by approximately $708,000 as of January 1, 2010, and would increase the aggregate of the service cost and interest cost components of the net periodic postretirement benefit cost for 2009 by approximately $30,000. A one-percentage point decrease in the health care inflation rate from the assumed rate would decrease the accumulated postretirement benefit obligation by approximately $594,000 as of January 1, 2010, and would decrease the aggregate of the service cost and interest cost components of the net periodic postretirement benefit cost for 2009 by approximately $24,000.

Estimated Future Benefit Payments

In 2010, we expect to contribute $450,000 and $1.6 million to the Chesapeake Pension Plan and FPU Pension Plan, respectively, and $88,000 to the Chesapeake SERP. We also expect to contribute $115,000 and $144,000 to the Chesapeake Postretirement Plan and FPU Medical Plan, respectively, in 2010. The schedule below shows the estimated future benefit payments for each of our plans previously described:

(in thousands)	Chesapeake Pension Plan [1]	FPU Pension Plan [1]	Chesapeake SERP [2]	Chesapeake Postretirement Plan [2]	FPU Medical Plan [2][3]
2010	$ 763	$ 2,176	$ 88	$ 115	$ 144
2011	429	2,308	797	113	158
2012	1,228	2,452	84	123	181
2013	484	2,617	82	127	176
2014	502	2,747	80	137	196
Years 2015 through 2019	3,649	14,914	634	781	1,215

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

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

(3) These amounts are shown net of estimated Medicare Part-D reimbursements of $10,000, $11,000, $11,000, $12,000 and $13,000 for the years 2010 to 2014 and $78,000 for years 2015 through 2019.

Retirement Savings Plan

We sponsor two 401(k) retirement savings plans and one non-qualified supplemental employee retirement savings plan.

Chesapeake's 401(k) plan is offered to all eligible employees, except for those FPU employees, who have the opportunity to participate in FPU's 401(k) plan. We make matching contributions on up to six percent of each Chesapeake employee's eligible pre-tax compensation for the year, except for the employees of our advanced information services subsidiary, as further explained below. The match is between 100 percent and 200 percent of the employee's contribution (up to six percent), based on the employee's age and years of service. The first 100 percent is matched with Chesapeake common stock; the remaining match is invested in Chesapeake's 401(k) Plan according to each employee's election options. Employees are automatically enrolled at a two percent contribution, with the option of opting out, and are eligible for the company match after three months of continuing service, with vesting of 20 percent per year.

Effective July 1, 2006, our contribution made on behalf of the advanced information services subsidiary employees, is a 50 percent matching contribution, on up to six percent of each employee's annual compensation contributed to the plan. The matching contribution is funded in Chesapeake common stock. The plan was also amended at the same time to enable it to receive discretionary profit-sharing contributions in the form of employee pre-tax deferrals. The extent to which the advanced information services subsidiary has any dollars available for profit-sharing is dependent upon the extent to which the segment's actual earnings exceed budgeted earnings. Any profit-sharing dollars made available to employees can be deferred into the plan and/or paid out in the form of a bonus.

Effective January 1, 1999, we began offering a non-qualified supplemental employee retirement savings plan ("401(k) SERP") to our 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 can be invested among the mutual funds available for investment. These same funds are available for investment of employee contributions within Chesapeake's 401(k) plan. All obligations arising under the 401(k) SERP are payable from our general assets, although we have established a Rabbi Trust for the 401(k) SERP. As discussed further in Note G — "Investments," to the Consolidated Financial Statements, the assets held in the Rabbi Trust included a fair value of $1.9 million and $1.4 million at December 31, 2009 and 2008, respectively, related to the 401(k) SERP. The assets of the Rabbi Trust are at all times subject to the claims of our general creditors.

We continue to maintain a separate 401(k) retirement savings plan for FPU. FPU's 401(k) plan provides a matching contribution of 50 percent of an employee's pre-tax contributions, up to six percent of the employee's salary, for a maximum company contribution of up to three percent. Beginning in 2007, for non-union employees the plan provides a company match of 100 percent for the first two percent of an employee's contribution, and a match of 50 percent for the next four percent of an employee's contribution, for a total company match of up to four percent. Employees are automatically enrolled at three percent contribution, with the option of opting out, and are eligible for the company match after six months of continuous service, with vesting of 100 percent after three years of continuous service.

Our contributions to the 401(k) plans totaled $1.6 million (including a $10,000 contribution made to FPU's 401(k) plan after the merger), $1.6 million, and $1.5 million for the years ended December 31, 2009, 2008, and 2007, respectively. As of December 31, 2009, there are 10,281 shares reserved to fund future contributions to Chesapeake's 401(k) plan.

Deferred Compensation Plan

On December 7, 2006, the Board of Directors approved the Chesapeake Utilities Corporation Deferred Compensation Plan ("Deferred Compensation Plan"), as amended, effective January 1, 2007. The Deferred Compensation Plan is a non-qualified, deferred compensation arrangement under which certain executives and members of the Board of Directors are able to defer payment of all or a part of certain specified types of compensation, including executive cash bonuses, executive performance shares, and directors' retainer and fees. At December 31, 2009, the Deferred Compensation Plan consisted solely of shares of common stock related to the deferral of executive performance shares and directors' stock retainers.

Participants in the Deferred Compensation Plan are able to elect the payment of benefits to begin on a specified future date after the election is made in the form of a lump sum or annual installments. Deferrals of executive cash bonuses and directors' cash retainers and fees are paid in cash. All deferrals of executive performance shares and directors' stock retainers are paid in shares of our common stock, except that cash is be paid in lieu of fractional shares.

We established a Rabbi Trust in connection with the Deferred Compensation Plan. The value of our stock held in the Rabbi Trust is classified within the stockholders' equity section of the Balance Sheet and has been accounted for in a manner similar to treasury stock. The amounts recorded under the Deferred Compensation Plan totaled $739,000 and $1.5 million at December 31, 2009 and 2008, respectively.

N. Share-Based Compensation Plans

Our non-employee directors and key employees are awarded share-based awards through the Company's Directors Stock Compensation Plan ("DSCP") and the Performance Incentive Plan ("PIP"), respectively. We record these share-based awards as compensation costs over the respective service period for which services are received in exchange for an award of equity or equity-based compensation. The compensation cost is based on the fair value of the grant on the date it was awarded.

The table below presents the amounts included in net income related to share-based compensation expense, for the restricted stock awards issued under the DSCP and the PIP for the years ended December 31, 2009, 2008 and 2007.

For the Years Ended December 31,	2009	2008	2007
(in thousands)			
Directors Stock Compensation Plan	$ 191	$ 180	$ 181
Performance Incentive Plan	1,115	640	809
Total compensation expense	1,306	820	990
Less: tax benefit	523	327	386
Share-Based Compensation amounts included in net income	$ 783	$ 493	$ 604

Stock Options

We did not have any stock options outstanding at December 31, 2009, 2008 or 2007, nor were any stock options issued during 2009, 2008 and 2007.

Directors Stock Compensation Plan

Under the DSCP, each of our non-employee directors received in 2009 an annual retainer of 650 shares of common stock and additional shares of common stock for serving as a committee chairperson. For 2009, the Corporate Governance and Compensation Committee Chairperson each received 150 additional shares of common stock and the Audit Committee Chairperson received 250 additional shares of common stock. Shares granted under the DSCP are issued in advance of the directors' service period; therefore, these shares are fully vested as of the grant date. We record a prepaid expense as of the date of the grant equal to the fair value of the shares issued and amortize the expense equally over a service period of one year.

A summary of stock activity under the DSCP is presented below:

	Number of Shares	Weighted Average Grant Date Fair Value
Outstanding — December 31, 2007	—	—
Granted	6,161	$ 29.43
Vested	6,161	$ 29.43
Forfeited	—	—
Outstanding — December 31, 2008	—	—
Granted [1]	7,174	$ 29.83
Vested	7,174	$ 29.83
Forfeited	—	—
Outstanding — December 31, 2009	—	—

(1) On October 28, 2009, the Company added two new members to its Board of Directors; each new board member was awarded 337 shares of common stock.

We recorded compensation expense of $191,000, $180,000 and $181,000 related to DSCP awards for the years ended December 31, 2009, 2008 and 2007, respectively.

The weighted-average grant-date fair value of DSCP awards granted during 2009 and 2008 was $29.83 and $29.43, per share, respectively. The intrinsic values of the DSCP awards are equal to the fair market value of these awards on the date of grant. At December 31, 2009, there was $64,000 of unrecognized compensation expense related to DSCP awards that is expected to be recognized over the first four months of 2010.

As of December 31, 2009, there were 44,115 shares reserved for issuance under the terms of the Company's DSCP.

Performance Incentive Plan ("PIP")

Our Compensation Committee is authorized to grant key employees of the Company the right to receive awards of shares of our common stock, contingent upon the achievement of established performance goals. These awards are subject to certain post-vesting transfer restrictions.

In 2007, the Board of Directors granted each executive officer equity incentive awards, which entitled each to earn shares of common stock to the extent that we achieved pre-established performance goals at the end of a one-year performance period. In 2008, we adopted multi-year performance plans to be used in lieu of the one-year awards. Similar to the one-year plans, the multi-year plans provide incentives based upon the achievement of long-term goals, development and the success of the Company. The long-term goals have both market-based and performance-based conditions or targets.

The shares granted under the PIP in 2007 are fully vested, and the fair value of each share is equal to the market price of our common stock on the date of the grant. The shares granted under the 2008 and 2009 long-term plans have not vested as of December 31, 2009, and the fair value of each performance-based condition or target is equal to the market price of our common stock on the date of the grant. For the market-based conditions, we used the Black-Scholes pricing model to estimate the fair value of each market-based award granted.

A summary of stock activity under the PIP is presented below:

	Number of Shares		Weighted Average Fair Value
Outstanding — December 31, 2007	33,760	$	29.90
Granted	94,200	$	27.84
Vested	31,094	$	29.90
Fortfeited	—		—
Expired	2,666	$	29.90
Outstanding — December 31, 2008	94,200	$	27.84
Granted	28,875	$	29.19
Vested	—		—
Fortfeited	—		—
Expired	—		—
Outstanding — December 31, 2009	123,075	$	28.15

In 2009, no shares under the PIP vested. In 2008, we withheld shares with value equivalent to the employees' minimum statutory obligation for the applicable income and other employment taxes, and remitted the cash to the appropriate taxing authorities with the executives receiving the net shares. The total number of shares withheld (12,511) for 2008 was based on the value of the PIP shares on their vesting date, determined by the average of the high and low of our stock price. No payments for the employee's tax obligations were made to taxing authorities in 2009 as no shares vested during this period. Total payments for the employees' tax obligations to the taxing authorities were approximately $383,000 in 2008.

We recorded compensation expense of $1.1 million, $640,000 and $809,000 related to the PIP for the years ended December 31, 2009, 2008, and 2007, respectively.

The weighted-average grant-date fair value of PIP awards granted during 2009, 2008 and 2007 was $29.19, $27.84 and $29.90, per share respectively. The intrinsic value of the PIP awards was $2.1 million and $1.1 million for 2009 and 2008, respectively. The intrinsic value of the 2007 awards was equal to the fair market value of these awards on the date of grant.

As of December 31, 2009, there were 371,293 shares reserved for issuance under the terms of our PIP.

O. Environmental Commitments and Contingencies

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

We have participated in the investigation, assessment or remediation and have certain exposures at six former MGP sites. Those sites are located in Salisbury, Maryland, and Winter Haven, Key West, Pensacola, Sanford and West Palm Beach, Florida. We have also been in discussions with the MDE regarding a seventh former MGP site located in Cambridge, Maryland. The Key West, Pensacola, Sanford and West Palm Beach sites are related to FPU, for which we assumed in the merger any existing and future contingencies.

As of December 31, 2009, we had recorded $531,000 in environmental liabilities related to Chesapeake's MGP sites in Maryland and Florida, representing our estimate of the future costs associated with those sites. We had recorded approximately $1.7 million in regulatory and other assets for future recovery of environmental costs from Chesapeake's customers through its approved rates. As of December 31, 2009, we had recorded approximately $12.3 million in environmental liabilities related to FPU's MGP sites in Florida, primarily from the West Palm Beach site, which represents our estimate of the future costs associated with those sites. FPU is approved to recover its environmental costs up to $14.0 million from insurance and customers through rates. Approximately $5.7 million of FPU's expected environmental costs has been recovered from insurance and customers through rates as of December 31, 2009. We also had recorded approximately $6.6 million in regulatory assets for future recovery of environmental costs from FPU's customers.

The following discussion provides details on each site.

Salisbury, Maryland

We have completed remediation of this site in Salisbury, Maryland, where it was determined that a former MGP caused localized ground-water contamination. During 1996, we completed construction of an Air Sparging and Soil-Vapor Extraction ("AS/SVE") system and began remediation procedures. We have reported the remediation and monitoring results to the MDE on an ongoing basis since 1996. In February 2002, the MDE granted permission to decommission permanently the AS/SVE system and to discontinue all on-site and off-site well monitoring, except for one well which is being maintained for continued product monitoring and recovery. We have requested and are awaiting a No Further Action determination from the MDE.

Through December 31, 2009, we have incurred and paid approximately $2.9 million for remedial actions and environmental studies at this site and do not expect to incur any additional costs. We have recovered approximately $2.1 million through insurance proceeds or in rates and have $783,000 of the clean-up costs not yet recovered.

Winter Haven, Florida

The Winter Haven site is located on the eastern shoreline of Lake Shipp, in Winter Haven, Florida. Pursuant to a Consent Order entered into with the FDEP, we are obligated to assess and remediate environmental impacts to the site resulting from the former operation of a MGP on the site. In 2001, FDEP approved a Remedial Action Plan ("RAP") requiring construction and operation of a bio-sparge/soil vapor extraction ("BS/SVE") treatment system to address soil and groundwater impacts at a portion of the site. The BS/SVE treatment system has been in operation since October 2002. The Fourteenth Semi-Annual RAP Implementation Status Report was submitted to FDEP in January 2010. The groundwater sampling results through October 2009 show, in general, a reduction in contaminant concentrations over prior years, although the rate of reduction has declined recently. Modifications and upgrades to the BS/SVE treatment system were completed in October 2009. At present, we predict that remedial action objectives may be met for the area being treated by the BS/SVE treatment system in approximately three years.

The BS/SVE treatment system does not address impacted soils in the southwest corner of the site. We are currently completing additional soil and groundwater sampling at this location for the purpose of designing a remedy for this portion of the site. Following the completion of this field work, we will submit a soil excavation plan to FDEP for its review and approval.

FDEP has indicated that we may be required to remediate sediments along the shoreline of Lake Shipp, immediately west of the site. Based on studies performed to date, we object to FDEP's suggestion that the sediments have been adversely impacted by the former operations of the MGP. Our early estimates indicate that some of the corrective measures discussed by FDEP could cost as much as $1.0 million. We believe that corrective measures for the sediments are not warranted and intend to oppose any requirement that we undertake corrective measures in the offshore sediments. We have not recorded a liability for sediment remediation, as the final resolution of this matter cannot be predicted at this time.

Through December 31, 2009, we have incurred and paid approximately $1.4 million for this site and estimates an additional cost of $531,000 in the future, which has been accrued. We have recovered through rates $1.1 million of the costs and continue to expect that the remaining $885,000, which is included in regulatory assets, will be recoverable from customers through our approved rates.

Key West, Florida

FPU formerly owned and operated an MGP in Key West, Florida. Field investigations performed in the 1990s identified limited environmental impacts at the site, which is currently owned by an unrelated third party. FDEP has not required any further work at the site as of this time. Our portion of the consulting/remediation costs which may be incurred at this site is projected to be $93,000.

Pensacola, Florida

FPU formerly owned and operated an MGP in Pensacola, Florida. The MGP was also owned by Gulf Power Corporation ("Gulf Power"). Portions of the site are now owned by the City of Pensacola and the Florida Department of Transportation ("FDOT"). In October 2009, FDEP informed Gulf Power that FDEP would approve a conditional No Further Action ("NFA") determination for the site, which must include a requirement for institutional/engineering controls. The group, consisting of Gulf Power, City of Pensacola, FDOT and FPU, is proceeding with preparation of the necessary documentation to submit the NFA justification. Consulting/remediation costs are projected to be $14,000.

Sanford, Florida

FPU is the current owner of property in Sanford, Florida, an MGP which was operated by several other entities before FPU acquired the property. FPU was never an owner/operator of the MGP. In late September 2006, the U.S. Environmental Protection Agency ("EPA") sent a Special Notice Letter, notifying FPU, and the other responsible parties at the site (Florida Power Corporation, Florida Power & Light Company, Atlanta Gas Light Company, and the City of Sanford, Florida, collectively with FPU, "the Sanford Group"), of EPA's selection of a final remedy for OU1 (soils), OU2 (groundwater), and OU3 (sediments) for the site. The total estimated remediation costs for this site were projected at the time by EPA to be approximately $12.9 million.

In January 2007, FPU and other members of the Sanford Group signed a Third Participation Agreement, which provides for funding the final remedy approved by EPA for the site. FPU's share of remediation costs under the Third Participation Agreement is set at five percent of a maximum of $13 million, or $650,000. As of December 31, 2009, FPU paid $300,000 to the Sanford Group escrow account for its share of funding requirements, and in January 2010, the Company paid the remaining $350,000 of this funding requirement.

The Sanford Group, EPA and the U.S. Department of Justice entered into a Consent Decree in March 2008, which was entered by the federal court in Orlando on January 15, 2009. The Consent Decree obligates the Sanford Group to implement the remedy approved by EPA for the site. The total cost of the final remedy is now estimated at approximately $18 million. FPU has advised the other members of the Sanford Group that it is unwilling at this time to agree to pay any sum in excess of the $650,000 committed by FPU in the Third Participation Agreement.

Several members of the Sanford Group have concluded negotiations with two adjacent property owners to resolve damages that the property owners allege they have/will incur as a result of the implementation of the EPA-approved remediation. In settlement of these claims, members of the Sanford Group, which in this instance does not include FPU, have agreed to pay specified sums of money to the parties. FPU has refused to participate in the funding of the third party settlement agreements based on its contention that it did not contribute to the release of hazardous substances at the site giving rise to the third party claims.

As of December 31, 2009, FPU's remaining share of remediation expenses, including attorney's fees and costs, is estimated to be $401,000, of which $350,000 was paid to the Sanford Group escrow account in January 2010. However, the Company is unable to determine, to a reasonable degree of certainty, whether the other members of the Sanford Group will accept FPU's asserted defense to liability for costs exceeding $13 million to implement the final remedy for this site or will pursue a claim against FPU for a sum in excess of the $650,000 that FPU has committed to fund under the Third Participation Agreement.

West Palm Beach, Florida

We are currently evaluating remedial options to respond to environmental impacts to soil and groundwater at and in the immediate vicinity of a parcel of property owned by FPU in West Palm Beach, Florida upon which FPU previously operated an MGP. Pursuant to a Consent Order between FPU and the FDEP, effective April 8, 1991, FPU completed the delineation of soil and groundwater impacts at the site. On June 30, 2008, FPU transmitted a revised feasibility study, evaluating appropriate remedies for the site, to the FDEP. On April 30, 2009, FDEP issued a remedial action order, which it subsequently withdrew. In response to the order and as a condition to its withdrawal, FPU committed to perform additional field work in 2009 and complete an additional engineering evaluation of certain remedial alternatives. The scope of this work has increased in response to FDEP's demands for additional information.

The feasibility study evaluated a wide range of remedial alternatives based on criteria provided by applicable laws and regulations. Based on the likely acceptability of proven remedial technologies described in the feasibility study and implemented at similar sites, management believes that consulting/remediation costs to address the impacts now characterized at the West Palm Beach site will range from $7.4 million to $18.9 million. This range of costs covers such remedies as in situ solidification for deeper soil impacts, excavation of superficial soil impacts, installation of a barrier wall with a permeable biotreatment zone, monitored natural attenuation of dissolved impacts in groundwater, or some combination of these remedies.

Negotiations between FPU and the FDEP on a final remedy for the site continue. Prior to the conclusion of those negotiations, we are unable to determine, to a reasonable degree of certainty, the full extent or cost of remedial action that may be required. As of December 31, 2009, and subject to the limitations described above, we estimate the remediation expenses, including attorneys' fees and costs, will range from approximately $7.8 million to $19.4 million for this site.

We continue to expect that all costs related to these activities will be recoverable from customers through rates.

Other

We are in discussions with the MDE regarding an MGP site located in Cambridge, Maryland. The outcome of this matter cannot be determined at this time; therefore, the Company has not recorded an environmental liability for this location.

P. Other Commitments and Contingencies

Rates and Other Regulatory Activities

Our natural gas and electric distribution operations in Delaware, Maryland and Florida are subject to regulation by their respective PSC; ESNG, our natural gas transmission operation, is subject to regulation by the FERC. Chesapeake's Florida natural gas distribution division and FPU's natural gas and electric operations continue to be subject to regulation by the Florida PSC as separate entities.

Delaware. On September 2, 2008, our Delaware division filed with the Delaware Public Service Commission ("Delaware PSC") its annual Gas Sales Service Rates ("GSR") Application, seeking approval to change its GSR, effective November 1, 2008. On September 16, 2008, the Delaware PSC authorized the Delaware division to implement the GSR charges on a temporary basis, subject to refund, pending the completion of full evidentiary hearings and a final decision. The Delaware division was required by its natural gas tariff to file a revised application if its projected over-collection of gas costs for the determination period of November 2007 through October 2008 exceeded four and one-half percent (4.5 percent) of total firm gas costs. As a result of a significant decrease in the cost of natural gas, the Delaware division, on January 8, 2009, filed with the Delaware PSC a supplemental GSR Application, seeking approval to change its GSR, effective February 1, 2009. On January 29, 2009, the Delaware PSC authorized the Delaware division to implement the revised GSR charges on a temporary basis, subject to refund, pending the completion of full evidentiary hearings and a final decision. On July 7, 2009, the Delaware PSC granted approval of a settlement agreement presented by the parties in this docket, the Delaware PSC, our Delaware division and the Division of the Public Advocate. Pursuant to the settlement agreement, our Delaware division, commencing in November 2009, adjusted the margin-sharing mechanism related to its Asset Management Agreement to reduce its proportionate share of such margin. We anticipate a net margin reduction of approximately $8,000 per year from this change.

As part of the settlement, the parties also agreed to develop a record in a later proceeding on the price charged by the Delaware division for the temporary release of transmission pipeline capacity to our natural gas marketing subsidiary, PESCO. On January 8, 2010, the Hearing Examiner in this proceeding issued a report of Findings and Recommendations in which he recommended, among other things, that the Delaware PSC require the Delaware division to refund to its firm service customers the difference between what the Delaware division would have received had the capacity released to PESCO been priced at the maximum tariff rates, and the amount actually received by the Delaware division for capacity released to PESCO. We have estimated that, exclusive of any interest, the amount that would have to be refunded if the Hearing Examiner's recommendation is approved without modification by the Delaware PSC is approximately $700,000 as of December 31, 2009. The Hearing Examiner has also recommended that the Delaware PSC require us to adhere to asymmetrical pricing principles regarding all future capacity releases by the Delaware division to PESCO, if any. Accordingly, if the Hearing Examiner's recommendation is approved without modification by the Delaware PSC and if the Delaware division temporarily released any capacity to PESCO below the maximum tariff rates, the Delaware division would have to credit to its firm service customers amounts equal to the maximum tariff rates that the Delaware division pays for long-term capacity, even though the temporary releases were made at lower rates based on competitive bidding procedures required by the FERC's capacity release rules. We disagree with the Hearing Examiner's recommendations and filed exceptions to those recommendations on February 5, 2010. The hearing on our exceptions took place before the Delaware PSC on February 18, 2010, but no ruling was made by the Delaware PSC. We anticipate a ruling by the Delaware PSC in March 2010. We believe that the Delaware division has been following proper procedures for capacity release established by the FERC and based on a previous settlement approved by the Delaware PSC and therefore, we have not recorded a liability for this contingency.

On December 2, 2008, our Delaware division filed two applications with the Delaware PSC, requesting approval for a Town of Milton Franchise Fee Rider and a City of Seaford Franchise Fee Rider. These Riders allow the division to recover from natural gas customers located within the Town of Milford or the City of Seaford a proportionate share of the franchise fees paid by the division. The Delaware PSC granted approval of both Franchise Fee Riders on January 29, 2009.

On September 4, 2009, our Delaware division filed with the Delaware PSC its annual GSR Application, seeking approval to change its GSR, effective November 1, 2009. On October 6, 2009, the Delaware PSC authorized the Delaware division to implement the GSR charges on November 1, 2009, on a temporary basis, subject to refund, pending the completion of full evidentiary hearings and a final decision. The Delaware division anticipates a final decision by the Delaware PSC on this application in the second quarter of 2010.

On December 17, 2009, our Delaware division filed an application with the Delaware PSC, requesting approval for an Individual Contract Rate for service to be rendered to a potential large industrial customer. On or about October 2, 2009, the Delaware division entered into a negotiated gas service agreement with a potential customer pursuant to which the Delaware division would provide transportation, balancing, and gas delivery service to the customer's facilities in Delaware. The Delaware division's obligations under the agreement are subject to several conditions, including the condition that the agreement be approved by the Delaware PSC. The Delaware division and the potential customer consider the specific terms and conditions of the agreement to be confidential and proprietary. The Delaware division anticipates a final decision by the Delaware PSC on this application in the first quarter of 2010.

Maryland. On December 16, 2008, the Maryland Public Service Commission ("Maryland PSC") held an evidentiary hearing to determine the reasonableness of the four quarterly gas cost recovery filings submitted by our Maryland division during the 12 months ended September 30, 2008. No issues were raised at the hearing, and on December 19, 2008, the Hearing Examiner in this proceeding issued a proposed Order approving the division's four quarterly filings, which became a final Order of the Maryland PSC on January 21, 2009.

On April 24, 2009, the Maryland PSC issued an Order defining utilities' payment plan parameters and termination procedures that would increase the likelihood that customers could pay their past due amounts to avoid termination of natural gas service. This Order requires our Maryland division to: (a) provide customers in writing, prior to issuing a termination notice, certain details about their past due balance and information about available payment plans, and (b) continue to offer flexible and tailored payment plans. The Maryland division has implemented procedures to comply with this Order.

On December 1, 2009, the Maryland PSC held an evidentiary hearing to determine the reasonableness of the four quarterly gas cost recovery filings submitted by the Company's Maryland division during the 12 months ended September 30, 2009. No issues were raised at the hearing, and on December 9, 2009, the Hearing Examiner in this proceeding issued a proposed Order approving the division's four quarterly filings. On January 8, 2010, the Maryland PSC issued an Order affirming the Hearing Examiner's decisions in the matter, but made certain clarifications and corrections to the text of the proposed Order issued by the Hearing Examiner.

Florida. On July 14, 2009, Chesapeake's Florida division filed with the Florida PSC its petition for a rate increase and request for interim rate relief. In the application, the Florida division sought approval of: (a) an interim rate increase of $417,555; (b) a permanent rate increase of $2,965,398, which represented an average base rate increase, excluding fuel costs, of approximately 25 percent for the Florida division's customers; (c) implementation or modification of certain surcharge mechanisms; (d) restructuring of certain rate classifications; and (e) deferral of certain costs and the purchase premium associated with the pending merger with FPU. On August 18, 2009, the Florida PSC approved the full amount of the Florida division's interim rate request, subject to refund, applicable to all meters read on or after September 1, 2009. On December 15, 2009, the Florida PSC: (a) approved a $2,536,307 permanent rate increase (86 percent of the requested amount) applicable to all meters read on or after January 14, 2010; (b) determined that there is no refund required of the interim rate increase; and (c) ordered Chesapeake's Florida division and FPU's natural gas distribution operations to submit data no later than April 29, 2011 (which is 18 months after the merger) that details all known benefits, synergies and cost savings that have resulted from the merger).

Also on December 15, 2009, the Florida PSC approved the settlement agreement for a final natural gas rate increase of $7,969,000 for FPU's natural gas distribution operation, which represents approximately 80 percent of the requested base rate increase of $9,917,690 filed by FPU in the fourth quarter of 2008. The Florida PSC had approved an annual interim rate increase of $984,054 on February 10, 2009 and approved the permanent rate increase of $8,496,230 in an order issued on May 5, 2009, with the new rates to be effective beginning on June 4, 2009. On June 17, 2009, however, the Office of Public Counsel entered a protest to the Florida PSC's order and its final natural gas rate increase ruling, which protest required a full hearing to be held within eight months. Subsequent negotiations led to the settlement agreement between the Office of Public Counsel and FPU, which the Florida PSC approved on December 15, 2009. The rates authorized pursuant to the order approving the settlement agreement became effective on January 14, 2010 and in February 2010, FPU refunded to its natural gas customers approximately $290,000 representing revenues in excess of the amount provided by the settlement agreement that had been billed to customers from June 2009 through January 14, 2010.

On September 1, 2009, FPU's electric distribution operation filed its annual Fuel and Purchased Power Recovery Clause, which seeks final approval of its 2008 fuel-related revenues and expenses and new fuel rates for 2010. On January 4, 2010, the Florida PSC approved the proposed 2010 fuel rates, effective on or after January 1, 2010.

On September 11, 2009, Chesapeake's Florida division and FPU's natural gas distribution operation separately filed their respective annual Energy Conservation Cost Recovery Clause, seeking final approval of their 2008 conservation-related revenues and expenses and new conservation surcharge rates for 2010. On November 2, 2009, the Florida PSC approved the proposed 2010 conservation surcharge rates for both the Florida division and FPU, effective for meters read on or after January 1, 2010.

Also on September 11, 2009, FPU's natural gas distribution operation filed its annual Purchased Gas Adjustment Clause, seeking final approval of its 2008 purchased gas-related revenues and expenses and new purchased gas adjustment cap rate for 2010. On November 4, 2009, the Florida PSC approved the proposed 2010 purchased gas adjustment cap, effective on or after January 1, 2010.

The City of Marianna Commissioners voted on July 7, 2009 to enter into a new ten year franchise agreement with FPU effective February 1, 2010. The agreement provides that new interruptible and time of use rates shall become available for certain customers prior to February 2011 or, at the option of the City, the franchise agreement could be voided nine months after that date. The new franchise agreement contains a provision for the City to purchase the Marianna portion of FPU's electric system. Should FPU fail to make available the new rates, and if the franchise agreement is then voided by the City and the City elects to purchase the Marianna portion of the distribution system, it would require the city to pay FPU severance/reintegration costs, the fair market value for the system, and an initial investment in the infrastructure to operate this limited facility. If the City purchased the electric system, FPU would have a gain in the year of the disposition; but, ongoing financial results would be negatively impacted from the loss of the Marianna area from its electric operations.

ESNG. The following are regulatory activities involving FERC Orders applicable to ESNG and the expansions of ESNG's transmission system:

System Expansion 2006 — 2008. In accordance with the requirements in the FERC's Order Issuing Certificate for the 2006 — 2008 System Expansion, ESNG had until June 13, 2009, to construct the remaining facilities that were authorized in the project filing. On February 3, 2009, ESNG requested authorization to modify the previously required completion date and to commence construction of the facilities, which provide for the remaining 6,957 Mcfs of additional firm service capacity previously approved by the FERC. On March 13, 2009, the FERC granted the requested authorization. On October 30, 2009, ESNG received approval from the FERC to commence services in November 2009 on this remaining portion of the 2006-2008 system expansion, which will permit ESNG to realize an additional annualized gross margin of approximately $1.0 million.

Energylink Expansion Project ("E3 Project"). In 2006, ESNG proposed to develop, construct and operate approximately 75 miles of new pipeline facilities from the existing Cove Point Liquefied Natural Gas terminal in Calvert County, Maryland, crossing under the Chesapeake Bay into Dorchester and Caroline Counties, Maryland, to points on the Delmarva Peninsula, where such facilities would interconnect with ESNG's existing facilities in Sussex County, Delaware.

In April 2009, ESNG terminated the E3 Project and initiated billing to recover specified project costs in accordance with the terms of the precedent agreements executed with the two participating customers, one of which is Chesapeake, through its Delaware and Maryland divisions. These billings will reimburse ESNG for the $3.17 million of costs incurred in connection with the E3 Project, including the cost of capital, over a period of 20 years.

Prior Notice Request. On November 25, 2009 ESNG filed a prior notice request, proposing to construct, own and operate new mainline facilities to deliver additional firm entitlements of 1,594 Mcfs per day of natural gas to Chesapeake's Delaware division. The FERC published notice of this filing on December 7, 2009 and with no protest during the 60-day period following the notice, the proposed activity became effective on February 6, 2010. ESNG expects to realize an annualized margin of approximately $343,000 upon its completion of the facilities and implementation of the new service.

FERC Order Nos. 712 and 712-A. In June and November 2008, the FERC issued Order Nos. 712 and 712-A, which revised its regulations regarding interstate natural gas pipeline capacity release programs. The Orders: (a) remove the rate ceiling on capacity release transactions of one year or less; (b) facilitate the use of asset management arrangements for certain capacity releases; and (c) facilitate state-approved retail open access programs. The Orders required interstate gas pipeline companies to remove any inconsistent tariff provisions within 180 days of the effective date of the rule. On February 2, 2009, ESNG submitted revised tariff sheets to comply with the requirements set forth in the Orders. Amended tariff sheets were subsequently filed on February 26, 2009, which made minor clarifications and corrections. On March 27, 2009, ESNG received FERC approval of these amended tariff sheets with an effective date of March 1, 2009. Implementation of these amended tariff provisions will have no financial impact on ESNG.

ESNG also had developments in the following FERC matters:

On April 30, 2009, ESNG submitted its annual Interruptible Revenue Sharing Report to the FERC. ESNG reported in this filing that it refunded to its eligible firm customers a total of $245,500, inclusive of interest, in the second quarter of 2009.

On May 29, 2009, ESNG submitted its annual Fuel Retention Percentage ("FRP") and Cash-Out Surcharge filings to the FERC. In these filings, ESNG proposed to implement an FRP rate of 0.12 percent and a zero rate for its Cash-Out Surcharge. ESNG also proposed to refund a total of $294,540, inclusive of interest, to its eligible customers in the second quarter of 2009 by netting its over-recovered fuel cost against its under-recovered cash-out cost. The FERC approved these proposals, and ESNG refunded $294,540 to customers in July 2009.

On June 1, 2009, ESNG submitted revised tariff sheets to comply with FERC Order No. 587-T, which adopted Version 1.8 of the North American Energy Standards Board Wholesale Gas Quadrant's standards. FERC found this rule necessary to increase the efficiency of the pipeline grid, make pipelines' electronic communications more secure and provide consistency with the mandate that agencies provide for electronic disclosure of information. ESNG's revised tariff sheets were approved on August 11, 2009, by the FERC, which will have no financial impact on ESNG.

On August 21, 2009, ESNG filed revised tariff sheets to reflect an increase in the Annual Charge Adjustment ("ACA") surcharge from $0.0017 per Dt to $0.0019 per Dt. The ACA surcharge is designed to recover applicable program costs incurred by the FERC. The tariff sheets were accepted as proposed and were made effective on October 1, 2009. As the ACA is passed-through to ESNG's customers, there will be no financial impact on ESNG.

On December 11, 2009, ESNG filed revised tariff sheets to reflect a new section 42, Consolidation of Service Agreements, to the General Terms and Conditions of its FERC Gas Tariff. Section 42 states that shippers may, at their option and subject to certain conditions, consolidate multiple service agreements under a rate schedule into a new service agreement(s) under that rate schedule. The tariff sheets were accepted by the FERC on January 7, 2010, as proposed and were made effective January 15, 2010. As this new section allows for consolidation of existing service agreements only, there will be no financial impact on ESNG.

Natural Gas, Electric and Propane Supply

Our natural gas, electric and propane distribution operations have entered into contractual commitments to purchase gas and electricity from various suppliers. The contracts have various expiration dates. In March 2009, we renewed our contract with an energy marketing and risk management company to manage a portion of our natural gas transportation and storage capacity. This contract expires on March 31, 2012.

PESCO is currently in the process of obtaining and reviewing proposals from suppliers and anticipates executing agreements before the existing agreements expire in May 2010.

FPU's electric fuel supply contracts require FPU to maintain an acceptable standard of creditworthiness based on specific financial ratios. FPU's agreement with JEA requires FPU to comply with the following ratios based on the result of the prior 12 months: (a) total liabilities to tangible net worth less than 3.75 and (b) fixed charge coverage greater than 1.5. If either of the ratios is not met by FPU, it has 30 days to cure the default or provide an irrevocable letter of credit if the default is not cured. FPU's agreement with Gulf requires FPU to meet the following ratios based on the average of the prior six quarters: (a) funds from operation interest coverage (minimum of 2 to 1) and (b) total debt to total capital (maximum of 0.65 to 1). If FPU fails to meet the requirements, it has to provide the supplier a written explanation of action taken or proposed to be taken to be compliant. Failure to comply with the ratios specified in the Gulf agreement could result in FPU providing an irrevocable letter of credit. FPU was in compliance with these requirements as of December 31, 2009.

Corporate Guarantees

We have issued corporate guarantees to certain vendors of our subsidiaries, the largest portion of which are for the Company's propane wholesale marketing subsidiary and its natural gas marketing subsidiary. These corporate guarantees provide for the payment of propane and natural gas purchases in the event of the respective subsidiary's default. Neither subsidiary has ever defaulted on its obligations to pay its suppliers. The liabilities for these purchases are recorded in the Consolidated Financial Statements when incurred. The aggregate amount guaranteed at December 31, 2009 was $22.7 million, with the guarantees expiring on various dates in 2010.

In addition to the corporate guarantees, we have issued a letter of credit to the Company's primary insurance company for $725,000, which expires on August 31, 2010. The letter of credit is provided as security to satisfy the deductibles under our various insurance policies. There have been no draws on this letter of credit as of December 31, 2009. We do not anticipate that this letter of credit will be drawn upon by the counterparty and we expect that it will be renewed to the extent necessary in the future.

Other

We are involved in certain legal actions and claims arising in the normal course of business. We are also involved in certain legal proceedings and administrative proceedings before various governmental agencies concerning rates. In the opinion of management, the ultimate disposition of these proceedings will not have a material effect on our consolidated financial position, results of operations or cash flows.

Q. 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 *(in thousands, except per share amounts)*	March 31	June 30	September 30	December 31
2009 (1)				
Operating Revenue	**$ 104,479**	**$ 40,834**	**$ 31,758**	**$ 91,715**
Operating Income	**$ 15,966**	**$ 2,856**	**$ 2,257**	**$ 12,658**
Net Income (Loss)	**$ 8,593**	**$ 806**	**$ 308**	**$ 6,190**
Earnings (Loss) per share:				
Basic	**$ 1.26**	**$ 0.12**	**$ 0.04**	**$ 0.71**
Diluted	**$ 1.24**	**$ 0.12**	**$ 0.04**	**$ 0.71**
2008				
Operating Revenue	$ 100,274	$ 69,057	$ 49,698	$ 72,415
Operating Income	$ 14,041	$ 4,329	$ 1,170	$ 8,938
Net Income (Loss)	$ 7,574	$ 1,819	$ (198)	$ 4,412
Earnings (Loss) per share:				
Basic	$ 1.11	$ 0.27	$ (0.03)	$ 0.65
Diluted	$ 1.10	$ 0.27	$ (0.03)	$ 0.64

(1) The quarter ended December 31, 2009 includes the results from the merger with FPU, which became effective on October 28, 2009.

(2) The sum of the four quarters does not equal the total year due to rounding.

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

None.

ITEM 9A. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

The Chief Executive Officer and Chief Financial Officer of the Company, with the participation of other Company officials, have evaluated the Company's "disclosure controls and procedures" (as such term is defined under Rule 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended) as of December 31, 2009. Based upon their evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of December 31, 2009.

Changes in Internal Controls

Other than the Chesapeake and FPU merger discussed below, there has been no change in internal control over financial reporting (as such term is defined in Exchange Act Rule 13a-15(f)) that occurred during the quarter ended December 31, 2009, that materially affected, or is reasonably likely to materially affect, internal control over financial reporting.

On October 28, 2009, the previously announced merger between Chesapeake and FPU was consummated. Chesapeake is in the process of integrating FPU's operations and has not included FPU's activity in its evaluation of internal control over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act of 2002. See Item 8 under the heading "Notes to the Consolidated Financial Statements — Note B, Acquisitions and Dispositions" for additional information relating to the FPU merger. FPU's operations constituted approximately 30 percent of total assets (excluding goodwill and other intangible assets) as of December 31, 2009, and 10 percent of operating revenues for the year then ended. FPU's operations will be included in Chesapeake's assessment as of December 31, 2010.

CEO and CFO Certifications

The Company's Chief Executive Officer and Chief Financial Officer have filed with the SEC the certifications required by Section 302 of the Sarbanes-Oxley Act of 2002 as Exhibits 31.1 and 31.2 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2009. In addition, on June 1, 2009 the Company's Chief Executive Officer certified to the NYSE that he was not aware of any violation by the Company of the NYSE corporate governance listing standards.

Management's Report on Internal Control Over Financial Reporting

The report of management required under this Item 9A is contained in Item 8 of this Form 10-K under the caption "Management's Report on Internal Control over Financial Reporting."

Our independent auditors, ParenteBeard LLC, have audited and issued their report on effectiveness of our internal control over financial reporting. That report appears in the following page.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and
Stockholders of Chesapeake Utilities Corporation

We have audited Chesapeake Utilities Corporation's internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Chesapeake Utilities Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting appearing under Item 8. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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

As indicated in the accompanying Management's Report on Internal Control Over Financial Reporting, the Company completed a merger with Florida Public Utilities Company ("FPU") in 2009. As permitted by the Securities and Exchange Commission, management excluded the non-integrated FPU operations from its assessment of internal control over financial reporting as of December 31, 2009. Non-integrated FPU operations constituted approximately 30 percent of total assets (excluding goodwill and other intangible assets) as of December 31, 2009, and 10 percent of operating revenue for the year then ended. Our audit of internal control over financial reporting of Chesapeake Utilities Corporation as of December 31, 2009, did not include an evaluation of the internal controls over financial reporting of the non-integrated operations of FPU.

In our opinion, Chesapeake Utilities Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Chesapeake Utilities Corporation as of December 31, 2009 and 2008, and the related consolidated statements of income, stockholders' equity and cash flows of Chesapeake Utilities Corporation, and our report dated March 8, 2010 expressed an unqualified opinion.

/s/ ParenteBeard LLC
ParenteBeard LLC
Malvern, Pennsylvania
March 8, 2010

ITEM 9B. OTHER INFORMATION.

None

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS OF THE REGISTRANT AND CORPORATE GOVERNANACE.

The information required by this Item is incorporated herein by reference to the portions of the Proxy Statement, captioned "Election of Directors (Proposal 1)," "Information Concerning Nominees and Continuing Directors," "Corporate Governance," "Committees of the Board — Audit Committee" and "Section 16(a) Beneficial Ownership Reporting Compliance," to be filed not later than March 31, 2010, in connection with the Company's Annual Meeting to be held on or about May 5, 2010.

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 this report following Item 4, as Item 4A, under the caption "Executive Officers of the Company."

The Company has adopted a Code of Ethics for Financial Officers, which applies to its principal executive officer, president, principal financial officer, principal accounting officer or controller, or persons performing similar functions. The information set forth under Item 1 hereof concerning the Code of Ethics for Financial Officers is filed herewith.

ITEM 11. EXECUTIVE COMPENSATION.

The information required by this Item is incorporated herein by reference to the portion of the Proxy Statement, captioned "Director Compensation," "Executive Compensation" and "Compensation Discussion and Analysis" in the Proxy Statement to be filed not later than March 31, 2010, in connection with the Company's Annual Meeting to be held on or about May 5, 2010.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

The information required by this Item is incorporated herein by reference to the portion of the Proxy Statement, captioned "Security Ownership of Certain Beneficial Owners and Management" to be filed not later than March 31, 2010, in connection with the Company's Annual Meeting to be held on or about May 5, 2010.

The following table sets forth information, as of December 31, 2009, with respect to compensation plans of Chesapeake and its subsidiaries, under which shares of Chesapeake common stock are authorized for issuance:

	(a) Number of securities to be issued upon exercise of outstanding options, warrants, and rights	(b) Weighted-average exercise price of outstanding options, warrants, and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	—	—	439,258[1]
Equity compensation plans not approved by security holders	—	—	—
Total	—	—	439,258

[1] Includes 371,293 shares under the 2005 Performance Incentive Plan, 44,115 shares available under the 2005 Directors Stock Compensation Plan, and 23,850 shares available under the 2005 Employee Stock Awards Plan.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.

The information required by this Item is incorporated herein by reference to the portion of the Proxy Statement captioned, "Corporate Governance," to be filed no later than March 31, 2010 in connection with the Company's Annual Meeting to be held on or about May 5, 2010.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.

The information required by this Item is incorporated herein by reference to the portion of the Proxy Statement, captioned "Fees and Services of Independent Registered Public Accounting Firm," to be filed not later than March 31, 2010, in connection with the Company's Annual Meeting to be held on or about May 5, 2010.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES.

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

1. Financial Statements:

- Report of Independent Registered Public Accounting Firm;
- Consolidated Statements of Income for each of the three years ended December 31, 2009, 2008, and 2007;
- Consolidated Balance Sheets at December 31, 2009 and December 31, 2008;
- Consolidated Statements of Cash Flows for each of the three years ended December 31, 2009, 2008, and 2007;
- Consolidated Statements of Stockholders' Equity for each of the three years ended December 31, 2009, 2008, and 2007; and
- Notes to the Consolidated Financial Statements.

2. Financial Statement Schedules:

- Report of Independent Registered Public Accounting Firm;
- Schedule I — Parent Company Condensed Financial Statements; and
- 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.

3. Exhibits

- Exhibit 1.1 — Underwriting Agreement entered into by Chesapeake Utilities Corporation and Robert W. Baird & Co. Incorporated and A.G. Edwards & Sons, Inc., on November 15, 2007, relating to the sale and issuance of 600,300 shares of Chesapeake's common stock, is incorporated herein by reference to Exhibit 1.1 of our Current Report on Form 8-K, filed November 16, 2007, File No. 001-11590.
- Exhibit 2.1 — Agreement and Plan of Merger between Chesapeake Utilities Corporation and Florida Public Utilities Company dated April 17, 2009, is incorporated herein by reference to Exhibit 2.1 of our Current Report on Form 8-K, filed April 20, 2009, File No. 001-11590.
- Exhibit 3.1 — Restated Certificate of Incorporation of Chesapeake Utilities Corporation is incorporated herein by reference to Exhibit 3.1 of our Quarterly Report on Form 10-Q for the period ended June 30, 1998, File No. 001-11590.
- Exhibit 3.2 — Amended and Restated Bylaws of Chesapeake Utilities Corporation, effective December 11, 2008, are incorporated herein by reference to Exhibit 3 of the Company's Current Report on Form 8-K, filed December 16, 2008, File No. 001-11590.
- Exhibit 4.1 — Form of Indenture between Chesapeake 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 our Registration Statement on Form S-2, Reg. No. 33-26582, filed on January 13, 1989.

- Exhibit 4.2 Note Purchase Agreement, entered into by the Company on October 2, 1995, pursuant to which Chesapeake 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. We hereby agree to furnish a copy of that agreement to the SEC upon request.

- Exhibit 4.3 Note Purchase Agreement, entered into by Chesapeake on December 15, 1997, pursuant to which Chesapeake privately placed $10 million of its 6.85% Senior Notes due in 2012, is not being filed herewith, in accordance with Item 601(b)(4)(iii) of Regulation S-K. We hereby agree to furnish a copy of that agreement to the SEC upon request.

- Exhibit 4.4 Note Purchase Agreement entered into by Chesapeake on December 27, 2000, pursuant to which Chesapeake privately placed $20 million of its 7.83% Senior Notes, due in 2015, is not being filed herewith, in accordance with Item 601(b)(4)(iii) of Regulation S-K. We hereby agree to furnish a copy of that agreement to the SEC upon request.

- Exhibit 4.5 Note Agreement entered into by Chesapeake on October 31, 2002, pursuant to which Chesapeake privately placed $30 million of its 6.64% Senior Notes, due in 2017, is incorporated herein by reference to Exhibit 2 of our Current Report on Form 8-K, filed November 6, 2002, File No. 001-11590.

- Exhibit 4.6 Note Agreement entered into by Chesapeake on October 18, 2005, pursuant to which Chesapeake, on October 12, 2006, privately placed $20 million of its 5.5% Senior Notes, due in 2020, with Prudential Investment Management, Inc., is incorporated herein by reference to Exhibit 4.1 of our Annual Report on Form 10-K for the year ended December 31, 2005, File No. 001-11590.

- Exhibit 4.7 Note Agreement entered into by Chesapeake on October 31, 2008, pursuant to which Chesapeake, on October 31, 2008, privately placed $30 million of its 5.93% Senior Notes, due in 2023, with General American Life Insurance Company and New England Life Insurance Company, is not being filed herewith, in accordance with Item 601(b)(4)(iii) of Regulation S-K. We hereby agree to furnish a copy of that agreement to the SEC upon request.

- Exhibit 4.8 Form of Senior Debt Trust Indenture between Chesapeake Utilities Corporation and the trustee for the debt securities is incorporated herein by reference to Exhibit 4.3.1 of our Registration Statement on Form S-3A, Reg. No. 333-135602, dated November 6, 2006.

- Exhibit 4.9 Form of Subordinated Debt Trust Indenture between Chesapeake Utilities Corporation and the trustee for the debt securities is incorporated herein by reference to Exhibit 4.3.2 of our Registration Statement on Form S-3A, Reg. No. 333-135602, dated November 6, 2006.

- Exhibit 4.10 Form of debt securities is incorporated herein by reference to Exhibit 4.4 of our Registration Statement on Form S-3A, Reg. No. 333-135602, dated November 6, 2006.

- Exhibit 4.11 Form of Indenture of Mortgage and Deed of Trust between Florida Public Utilities Company and the trustee, dated September 1, 1942 for the First Mortgage Bonds, is incorporated herein by reference to Exhibit 7-A of Florida Public Utilities Company's Registration No. 2-6087.

- Exhibit 4.12 Fourteenth Supplemental Indenture entered into by Florida Public Utilities Company on September 1, 2001, pursuant to which Florida Public Utilities Company, on September 1, 2001, privately placed $15,000,000 of its 6.85% First Mortgage Bonds, is incorporated herein by reference to Exhibit 4(b) of Florida Public Utilities Company's Annual Report on Form 10-K for the year ended December 31, 2001, File No. 001-10608.

- Exhibit 4.13 Fifteenth Supplemental Indenture entered into by Florida Public Utilities Company on November 1, 2001, pursuant to which Florida Public Utilities Company, on November 1, 2001, privately placed $14,000,000 of its 4.90% First Mortgage Bonds, is incorporated herein by reference to Exhibit 4(c) of Florida Public Utilities Company's Annual Report on Form 10-K for the year ended December 31, 2001, File No. 001-10608

- Exhibit 4.14 Twelfth Supplemental Indenture entered into by Florida Public Utilities on May 1, 1988, pursuant to which Florida Public Utilities Company, on May 1, 1988, privately placed $10,000,000 and $5,000,000 of its 9.57% First Mortgage Bonds and 10.03% First Mortgage Bonds, respectively, are incorporated herein by reference to Exhibit 4 to Florida Public Utilities Company's Quarterly Report on Form 10-Q for the period ended June 30, 1988.

- Exhibit 4.15 Thirteenth Supplemental Indenture entered into by Florida Public Utilities Company on June 1, 1992, pursuant to which Florida Public Utilities, on May 1, 1992, privately placed $8,000,000 of its 9.08% First Mortgage Bonds, is incorporated herein by reference to Exhibit 4 to Florida Public Utilities Company's Quarterly Report on Form 10-Q for the period ended June 30, 1992.

- Exhibit 10.1* Chesapeake Utilities Corporation Cash Bonus Incentive Plan, dated January 1, 2005, is incorporated herein by reference to Exhibit 10.3 of our Annual Report on Form 10-K for the year ended December 31, 2004, File No. 001-11590.

- Exhibit 10.2* Chesapeake Utilities Corporation Directors Stock Compensation Plan, adopted in 2005, is incorporated herein by reference to our Proxy Statement dated March 28, 2005, in connection with our Annual Meeting held on May 5, 2005, File No. 001-11590.

- Exhibit 10.3* Chesapeake Utilities Corporation Employee Stock Award Plan, adopted in 2005, is incorporated herein by reference to our Proxy Statement dated March 28, 2005, in connection with our Annual Meeting held on May 5, 2005, File No. 001-11590.

- Exhibit 10.4* Chesapeake Utilities Corporation Performance Incentive Plan, adopted in 2005, is incorporated herein by reference to our Proxy Statement dated March 28, 2005, in connection with our Annual Meeting held on May 5, 2005, File No. 001-11590.

- Exhibit 10.5* Deferred Compensation Program, amended and restated as of January 1, 2009, is incorporated herein by reference to Exhibit 10.5 of the Company's Annual Report on Form 10-K for the year ended December 31, 2008, File No. 001-11590.

- Exhibit 10.6* Executive Employment Agreement dated December 29, 2006, by and between Chesapeake Utilities Corporation and S. Robert Zola, is incorporated herein by reference to Exhibit 10.7 of our Annual Report on Form 10-K for the year ended December 31, 2006, File No. 001-11590.

- Exhibit 10.7* Amendment to Executive Employment Agreement, effective January 1, 2009, by and between Chesapeake Utilities Corporation and S. Robert Zola, is incorporated herein by reference to Exhibit 10.7 of the Company's Annual Report on Form 10-K for the year ended December 31, 2008, File No. 001-11590.

- Exhibit 10.8* Executive Employment Agreement dated December 31, 2009, by and between Chesapeake Utilities Corporation and John R. Schimkaitis, is incorporated herein by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K, filed January 7, 2010, File No. 001-11590.

- Exhibit 10.9* Executive Employment Agreement dated December 31, 2009, by and between Chesapeake Utilities Corporation and Michael P. McMasters, is incorporated herein by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K, filed January 7, 2010, File No. 001-11590.

- Exhibit 10.10* Executive Employment Agreement dated December 31, 2009, by and between Chesapeake Utilities Corporation and Stephen C. Thompson, is incorporated herein by reference to Exhibit 10.3 of the Company's Current Report on Form 8-K, filed January 7, 2010, File No. 001-11590.

- Exhibit 10.11* Executive Employment Agreement dated December 31, 2009, by and between Chesapeake Utilities Corporation and Beth W. Cooper, is incorporated herein by reference to Exhibit 10.4 of the Company's Current Report on Form 8-K, filed January 7, 2010, File No. 001-11590.

- Exhibit 10.12* Executive Employment Agreement dated December 31, 2009, by and between Chesapeake Utilities Corporation and Joseph Cummiskey, is incorporated herein by reference to Exhibit 10.5 of the Company's Current Report on Form 8-K, filed January 7, 2010, File No. 001-11590.

- Exhibit 10.13* Performance Share Agreement dated January 23, 2008 for the period 2008 to 2009, pursuant to Chesapeake Utilities Corporation Performance Incentive Plan by and between Chesapeake Utilities Corporation and John R. Schimkaitis, is incorporated herein by reference to Exhibit 10.11 of our Annual Report on Form 10-K for the year ended December 31, 2007, File No. 001-11590.

- Exhibit 10.14* Performance Share Agreement dated January 23, 2008 for the period 2008 to 2010, pursuant to Chesapeake Utilities Corporation Performance Incentive Plan by and between Chesapeake Utilities Corporation and John R. Schimkaitis, is incorporated herein by reference to Exhibit 10.12 of our Annual Report on Form 10-K for the year ended December 31, 2007, File No. 001-11590.

- Exhibit 10.15* Performance Share Agreement dated January 23, 2008 for the period 2008 to 2009, pursuant to Chesapeake Utilities Corporation Performance Incentive Plan by and between Chesapeake Utilities Corporation and Michael P. McMasters, is incorporated herein by reference to Exhibit 10.13 of our Annual Report on Form 10-K for the year ended December 31, 2007, File No. 001-11590.

- Exhibit 10.16* Performance Share Agreement dated January 23, 2008 for the period 2008 to 2010, pursuant to Chesapeake Utilities Corporation Performance Incentive Plan by and between Chesapeake Utilities Corporation and Michael P. McMasters, is incorporated herein by reference to Exhibit 10.14 of our Annual Report on Form 10-K for the year ended December 31, 2007, File No. 001-11590.

- Exhibit 10.17* Performance Share Agreement dated January 23, 2008 for the period 2008 to 2009, pursuant to Chesapeake Utilities Corporation Performance Incentive Plan by and between Chesapeake Utilities Corporation and Stephen C. Thompson, is incorporated herein by reference to Exhibit 10.15 of our Annual Report on Form 10-K for the year ended December 31, 2007, File No. 001-11590.

- Exhibit 10.18* Performance Share Agreement dated January 23, 2008 for the period 2008 to 2010, pursuant to Chesapeake Utilities Corporation Performance Incentive Plan by and between Chesapeake Utilities Corporation and Stephen C. Thompson, is incorporated herein by reference to Exhibit 10.16 of our Annual Report on Form 10-K for the year ended December 31, 2007, File No. 001-11590.

- Exhibit 10.19* Performance Share Agreement dated January 23, 2008 for the period 2008 to 2009, pursuant to Chesapeake Utilities Corporation Performance Incentive Plan by and between Chesapeake Utilities Corporation and Beth W. Cooper, is incorporated herein by reference to Exhibit 10.17 of our Annual Report on Form 10-K for the year ended December 31, 2007, File No. 001-11590.

- Exhibit 10.20* Performance Share Agreement dated January 23, 2008 for the period 2008 to 2010, pursuant to Chesapeake Utilities Corporation Performance Incentive Plan by and between Chesapeake Utilities Corporation and Beth W. Cooper, is incorporated herein by reference to Exhibit 10.18 of our Annual Report on Form 10-K for the year ended December 31, 2007, File No. 001-11590.

- Exhibit 10.21* Performance Share Agreement dated January 23, 2008 for the period 2008 to 2009, pursuant to Chesapeake Utilities Corporation Performance Incentive Plan by and between Chesapeake Utilities Corporation and S. Robert Zola, is incorporated herein by reference to Exhibit 10.19 of our Annual Report on Form 10-K for the year ended December 31, 2007, File No. 001-11590.

- Exhibit 10.22* Performance Share Agreement dated January 23, 2008 for the period 2008 to 2010, pursuant to Chesapeake Utilities Corporation Performance Incentive Plan by and between Chesapeake Utilities Corporation and S. Robert Zola, is incorporated herein by reference to Exhibit 10.20 of our Annual Report on Form 10-K for the year ended December 31, 2007, File No. 001-11590.

- Exhibit 10.23* Form of Performance Share Agreement effective January 7, 2009, pursuant to Chesapeake Utilities Corporation Performance Incentive Plan by and between Chesapeake Utilities Corporation and each of John R. Schimkaitis, Michael P. McMasters, Beth W. Cooper and Stephen C. Thompson, is incorporated herein by reference to Exhibit 10.26 on Form 10-K for the year ended December 31, 2008, File No. 001-11590.

- Exhibit 10.24* Form of Performance Share Agreement effective January 6, 2010, pursuant to Chesapeake Utilities Corporation Performance Incentive Plan by and between Chesapeake Utilities Corporation and each of John R. Schimkaitis, Michael P. McMasters, Beth W. Cooper, Stephen C. Thompson, and Joseph Cummiskey is filed herewith.

- Exhibit 10.25* Performance Share Agreement dated January 20, 2010 for the period 2010 to 2011, pursuant to Chesapeake Utilities Corporation Performance Incentive Plan by and between Chesapeake Utilities Corporation and Joseph Cummiskey is filed herewith.

- Exhibit 10.26* Chesapeake Utilities Corporation Supplemental Executive Retirement Plan, as amended and restated effective January 1, 2009, is incorporated herein by reference to Exhibit 10.28 of the Company's Annual Report on Form 10-K for the year ended December 31, 2008, File No. 001-11590.

- Exhibit 10.27* Chesapeake Utilities Corporation Supplemental Executive Retirement Savings Plan, as amended and restated effective January 1, 2009, is incorporated herein by reference to Exhibit 10.29 of the Company's Annual Report on Form 10-K for the year ended December 31, 2008, File No. 001-11590.

- Exhibit 10.28* Amended and Restated Electric Service Contract between Florida Public Utilities Company and JEA dated November 6, 2008, is incorporated herein by reference to Exhibit 10.1 of Florida Public Utilities Company's Current Report on Form 8-K, filed on November 6, 2008, File No. 001-10908.

- Exhibit 10.29* Networking Operating Agreement between Florida Public Utilities Company and Southern Company Services, Inc. dated December 27, 2007 and amended on June 3, 2008, is incorporated herein by reference to Exhibit 10.3 of Florida Public Utilities Company's Quarterly Report on Form 10-Q for the period ended June 30, 2008, File No. 001-10608.

- Exhibit 10.30* Network Integration Transmission Service Agreement between Florida Public Utilities Company and Southern Company Services, Inc. dated December 27, 2007 and amended on June 3, 2008, is incorporated herein by reference to Exhibit 10.4 of Florida Public Utilities Company's Quarterly Report on Form 10-Q for the period ended June 30, 2008, File No. 001-10608.

- Exhibit 10.31* Form of Service Agreement for Firm Transportation Service between Florida Public Utilities Company and Florida Gas Transmission Company, LLC dated November 1, 2007 for the period November 2007 to February 2016 (Contract No. 107033), is incorporated herein by reference to Exhibit 10.1 of Florida Public Utilities Company's Quarterly Report on Form 10-Q for the period ended September 30, 2007, File No. 001-10608.

- Exhibit 10.32* Form of Service Agreement for Firm Transportation Service between Florida Public Utilities Company and Florida Gas Transmission Company, LLC dated November 1, 2007 for the period November 2007 to March 2022 (Contract No. 107034), is incorporated herein by reference to Exhibit 10.2 of Florida Public Utilities Company's Quarterly Report on Form 10-Q for the period ended September 30, 2007, File No. 001-10608.

- Exhibit 10.33* Form of Service Agreement for Firm Transportation Service between Florida Public Utilities Company and Florida Gas Transmission Company, LLC dated November 1, 2007 for the period November 2007 to February 2022 (Contract No. 107035), is incorporated herein by reference to Exhibit 10.3 of Florida Public Utilities Company's Quarterly Report on Form 10-Q for the period ended September 30, 2007, File No. 001-10608.
- Exhibit 12 Computation of Ratio of Earning to Fixed Charges is filed herewith.
- Exhibit 14.1 Code of Ethics for Financial Officers is filed herewith.
- Exhibit 14.2 Business Code of Ethics and Conduct is filed herewith.
- Exhibit 21 Subsidiaries of the Registrant is filed herewith.
- Exhibit 23.1 Consent of Independent Registered Public Accounting Firm is filed herewith.
- Exhibit 31.1 Certificate of Chief Executive Officer of Chesapeake Utilities Corporation pursuant to Exchange Act Rule 13a-14(a) and 15d-14(a), dated March 8, 2010, is filed herewith.
- Exhibit 31.2 Certificate of Chief Financial Officer of Chesapeake Utilities Corporation pursuant to Exchange Act Rule 13a-14(a) and 15d-14(a), dated March 8, 2010, is filed herewith.
- Exhibit 32.1 Certificate of Chief Executive Officer of Chesapeake Utilities Corporation pursuant to 18 U.S.C. Section 1350, dated March 8, 2010, is filed herewith.
- Exhibit 32.2 Certificate of Chief Financial Officer of Chesapeake Utilities Corporation pursuant to 18 U.S.C. Section 1350, dated March 8, 2010, is 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
Vice Chairman and Chief Executive Officer
Date: March 8, 2010

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/S/ RALPH J. ADKINS
Ralph J. Adkins,
Chairman of the Board and Director
Date: February 24, 2010

/S/ JOHN R. SCHIMKAITIS
John R. Schimkaitis,
Vice Chairman, Chief Executive Officer and Director
Date: March 8, 2010

/S/ BETH W. COOPER
Beth W. Cooper, Senior Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)
Date: March 8, 2010

/S/ EUGENE H. BAYARD
Eugene H. Bayard, Director
Date: February 24, 2010

/S/ RICHARD BERNSTEIN
Richard Bernstein, Director
Date: February 24, 2010

/S/ THOMAS J. BRESNAN
Thomas J. Bresnan, Director
Date: March 8, 2010

/S/ THOMAS P. HILL, JR.
Thomas P. Hill, Jr., Director
Date: February 24, 2010

/S/ DENNIS S. HUDSON, III
Dennis S. Hudson, III, Director
Date: February 24, 2010

/S/ PAUL L. MADDOCK, JR.
Paul L. Maddock, Jr., Director
Date: February 24, 2010

/S/ J. PETER MARTIN
J. Peter Martin, Director
Date: February 24, 2010

/S/ MICHAEL P. MCMASTERS
Michael P. McMasters, President, Chief Operating Officer and Director
Date: March 8, 2010

/S/ JOSEPH E. MOORE, ESQ
Joseph E. Moore, Esq., Director
Date: February 24, 2010

/S/ CALVERT A. MORGAN, JR
Calvert A. Morgan, Jr., Director
Date: February 24, 2010

/S/ DIANNA F. MORGAN
Dianna F. Morgan, Director
Date: February 24, 2010

Report of Independent Registered Public Accounting Firm

To the Board of Directors and
Stockholders of Chesapeake Utilities Corporation

The audit referred to in our report dated March 8, 2010 relating to the consolidated financial statements of Chesapeake Utilities Corporation as of December 31, 2009 and 2008 and for each of the years in the three-year period ended December 31, 2009, which is contained in Item 8 of this Form 10-K also included the audits of the financial statement schedules listed in Item 15(a) 2. These financial statement schedules are the responsibility of the Chesapeake Utilities Corporation's management. Our responsibility is to express an opinion on these financial statement schedules based on our audits.

In our opinion such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ ParenteBeard LLC
ParenteBeard LLC
Malvern, Pennsylvania
March 8, 2010

Chesapeake Utilities Corporation and Subsidiaries
Schedule I
Parent Company Condensed Financial Statements

Chesapeake Utilities Corporation (Parent)
Condensed Balance Sheets

Assets *(in thousands)*	**December 31, 2009**	**December 31, 2008**
Total property, plant and equipment	$ 191,440	$ 185,416
Less: Accumulated depreciation and amortization	(46,297)	(46,158)
Plus: Construction work in progress	1,338	408
Net property, plant and equipment	146,481	139,666
Investments	1,959	1,601
Investments in subsidiaries	160,150	73,410
Current Assets		
Cash and cash equivalents	973	1,534
Accounts receivable (less allowance for uncollectible accounts of $458 and $398, respectively)	9,356	11,848
Accrued revenue	4,936	4,721
Accounts receivable from affiliates	56,587	61,139
Propane inventory, at average cost	624	648
Other inventory, at average cost	971	983
Regulatory assets	1,205	824
Storage gas prepayments	6,144	9,492
Income taxes receivable	822	3,547
Deferred income taxes	1,909	1,743
Prepaid expenses	3,047	1,974
Other current assets	79	79
Total current assets	86,653	98,532
Deferred Charges and Other Assets		
Long-term receivables	331	512
Regulatory assets	3,610	2,060
Other deferred charges	479	453
Total deferred charges and other assets	4,420	3,025
Total Assets	$ 399,663	$ 316,234

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

Chesapeake Utilities Corporation and Subsidiaries
Schedule I
Parent Company Condensed Financial Statements

Chesapeake Utilities Corporation (Parent)
Condensed Balance Sheets

Capitalization and Liabilities	December 31, 2009	December 31, 2008
(in thousands)		
Capitalization		
Stockholders' equity		
Common stock, par value $0.4867 per share (authorized 12,000,000 shares)	$ 4,572	$ 3,323
Additional paid-in capital	144,502	66,681
Retained earnings	63,231	56,817
Accumulated other comprehensive loss	(2,865)	(3,748)
Deferred compensation obligation	739	1,549
Treasury stock	(739)	(1,549)
Total stockholders' equity	209,440	123,073
Long-term debt, net of current maturities	79,611	86,382
Total capitalization	289,051	209,455
Current Liabilities		
Current portion of long-term debt	6,636	6,636
Short-term borrowing	30,023	33,000
Accounts payable	9,157	9,587
Customer deposits and refunds	4,410	5,558
Accrued interest	1,003	1,023
Dividends payable	2,959	2,082
Accrued compensation	2,450	1,994
Regulatory liabilities	5,934	2,429
Other accrued liabilities	1,647	1,602
Total current liabilities	64,219	63,911
Deferred Credits and Other Liabilities		
Deferred income taxes	16,494	13,204
Deferred investment tax credits	157	193
Regulatory liabilities	695	598
Environmental liabilities	531	511
Other pension and benefit costs	5,674	6,914
Accrued asset removal cost	18,248	17,740
Other liabilities	4,594	3,708
Total deferred credits and other liabilities	46,393	42,868
Other commitments and contingencies		
Total Capitalization and Liabilities	$ 399,663	$ 316,234

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

Chesapeake Utilities Corporation and Subsidiaries
Schedule I
Parent Company Condensed Financial Statements

Chesapeake Utilities Corporation (Parent)
Condensed Statements of Income

For the Years Ended December 31,	2009	2008	2007
(in thousands)			
Operating Revenues	**$ 101,577**	$ 103,733	$ 119,402
Operating Expenses			
Cost of sales	**62,339**	65,446	83,076
Operations	**18,487**	16,039	16,454
Transaction-related costs	**1,478**	1,153	—
Maintenance	**1,535**	1,303	1,409
Depreciation and amortization	**4,194**	3,918	4,032
Other taxes	**3,564**	3,380	2,989
Total operating expenses	**91,597**	91,239	107,960
Operating Income	**9,980**	12,494	11,442
Income from equity investments	**12,042**	7,781	7,679
Other income (loss), net of other expenses	**(30)**	(106)	220
Interest charges	**3,066**	3,026	3,195
Income Before Income Taxes	**18,926**	17,143	16,146
Income taxes	**3,029**	3,536	2,948
Net Income	**$ 15,897**	$ 13,607	$ 13,198

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

Chesapeake Utilities Corporation and Subsidiaries
Schedule I
Parent Company Condensed Financial Statements

Chesapeake Utilities Corporation (Parent)
Condensed Statements of Cash Flows

For the Years Ended December 31,	2009	2008	2007
(in thousands)			
Operating Activities			
Net Income	$ 15,897	$ 13,607	$ 13,198
Adjustments to reconcile net income to net operating cash:			
Equity earnings in subsidiaries	(12,042)	(7,781)	(7,679)
Depreciation and amortization	4,190	3,918	4,268
Depreciation and accretion included in other costs	1,773	1,389	1,646
Deferred income taxes, net	2,821	5,147	(156)
Gain on sale of assets	—	—	(205)
Unrealized (gain) loss on investments	(212)	509	(123)
Employee benefits and compensation	1,217	152	1,004
Share based compensation	1,306	820	990
Other, net	8	11	7
Changes in assets and liabilities:			
Sale (purchase) of investments	(146)	(201)	229
Accounts receivable and accrued revenue	(16,770)	(3,016)	(2,315)
Propane inventory, storage gas and other inventory	3,383	(3,854)	1,427
Regulatory assets	(1,825)	606	(526)
Prepaid expenses and other current assets	(1,050)	(516)	(179)
Other deferred charges	(72)	(8)	(61)
Long-term receivables	181	199	76
Accounts payable and other accrued liabilities	9,832	3,323	(403)
Income taxes receivable	2,791	(3,113)	147
Accrued interest	(20)	158	32
Customer deposits and refunds	(1,147)	34	1,423
Accrued compensation	352	377	326
Regulatory liabilities	3,603	(2,379)	1,941
Other liabilities	886	(23)	(151)
Net cash provided by operating activities	14,956	9,359	14,916
Investing Activities			
Property, plant and equipment expenditures	(12,615)	(16,328)	(15,464)
Proceeds from sale of assets	—	—	205
Proceeds from investments	1,000	500	900
Cash acquired in the merger, net of cash paid	(16)	—	—
Environmental expenditures	(86)	(480)	(228)
Net cash used by investing activities	(11,717)	(16,308)	(14,587)
Financing Activities			
Inter-company receivable (payable)	13,379	4,302	(4,331)
Common stock dividends	(7,957)	(7,810)	(7,030)
Issuance of stock for Dividend Reinvestment Plan	392	(118)	299
Change in cash overdrafts due to outstanding checks	835	(684)	(541)
Net borrowing (repayment) under line of credit agreements	(3,812)	(11,980)	18,651
Proceeds from issuance of long-term debt	—	29,961	—
Repayment of long-term debt	(6,637)	(7,637)	(7,637)
Net cash provided by (used in) financing activities	(3,800)	6,034	(589)
Net Decrease in Cash and Cash Equivalents	(561)	(915)	(260)
Cash and Cash Equivalents — Beginning of Period	1,534	2,449	2,709
Cash and Cash Equivalents — End of Period	$ 973	$ 1,534	$ 2,449

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

Chesapeake Utilities Corporation and Subsidiaries
Schedule I
Parent Company Condensed Financial Statements

Notes to Financial Information

These condensed financial statements represent the financial information of Chesapeake Utilities Corporation (parent company).

For information concerning Chesapeake's debt obligations, see Item 8 under the heading "Notes to the Consolidated Financial Statements — Note J, Long-term Debt, and Note K, Short-term Borrowing."

For information concerning Chesapeake's material contingencies and guarantees, see Item 8 under the heading "Notes to the Consolidated Financial Statements — Note O, Environmental Commitments and Contingencies, and Note P, Other Commitments and Contingencies."

Chesapeake's wholly-owned subsidiaries are accounted for using the equity method of accounting.

Chesapeake Utilities Corporation and Subsidiaries
Schedule II
Valuation and Qualifying Accounts

For the Year Ended December 31,	Balance at Beginning of Year	Additions		Deductions (2)	Balance at End of Year
		Charged to Income	Other Accounts (1)		
Reserve Deducted From Related Assets					
Reserve for Uncollectible Accounts					
(In thousands)					
2009	**$ 1,159**	**$ 1,138**	**$ 616**	**$ (1,304)**	**$ 1,609**
2008	$ 952	$ 1,186	$ 241	$ (1,220)	$ 1,159
2007	$ 662	$ 818	$ 26	$ (554)	$ 952

(1) Recoveries.

(2) Uncollectible accounts charged off.

PERFORMANCE SHARE AGREEMENT

pursuant to the

CHESAPEAKE UTILITIES CORPORATION
PERFORMANCE INCENTIVE PLAN

On ___________20_____, (the "Grant Date"), Chesapeake Utilities Corporation, a Delaware corporation (the "Company"), has granted _______________(the "Grantee"), who resides at _______________________, a Performance Share Award on the terms and subject to the conditions of this Performance Share Agreement.

Recitals

WHEREAS, the Chesapeake Utilities Corporation Performance Incentive Plan (the "Plan") has been duly adopted by action of the Company's Board of Directors (the "Board") on February 24, 2005, and approved by the Shareholders of the Company at a meeting held on May 5, 2005; and

WHEREAS, the Plan is effective January 1, 2006; and

WHEREAS, the Committee of the Board of Directors of the Company referred to in the Plan (the "Committee") has determined that it is in the best interests of the Company to grant the Performance Share Award described herein pursuant to the Plan; and

WHEREAS, the shares of the Common Stock of the Company ("Shares") that are subject to this Agreement, when added to the other shares of Common Stock that are subject to awards granted under the Plan, do not exceed the total number of shares of Common Stock with respect to which awards are authorized to be granted under the Plan.

Agreement

It is hereby covenanted and agreed by and between the Company and the Grantee as follows:

Section 1. Performance Share Award and Performance Period

The Company hereby grants to the Grantee a Performance Share Award as of the Grant Date. As more fully described herein, the Grantee may earn up to _____ Shares upon the Company's achievement of the performance criteria set forth in Section 2 (the "Performance Shares") over the performance period from January 1, _____ to December 31, _____ (the "Performance Period"). This Award has been granted pursuant to the Plan; capitalized terms used in this agreement which are not specifically defined herein shall have the meanings ascribed to such terms in the Plan.

Section 2. Performance Criteria and Terms of Share Award

(a) The Committee selected and established in writing performance criteria for the Performance Period, which, if met, may entitle the Grantee to some or all of the Performance Shares under this Award. If this Award is intended by the Committee to comply with the exception from Code Section 162(m) for qualified performance-based compensation for Grantees who are "Covered Employees" as defined in Code Section 162(m), the performance criteria established shall be based on one or more Performance Goals selected by the Committee in writing within 90 days following the first day of the Performance Period (or, if earlier, before 25% of that period has elapsed), and at a time when the outcome relative to the attainment of the performance criteria is not substantially certain. As soon as practicable after the Company's independent auditors have certified the Company's financial statements for each fiscal year of the Company in the Performance Period, the Committee shall determine for purposes of this Agreement the Company's (1) total shareholder return, defined as the cumulative total return to shareholders ("Shareholder Value"), (2) growth in long-term earnings, defined as the growth in total capital expenditures as a percentage of total capitalization ("Growth") and (3) earnings performance, defined as average return on equity ("RoE"), in accordance with procedures established by the Committee. The Shareholder Value, Growth and RoE (each a "Performance Metric" and collectively, the "Performance Metrics") shall be determined by the Committee in accordance with the terms of the Plan and this Agreement based on financial results reported to shareholders in the Company's annual reports and shall be subject to adjustment by the Committee for extraordinary events during the Performance Period, as applicable. Both the Shareholder Value and the Growth Performance Metrics will be compared to those of the peer group consisting of gas utility companies listed in the Edward Jones Natural Gas Distribution Group (the "Peer Group") for the Performance Period and Awards will be determined according to the schedule in subsection (b) below. For the average RoE Performance Metric, the Company's performance will be compared to pre-determined RoE thresholds established by the Committee. At the end of the Performance Period, the Committee shall certify in writing the extent to which the Performance Goals were met during the Performance Period for Awards for Covered Employees. If the Performance Goals for the Performance Period are met, Covered Employees shall be entitled to the Award, subject to the Committee's exercise of discretion to reduce any Award to a Covered Employee based on business objectives established for that Covered Employee or other factors as determined by the Committee in its sole discretion. The Committee shall promptly notify the Grantee of its determination.

(b) The Grantee may earn 15 percent or more of the target award of _____ Performance Shares (the "Target Award") up to a maximum number of Performance Shares set forth in Section 1 above (the "Maximum Award") based upon achievement of threshold and target levels of performance against the Performance Metrics established for the Performance Period. The Committee shall confirm the level of Award attained for the Performance Period after the Company's independent auditors have certified the Company's financial statements for each fiscal year of the Company in the Performance Period.

(c) Once established, the performance criteria identified above normally shall not be changed during the Performance Period. However, if the Committee determines that external changes or other unanticipated business conditions have materially affected the fairness of the goals, or that a change in the business, operations, corporate structure or capital structure of the Company, or the manner in which it conducts its business, or acquisitions or divestitures of subsidiaries or business units, or other events or circumstances materially affect the performance criteria or render the performance criteria unsuitable, then the Committee may approve appropriate adjustments to the performance criteria (either up or down) during the Performance Period. Notwithstanding the foregoing, no changes shall be made to an Award intended to satisfy the requirements of Code Section 162(m) if such changes would affect the qualification of the Award as performance-based compensation within the meaning of Code Section 162(m).

(d) Performance Shares that are earned by the Grantee pursuant to this Section 2 shall be issued promptly, without payment of consideration by the Grantee, within 2 1 / 2 months of the end of the Performance Period. The Grantee shall have the right to vote the Performance Shares and to receive the dividends distributable with respect to such Shares on and after, but not before, the date on which the Grantee is recorded on the Company's ledger as holder of record of the Performance Shares (the "Issue Date"). If, however, the Grantee receives Shares as part of any dividend or other distribution with respect to the Performance Shares, such Shares shall be treated as if they are Performance Shares, and such Shares shall be subject to all of the terms and conditions imposed by this Section 2. Notwithstanding the foregoing, the Grantee shall be entitled to receive an amount in cash, equivalent to the dividends that would have been paid on the awarded Performance Shares from the Grant Date to the Issue Date for those Performance Shares actually earned by the Grantee during the applicable Performance Period. Such dividend equivalents shall be payable at the time such Performance Shares are issued.

(e) The Performance Shares will not be registered for resale under the Securities Act of 1933 or the laws of any state except when and to the extent determined by the Board pursuant to a resolution. Until a registration statement is filed and becomes effective, however, transfer of the Performance Shares shall require the availability of an exemption from such registration, and prior to the issuance of new certificates, the Company shall be entitled to take such measures as it deems appropriate (including but not limited to obtaining from the Grantee an investment representation letter and/or further legending the new certificates) to ensure that the Performance Shares are not transferred in the absence of such exemption.

(f) In the event of a Change in Control, as defined in the Plan, during the Performance Period, the Grantee shall earn the Maximum Award of Performance Shares set forth in this Section 2, as if all performance criteria were satisfied, without any pro ration based on the proportion of the Performance Period that has expired as of the date of such Change in Control.

(g) If, during the Performance Period, the Grantee is separated from employment, Performance Shares shall be deemed earned or forfeited as follows:

(1) Upon voluntary termination by the Grantee or termination by the Company for failure of job performance or other just cause as determined by the Committee, all unearned Performance Shares shall be forfeited immediately;

(2) If the Grantee separates from employment by reason of death or total and permanent disability (as determined by the Committee), the number of Performance Shares that would otherwise have been earned at the end of the Performance Period shall be reduced by pro rating such Performance Shares based on the proportion of the Performance Period during which the Grantee was employed by the Company, unless the Committee determines that the Performance Shares shall not be so reduced;

(3) Upon retirement by the Grantee at age 55 or thereafter, all unearned Performance Shares shall be forfeited immediately.

(h) The Grantee shall be solely responsible for any federal, state and local taxes of any kind imposed in connection with the vesting or delivery of the Performance Shares. Prior to the transfer of any Performance Shares to the Grantee, the Grantee shall remit to the Company an amount sufficient to satisfy any federal, state, local and other withholding tax requirements. The Grantee may elect to have all or part of any withholding tax obligation satisfied by having the Company withhold Shares otherwise deliverable to the Grantee as Performance Shares, unless the Committee determines otherwise by resolution. If the Grantee fails to make such payments or election, the Company and its subsidiaries shall, to the extent permitted by law, have the right to deduct from any payments of any kind otherwise due to the Grantee any taxes required by law to be withheld with respect to the Performance Shares. In the case of any amounts withheld for taxes pursuant to this provision in the form of Shares, the amount withheld shall not exceed the minimum required by applicable law and regulations.

(i) Notwithstanding any other provision of this Agreement, if any payment or distribution (a "Payment") by the Company or any other person or entity to or for the benefit of the Grantee is determined to be an "excess parachute payment" (within the meaning of Code Section 280G(b)(1) or any successor provision of similar effect), whether paid or payable or distributed or distributable pursuant to this Agreement or otherwise, then the Grantee's benefits under this Agreement may, unless the Grantee elects otherwise pursuant to his employment agreement, be reduced by the amount necessary so that the Grantee's total "parachute payment" as defined in Code Section 280G(b)(2)(A) under this and all other agreements will be $1.00 less than the amount that would be a "parachute payment". The payment of any "excess parachute payment" pursuant to this paragraph shall also comply with the terms of the Grantee's employment agreement.

Section 3. <u>Additional Conditions to Issuance of Shares</u>

Each transfer of Performance Shares shall be subject to the condition that if at any time the Committee shall determine, in its sole discretion, that it is necessary or desirable as a condition of, or in connection with, transfer of Performance Shares (i) to satisfy withholding tax or other withholding liabilities, (ii) to effect the listing, registration or qualification on any securities exchange or under any state or federal law of any Shares deliverable in connection with such exercise, or (iii) to obtain the consent or approval of any regulatory body, then in any such event such transfer shall not be effective unless such withholding, listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Company.

Section 4. <u>Adjustment of Shares</u>

(a) If the Company shall become involved in a merger, consolidation or other reorganization, whether or not the Company is the surviving corporation, any right to earn Performance Shares shall be deemed a right to earn or to elect to receive the consideration into which the Shares represented by the Performance Shares would have been converted under the terms of the merger, consolidation or other reorganization. If the Company is not the surviving corporation, the surviving corporation (the "Successor") shall succeed to the rights and obligations of the Company under this Agreement.

(b) If any subdivision or combination of Shares or any stock dividend, capital reorganization or recapitalization occurs after the adoption of the Plan, the Committee shall make such proportionate adjustments as are appropriate to the number of Performance Shares to be earned in order to prevent the dilution or enlargement of the rights of the Grantee.

Section 5. No Right to Employment

Nothing contained in this Agreement shall be deemed by implication or otherwise to confer upon the Grantee any right to continued employment by the Company or any affiliate of the Company.

Section 6. Notice

Any notice to be given hereunder by the Grantee shall be sent by mail addressed to Chesapeake Utilities Corporation, 909 Silver Lake Boulevard, Dover, Delaware 19904, for the attention of the Committee, c/o the Corporate Secretary, and any notice by the Company to the Grantee shall be sent by mail addressed to the Grantee at the address of the Grantee shown on the first page hereof. Either party may, by notice given to the other in accordance with the provisions of this Section, change the address to which subsequent notices shall be sent.

Section 7. Beneficiary Designation

Grantee may designate a beneficiary to receive any Performance Shares to which Grantee is entitled which vest as a result of Grantee's death. Grantee acknowledges that the Company may exercise all rights under this Agreement and the Plan against Grantee and Grantee's estate, heirs, lineal descendants and personal representatives and shall not be limited to exercising its rights against Grantee's beneficiary.

Section 8. Assumption of Risk

It is expressly understood and agreed that the Grantee assumes all risks incident to any change hereafter in the applicable laws or regulations or incident to any change in the market value of the Performance Shares.

Section 9. Terms of Plan

This Agreement is entered into pursuant to the Plan (a copy of which has been delivered to the Grantee). This Agreement is subject to all of the terms and provisions of the Plan, which are incorporated into this Agreement by reference, and the actions taken by the Committee pursuant to the Plan. In the event of a conflict between this Agreement and the Plan, the provisions of the Plan shall govern. All determinations by the Committee shall be in its sole discretion and shall be binding on the Company and the Grantee.

Section 10. Governing Law; Amendment

This Agreement shall be governed by, and shall be construed and administered in accordance with, the laws of the State of Delaware (without regard to its choice of law rules) and the requirements of any applicable federal law. This Agreement may be modified or amended only by a writing signed by the parties hereto.

Section 11. Action by the Committee

The parties agree that the interpretation of this Agreement shall rest exclusively and completely within the sole discretion of the Committee. The parties agree to be bound by the decisions of the Committee with regard to the interpretation of this Agreement and with regard to any and all matters set forth in this Agreement. The Committee may delegate its functions under this Agreement to an officer of the Company designated by the Committee (hereinafter the "Designee"). In fulfilling its responsibilities hereunder, the Committee or its Designee may rely upon documents, written statements of the parties or such other material as the Committee or its Designee deems appropriate. The parties agree that there is no right to be heard or to appear before the Committee or its Designee and that any decision of the Committee or its Designee relating to this Agreement shall be final and binding unless such decision is arbitrary and capricious.

Section 12. Terms of Agreement

This Agreement shall remain in full force and effect and shall be binding on the parties hereto for so long as any Performance Shares issued to the Grantee under this Agreement continue to be held by the Grantee.

IN WITNESS WHEREOF, the Company has caused this Agreement to be executed in its corporate name, and the Grantee has executed the same in evidence of the Grantee's acceptance hereof, upon the terms and conditions herein set forth, as of the day and year first above written.

CHESAPEAKE UTILITIES CORPORATION

By: ______________________________

Its: ______________________________

Grantee:

____

Exhibit 10.25

PERFORMANCE SHARE AGREEMENT

pursuant to the

CHESAPEAKE UTILITIES CORPORATION
PERFORMANCE INCENTIVE PLAN

On January 20, 2010, (the "Grant Date"), Chesapeake Utilities Corporation, a Delaware corporation (the "Company"), has granted to Joseph Cummiskey (the "Grantee"), who resides at 405 N. Hampton Court, Brick Mill, Middletown, DE 19709, a Performance Share Award on the terms and subject to the conditions of this Performance Share Agreement.

Recitals

WHEREAS, the Chesapeake Utilities Corporation Performance Incentive Plan (the "Plan") has been duly adopted by action of the Company's Board of Directors (the "Board") on February 24, 2005, and approved by the Shareholders of the Company at a meeting held on May 5, 2005; and

WHEREAS, the Plan is effective January 1, 2006; and

WHEREAS, the Committee of the Board of Directors of the Company referred to in the Plan (the "Committee") has determined that it is in the best interests of the Company to grant the Performance Share Award described herein pursuant to the Plan; and

WHEREAS, the shares of the Common Stock of the Company ("Shares") that are subject to this Agreement, when added to the other shares of Common Stock that are subject to awards granted under the Plan, do not exceed the total number of shares of Common Stock with respect to which awards are authorized to be granted under the Plan.

Agreement

It is hereby covenanted and agreed by and between the Company and the Grantee as follows:

Section 1. Performance Share Award and Performance Period

The Company hereby grants to the Grantee a Performance Share Award as of the Grant Date. As more fully described herein, the Grantee may earn up to 8,000 Shares upon the Company's achievement of the performance criteria set forth in Section 2 (the "Performance Shares") over the performance period from January 1, 2010 to December 31, 2011 (the "Performance Period"). This Award has been granted pursuant to the Plan; capitalized terms used in this agreement which are not specifically defined herein shall have the meanings ascribed to such terms in the Plan.

Section 2. Performance Criteria and Terms of Share Award

(a) The Committee selected and established in writing performance criteria for the Performance Period, which, if met, may entitle the Grantee to some or all of the Performance Shares under this Award. If this Award is intended by the Committee to comply with the exception from Code Section 162(m) for qualified performance-based compensation for Grantees who are "Covered Employees" as defined in Code Section 162(m), the performance criteria established shall be based on one or more Performance Goals selected by the Committee in writing within 90 days following the first day of the Performance Period (or, if earlier, before 25% of that period has elapsed), and at a time when the outcome relative to the attainment of the performance criteria is not substantially certain. As soon as practicable after the Company's independent auditors have certified the Company's financial statements for each fiscal year of the Company in the Performance Period, the Committee shall determine for purposes of this Agreement the Company's (1) total shareholder return, defined as the cumulative total return to shareholders ("Shareholder Value"), (2) growth in long-term earnings, defined as the growth in total capital expenditures as a percentage of total capitalization ("Growth") and (3) earnings performance, defined as average return on equity ("RoE"), in accordance with procedures established by the Committee. The Shareholder Value, Growth and RoE (each a "Performance Metric" and collectively, the "Performance Metrics") shall be determined by the Committee in accordance with the terms of the Plan and this Agreement based on financial results reported to shareholders in the Company's annual reports and shall be subject to adjustment by the Committee for extraordinary events during the Performance Period, as applicable. Both the Shareholder Value and the Growth Performance Metrics will be compared to those of the peer group consisting of gas utility companies listed in the Edward Jones Natural Gas Distribution Group (the "Peer Group") for the Performance Period and Awards will be determined according to the schedule in subsection (b) below. For the average RoE Performance Metric, the Company's performance will be compared to pre-determined RoE thresholds established by the Committee. At the end of the Performance Period, the Committee shall certify in writing the extent to which the Performance Goals were met during the Performance Period for Awards for Covered Employees. If the Performance Goals for the Performance Period are met, Covered Employees shall be entitled to the Award, subject to the Committee's exercise of discretion to reduce any Award to a Covered Employee based on business objectives established for that Covered Employee or other factors as determined by the Committee in its sole discretion. The Committee shall promptly notify the Grantee of its determination.

(b) The Grantee may earn 15 percent or more of the target award of 6,400 Performance Shares (the "Target Award") up to a maximum number of Performance Shares set forth in Section 1 above (the "Maximum Award") based upon achievement of threshold and target levels of performance against the Performance Metrics established for the Performance Period . The Committee shall confirm the level of Award attained for the Performance Period after the Company's independent auditors have certified the Company's financial statements for each fiscal year of the Company in the Performance Period.

(c) Once established, the performance criteria identified above normally shall not be changed during the Performance Period. However, if the Committee determines that external changes or other unanticipated business conditions have materially affected the fairness of the goals, or that a change in the business, operations, corporate structure or capital structure of the Company, or the manner in which it conducts its business, or acquisitions or divestitures of subsidiaries or business units, or other events or circumstances materially affect the performance criteria or render the performance criteria unsuitable, then the Committee may approve appropriate adjustments to the performance criteria (either up or down) during the Performance Period. Notwithstanding the foregoing, no changes shall be made to an Award intended to satisfy the requirements of Code Section 162(m) if such changes would affect the qualification of the Award as performance-based compensation within the meaning of Code Section 162(m).

(d) Performance Shares that are earned by the Grantee pursuant to this Section 2 shall be issued promptly, without payment of consideration by the Grantee, within 2 1 / 2 months of the end of the Performance Period. The Grantee shall have the right to vote the Performance Shares and to receive the dividends distributable with respect to such Shares on and after, but not before, the date on which the Grantee is recorded on the Company's ledger as holder of record of the Performance Shares (the "Issue Date"). If, however, the Grantee receives Shares as part of any dividend or other distribution with respect to the Performance Shares, such Shares shall be treated as if they are Performance Shares, and such Shares shall be subject to all of the terms and conditions imposed by this Section 2. Notwithstanding the foregoing, the Grantee shall be entitled to receive an amount in cash, equivalent to the dividends that would have been paid on the awarded Performance Shares from the Grant Date to the Issue Date for those Performance Shares actually earned by the Grantee during the applicable Performance Period. Such dividend equivalents shall be payable at the time such Performance Shares are issued.

(e) The Performance Shares will not be registered for resale under the Securities Act of 1933 or the laws of any state except when and to the extent determined by the Board pursuant to a resolution. Until a registration statement is filed and becomes effective, however, transfer of the Performance Shares shall require the availability of an exemption from such registration, and prior to the issuance of new certificates, the Company shall be entitled to take such measures as it deems appropriate (including but not limited to obtaining from the Grantee an investment representation letter and/or further legending the new certificates) to ensure that the Performance Shares are not transferred in the absence of such exemption.

(f) In the event of a Change in Control, as defined in the Plan, during the Performance Period, the Grantee shall earn the Maximum Award of Performance Shares set forth in this Section 2, as if all performance criteria were satisfied, without any pro ration based on the proportion of the Performance Period that has expired as of the date of such Change in Control.

(g) If, during the Performance Period, the Grantee is separated from employment, Performance Shares shall be deemed earned or forfeited as follows:

(1) Upon voluntary termination by the Grantee or termination by the Company for failure of job performance or other just cause as determined by the Committee, all unearned Performance Shares shall be forfeited immediately;

(2) If the Grantee separates from employment by reason of death or total and permanent disability (as determined by the Committee), the number of Performance Shares that would otherwise have been earned at the end of the Performance Period shall be reduced by pro rating such Performance Shares based on the proportion of the Performance Period during which the Grantee was employed by the Company, unless the Committee determines that the Performance Shares shall not be so reduced;

(3) Upon retirement by the Grantee at age 55 or thereafter, all unearned Performance Shares shall be forfeited immediately.

(h) The Grantee shall be solely responsible for any federal, state and local taxes of any kind imposed in connection with the vesting or delivery of the Performance Shares. Prior to the transfer of any Performance Shares to the Grantee, the Grantee shall remit to the Company an amount sufficient to satisfy any federal, state, local and other withholding tax requirements. The Grantee may elect to have all or part of any withholding tax obligation satisfied by having the Company withhold Shares otherwise deliverable to the Grantee as Performance Shares, unless the Committee determines otherwise by resolution. If the Grantee fails to make such payments or election, the Company and its subsidiaries shall, to the extent permitted by law, have the right to deduct from any payments of any kind otherwise due to the Grantee any taxes required by law to be withheld with respect to the Performance Shares. In the case of any amounts withheld for taxes pursuant to this provision in the form of Shares, the amount withheld shall not exceed the minimum required by applicable law and regulations.

(i) Notwithstanding any other provision of this Agreement, if any payment or distribution (a "Payment") by the Company or any other person or entity to or for the benefit of the Grantee is determined to be an "excess parachute payment" (within the meaning of Code Section 280G(b)(1) or any successor provision of similar effect), whether paid or payable or distributed or distributable pursuant to this Agreement or otherwise, then the Grantee's benefits under this Agreement may, unless the Grantee elects otherwise pursuant to his employment agreement, be reduced by the amount necessary so that the Grantee's total "parachute payment" as defined in Code Section 280G(b)(2)(A) under this and all other agreements will be $1.00 less than the amount that would be a "parachute payment". The payment of any "excess parachute payment" pursuant to this paragraph shall also comply with the terms of the Grantee's employment agreement.

Section 3. Additional Conditions to Issuance of Shares

Each transfer of Performance Shares shall be subject to the condition that if at any time the Committee shall determine, in its sole discretion, that it is necessary or desirable as a condition of, or in connection with, transfer of Performance Shares (i) to satisfy withholding tax or other withholding liabilities, (ii) to effect the listing, registration or qualification on any securities exchange or under any state or federal law of any Shares deliverable in connection with such exercise, or (iii) to obtain the consent or approval of any regulatory body, then in any such event such transfer shall not be effective unless such withholding, listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Company.

Section 4. Adjustment of Shares

(a) If the Company shall become involved in a merger, consolidation or other reorganization, whether or not the Company is the surviving corporation, any right to earn Performance Shares shall be deemed a right to earn or to elect to receive the consideration into which the Shares represented by the Performance Shares would have been converted under the terms of the merger, consolidation or other reorganization. If the Company is not the surviving corporation, the surviving corporation (the "Successor") shall succeed to the rights and obligations of the Company under this Agreement.

(b) If any subdivision or combination of Shares or any stock dividend, capital reorganization or recapitalization occurs after the adoption of the Plan, the Committee shall make such proportionate adjustments as are appropriate to the number of Performance Shares to be earned in order to prevent the dilution or enlargement of the rights of the Grantee.

Section 5. No Right to Employment

Nothing contained in this Agreement shall be deemed by implication or otherwise to confer upon the Grantee any right to continued employment by the Company or any affiliate of the Company.

Section 6. Notice

Any notice to be given hereunder by the Grantee shall be sent by mail addressed to Chesapeake Utilities Corporation, 909 Silver Lake Boulevard, Dover, Delaware 19904, for the attention of the Committee, c/o the Corporate Secretary, and any notice by the Company to the Grantee shall be sent by mail addressed to the Grantee at the address of the Grantee shown on the first page hereof. Either party may, by notice given to the other in accordance with the provisions of this Section, change the address to which subsequent notices shall be sent.

Section 7. Beneficiary Designation

Grantee may designate a beneficiary to receive any Performance Shares to which Grantee is entitled which vest as a result of Grantee's death. Grantee acknowledges that the Company may exercise all rights under this Agreement and the Plan against Grantee and Grantee's estate, heirs, lineal descendants and personal representatives and shall not be limited to exercising its rights against Grantee's beneficiary.

Section 8. Assumption of Risk

It is expressly understood and agreed that the Grantee assumes all risks incident to any change hereafter in the applicable laws or regulations or incident to any change in the market value of the Performance Shares.

Section 9. Terms of Plan

This Agreement is entered into pursuant to the Plan (a copy of which has been delivered to the Grantee). This Agreement is subject to all of the terms and provisions of the Plan, which are incorporated into this Agreement by reference, and the actions taken by the Committee pursuant to the Plan. In the event of a conflict between this Agreement and the Plan, the provisions of the Plan shall govern. All determinations by the Committee shall be in its sole discretion and shall be binding on the Company and the Grantee.

Section 10. Governing Law; Amendment

This Agreement shall be governed by, and shall be construed and administered in accordance with, the laws of the State of Delaware (without regard to its choice of law rules) and the requirements of any applicable federal law. This Agreement may be modified or amended only by a writing signed by the parties hereto.

Section 11. Action by the Committee

The parties agree that the interpretation of this Agreement shall rest exclusively and completely within the sole discretion of the Committee. The parties agree to be bound by the decisions of the Committee with regard to the interpretation of this Agreement and with regard to any and all matters set forth in this Agreement. The Committee may delegate its functions under this Agreement to an officer of the Company designated by the Committee (hereinafter the "Designee"). In fulfilling its responsibilities hereunder, the Committee or its Designee may rely upon documents, written statements of the parties or such other material as the Committee or its Designee deems appropriate. The parties agree that there is no right to be heard or to appear before the Committee or its Designee and that any decision of the Committee or its Designee relating to this Agreement shall be final and binding unless such decision is arbitrary and capricious.

Section 12. Terms of Agreement

This Agreement shall remain in full force and effect and shall be binding on the parties hereto for so long as any Performance Shares issued to the Grantee under this Agreement continue to be held by the Grantee.

IN WITNESS WHEREOF, the Company has caused this Agreement to be executed in its corporate name, and the Grantee has executed the same in evidence of the Grantee's acceptance hereof, upon the terms and conditions herein set forth, as of the day and year first above written.

CHESAPEAKE UTILITIES CORPORATION

By: ______________________________

Its: ______________________________

Grantee:

____

Joseph Cummiskey

EXHIBIT 12

Chesapeake Utilities Corporation
Ratio of Earnings to Fixed Charges

For the Years Ended December 31,	**2009 [a]**	**2008**	**2007**	**2006**	**2005**
(in thousands, except ratio of earnings to fixed charges)					
Income from continuing operations	**$ 15,897**	$ 13,607	$ 13,218	$ 10,748	$ 10,699
Add:					
Income taxes	**10,918**	8,817	8,597	6,999	6,472
Portion of rents representative of interest factor	**333**	294	245	227	278
Interest on indebtedness	**7,042**	6,110	6,539	5,722	5,077
Amortization of debt discount and expense	**43**	47	51	52	56
Earnings as adjusted	**$ 34,233**	$ 28,875	$ 28,650	$ 23,748	$ 22,582
Fixed Charges					
Portion of rents representative of interest factor	**$ 333**	$ 294	$ 245	$ 227	$ 278
Interest on indebtedness	**7,042**	6,110	6,539	5,722	5,077
Amortization of debt discount and expense	**43**	47	51	52	56
Fixed Charges	**$ 7,418**	$ 6,451	$ 6,835	$ 6,001	$ 5,411
Ratio of Earnings to Fixed Charges	**4.61**	4.48	4.19	3.96	4.17

(a) Includes the results from the merger with Florida Public Utilities Company, which became effective on October 28, 2009.

Exhibit 14.1

CODE OF ETHICS FOR FINANCIAL OFFICERS
Adopted February 24, 2010

This Code of Ethics for Financial Officers has been adopted by the Board of Directors of Chesapeake Utilities Corporation ("Chesapeake") to promote honest and ethical conduct, accurate and timely disclosure of financial information in Chesapeake's filings with the Securities and Exchange Commission (SEC), and compliance with all applicable laws, rules and regulations.

Chesapeake expects all of its employees to carry out their responsibilities in accordance with the highest standards of personal and professional integrity and to abide by the provisions of Chesapeake's Business Code of Ethics and Conduct and all other policies and procedures that may be adopted by the Company from time to time governing the conduct of its employees. This Code of Ethics for Financial Officers supplements the Company's Business Code of Ethics and Conduct as it relates to the activities of Chesapeake's Chief Executive Officer, President, Chief Financial Officer, Treasurer, and Corporate Controller, hereafter referred to as the "Financial Officers".

Each Financial Officer when performing his or her duties must:

- Maintain high standards of honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships.
- Take reasonable actions within the scope of his or her responsibilities to ensure that the disclosures in reports and documents filed by Chesapeake with the SEC and in other public communications made by Chesapeake are accurate, complete, fairly stated, timely and understandable.
- Comply with applicable governmental laws, rules and regulations, including the rules, regulations and policies of public regulatory agencies.
- Act at all times in good faith, responsibly, with due care, and diligence in carrying out his or her responsibilities.
- Maintain the confidentiality of confidential financial or other information acquired in the course of employment, except when disclosure is properly authorized or is required by applicable law or legal process, and not use any such confidential information for personal advantage.
- Not take any action to coerce, manipulate, mislead or fraudulently influence an independent accountant or internal auditor engaged in the performance of an audit or review of Chesapeake's financial statements or accounting books and records, with the purpose of rendering the financial statements false or misleading.
- Report promptly any violation of this Code of Ethics for Financial Officers either directly to the Director of Internal Audit or the Chairman of the Audit Committee.

Any Financial Officer who violates this Code of Ethics for Financial Officers will be subject to appropriate disciplinary action, including possible termination of employment.

The Audit Committee shall be responsible for overseeing compliance with this Code of Ethics for Financial Officers and shall direct the investigation of any alleged violation and report its findings, including any recommended action, to the Board of Directors.

BUSINESS CODE OF ETHICS AND CONDUCT

Adopted February 24, 2010

Chesapeake Utilities Corporation ("Chesapeake") is committed to conducting its business in compliance with all applicable laws, rules and regulations and in accordance with the highest ethical standards. In furtherance of this commitment, the Board of Directors of Chesapeake has adopted this Business Code of Ethics and Conduct (the "Code of Ethics") setting forth the principles that govern the conduct of all employees, officers and directors of Chesapeake and its subsidiaries (collectively, the "Company").

As used herein, Company official shall mean any officer of the Company. Some provisions of this Code of Ethics also extend to the family members of employees, officers, directors, or nominees for director. For this purpose, the term "family member" shall mean any child, stepchild, grandchild, parent, stepparent, grandparent, spouse, sibling, mother-in-law, father-in-law, daughter-in-law, son-in-law, brother-in-law, or sister-in-law, and any person (other than a tenant or employee) sharing the household of any director, nominee for director, or officer of the Company. These associations include adoptive relationships.

I. Compliance with Laws, Rules, Regulations, Policies and Procedures

Each employee, officer and director is expected to understand and comply with both the letter and intent of all governmental laws, rules and regulations and with all Company policies and procedures that apply to matters for which he or she is responsible. All employees and officers are expected to participate in compliance training and information sessions when offered by the Company. **Any employee or officer who is uncertain as to the meaning or interpretation of any law, rule, regulation, policy or procedure, or its application to his or her responsibilities, is expected to seek advice from a supervisor, manager or other appropriate Company official.**

II. Conflicts of Interest

In carrying out their responsibilities, all employees, officers and directors have a duty always to act in the best interests of the Company. The ability of an employee, officer or director to fulfill this obligation can be compromised if a conflict exists between his or her personal interests and the interests of the Company. In general, a conflict of interest can arise whenever the personal interests of an employee, officer or director in a matter (financial or otherwise) would make it difficult for the individual to perform his or her Company responsibilities objectively. Even where the outcome of the matter is on terms that are entirely fair to the Company, the existence of a conflict of interest can create an appearance of impropriety.

While it is not possible to list all of the situations that could present a conflict of interest, examples include:

- Ownership of a financial interest (other than, in the case of a public company, the ownership of less than a one percent equity interest) in any business or other enterprise that does business (whether as a supplier, customer or otherwise), or is seeking to do business, with the Company.
- Serving as a director, officer or partner of, or in any other managerial role with respect to, or as a consultant to, any business or other enterprise that does business (whether as a supplier, customer or otherwise), or is seeking to do business, with the Company.
- Ownership of a financial interest in (other than, in the case of a public company, the ownership of less than a one percent equity interest), or serving as a director, officer or partner of, or in any other managerial role with respect to, or as a consultant to, any competitor of the Company.
- Acting as a broker, finder or other intermediary for the benefit of a third party in any transaction involving the Company.
- Any situation where the employee, officer or director will receive any payment of money, services, loan, guarantee or any other personal benefits from a third party in anticipation of or as a result of any transaction or business relationship between the Company and the third party.
- Taking a public position or making public statements contrary to the best interests of the Company or that could result in embarrassment to the Company.

A conflict also can exist where the person doing business, or seeking to do business with the Company is a family member of an employee, officer or director. However, the acquisition or use by an employee, officer or director of the Company of products or services obtained from the Company in the ordinary course of the Company's business will not represent a conflict of interest.

All employees and officers are encouraged to avoid relationships that have the potential for creating an actual conflict of interest or a perception of a conflict of interest. Employees and officers must be free of any conflict of interest whenever they act on behalf of the Company, including engaging in negotiations or recommending or approving a transaction, arrangement or relationship with an existing or potential customer, supplier, lender or investor. **Any officer who has a conflict of interest with respect to any matter is required to make prompt and full disclosure of the matter to the Chief Executive Officer or, in the case of the Chief Executive Officer, to the Audit Committee.** All other employees are required to make prompt and full disclosure of any conflict of interest to the Director of Internal Audit. No employee or officer is permitted to participate in any matter in which he or she has a conflict of interest unless authorized by an appropriate Company official and under circumstances that are designed to protect the interests of the Company and to avoid any appearance of impropriety.

Any officer who has a question as to whether a given situation or relationship might represent a conflict of interest is required to consult with the Chief Executive Officer. Any other employee who has a question as to whether a situation or relationship might constitute a conflict is required to consult with the Director of Internal Audit.

Directors are required to disclose any conflict of interest to the Chairman of the Board of Directors and to refrain from voting on any matter(s) in which they have a conflict.

III. Corporate Opportunities

All business opportunities that are within the existing or reasonably foreseeable scope of the Company's business, including planned business ventures, are the property of the Company. Without the prior consent of the Board of Directors, employees, officers and directors are prohibited from:

- Taking for themselves personally opportunities that they discovered through the use of Company property or information or through their position with the Company;
- Using property or information of the Company or their position with the Company for personal gain; or
- Engaging in any business in competition with the Company.

IV. Confidentiality

Employees, officers, directors and director nominees are required to maintain the confidentiality of, and not use for personal benefit, confidential information entrusted to them by the Company, its customers or its suppliers, or otherwise acquired in the course of their employment by or service to the Company. Disclosure or use of confidential information is permitted only for a proper business purpose and when specifically authorized by an appropriate Company official or as required by law or legal proceedings. Confidential information includes all information protected by law or by an agreement between the Company and a third party, as well as other non-public information that, if disclosed, might be harmful to the Company or useful to competitors, including but not limited to:

- Trade secrets and other proprietary technical information or data.
- Undisclosed financial and accounting information.
- Strategic information concerning current and future business plans.
- Pricing information.
- Customer records.
- Employee personnel records (e.g., job applications, resumes, performance evaluations and records, compensation information, notices regarding performance, termination notices, etc.).
- Research information and records.

All employees, officers and directors are required to sign a confidentiality statement.

These confidentiality and non-use restrictions continue beyond termination of service for directors, and termination of employment for employees and officers. Upon termination, employees, officers and directors are not permitted to take, copy or retain any records or documents of the Company.

V. Proper Accounting for Company Transactions

The maintenance of accurate financial and accounting records is essential in order to enable the Company to comply with the requirements of the federal securities laws and with its obligations to its shareholders.

A. Maintenance of Accurate Records

All Company assets and liabilities and all items of revenue and expense shall be properly recorded in the Company's regular books and records in accordance with generally accepted accounting principles. All employees and officers who are responsible for the recording or reporting of Company property, assets, liabilities, transactions and other activities are required to provide full, fair, accurate, timely and understandable recording or reporting thereof. Without limitation of the foregoing:

- No undisclosed or unrecorded fund or asset of the Company shall be established or maintained for any purpose.
- No employee or officer of the Company shall intentionally conceal or fail to record or report any matter that is required to be recorded or reported.
- No employee or officer of the Company shall improperly record or report any matter, or improperly alter any record or report of any matter.

B. Documentation of Disbursement of Funds

No payment or other disbursement of Company funds shall be made without proper authorization. No approval shall be granted for the payment or other disbursement of Company funds without adequate supporting documentation. No payment on behalf of the Company shall be approved or made with the intention or understanding that any part of such payment is to be used for a purpose other than that described by the documents supporting the payment.

VI. Improper Payments and Gifts to Third Parties

A. Improper Payments and Gifts .

Except for permitted gifts (as described below), neither the Company nor any employee, officer or director shall, either directly or indirectly, authorize or make any payment or gift of money or any other thing of value (including materials, equipment, facilities or services) to any:

- Current or prospective customer, supplier or competitor of the Company or to government officials; or
- Any director, officer, employee, general partner, stockholder or owner of a current or prospective customer, supplier or competitor, if the purpose of the payment or the gift is to induce the current or prospective customer, supplier, competitor or government official improperly to grant or convey any benefit to, or forgo any claim against, the Company or any of its employees, officers or directors, or otherwise to influence a business or other decision of the current or prospective customer, supplier, competitor or government official.

B. Permitted Gifts

An employee, officer or director may make gifts, generally in the form of meals, entertainment or specialty advertising items, to Company customers, suppliers or other third parties engaged, or that may become engaged, in business with the Company if the gift meets all of the following criteria:

- It is consistent with customary business practices;
- It is not for an improper purpose;
- It is not in contravention of any applicable laws, rules, regulations or ethical standards; and
- Public disclosure of the full details of the gift would not cause embarrassment to the Company.

VII. Acceptance of Gifts or Other Personal Benefits

No employee, officer or director shall solicit from any supplier, customer or other person doing business, or seeking to do business, with the Company any gift of money, products or services, gratuity, loans or guarantees, or other personal benefits of any kind.

An employee, officer or director, including their family members, may accept an unsolicited gift or gratuity of nominal value or reasonable business entertainment (including recreation and attendance of sporting or cultural events) if the gift or gratuity meets all of the following criteria:

- It does not go beyond common courtesies usually associated with accepted business practices;
- It does not interfere with the recipient's independence or judgment in carrying out his or her responsibilities on behalf of the Company; and
- Public disclosure of the full details of the gift or gratuity would not cause embarrassment to the Company.

Any gifts or gratuity that do not meet these requirements must to the extent possible be returned.

VIII. Relationships with Customers

When dealing with customers, the Company is committed to:

- Providing all customers with exceptional service;
- Dealing fairly and ethically with all customers and treating customers with respect;
- Providing customers with accurate and clear information regarding the services offered by the Company; and
- Investigating promptly and resolving on fair terms all customer complaints and inquiries.

Each employee, officer and director has a responsibility to use his or her best efforts to ensure that these objectives are attained. The Company prohibits manipulation, misrepresentation of facts, and other forms of unfair dealing with customers.

IX. Relationships with Suppliers

When dealing with suppliers of products and services to the Company, all employees, officers and directors are required at all times to act in the best interests of the Company, while at the same time adhering to the highest standards of ethical conduct. All unlawful behavior, manipulation, misrepresentation of facts, or any other forms of unfair dealing are prohibited.

X. Fair Competition

The Company is committed to fair and honest competition. The Company seeks to achieve its competitive advantage through competitive prices, products and services, and not through illegal or unethical business practices. All employees, officers and directors are required to adhere to all laws and regulations regarding fair competition, including antitrust laws. Misappropriation of trade secrets or other proprietary information, manipulation, misrepresentation of facts and all other forms of unfair dealing are prohibited.

XI. Relationships with Employees

All employees and officers are entitled to work in an environment free of discrimination and harassment, therefore the Company strives to provide each employee and officer with a workplace that is free from unlawful discrimination or harassment. It is the policy of the Company to provide equal employment opportunity to qualified individuals regardless of race, religion, gender, national origin, age, or their status as disabled veterans or as disabled individuals. Equal opportunity applies to all aspects of the employment relationship, including initial employment, promotion, training, wage and salary administration, seniority, retirement, and employee benefits.

XII. Protection and Proper Use of Company Assets

Proper protection and proper use of Company assets is the responsibility of each employee, officer and director. Employees, officers and directors are required to promote the efficient use of Company assets and to take appropriate security measures to safeguard physical property and other assets against unauthorized use or removal, as well as against loss by wrongful acts or negligence. Employees, officers and directors may use Company property only for legitimate business purposes and strictly in accordance with established Company policies and guidelines.

XIII. Insider Trading

All employees, officers and directors are required to adhere to the Company's policy entitled "Securities Trades by Company Personnel", which governs trading by employees, officers and directors in Chesapeake stock.

XIV. Political Activities

Employees, officers and directors are free to participate in lawful political activities on their own time and at their own expense, and to make personal contributions to political parties, committees or candidates of their choice. However, under no circumstances shall an employee, officer or director use Company facilities or assets, or be compensated or reimbursed by the Company, for their personal political activities or contributions.

While employees and officers are encouraged to participate in civic and community activities during their non-work hours, an employee's or officer's determination to seek elected or appointed public office, including membership on a public board or commission ("public office"), raises special concerns. Because the Company's business frequently interfaces with many government branches, employees, officers and directors would have a responsibility to disqualify themselves from any action in which they know the Company has an interest. In addition, care must be taken that campaigning for office or fulfilling public responsibilities is not done during work hours. Accordingly, any employee or officer who wishes to seek or accept public office must provide the Director of Internal Audit with reasonable advance notice of that intent. In certain cases, depending on the nature of the office and other surrounding circumstances, the Company may decide that the employee or officer should not seek or accept such office while remaining in the Company's employment without a determination by the Company's Chief Executive Officer (or in the case of the Chief Executive Officer, the Board of Directors) that such activities will be consistent with Company policies and applicable laws and standards.

XV. Compliance Procedures

A. Distribution of this Code of Ethics

A copy of this Code of Ethics shall be furnished to each employee, officer and director of the Company and shall be posted on the Company's website (www.chpk.com). Company officers are required to ensure that all Company personnel in the departments for which they are responsible receive a copy.

Any employee who has a question concerning the interpretation or application of any provision of this Code of Ethics should consult his or her immediate manager, who may, if necessary, refer the question to the Director of Internal Audit or an appropriate Company official. Alternatively, any employee, officer or director may contact the Director of Internal Audit directly.

B. Reporting Violations

Any employee or officer who has knowledge of a violation by the Company or any employee, officer or director of any law, rule or regulation or this Code of Ethics, or suspects that such a violation has occurred, is required to report the matter to an independent third party via a dedicated toll-free hotline or a secure website, or in written form directly to the Director of Internal Audit in accordance with the process set forth on the Company's website (www.chpk.com). All valid concerns will be investigated under the direction of the Chairman of the Audit Committee.

The Company will make every effort, within the limits allowed by law, to keep confidential the identity of anyone requesting guidance or reporting a violation or suspected violation. However, it may not be possible to maintain the confidentiality of the reported person or the reported information if (i) disclosure is necessary to enable the Company or law enforcement officials to investigate the matter, (ii) disclosure is required by law or (iii) the person accused of a violation is entitled to the information as a matter of legal right. All employees, officers and directors are expected to cooperate, to the extent requested, in any investigation of any violation of any law, rule or regulation or this Code of Ethics.

No adverse action will be taken against any person who in good faith reports a violation, or a suspected violation, by the Company, or any employee, officer or director of any law, rule or regulation or this Code of Ethics. Any such retaliation is also a violation of this Code of Ethics and will be grounds for disciplinary action against the person or persons who engage in retaliation. Any employee, officer or director who believes that he or she has been retaliated against may file a complaint with the Director of Internal Audit, who shall be responsible for the investigation of the matter.

C. Violations

Any employee, officer or director who fails to comply with any applicable law, rule, or regulation or with this Code of Ethics is subject to disciplinary action, which could include, without limitation, a reprimand, probation, suspension, reduction in salary, demotion or dismissal — depending upon the seriousness of the offense.

XVI. Amendments and Waivers

The Board of Directors must approve any amendment to this Code of Ethics. No waivers or exceptions to this Code of Ethics are anticipated; however, any waiver of any provision to this Code of Ethics for employees, other than executive officers, requires the approval of the Chief Executive Officer. Any waiver involving an executive officer or director requires the approval of the Board of Directors or a designated Board Committee and must be promptly disclosed to shareholders within four business days of such determination in a press release, by website disclosure, or by filing a current report on Form 8-K with the Securities and Exchange Commission.

Chesapeake Utilities Corporation
Subsidiaries of the Registrant

Subsidiaries	State Incorporated
Eastern Shore Natural Gas Company	Delaware
Sharp Energy, Inc.	Delaware
Chesapeake Service Company	Delaware
Xeron, Inc.	Mississippi
Chesapeake OnSight Services, LLC	Delaware
Peninsula Energy Services Company, Inc.	Delaware
Peninsula Pipeline Company, Inc.	Delaware
Florida Public Utilities Company	Florida
Subsidiaries of Sharp Energy, Inc.	**State Incorporated**
Sharpgas, Inc.	Delaware
Subsidiaries of Florida Public Utilities Company	**State Incorporated**
Flo-Gas Corporation	Florida
Subsidiaries of Chesapeake Service Company	**State Incorporated**
Skipjack, Inc.	Delaware
BravePoint, Inc.	Georgia
Chesapeake Investment Company	Delaware
Eastern Shore Real Estate, Inc.	Delaware

EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Chesapeake Utilities Corporation

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (Nos. 333-156192, 333-63381 and 333-121524) and Form S-8 (Nos. 333-01175, 333-94159, 333-124646, 333-124694 and 333-124717) of Chesapeake Utilities Corporation of our reports dated March 8, 2010, relating to the consolidated financial statements, the effectiveness of internal control over financial reporting, and financial statement schedules of Chesapeake Utilities Corporation appearing in the Company's Annual Report on Form 10-K for the year ended December 31, 2009.

/s/ ParenteBeard LLC

ParenteBeard LLC
Malvern, Pennsylvania
March 8, 2010

Exhibit 31.1

CERTIFICATE PURSUANT TO RULE 13A-14(A) AND 15D-14(A) UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, John R. Schimkaitis, certify that:

1. I have reviewed this annual report on Form 10-K of Chesapeake Utilities Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:

    a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluations; and

    d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 8, 2010

/s/ J OHN R. S CHIMKAITIS
John R. Schimkaitis
Vice Chairman and Chief Executive Officer

**CERTIFICATE PURSUANT TO RULE 13A-14(A) AND 15D-14(A)
UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Beth W. Cooper, certify that:

1. I have reviewed this annual report on Form 10-K of Chesapeake Utilities Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluations; and

   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 8, 2010

/s/ B ETH W. C OOPER

Beth W. Cooper
Senior Vice President and Chief Financial Officer

EXHIBIT 32.1

**CERTIFICATE OF CHIEF EXECUTIVE OFFICER
OF CHESAPEAKE UTLITIES CORPORATION
PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED
PUSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, John R. Schimkaitis, Vice Chairman and Chief Executive Officer of Chesapeake Utilities Corporation, certify that, to the best of my knowledge, the Annual Report on Form 10-K of Chesapeake Utilities Corporation ("Chesapeake") for the year ended December 31, 2009, filed with the Securities and Exchange Commission on the date hereof (i) fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and (ii) the information contained therein fairly presents, in all material respects, the financial condition and results of operations of Chesapeake.

/S/ JOHN R. SCHIMKAITIS
John R. Schimkaitis
March 8, 2010

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Chesapeake Utilities Corporation and will be retained by Chesapeake Utilities Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.2

CERTIFICATE OF CHIEF FINANCIAL OFFICER
OF CHESAPEAKE UTLITIES CORPORATION
PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED
PUSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Beth W. Cooper, Senior Vice President and Chief Financial Officer of Chesapeake Utilities Corporation, certify that, to the best of my knowledge, the Annual Report on Form 10-K of Chesapeake Utilities Corporation ("Chesapeake") for the year ended December 31, 2009, filed with the Securities and Exchange Commission on the date hereof (i) fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and (ii) the information contained therein fairly presents, in all material respects, the financial condition and results of operations of Chesapeake.

/s/ Beth W. Cooper
Beth W. Cooper
March 8, 2010

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Chesapeake Utilities Corporation and will be retained by Chesapeake Utilities Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

CHESAPEAKE UTILITIES CORP

FORM 10-Q
(Quarterly Report)

Filed 08/05/10 for the Period Ending 06/30/10

Address	909 SILVER LAKE BLVD PO BOX 615 DOVER, DE 19903-0615
Telephone	3027346799
CIK	0000019745
Symbol	CPK
SIC Code	4923 - Natural Gas Transmission and Distribution
Industry	Natural Gas Utilities
Sector	Utilities
Fiscal Year	12/31

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EXHIBIT A(2)

UNITED STATES
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: June 30, 2010

OR

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

For the transition period from _____ to _____

Commission File Number: 001-11590

CHESAPEAKE UTILITIES CORPORATION

(Exact name of registrant as specified in its charter)

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

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

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

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 ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☐

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

Large accelerated filer ☐ Accelerated filer ☑ Non-accelerated filer ☐ Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☑

Common Stock, par value $0.4867 — 9,490,546 shares outstanding as of July 31, 2010.

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GLOSSARY OF KEY TERMS

Frequently used abbreviations, acronyms, or terms used in this report:

Subsidiaries of Chesapeake Utilities Corporation

BravePoint	BravePoint, Inc. is a wholly-owned subsidiary of Chesapeake Services Company, which is a wholly-owned subsidiary of Chesapeake
Chesapeake	The Registrant, the Registrant and its subsidiaries, or the Registrant's subsidiaries, as appropriate in the context of the disclosure
Company	The Registrant, the Registrant and its subsidiaries, or the Registrant's subsidiaries, as appropriate in the context of the disclosure
ESNG	Eastern Shore Natural Gas Company, a wholly-owned subsidiary of Chesapeake
FPU	Florida Public Utilities Company, a wholly-owned subsidiary of Chesapeake, effective October 28, 2009
PESCO	Peninsula Energy Services Company, Inc., a wholly-owned subsidiary of Chesapeake
PIPECO	Peninsula Pipeline Company, Inc., a wholly-owned subsidiary of Chesapeake
Sharp	Sharp Energy, Inc., a wholly-owned subsidiary of Chesapeake's and Sharp's subsidiary, Sharpgas, Inc.
Xeron	Xeron, Inc., a wholly-owned subsidiary of Chesapeake

Regulatory Agencies

Delaware PSC	Delaware Public Service Commission
EPA	United States Environmental Protection Agency
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FDEP	Florida Department of Environmental Protection
Florida PSC	Florida Public Service Commission
IASB	International Accounting Standards Board
Maryland PSC	Maryland Public Service Commission
MDE	Maryland Department of the Environment
PSC	Public Service Commission
SEC	Securities and Exchange Commission

Accounting Standards Related

ASC	FASB Accounting Standards Codification ™ (Codification)
ASU	FASB Accounting Standards Update
GAAP	Generally Accepted Accounting Principles
IFRS	International Financial Reporting Standards

Other

AS/SVE	Air Sparging and Soil/Vapor Extraction
BS/SVE	Bio-Sparging and Soil/Vapor Extraction
CGS	Community Gas Systems
DSCP	Directors Stock Compensation Plan
Dts	Dekatherms
Dts/d	Dekatherms per day
FRP	Fuel Retention Percentage
GSR	Gas Sales Service Rates
HDD	Heating Degree-Days
Mcf	Thousand Cubic Feet
MWH	Megawatt Hour
MGP	Manufactured Gas Plant
NYSE	New York Stock Exchange
PIP	Performance Incentive Plan
RAP	Remedial Action Plan
TETLP	Texas Eastern Transmission, LP

PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

Chesapeake Utilities Corporation and Subsidiaries

Condensed Consolidated Statements of Income (Unaudited)

For the Three Months Ended June 30,	2010	2009
(in thousands, except shares and per share data)		
Operating Revenues		
Regulated Energy	$ 52,740	$ 18,869
Unregulated Energy	24,615	19,830
Other	2,706	2,135
Total operating revenues	80,061	40,834
Operating Expenses		
Regulated energy cost of sales	24,406	4,285
Unregulated energy and other cost of sales	20,384	16,182
Operations	18,160	11,575
Transaction-related costs	92	1,090
Maintenance	1,789	716
Depreciation and amortization	5,038	2,413
Other taxes	2,431	1,717
Total operating expenses	72,300	37,978
Operating Income	7,761	2,856
Other income (loss), net of expenses	(11)	12
Interest charges	2,305	1,573
Income Before Income Taxes	5,445	1,295
Income tax expense	2,105	489
Net Income	$ 3,340	$ 806
Weighted-Average Common Shares Outstanding:		
Basic	9,467,222	6,862,248
Diluted	9,557,352	6,868,717
Earnings Per Share of Common Stock:		
Basic	$ 0.35	$ 0.12
Diluted	$ 0.35	$ 0.12
Cash Dividends Declared Per Share of Common Stock	$ 0.330	$ 0.315

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

Chesapeake Utilities Corporation and Subsidiaries

Condensed Consolidated Statements of Income (Unaudited)

For the Six Months Ended June 30, *(in thousands, except shares and per share data)*	**2010**	**2009**
Operating Revenues		
Regulated Energy	$ 144,367	$ 71,050
Unregulated Energy	83,885	69,225
Other	5,069	5,038
Total operating revenues	233,321	145,313
Operating Expenses		
Regulated energy cost of sales	78,174	36,798
Unregulated energy and other cost of sales	65,475	54,891
Operations	36,855	23,820
Transaction-related costs	111	1,204
Maintenance	3,489	1,332
Depreciation and amortization	10,661	4,797
Other taxes	5,397	3,649
Total operating expenses	200,162	126,491
Operating Income	33,159	18,822
Other income, net of expenses	103	45
Interest charges	4,667	3,215
Income Before Income Taxes	28,595	15,652
Income tax expense	11,281	6,253
Net Income	$ 17,314	$ 9,399
Weighted-Average Common Shares Outstanding:		
Basic	9,443,708	6,847,543
Diluted	9,550,670	6,963,132
Earnings Per Share of Common Stock:		
Basic	$ 1.83	$ 1.37
Diluted	$ 1.82	$ 1.36
Cash Dividends Declared Per Share of Common Stock	$ 0.645	$ 0.620

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

Chesapeake Utilities Corporation and Subsidiaries

Condensed Consolidated Statements of Cash Flows (Unaudited)

For the Six Months Ended June 30,	**2010**	**2009**
(in thousands)		
Operating Activities		
Net Income	**$ 17,314**	$ 9,399
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**10,661**	4,797
Depreciation and accretion included in other costs	**1,641**	1,318
Deferred income taxes, net	**3,683**	2,673
Unrealized loss (gain) on commodity contracts	**(374)**	1,135
Unrealized loss (gain) on investments	**60**	(19)
Employee benefits	**(383)**	977
Share-based compensation	**612**	585
Changes in assets and liabilities:		
Purchase of investments	**(131)**	(28)
Accounts receivable and accrued revenue	**26,485**	25,406
Propane inventory, storage gas and other inventory	**3,382**	5,006
Regulatory assets	**1,226**	309
Prepaid expenses and other current assets	**3,549**	2,957
Accounts payable and other accrued liabilities	**(14,756)**	(15,071)
Income taxes receivable	**2,201**	6,111
Accrued interest	**(259)**	632
Customer deposits and refunds	**1,041**	(1,902)
Accrued compensation	**83**	(1,151)
Regulatory liabilities	**1,194**	3,454
Other liabilities	**479**	232
Net cash provided by operating activities	**57,708**	46,820
Investing Activities		
Property, plant and equipment expenditures	**(14,250)**	(11,969)
Purchase of investments	**(310)**	—
Environmental expenditures	**(410)**	(7)
Net cash used in investing activities	**(14,970)**	(11,976)
Financing Activities		
Common stock dividends	**(5,369)**	(3,752)
Issuance (purchase) of stock for Dividend Reinvestment Plan	**268**	(69)
Change in cash overdrafts due to outstanding checks	**(834)**	—
Net repayment under line of credit agreements	**(88)**	(31,000)
Repayment of long-term debt	**(30,277)**	(20)
Net cash used in financing activities	**(36,300)**	(34,841)
Net Increase in Cash and Cash Equivalents	**6,438**	3
Cash and Cash Equivalents — Beginning of Period	**2,828**	1,611
Cash and Cash Equivalents — End of Period	**$ 9,266**	$ 1,614

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

Chesapeake Utilities Corporation and Subsidiaries

Condensed Consolidated Balance Sheets (Unaudited)

Assets	**June 30, 2010**	**December 31, 2009**
(in thousands, except shares and per share data)		
Property, Plant and Equipment		
Regulated energy	**$ 471,803**	$ 463,856
Unregulated energy	**59,548**	61,360
Other	**16,162**	16,054
Total property, plant and equipment	**547,513**	541,270
Less: Accumulated depreciation and amortization	**(114,018)**	(107,318)
Plus: Construction work in progress	**5,362**	2,476
Net property, plant and equipment	**438,857**	436,428
Investments	**2,030**	1,959
Current Assets		
Cash and cash equivalents	**9,266**	2,828
Accounts receivable (less allowance for uncollectible accounts of $1,313 and $1,609, respectively)	**47,448**	70,029
Accrued revenue	**8,976**	12,838
Propane inventory, at average cost	**6,538**	7,901
Other inventory, at average cost	**3,443**	3,149
Regulatory assets	**50**	1,205
Storage gas prepayments	**3,831**	6,144
Income taxes receivable	**479**	2,614
Deferred income taxes	**1,601**	1,498
Prepaid expenses	**2,457**	5,843
Mark-to-market energy assets	**814**	2,379
Other current assets	**148**	147
Total current assets	**85,051**	116,575
Deferred Charges and Other Assets		
Goodwill	**34,782**	34,095
Other intangible assets, net	**3,690**	3,951
Long-term receivables	**181**	343
Regulatory assets	**21,052**	19,860
Other deferred charges	**3,693**	3,891
Total deferred charges and other assets	**63,398**	62,140
Total Assets	**$ 589,336**	$ 617,102

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

Chesapeake Utilities Corporation and Subsidiaries

Condensed Consolidated Balance Sheets (Unaudited)

Capitalization and Liabilities *(in thousands, except shares and per share data)*	**June 30, 2010**	**December 31, 2009**
Capitalization		
Stockholders' equity		
Common stock, par value $0.4867 per share (authorized 25,000,000 and 12,000,000 shares, respectively)	$ 4,612	$ 4,572
Additional paid-in capital	146,123	144,502
Retained earnings	74,395	63,231
Accumulated other comprehensive loss	(2,444)	(2,524)
Deferred compensation obligation	757	739
Treasury stock	(757)	(739)
Total stockholders' equity	222,686	209,781
Long-term debt, net of current maturities	97,558	98,814
Total capitalization	320,244	308,595
Current Liabilities		
Current portion of long-term debt	8,125	35,299
Short-term borrowing	29,100	30,023
Accounts payable	36,153	51,948
Customer deposits and refunds	26,105	24,960
Accrued interest	1,628	1,887
Dividends payable	3,127	2,959
Accrued compensation	3,580	3,445
Regulatory liabilities	10,340	8,882
Mark-to-market energy liabilities	574	2,514
Other accrued liabilities	11,250	8,683
Total current liabilities	129,982	170,600
Deferred Credits and Other Liabilities		
Deferred income taxes	70,284	66,923
Deferred investment tax credits	148	193
Regulatory liabilities	3,449	4,154
Environmental liabilities	9,463	11,104
Other pension and benefit costs	16,544	17,505
Accrued asset removal cost — Regulatory liability	34,233	33,214
Other liabilities	4,989	4,814
Total deferred credits and other liabilities	139,110	137,907
Total Capitalization and Liabilities	$ 589,336	$ 617,102

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

Chesapeake Utilities Corporation and Subsidiaries

Condensed Consolidated Statements of Stockholders' Equity (Unaudited)

(in thousands, except per share and share data)	Common Stock Number of Shares (7)	Common Stock Par Value	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Deferred Compensation	Treasury Stock	Total
Balances at December 31, 2008	6,827,121	$ 3,323	$ 66,681	$ 56,817	$ (3,748)	$ 1,549	$ (1,549)	123,073
Net Income				15,897				15,897
Other comprehensive income, net of tax:								
Employee Benefit Plans, net of tax:								
Amortization of prior service costs (4)					7			7
Net Gain (5)					1,217			1,217
Total comprehensive income								$ 17,121
Dividend Reinvestment Plan	31,607	15	921					936
Retirement Savings Plan	32,375	16	966					982
Conversion of debentures	7,927	4	131					135
Share based compensation (1) (3)	7,374	3	1,332					1,335
Deferred Compensation Plan (6)						(810)	810	—
Purchase of treasury stock	(2,411)						(73)	(73)
Sale and distribution of treasury stock	2,411						73	73
Common stock issued in the merger	2,487,910	1,211	74,471					75,682
Dividends on stock-based compensation				(104)				(104)
Cash dividends (2)				(9,379)				(9,379)
Balances at December 31, 2009	9,394,314	4,572	144,502	63,231	(2,524)	739	(739)	209,781
Net Income				17,314				17,314
Other comprehensive income, net of tax:								
Employee Benefit Plans, net of tax:								
Amortization of prior service costs (4)					4			4
Net Gain (5)					76			76
Total comprehensive income								$ 17,394
Dividend Reinvestment Plan	27,182	13	807					820
Retirement Savings Plan	15,632	8	466					474
Conversion of debentures	2,876	1	47					48
Tax benefit on share based compensation			75					75
Share based compensation (1) (3)	36,415	18	226					244
Deferred Compensation Plan (6)						18	(18)	—
Purchase of treasury stock	(580)						(18)	(18)
Sale and distribution of treasury stock	580						18	18
Dividends on stock-based compensation				(50)				(50)
Cash dividends (2)				(6,100)				(6,100)
Balances at June 30, 2010	9,476,419	$ 4,612	$ 146,123	$ 74,395	$ (2,444)	$ 757	$ (757)	$222,686

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

(2) Cash dividends declared per share for the periods ended June 30, 2010 and December 31, 2009 were $0.645 and $1.250, respectively.

(3) The shares issued under the Performance Incentive Plan ("PIP") are net of shares withheld for employee taxes. For the period ended June 30, 2010, the Company withheld 17,695 shares for taxes. We did not issue any shares under the PIP in 2009.

(4) Tax expense recognized on the prior service cost component of employees benefit plans for the periods ended June 30, 2010 and December 31, 2009 were approximately $3 and $5, respectively.

(5) Tax expense recognized on the net gain component of employees benefit plans for the periods ended June 30, 2010 and December 31, 2009 were $51 and $794, respectively.

(6) In May and November 2009, certain participants of the Deferred Compensation Plan received distributions totaling $883. There were no distributions in the first six months of 2010.

(7) Includes 29,032 and 28,452 shares at June 30, 2010 and December 31, 2009, respectively, held in a Rabbi Trust established by the Company relating to the Deferred Compensation Plan.

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. Summary of Accounting Policies

Basis of Presentation

References in this document to "the Company," "Chesapeake," "we," "us" and "our" are intended to mean the Registrant and its subsidiaries, or the Registrant's subsidiaries, as appropriate in the context of the disclosure.

The accompanying unaudited condensed consolidated financial statements have been prepared in compliance with the rules and regulations of the Securities and Exchange Commission ("SEC") and United States of America Generally Accepted Accounting Principles ("GAAP"). In accordance with these rules and regulations, certain information and disclosures normally required for audited financial statements have been condensed or omitted. These financial statements should be read in conjunction with the consolidated financial statements and notes thereto, included in our latest Annual Report on Form 10-K filed with the SEC on March 8, 2010. In the opinion of management, these financial statements reflect normal recurring adjustments that are necessary for a fair presentation of our results of operations, financial position and cash flows for the interim periods presented.

As a result of the merger with Florida Public Utilities Company ("FPU") in October 2009, we changed our operating segments (see Note 5, "Segment Information," for further discussion). We revised the segment information as of and for the three months and six months ended June 30, 2009, to reflect the new segments. We also revised certain presentations and reclassified certain amounts reported in the condensed consolidated statements of income and cash flows for the three months and six months ended June 30, 2009 to conform to current period presentations and classifications. These reclassifications are considered immaterial to the overall presentation of our condensed consolidated financial statements.

Due to the seasonality of our business, results for interim periods are not necessarily indicative of results for the entire fiscal year. Revenue and earnings are typically greater during the first and fourth quarters, when consumption of energy is highest due to colder temperatures.

We have assessed and reported on subsequent events through the date of issuance of these condensed consolidated financial statements.

Recent Accounting Amendments Yet to be Adopted by the Company

In November 2008, the SEC released a proposed roadmap regarding the potential use by U.S. issuers of financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"), a comprehensive series of accounting standards published by the International Accounting Standards Board ("IASB"). Under the proposed roadmap, we may be required to prepare our financial statements in accordance with IFRS as early as 2014. The SEC will make a determination in 2011 regarding the mandatory adoption of IFRS. In July 2009, the IASB issued an exposure draft of "Rate-regulated Activities," which sets out the scope, recognition and measurement criteria, and accounting disclosures for assets and liabilities that arise in the context of cost-of-service regulation, to which our rate-regulated businesses are subject. We will continue to monitor the development of the potential implementation of IFRS.

Other Accounting Amendments Adopted by the Company during the first six months of 2010

In January 2010, the Financial Accounting Standards Board ("FASB") issued FASB Accounting Standards Update ("ASU") 2010-06, "Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements." This ASU requires certain new disclosures and clarifies certain existing disclosure requirements about fair value measurement, as set forth in FASB Accounting Standards Codification ("ASC") Subtopic 820-10. The FASB's objective is to improve these disclosures and, thus, increase the transparency in financial reporting. Specifically, ASU 2010-06 amends ASC Subtopic 820-10 to now require a reporting entity to disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers; and, in the reconciliation for fair value measurements using significant unobservable inputs, a reporting entity should present separate information about purchases, sales, issuances, and settlements. In addition, ASU 2010-06 clarifies certain requirements of the existing disclosures. We adopted the disclosures required by this ASU in the first quarter of 2010, except for disclosures about purchases, sales, issuances, and settlements in the roll-forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. We currently do not have any assets or liabilities that would require Level 3 fair value measurements. Adoption of this ASU did not have an impact on our condensed consolidated financial position and results of operations.

In April 2010, the FASB issued FASB ASU 2010-12 — Income Taxes (Topic 740), "Accounting for Certain Tax effects of the 2010 Health Care Reform Acts." This ASU codifies the SEC staff announcement relating to the accounting for the Health Care and Education Reconciliation Act and the Patient Protection and Affordable Care Act, which allows the two Acts to be considered together for accounting purposes. We adopted this ASU in the first quarter of 2010 and have determined that these Acts did not have a material impact on our income tax accounting (see Note 6, "Employee Benefits," to these unaudited condensed consolidated financial statements for further discussion).

2. Acquisitions

FPU

On October 28, 2009, we completed a merger with FPU, pursuant to which FPU became a wholly-owned subsidiary of Chesapeake. The merger was accounted for under the acquisition method of accounting, with Chesapeake treated as the acquirer for accounting purposes.

The merger increased our overall presence in Florida by adding approximately 51,000 natural gas distribution customers and 12,000 propane distribution customers to our existing Florida operations. It also introduced us to the electric distribution business as we incorporated FPU's approximately 31,000 electric customers in northwest and northeast Florida.

In consummating the merger, we issued 2,487,910 shares of Chesapeake common stock at a price per share of $30.42 in exchange for all outstanding common stock of FPU. We also paid approximately $16,000 in lieu of issuing fractional shares in the exchange. There is no contingent consideration in the merger. Total value of consideration transferred by Chesapeake in the merger was approximately $75.7 million.

The assets acquired and liabilities assumed in the merger were recorded at their respective fair values at the completion of the merger. For certain assets acquired and liabilities assumed, such as pension and post-retirement benefit obligations, income taxes and contingencies without readily determinable fair values, for which GAAP provides specific exception to the fair value recognition and measurement, we applied other specified GAAP or accounting treatment as appropriate.

The following table summarizes an adjusted allocation of the purchase price to the assets acquired and liabilities assumed at the date of the merger. Estimates of deferred income taxes, recovery of certain regulatory assets, and certain accruals and contingencies are subject to change, pending the finalization of income tax returns and the availability of additional information about the facts and circumstances that existed as of the merger closing. We will complete the purchase price allocation as soon as practicable but no later than one year from the merger closing.

(in thousands)	October 28, 2009
Purchase price	$ 75,699
Current assets	26,761
Property, plant and equipment	138,998
Regulatory assets	19,899
Investments and other deferred charges	3,659
Intangible assets	4,019
Total assets acquired	193,336
Long term debt	47,812
Borrowings from line of credit	4,249
Other current liabilities	17,427
Other regulatory liabilities	19,414
Pension and post retirement obligations	14,276
Environmental liabilities	12,414
Deferred income taxes	20,686
Customer deposits and other liabilities	15,467
Total liabilities assumed	151,745
Net identifiable assets acquired	41,591
Goodwill	$ 34,108

During the first six months of 2010, we adjusted the allocation of the purchase price based on additional information available. The adjustments are related to certain accruals, regulatory assets and deferred tax assets. These adjustments also resulted in a change in the fair value of the propane property, plant and equipment. Goodwill from the merger increased to $34.1 million after incorporating these adjustments, compared to $33.4 million as previously disclosed at December 31, 2009.

None of the $34.1 million in goodwill recorded in connection with the merger is deductible for tax purposes. All of the goodwill recorded in connection with the merger is related to the regulated energy segment. We believe the goodwill recognized is attributable to the synergies and opportunities primarily related to FPU's regulated energy businesses. The intangible assets acquired in connection with the merger are related to propane customer relationships ($3.5 million) and favorable propane supply contracts ($519,000). The intangible value assigned to FPU's existing propane customer relationships will be amortized over a 12-year period based on the expected duration of the benefit arising from the relationships. The intangible value assigned to FPU's favorable propane contracts will be amortized over a period ranging from one to 14 months based on contractual terms.

Current assets of $26.8 million acquired during the merger included notes receivable of approximately $5.8 million, for which we received full payment in March 2010, and accounts receivable of approximately $3.1 million, $6.0 million and $891,000 for FPU's natural gas, electric and propane distribution businesses, respectively.

The financial position and results of operations and cash flows of FPU from the effective date of the merger are included in our consolidated financial statements. The revenue from FPU for the three months and six months ended June 30, 2010, included in our condensed consolidated statements of income, were $39.8 million and $94.0 million, respectively, and the net income from FPU for the three months and six months ended June 30, 2010, included in our condensed consolidated statements of income, were $1.8 million and $6.2 million, respectively.

The following table shows the actual results of combined operations for the six months ended June 30, 2010 and pro forma results of combined operations for the six months ended June 30, 2009, as if the merger had been completed at January 1, 2009. Since the effects of the merger for the six months ended June 30, 2010 were already included in the actual results of our consolidated operations, there is no pro forma adjustment for the six months ended June 30, 2010.

For the Six Months Ended June 30,	**2010**	**2009**
(in thousands, except per share data)		
Operating Revenues	**$ 233,321**	$ 221,461
Operating Income	**33,159**	25,214
Net income	**17,314**	12,303
Earnings per share — basic	**$ 1.83**	$ 1.32
Earnings per share — diluted	**$ 1.82**	$ 1.30

Pro forma results are presented for informational purposes only and are not necessarily indicative of what the actual results would have been had the acquisition actually occurred on January 1, 2009.

The acquisition method of accounting requires acquisition-related costs to be expensed in the period in which those costs are incurred, rather than including them as a component of consideration transferred. It also prohibits an accrual of certain restructuring costs at the time of the merger. As we intend to seek recovery in future rates in Florida of a certain portion of the purchase premium paid and merger-related costs incurred, we also considered the impact of ASC Topic 980, "Regulated Operations," in determining the proper accounting treatment for the merger-related costs. As of June 30, 2010, we incurred approximately $3.2 million in costs to consummate the merger, including the cost associated with merger-related litigation, and integrating operations following the merger. This includes $278,000 incurred during the six months ended June 30, 2010. We deferred approximately $1.6 million of the total costs incurred as a regulatory asset at June 30, 2010, which represents our estimate, based on similar proceedings in Florida in the past, of the costs which we expect to be permitted to recover when we complete the appropriate rate proceedings.

Included in the $3.2 million merger-related costs incurred as of June 30, 2010, were approximately $312,000 of severance and other restructuring charges for our efforts to integrate the operations of the two companies.

Virginia LP Gas

On February 4, 2010, Sharp Energy, Inc. ("Sharp"), our propane distribution subsidiary, purchased the operating assets of Virginia LP Gas, Inc., a propane distributor serving approximately 1,000 retail customers in Northampton and Accomack Counties in Virginia. The total consideration for the purchase was $600,000, of which $300,000 was paid at the closing and the remaining $300,000 will be paid over 60 months. Based on our preliminary valuation, we allocated $188,000 of the purchase price to intangible assets, which will be amortized over a seven-year period. There was no goodwill recorded in connection with this acquisition. The revenue and net income from this acquisition that were included in our condensed consolidated statement of income for the three months and six months ended June 30, 2010 were not material. The allocation of the purchase price is preliminary, and we will complete the purchase price allocation as soon as practicable but no later than one year from the purchase of the assets.

3. Calculation of Earnings Per Share

For the Periods Ended June 30,	Three Months		Six Months	
	2010	2009	2010	2009
(in thousands, except Shares and Per Share Data)				
Calculation of Basic Earnings Per Share:				
Net Income	$ 3,340	$ 806	$ 17,314	$ 9,399
Weighted average shares outstanding	9,467,222	6,862,248	9,443,708	6,847,543
Basic Earnings Per Share	$ 0.35	$ 0.12	$ 1.83	$ 1.37
Calculation of Diluted Earnings Per Share:				
Reconciliation of Numerator:				
Net Income	$ 3,340	$ 806	$ 17,314	$ 9,399
Effect of 8.25% Convertible debentures [1]	19	—	37	40
Adjusted numerator — Diluted	$ 3,359	$ 806	$ 17,351	$ 9,439
Reconciliation of Denominator:				
Weighted shares outstanding — Basic	9,467,222	6,862,248	9,443,708	6,847,543
Effect of dilutive securities: [1]				
Share-based Compensation	3,347	6,469	19,437	20,714
8.25% Convertible debentures	86,783	—	87,525	94,875
Adjusted denominator — Diluted	9,557,352	6,868,717	9,550,670	6,963,132
Diluted Earnings Per Share	$ 0.35	$ 0.12	$ 1.82	$ 1.36

[1] Amounts associated with securities resulting in an anti-dilutive effect on earnings per share are not included in this calculation.

4. Commitments and Contingencies

Rates and Other Regulatory Activities

Our natural gas and electric distribution operations in Delaware, Maryland and Florida are subject to regulation by their respective Public Service Commission ("PSC"); Eastern Shore Natural Gas Company ("ESNG"), our natural gas transmission operation, is subject to regulation by the Federal Energy Regulatory Commission ("FERC"). Chesapeake's Florida natural gas distribution division and FPU's natural gas and electric operations continue to be subject to regulation by the Florida Public Service Commission ("Florida PSC") as separate entities.

Delaware. On September 2, 2008, our Delaware division filed with the Delaware Public Service Commission ("Delaware PSC") its annual Gas Sales Service Rates ("GSR") Application, seeking approval to change its GSR, effective November 1, 2008. On July 7, 2009, the Delaware PSC granted approval of a settlement agreement presented by the parties in this docket, which included the Delaware PSC, our Delaware division and the Division of the Public Advocate. As part of the settlement, the parties agreed to develop a record in a later proceeding on the price charged by the Delaware division for the temporary release of transmission pipeline capacity to our natural gas marketing subsidiary, Peninsula Energy Services Company, Inc. ("PESCO"). On January 8, 2010, the Hearing Examiner in this proceeding issued a report of Findings and Recommendations in which he recommended, among other things, that the Delaware PSC require the Delaware division to refund to its firm service customers the difference between what the Delaware division would have received had the capacity released to PESCO been priced at the maximum tariff rates under asymmetrical pricing principles and the amount actually received by the Delaware division for capacity released to PESCO. The Hearing Examiner also recommended that the Delaware PSC require us to adhere to asymmetrical pricing principles in all future capacity releases by the Delaware division to PESCO, if any. Accordingly, if the Hearing Examiner's refund recommendation for past capacity releases were approved without modification by the Delaware PSC, the Delaware division would have to credit to its firm service customers amounts equal to the maximum tariff rates that the Delaware division pays for long-term capacity, which we estimated to be approximately $700,000, even though the temporary releases were made at lower rates based on competitive bidding procedures required by the FERC's capacity release rules. We disagreed with the Hearing Examiner's recommendations and filed exceptions to those recommendations on February 18, 2010. At the hearing on March 30, 2010,

the Delaware PSC agreed with us that the Delaware division had been releasing capacity based on a previous settlement approved by the Delaware PSC and, therefore, did not require the Delaware division to issue any refunds for past capacity releases. The Delaware PSC, however, required the Delaware division to adhere to asymmetrical pricing principles for future capacity releases to PESCO until a more appropriate pricing methodology is developed and approved. The Delaware PSC issued an order on May 18, 2010, elaborating its decisions at the March hearing and directing the parties to reconvene in a separate docket to determine if a pricing methodology other than asymmetrical pricing principles should apply to future capacity releases by the Delaware division to PESCO. On June 17, 2010, the Division of the Public Advocate filed an appeal with the Delaware Superior Court, asking it to overturn the Delaware PSC's decision with regard to refunds for past capacity releases. On June 28, 2010, the Delaware division filed a Notice of Cross-Appeal with the Delaware Superior Court, asking it to overturn the Delaware PSC's decision with regard to requiring the Delaware division to adhere to asymmetrical pricing principles for future capacity releases to PESCO. It is not anticipated that the Court will render a decision prior to the end of this year. Due to the ongoing legal proceedings, the parties have not yet opened a separate docket to determine an alternative pricing methodology for future capacity releases. Since the order from the Delaware PSC on May 18, 2010, the Delaware division has not released any capacity to PESCO.

On September 4, 2009, our Delaware division filed with the Delaware PSC its annual GSR Application, seeking approval to change its GSR, effective November 1, 2009. On October 6, 2009, the Delaware PSC authorized the Delaware division to implement the GSR charges on November 1, 2009, on a temporary basis, subject to refund, pending the completion of full evidentiary hearings and a final decision. The evidentiary hearing in this matter was held on May 19, 2010. At the evidentiary hearing, the parties in this docket, which included the Delaware PSC, our Delaware division and the Division of the Public Advocate, presented a proposed settlement agreement to resolve all issues addressed in this docket. The settlement agreement contemplates that the Delaware division will begin to share interruptible margins with its firm ratepayers when those margins reach a certain level in each twelve-month period ending October 31. Based on the current level of interruptible margins generated by the Delaware division, we do not anticipate that sharing of future interruptible margins will have a significant impact on our results. The Delaware division anticipates a final decision by the Delaware PSC on this application and settlement agreement in the third quarter of 2010.

On December 17, 2009, our Delaware division filed an application with the Delaware PSC, requesting approval for an Individual Contract Rate for service to be rendered to a potential large industrial customer. The Delaware PSC granted approval of the Individual Contract Rate on February 18, 2010.

Maryland. On December 1, 2009, the Maryland Public Service Commission ("Maryland PSC") held an evidentiary hearing to determine the reasonableness of the four quarterly gas cost recovery filings submitted by our Maryland division during the 12 months ended September 30, 2009. No issues were raised at the hearing, and on December 9, 2009, the Hearing Examiner in this proceeding issued a proposed Order approving the division's four quarterly filings. On January 8, 2010, the Maryland PSC issued an Order substantially affirming the Hearing Examiner's decision in the matter.

Florida. On July 14, 2009, Chesapeake's Florida division filed with the Florida PSC its petition for a rate increase and request for interim rate relief. In the application, the Florida division sought approval of: (a) an interim rate increase of $417,555; (b) a permanent rate increase of $2,965,398, which represented an average base rate increase, excluding fuel costs, of approximately 25 percent for the Florida division's customers; (c) implementation or modification of certain surcharge mechanisms; (d) restructuring of certain rate classifications; and (e) deferral of certain costs and the purchase premium associated with the then pending merger with FPU. On August 18, 2009, the Florida PSC approved the full amount of the Florida division's interim rate request, subject to refund, applicable to all meters read on or after September 1, 2009. On December 15, 2009, the Florida PSC: (a) approved a $2,536,307 permanent rate increase (86 percent of the requested amount) applicable to all meters read on or after January 14, 2010; (b) determined that there is no refund required of the interim rate increase; and (c) ordered Chesapeake's Florida division and FPU's natural gas distribution operations to submit data no later than April 29, 2011 (which is 18 months after the merger) that details all known benefits, synergies, cost savings and cost increases that have resulted from the merger.

Also on December 15, 2009, the Florida PSC approved the settlement agreement for a final natural gas rate increase of $7,969,000 for FPU's natural gas distribution operation, which represents approximately 80 percent of the requested base rate increase of $9,917,690 filed by FPU in the fourth quarter of 2008. The Florida PSC had approved an annual interim rate increase of $984,054 on February 10, 2009 and approved the permanent rate increase of $8,496,230 in an order issued on May 5, 2009, with the new rates to be effective beginning on June 4, 2009. On June 17, 2009, however, the Office of Public Counsel entered a protest to the Florida PSC's order and its final natural gas rate increase ruling. Subsequent negotiations led to the settlement agreement between the Office of Public Counsel and FPU, which the Florida PSC approved on December 15, 2009. The rates authorized pursuant to the order approving the settlement agreement became effective on January 14, 2010. In February 2010, FPU refunded to its natural gas customers approximately $290,000, representing revenues in excess of the amount provided by the settlement agreement that had been billed to customers from June 2009 through January 14, 2010.

On September 1, 2009, FPU's electric distribution operation filed its annual Fuel and Purchased Power Recovery Clause, which seeks final approval of its 2008 fuel-related revenues and expenses and new fuel rates for 2010. On January 4, 2010, the Florida PSC approved the proposed 2010 fuel rates, effective on or after January 1, 2010.

On September 11, 2009, Chesapeake's Florida division and FPU's natural gas distribution operation separately filed their respective annual Energy Conservation Cost Recovery Clauses, seeking final approval of their 2008 conservation-related revenues and expenses and new conservation surcharge rates for 2010. On November 2, 2009, the Florida PSC approved the proposed 2010 conservation surcharge rates for both the Florida division and FPU, effective for meters read on or after January 1, 2010.

Also on September 11, 2009, FPU's natural gas distribution operation filed its annual Purchased Gas Adjustment Clause, seeking final approval of its 2008 purchased gas-related revenues and expenses and new purchased gas adjustment cap rate for 2010. On November 4, 2009, the Florida PSC approved the proposed 2010 purchased gas adjustment cap, effective on or after January 1, 2010.

The City of Marianna Commissioners voted on July 7, 2009 to enter into a new 10-year franchise agreement with FPU, effective February 1, 2010. The agreement provides that new interruptible and time-of-use rates shall become available for certain customers prior to February 2011, or, at the option of the City, the franchise agreement could be voided nine months after that date. The new franchise agreement contains a provision that permits the City to purchase the Marianna portion of FPU's electric system. Should FPU fail to make available the new interruptible and time-of-use rates, and if the franchise agreement is then voided by the City and the City elects to purchase the Marianna portion of the distribution system, the agreement would require the City to pay FPU severance/reintegration costs, the fair market value for the system, and an initial investment in the infrastructure to operate this limited facility. If the City purchased the electric system, FPU would have a gain in the year of the disposition, but ongoing financial results would be negatively impacted from the loss of the Marianna area from FPU's electric operations.

ESNG. The following are regulatory activities involving FERC Orders applicable to ESNG and the expansions of ESNG's transmission system:

Energylink Expansion Project: In 2006, ESNG proposed to develop, construct and operate approximately 75 miles of new pipeline facilities from the existing Cove Point Liquefied Natural Gas terminal in Calvert County, Maryland, crossing under the Chesapeake Bay into Dorchester and Caroline Counties, Maryland, to points on the Delmarva Peninsula, where such facilities would interconnect with ESNG's existing facilities in Sussex County, Delaware. In April 2009, ESNG terminated this project based on the increase in projected construction costs over its original projection and initiated billing to recover approximately $3.2 million of costs incurred in connection with this project and the related cost of capital over a period of 20 years in accordance with the terms of the precedent agreements executed with the two participating customers and approved by the FERC. One of the two participating customers is Chesapeake, through its Delaware and Maryland divisions.

Mainline Extension Project: On November 25, 2009, ESNG filed a notice of its intent under its blanket certificate to construct, own and operate new mainline facilities to deliver additional firm service of 1,594 Mcfs per day of natural gas to Chesapeake's Delaware division. The FERC published the notice of this filing on December 7, 2009. No protest was filed during the 60-day period following the notice, and ESNG commenced construction on February 6, 2010. The facilities were completed on April 29, 2010, and ESNG commenced billing for the new service on May 1, 2010.

Mainline Extension and Interconnect Project : On March 5, 2010, ESNG submitted an Application for Certificate of Public Convenience and Necessity to the FERC related to a proposed mainline extension and interconnect project that would tie into the interstate pipeline system of Texas Eastern Transmission, LP ("TETLP"). ESNG's project involves building and operating an eight-mile mainline extension from ESNG's existing facility in Parkesburg, Pennsylvania to the interconnect with TETLP at Honey Brook, Pennsylvania. The estimated capital cost of this project is approximately $19.4 million. FERC issued a notice of the application on March 15, 2010, and the comment period ended on April 5, 2010. Three protests were filed in connection with ESNG's application, and ESNG filed an answer to the protests on April 28, 2010. On May 5, 2010, a limited answer from one of the protesting parties was filed in response to ESNG's April 28, 2010 filing. These protests and responses will be considered by the FERC in rendering its decision to approve ESNG's application. With respect to environmental issues in ESNG's application, the FERC issued its Environmental Assessment on July 6, 2010, which assesses the potential environmental effects of the construction and operation of the project in accordance with the requirements of the National Environmental Policy Act. The FERC Staff determined that the project, with appropriate mitigating measures, would not significantly affect the quality of the human environment. The comment period on the Environmental Assessment will end on August 5, 2010.

ESNG also had developments in the following FERC matters:

On April 30, 2010, ESNG submitted its annual Interruptible Revenue Sharing Report to the FERC. ESNG reported in this filing that its interruptible revenue was in excess of its annual threshold amount and refunded $90,718, inclusive of interest, in the second quarter of 2010 to its eligible firm customers.

On May 28, 2010, ESNG submitted its annual Fuel Retention Percentage ("FRP") and Cash-Out Surcharge filings to the FERC. In these filings, ESNG proposed to implement an FRP rate of 0.00 percent and a zero rate for its Cash-Out Surcharge. ESNG also proposed to refund $310,117, including interest, to its eligible customers in the second quarter of 2010 as a result of combining its over-recovered Gas Required for Operations and its over-recovered Cash-Out Cost. The FERC approved these proposals on June 29, 2010, and ESNG issued refunds to eligible customers.

Environmental Commitments and Contingencies

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

We have participated in the investigation, assessment or remediation and have certain exposures at six former Manufactured Gas Plant ("MGP") sites. Those sites are located in Salisbury, Maryland, and Winter Haven, Key West, Pensacola, Sanford and West Palm Beach, Florida. We have also been in discussions with the Maryland Department of the Environment ("MDE") regarding a seventh former MGP site located in Cambridge, Maryland. The Key West, Pensacola, Sanford and West Palm Beach sites are related to FPU, for which we assumed in the merger any existing and future contingencies.

As of June 30, 2010, we had $407,000 in environmental liabilities related to Chesapeake's MGP sites in Maryland and Florida, representing our estimate of the future costs associated with those sites. As of June 30, 2010, we had approximately $1.5 million in regulatory and other assets for future recovery of environmental costs from Chesapeake's customers through our approved rates. As of June 30, 2010, we had approximately $11.9 million in environmental liabilities related to FPU's MGP sites in Florida, primarily from the West Palm Beach site, which represents our estimate of the future costs associated with those sites. FPU has approval to recover up to $14.0 million of its environmental costs from insurance and from customers through rates. Approximately $7.6 million of FPU's expected environmental costs have been recovered from insurance and customers through rates as of June 30, 2010. We also had approximately $6.4 million in regulatory assets for future recovery of environmental costs from FPU's customers.

The following discussion provides details on each site.

Salisbury, Maryland

We have substantially completed remediation of this site in Salisbury, Maryland, where it was determined that a former MGP caused localized ground-water contamination. During 1996, we completed construction of an Air Sparging and Soil-Vapor Extraction ("AS/SVE") system and began remediation procedures. We have reported the remediation and monitoring results to the MDE on an ongoing basis since 1996. In February 2002, the MDE granted permission to permanently decommission the AS/SVE system and to discontinue all on-site and off-site well monitoring, except for one well, which is being maintained for periodic product monitoring and recovery. We have requested and are awaiting a No Further Action determination from the MDE.

Through June 30, 2010, we have incurred and paid approximately $2.9 million for remedial actions and environmental studies. We have recovered approximately $2.2 million through insurance proceeds or in rates and have not yet recovered $725,000 of the clean-up costs.

Winter Haven, Florida

The Winter Haven site is located on the eastern shoreline of Lake Shipp, in Winter Haven, Florida. Pursuant to a Consent Order entered into with the Florida Department of Environmental Protection ("FDEP"), we are obligated to assess and remediate environmental impacts at this former MGP site. In 2001, the FDEP approved a Remedial Action Plan ("RAP") requiring construction and operation of a bio-sparge/soil vapor extraction ("BS/SVE") treatment system to address soil and groundwater impacts at a portion of the site. The BS/SVE treatment system has been in operation since October 2002. The Fourteenth Semi-Annual RAP Implementation Status Report was submitted to the FDEP in January 2010. The groundwater sampling results through October 2009 show, in general, a reduction in contaminant concentrations, although the rate of reduction has declined. Modifications and upgrades to the BS/SVE treatment system were completed in October 2009. At present, we predict that remedial action objectives may be met for the area being treated by the BS/SVE treatment system in approximately three years.

The BS/SVE treatment system does not address impacted soils in the southwest corner of the site. We are currently completing additional soil and groundwater sampling at this location for the purpose of designing a remedy for this portion of the site. Following the completion of this field work, we will submit a soil excavation plan to the FDEP for its review and approval.

The FDEP has indicated that we may be required to remediate sediments along the shoreline of Lake Shipp, immediately west of the site. Based on studies performed to date, we object to FDEP's suggestion that the sediments have been adversely impacted by the former operations of the MGP. Our early estimates indicate that some of the corrective measures discussed by the FDEP could cost as much as $1.0 million. We believe that corrective measures for the sediments are not warranted and intend to oppose any requirement that we undertake corrective measures in the offshore sediments. We have not recorded a liability for sediment remediation, as the final resolution of this matter cannot be predicted at this time.

Through June 30, 2010, we have incurred and paid approximately $1.5 million for this site and estimate an additional cost of $407,000 in the future, which has been accrued. We have recovered through rates $1.1 million of the costs and expect that the remaining $773,000, which is included in regulatory assets, will be recoverable from customers through our approved rates.

Key West, Florida

FPU formerly owned and operated an MGP in Key West, Florida. Field investigations performed in the 1990s identified limited environmental impacts at the site, which is currently owned by an unrelated third party. The FDEP has not required any further work at the site as of this time. Our portion of the consulting/remediation costs which may be incurred at this site is projected to be $93,000.

Pensacola, Florida

FPU formerly owned and operated an MGP in Pensacola, Florida. The MGP was also owned by Gulf Power Corporation ("Gulf Power"). Portions of the site are now owned by the City of Pensacola and the Florida Department of Transportation. In October 2009, the FDEP informed Gulf Power that FDEP would approve a conditional No Further Action determination for the site, which must include a requirement for institutional/engineering controls. The group, consisting of Gulf Power, City of Pensacola, Florida Department of Transportation and FPU, is proceeding with preparation of the necessary documentation to submit the No Further Action justification. Consulting/remediation costs are projected to be $13,000.

Sanford, Florida

FPU is the current owner of property in Sanford, Florida, a former MGP site which was operated by several other entities before FPU acquired the property. FPU was never an owner/operator of the MGP. In late September 2006, the U.S. Environmental Protection Agency ("EPA") sent a Special Notice Letter, notifying FPU, and the other responsible parties at the site (Florida Power Corporation, Florida Power & Light Company, Atlanta Gas Light Company, and the City of Sanford, Florida, collectively with FPU, "the Sanford Group"), of EPA's selection of a final remedy for OU1 (soils), OU2 (groundwater), and OU3 (sediments) for the site. The total estimated remediation costs for this site were projected at the time by EPA to be approximately $12.9 million.

In January 2007, FPU and other members of the Sanford Group signed a Third Participation Agreement, which provides for funding the final remedy approved by EPA for the site. FPU's share of remediation costs under the Third Participation Agreement is set at five percent of a maximum of $13 million, or $650,000. As of June 30, 2010, FPU has paid $650,000 to the Sanford Group escrow account for its share of funding requirements.

The Sanford Group, EPA and the U.S. Department of Justice agreed to a Consent Decree in March 2008, which was entered by the federal court in Orlando on January 15, 2009. The Consent Decree obligates the Sanford Group to implement the remedy approved by EPA for the site. The total cost of the final remedy is now estimated at approximately $18 million. FPU has advised the other members of the Sanford Group that it is unwilling at this time to agree to pay any sum in excess of the $650,000 committed by FPU in the Third Participation Agreement.

Several members of the Sanford Group have concluded negotiations with two adjacent property owners to resolve damages that the property owners allege they have/will incur as a result of the implementation of the EPA-approved remediation. In settlement of these claims, members of the Sanford Group, which in this instance does not include FPU, have agreed to pay specified sums of money to the parties. FPU has refused to participate in the funding of the third-party settlement agreements based on its contention that it did not contribute to the release of hazardous substances at the site giving rise to the third-party claims.

As of June 30, 2010, FPU's remaining share of remediation expenses, including attorneys' fees and costs, is estimated to be $28,000. However, we are unable to determine, to a reasonable degree of certainty, whether the other members of the Sanford Group will accept FPU's asserted defense to liability for costs exceeding $13 million to implement the final remedy for this site or will pursue a claim against FPU for a sum in excess of the $650,000 that FPU has paid under the Third Participation Agreement.

West Palm Beach, Florida

We are currently evaluating remedial options to respond to environmental impacts to soil and groundwater at and in the immediate vicinity of a parcel of property owned by FPU in West Palm Beach, Florida, where FPU previously operated a MGP. Pursuant to a Consent Order between FPU and the FDEP, effective April 8, 1991, FPU completed the delineation of soil and groundwater impacts at the site. On June 30, 2008, FPU transmitted a revised feasibility study, evaluating appropriate remedies for the site, to the FDEP. On April 30, 2009, the FDEP issued a remedial action order, which it subsequently withdrew. In response to the order and as a condition to its withdrawal, FPU committed to perform additional field work in 2009 and complete an additional engineering evaluation of certain remedial alternatives. The scope of this work has increased in response to FDEP's demands for additional information. The total projected cost of this work is approximately $750,000. FPU recently authorized additional field work to be performed in July and August 2010, including the installation of additional groundwater monitoring wells and performance of a comprehensive groundwater sampling event. The cost of this work, which is included in the projected remediation costs, is estimated to be approximately $91,000.

The revised feasibility study completed in 2008 evaluated a wide range of remedial alternatives based on criteria provided by applicable laws and regulations. Based on the likely acceptability of proven remedial technologies described in the feasibility study and implemented at similar sites, management believes that consulting and remediation costs to address the impacts now characterized at the West Palm Beach site will range from $7.4 million to $19 million. This range of costs covers such remedies as in situ solidification for deeper soil impacts, excavation of superficial soil impacts, installation of a barrier wall with a permeable biotreatment zone, monitored natural attenuation of dissolved impacts in groundwater, or some combination of these remedies.

Negotiations between FPU and the FDEP on a final remedy for the site continue. Until those negotiations are concluded, we are unable to determine, to a reasonable degree of certainty, the full extent or cost of remedial action that may be required. As of June 30, 2010, and subject to the limitations described above, we estimate the remediation expenses, including attorneys' fees and costs, will range from approximately $7.8 million to $19.4 million for this site.

We continue to expect that all costs related to these activities will be recoverable from customers through rates.

Other

We are in discussions with the MDE regarding a former MGP site located in Cambridge, Maryland. The outcome of this matter cannot be determined at this time; therefore, we have not recorded an environmental liability for this location.

Other Commitments and Contingencies

Natural Gas, Electric and Propane Supply

Our natural gas, electric and propane distribution operations have entered into contractual commitments to purchase gas, electricity and propane from various suppliers. The contracts have various expiration dates. We have a contract with an energy marketing and risk management company to manage a portion of our natural gas transportation and storage capacity. This contract expires on March 31, 2012.

In May 2010, our natural gas marketing subsidiary, PESCO, renewed contracts to purchase natural gas from various suppliers. These contracts expire in May 2011.

FPU's electric fuel supply contracts require FPU to maintain an acceptable standard of creditworthiness based on specific financial ratios. FPU's agreement with JEA (formerly known as Jacksonville Electric Authority) requires FPU to comply with the following ratios based on the results of the prior 12 months: (a) total liabilities to tangible net worth less than 3.75; and (b) fixed charge coverage greater than 1.5. If either of the ratios is not met by FPU, we have 30 days to cure the default or provide an irrevocable letter of credit if the default is not cured. FPU's agreement with Gulf Power Company requires FPU to meet the following ratios based on the average of the prior six quarters: (a) funds from operation interest coverage (minimum of 2 to 1); and (b) total debt to total capital (maximum of 0.65 to 1). If FPU fails to meet the requirements, we have to provide the supplier a written explanation of action taken or proposed to be taken to be compliant. Failure to comply with the ratios specified in the agreement with Gulf Power Company could result in FPU having to provide an irrevocable letter of credit. FPU was in compliance with these requirements as of June 30, 2010.

Corporate Guarantees

We have issued corporate guarantees to certain vendors of our subsidiaries, the largest portion of which are for our propane wholesale marketing subsidiary and our natural gas marketing subsidiary. These corporate guarantees provide for the payment of propane and natural gas purchases in the event of the respective subsidiary's default. Neither subsidiary has ever defaulted on its obligations to pay its suppliers. The liabilities for these purchases are recorded in our financial statements when incurred. The aggregate amount guaranteed at June 30, 2010 was $22.5 million, with the guarantees expiring on various dates through 2011.

In addition to the corporate guarantees, we have issued a letter of credit to our primary insurance company for $725,000, which expires on August 31, 2010. The letter of credit to our primary insurance company is provided as security to satisfy the deductibles under our various insurance policies. There have been no draws on this letter of credit as of June 30, 2010. We do not anticipate that this letter of credit will be drawn upon by the counterparty, and we expect that it will be renewed to the extent necessary in the future. In addition, we have issued a letter of credit for $526,000 to TETLP related to the Precedent Agreement, which is further described below.

Agreements for Access to New Natural Gas Supplies

On April 8, 2010, our Delaware and Maryland divisions entered into a Precedent Agreement with TETLP to secure firm transportation service from TETLP in conjunction with its new expansion project, which is expected to expand TETLP's mainline system by up to 190,000 dekatherms per day ("Dts/d"). The Precedent Agreement provides that, upon satisfaction of certain conditions, the parties will execute two firm transportation service contracts, one for our Delaware division and one for our Maryland division, for 30,000 and 10,000 Dts/d, respectively, to be effective on the service commencement date of the project, which is currently projected to occur in November 2012. Each firm transportation service contract shall, among other things, provide for: (a) the maximum daily quantity of Dts/d described above; (b) a term of 15 years; (c) a receipt point at Clarington, Ohio; (d) a delivery point at Honey Brook, Pennsylvania; and (f) certain credit standards and requirements for security. Commencement of service and TETLP's and our rights and obligations under the two firm transportation service contracts are subject to satisfaction of various conditions specified in the Precedent Agreement.

Our Delmarva natural gas supplies are currently received primarily from the Gulf of Mexico natural gas production region and are transported through three interstate upstream pipelines, two of which interconnect directly with ESNG's transmission system. The new firm transportation service contracts between our Delaware and Maryland divisions and TETLP will provide us with an additional direct interconnection with ESNG's transmission system and access to new sources of natural gas supplies from other natural gas production regions, including the Appalachian production region, thereby providing increased reliability and diversity of supply. They will also provide our Delaware and Maryland divisions additional upstream transportation capacity to meet current customer demands and to plan for sustainable growth.

The Precedent Agreement provides that the parties shall promptly meet and work in good faith to negotiate a mutually acceptable reservation rate. Failure to agree upon a mutually acceptable reservation rate would have enabled either party to terminate the Precedent Agreement, and would have subjected us to reimburse TETLP for certain pre-construction costs; however, on July 2, 2010, our Delaware and Maryland divisions executed the required reservation rate agreements with TETLP.

The Precedent Agreement requires us to reimburse TETLP for our proportionate share of TETLP's pre-service costs incurred to date, if we terminate the Precedent Agreement, are unwilling or unable to perform our material duties and obligations thereunder, or take certain other actions whereby TETLP is unable to obtain the authorizations and exemptions required for this project. If such termination were to occur, we estimate that our proportionate share of TETLP's pre-service costs could be approximately $4.7 million by December 31, 2010. If we were to terminate the Precedent Agreement after TETLP completed its construction of all facilities, which is expected to be in the fourth quarter of 2011, our proportionate share could be as much as approximately $45 million. The actual amount of our proportionate share of such costs could differ significantly and would ultimately be based on the level of pre-service costs at the time of any potential termination. As our Delaware and Maryland divisions have now executed the required reservation rate agreements with TETLP, we believe that the likelihood of terminating the Precedent Agreement and having to reimburse TETLP for our proportionate share of TETLP's pre-service costs is remote.

We provided a letter of credit for $526,000 under the Precedent Agreement with TETLP as required. This letter of credit is expected to increase quarterly as TETLP's pre-service costs increase and will not exceed more than the three-month reservation charge under the firm transportation service contracts, which we currently estimate to be $2.1 million.

On March 17, 2010, our Delaware and Maryland divisions entered into a separate Precedent Agreement with ESNG to extend its mainline by eight miles to interconnect with TETLP at Honey Brook, Pennsylvania. The estimated capital cost associated with construction of this mainline extension and interconnection is approximately $19.4 million, and the proposed rate for transmission service on this extension is ESNG's current tariff rate for service in that area.

ESNG and TETLP are proceeding with obtaining the necessary approvals, authorizations or exemptions for construction and operation of their respective projects, including, but not limited to, approval by the FERC. ESNG's regulatory proceedings related to this project are further discussed under "Mainline Extension and Interconnect Project" in this footnote. Our Delaware and Maryland divisions require no regulatory approvals or exemptions to receive transmission service from TETLP or ESNG.

Once the ESNG and TETLP firm transportation services commence, our Delaware and Maryland divisions will incur costs from those services based on the agreed reservation rates, which will become an integral component of the costs associated with providing natural gas supplies to our Delaware and Maryland divisions. The costs from the ESNG and TETLP firm transportation services will be included in the annual GSR filings for each of our respective divisions.

Other

In May 2010, a FPU propane customer filed a class action complaint against FPU in Palm Beach County, Florida, alleging, among other things, that FPU acted in a deceptive and unfair manner related to a particular charge by FPU in its bills to propane customers and the description of such charge. The suit seeks to certify a class comprised of FPU propane customers to whom such charge was made since May 2006 and requests damages and statutory remedies based on the amounts paid by FPU customers for such charge. We believe the particular charge at issue is customary, proper and fair, and we intend to defend vigorously against the claims. We are unable to predict at this time the outcome of this lawsuit or the costs we may incur in defending this claim. Since most of the charge at issue is related to the period prior to the merger between Chesapeake and FPU, the outcome of this lawsuit could affect the purchase price allocation for the FPU merger.

We are involved in certain other legal actions and claims arising in the normal course of business. We are also involved in certain legal proceedings and administrative proceedings before various governmental agencies concerning rates. In the opinion of management, the ultimate disposition of these proceedings will not have a material effect on our condensed consolidated financial position, results of operations or cash flows.

5. **Segment Information**

We use the management approach to identify operating segments, and we organize our business around differences in regulatory environment and/or products or services. The operating results of each segment are regularly reviewed by the chief operating decision maker (our Chief Executive Officer) in order to make decisions about resources and to assess performance. The segments are evaluated based on their pre-tax operating income.

As a result of the merger with FPU in October 2009, we changed our operating segments to better reflect how the chief operating decision maker reviews the various operations of our Company. Our three operating segments are now composed of the following:

- *Regulated Energy* . The regulated energy segment includes natural gas distribution, electric distribution and natural gas transmission operations. All operations in this segment are regulated, as to their rates and services, by the PSC having jurisdiction in each operating territory or by the FERC in the case of ESNG.
- *Unregulated Energy*. The unregulated energy segment includes natural gas marketing, propane distribution and propane wholesale marketing operations, which are unregulated as to their rates and services.
- *Other* . The "Other" segment consists primarily of the advanced information services operation, unregulated subsidiaries that own real estate leased to Chesapeake and certain corporate costs not allocated to other operations.

The following table presents information about our reportable segments.

For the Periods Ended June 30,	Three Months Ended 2010	Three Months Ended 2009	Six Months Ended 2010	Six Months Ended 2009
(in thousands)				
Operating Revenues, Unaffiliated Customers				
Regulated Energy	**$ 52,543**	$ 18,638	**$ 143,845**	$ 70,431
Unregulated Energy	**24,494**	19,578	**83,521**	68,971
Other	**3,024**	2,618	**5,955**	5,911
Total operating revenues, unaffiliated customers	**$ 80,061**	$ 40,834	**$ 233,321**	$ 145,313
Intersegment Revenues [1]				
Regulated Energy	**$ 197**	$ 231	**$ 522**	$ 619
Unregulated Energy	**121**	252	**364**	254
Other	**259**	193	**447**	377
Total intersegment revenues	**$ 577**	$ 676	**$ 1,333**	$ 1,250
Operating Income (Loss)				
Regulated Energy	**$ 8,308**	$ 4,086	**$ 25,824**	$ 13,583
Unregulated Energy	**(791)**	2	**6,969**	6,594
Other and eliminations	**244**	(1,232)	**366**	(1,355)
Total operating income	**$ 7,761**	$ 2,856	**$ 33,159**	$ 18,822
Other income (loss), net of other expenses	**(11)**	12	**103**	45
Interest	**2,305**	1,573	**4,667**	3,215
Income taxes	**2,105**	489	**11,281**	6,253
Net income	**$ 3,340**	$ 806	**$ 17,314**	$ 9,399

[1] All significant intersegment revenues are billed at market rates and have been eliminated from consolidated operating revenues.

(in thousands)	June 30, 2010	December 31, 2009
Identifiable Assets		
Regulated energy	**$ 476,123**	$ 480,903
Unregulated energy	**76,193**	101,437
Other	**37,020**	34,724
Total identifiable assets	**$ 589,336**	$ 617,064

Our operations are almost entirely domestic. Our advanced information services subsidiary, BravePoint, has infrequent transactions in foreign countries, primarily Canada, which are denominated and paid in U.S. dollars. These transactions are immaterial to the consolidated revenues.

6. Employee Benefit Plans

Net periodic benefit costs for our pension and post-retirement benefits plans for the three months and six months ended June 30, 2010 and 2009 are set forth in the following table:

For the Three Months Ended June 30,	Chesapeake Pension Plan 2010	Chesapeake Pension Plan 2009	FPU Pension Plan 2010	Chesapeake SERP 2010	Chesapeake SERP 2009	Chesapeake Postretirement Plan 2010	Chesapeake Postretirement Plan 2009	FPU Medical Plan 2010
(in thousands)								
Service Cost	$ —	$ —	$ —	$ —	$ —	$ —	$ 1	$ 27
Interest Cost	144	140	637	34	32	31	27	34
Expected return on plan assets	(106)	(87)	(619)	—	—	—	—	—
Amortization of prior service cost	(2)	(1)	—	5	4	—	—	—
Amortization of net loss	39	69	—	14	15	14	39	—
Net periodic cost	$ 75	$ 121	$ 18	$ 53	$ 51	$ 45	$ 67	$ 61

For the Six Months Ended June 30,	Chesapeake Pension Plan 2010	Chesapeake Pension Plan 2009	FPU Pension Plan 2010	Chesapeake SERP 2010	Chesapeake SERP 2009	Chesapeake Postretirement Plan 2010	Chesapeake Postretirement Plan 2009	FPU Medical Plan 2010
(in thousands)								
Service Cost	$ —	$ —	$ —	$ —	$ —	$ —	$ 1	$ 55
Interest Cost	289	280	1,275	68	64	61	54	68
Expected return on plan assets	(212)	(173)	(1,238)	—	—	—	—	—
Amortization of prior service cost	(3)	(2)	—	10	7	—	—	—
Amortization of net loss	78	137	—	30	30	29	79	—
Net periodic cost	$ 152	$ 242	$ 37	$ 108	$ 101	$ 90	$ 134	$ 123

We expect to record pension and postretirement benefit costs of approximately $1.0 million for 2010, $320,000 of which is attributable to FPU's pension and medical plans. In addition, we expect to record $897,000 in expense for 2010 related to continued amortization of the FPU pension regulatory asset of approximately $7.6 million, which represents the portion attributable to FPU's regulated energy operations of the changes in funded status that occurred but were not recognized as part of net periodic benefit costs prior to the merger. This was deferred as a regulatory asset prior to the merger by FPU to be recovered through rates pursuant to a previous order by the Florida PSC.

We expect to contribute $450,000 and $1.6 million to the Chesapeake and FPU pension plans, respectively, in 2010. During the three and six months ended June 30, 2010, we contributed $333,000 to the Chesapeake Pension Plan. We also contributed $382,000 and $759,000 to the FPU Pension Plan for the three and six months ended June 30, 2010, respectively.

The Chesapeake SERP, the Chesapeake Postretirement Plan and the FPU Medical Plan are unfunded and are expected to be paid out of our general funds. Cash benefits paid under the Chesapeake SERP for the three and six months ended June 30, 2010, were $22,000 and $45,000, respectively; for the year 2010, such benefits paid are expected to be approximately $88,000. Cash benefits paid for the Chesapeake Postretirement Plan, primarily for medical claims for the three and six months ended June 30, 2010, totaled $19,000 and $35,000, respectively; for the year 2010, we have estimated that approximately $115,000 will be paid for such benefits. Cash benefits paid for the FPU Medical Plan, primarily for medical claims for the three and six months ended June 30, 2010, totaled $24,000 and $44,000, respectively; for the year 2010, we have estimated that approximately $144,000 will be paid for such benefits.

On March 23, 2010, the Patient Protection and Affordable Care Act was signed into law. On March 30, 2010, a companion bill, the Health Care and Education Reconciliation Act of 2010, was also signed into law. Among other things, these new laws, when taken together, reduce the tax benefits available to an employer that receives the Medicare Part D subsidy. The deferred tax effects of the reduced deductibility of the postretirement prescription drug coverage must be recognized in the period these new laws were enacted. The FPU Medical Plan receives the Medicare Part D subsidy. We assessed the deferred tax effects on the reduced deductibility as a result of these new laws and determined that the deferred tax effects were not material to our financial results.

7. Investments

The investment balance at June 30, 2010, represents a Rabbi Trust associated with our Supplemental Executive Retirement Savings Plan and a Rabbi Trust related to a stay bonus agreement with a former executive. We classify these investments as trading securities and report them at their fair value. Any unrealized gains and losses, net of other expenses, are included in other income in the condensed consolidated statements of income. We also have an associated liability that is recorded and adjusted each month for the gains and losses incurred by the Rabbi Trusts. At June 30, 2010 and December 31, 2009, total investments had a fair value of $2.0 million.

8. Share-Based Compensation

Our non-employee directors and key employees are awarded share-based awards through our Directors Stock Compensation Plan ("DSCP") and the Performance Incentive Plan ("PIP"), respectively. We record these share-based awards as compensation costs over the respective service period for which services are received in exchange for an award of equity or equity-based compensation. The compensation cost is primarily based on the fair value of the grant on the date it was awarded.

The table below presents the amounts included in net income related to share-based compensation expense for the awards granted under the DSCP and the PIP for the three and six months ended June 30, 2010 and 2009.

	Three Months Ended		Six Months Ended	
For the periods ended June 30,	**2010**	**2009**	**2010**	**2009**
(in thousands)				
Directors Stock Compensation Plan	$ **71**	$ 48	$ **135**	$ 95
Performance Incentive Plan	**208**	295	**477**	490
Total compensation expense	**279**	343	**612**	585
Less: tax benefit	**112**	137	**245**	234
Share-Based Compensation amounts included in net income	$ **167**	$ 206	$ **367**	$ 351

Directors Stock Compensation Plan

Shares granted under the DSCP are issued in advance of the directors' service periods and are fully vested as of the date of the grant. We record a prepaid expense of the shares issued and amortize the expense equally over a service period of one year. In May 2010, 9,900 shares were granted to the directors under the DSCP. A summary of stock activity under the DSCP during the six months ended June 30, 2010, is presented below:

	Number of Shares	Weighted Average Grant Date Fair Value
Outstanding — December 31, 2009	—	—
Granted [1]	9,900	$ 29.99
Vested	9,900	$ 29.99
Forfeited	—	—
Outstanding — June 30, 2010	—	—

At June 30, 2010, there was $247,000 of unrecognized compensation expense related to the DSCP awards that is expected to be recognized over the remaining 10 months of the directors' service period ending April 30, 2011.

Performance Incentive Plan

The table below presents the summary of the stock activity for the PIP for the six months ended June 30, 2010:

	Number of Shares	Weighted Average Fair Value
Outstanding — December 31, 2009	123,075	$ 28.15
Granted	40,875	28.05
Vested	43,960	27.94
Fortfeited	—	—
Expired	18,840	27.94
Outstanding — June 30, 2010	101,150	$ 28.24

In January 2010, the Board of Directors granted awards under the PIP for 40,875 shares. The shares granted in January 2010 are multi-year awards, 8,000 shares of which will vest at the end of the two-year service period, or December 31, 2011. The remaining 32,875 shares will vest at the end of the three-year service period, or December 31, 2012. These awards are based upon the achievement of long-term goals, development and our success, and they comprise both market-based and performance-based conditions or targets. The fair value of each performance-based condition or target is equal to the market price of our common stock on the date of the grant. For the market-based conditions, we used the Monte-Carlo pricing model to estimate the fair value of each market-based award granted.

At June 30, 2010, the aggregate intrinsic value of the PIP awards was $1.7 million.

9. Derivative Instruments

We use derivative and non-derivative contracts to engage in trading activities and manage risks related to obtaining adequate supplies and the price fluctuations of natural gas and propane. Our natural gas and propane distribution operations have entered into agreements with suppliers to purchase natural gas and propane for resale to their customers. Purchases under these contracts either do not meet the definition of derivatives or are considered "normal purchases and sales" and are accounted for on an accrual basis. Our propane distribution operation may also enter into fair value hedges of its inventory in order to mitigate the impact of wholesale price fluctuations. As of June 30, 2010, our natural gas and propane distribution operations did not have any outstanding derivative contracts.

Xeron, our propane wholesale and marketing operation, engages in trading activities using forward and futures contracts. These contracts are considered derivatives and have been accounted for using the mark-to-market method of accounting. Under the mark-to-market method of accounting, the trading contracts are recorded at fair value, net of future servicing costs, and the changes in fair value of those contracts are recognized as unrealized gains or losses in the statement of income in the period of change. As of June 30, 2010, we had the following outstanding trading contracts which we accounted for as derivatives:

At June 30, 2010	Quantity in Gallons	Estimated Market Prices	Weighted Average Contract Prices
Forward Contracts			
Sale	10,962,000	$0.9750 — $1.19125	$ 1.0676
Purchase	10,710,000	$0.9750 — $1.18250	$ 1.0510

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

All contracts expire by the end of the first quarter of 2011.

We did not have any derivative contracts with a credit-risk-related contingency.

Fair values of the derivative contracts recorded in the condensed consolidated balance sheet as of June 30, 2010 and December 31, 2009, are the following:

	Asset Derivatives		
		Fair Value	
(in thousands)	**Balance Sheet Location**	**June 30, 2010**	**December 31, 2009**
Derivatives not designated as hedging instruments			
Forward contracts	Mark-to-market energy assets	$ **814**	$ 2,379
Put option [1]	Mark-to-market energy assets	**—**	—
Total asset derivatives		**$ 814**	$ 2,379

	Liability Derivatives		
		Fair Value	
(in thousands)	**Balance Sheet Location**	**June 30, 2010**	**December 31, 2009**
Derivatives not designated as hedging instruments			
Forward contracts	Mark-to-market energy liabilities	$ **574**	$ 2,514
Total liability derivatives		**$ 574**	$ 2,514

(1) We purchased a put option for the Pro-Cap (propane price cap) plan in September 2009. The put option expired on March 31, 2010. The put option had a fair value of $0 at December 31, 2009.

The effects of gains and losses from derivative instruments on the condensed consolidated statements of income for the three and six months ended June 30, 2010 and 2009, are the following:

		Amount of Gain (Loss) on Derivatives:			
	Location of Gain	**Three months ended June 30,**		**Six months ended June 30,**	
(in thousands)	**(Loss) on Derivatives**	**2010**	**2009**	**2010**	**2009**
Derivatives designated as fair value hedges:					
Propane swap agreement [1]	Cost of Sales	$ —	$ —	$ —	$ (42)
Derivatives not designated as fair value hedges:					
Unrealized gains on forward contracts	Revenue	**$ 160**	$ 159	**$ 374**	$ (1,135)
Total		**$ 160**	$ 159	**$ 374**	$ (1,177)

(1) Our propane distribution operation entered into a propane swap agreement to protect it from the impact that wholesale propane price increases would have on the Pro-Cap (propane price cap) plan that was offered to customers. We terminated this swap agreement in January 2009.

The effects of trading activities on the condensed consolidated statements of income for the three and six months ended June 30, 2010 and 2009, are the following:

(in thousands)	Location in the Statement of Income	Three months ended June 30, 2010	Three months ended June 30, 2009	Six months ended June 30, 2010	Six months ended June 30, 2009
Realized gains on forward contracts	Revenue	**$ 60**	$ 287	**$ 738**	$ 2,068
Changes in mark-to-market energy assets	Revenue	**160**	159	**374**	(1,135)
Total		**$ 220**	$ 446	**$ 1,112**	$ 933

10. Fair Value of Financial Instruments

GAAP establishes a fair value hierarchy that prioritizes the inputs to valuation methods used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are the following:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2: Quoted prices in markets that are not active, or inputs which are observable, either directly or indirectly, for substantially the full term of the asset or liability; and

Level 3: Prices or valuation techniques requiring inputs that are both significant to the fair value measurement and unobservable (i.e. supported by little or no market activity).

The following table summarizes our financial assets and liabilities that are measured at fair value on a recurring basis and the fair value measurements, by level, within the fair value hierarchy used at June 30, 2010:

		Fair Value Measurements Using:		
(in thousands)	Fair Value	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Investments	$ 2,030	$ 2,030	$ —	$ —
Mark-to-market energy assets,	$ 814	$ —	$ 814	$ —
Liabilities:				
Mark-to-market energy liabilities	$ 574	$ —	$ 574	$ —

The following table summarizes our financial assets and liabilities that are measured at fair value on a recurring basis and the fair value measurements, by level, within the fair value hierarchy used at December 31, 2009:

		Fair Value Measurements Using:		
(in thousands)	Fair Value	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Investments	$ 1,959	$ 1,959	$ —	$ —
Mark-to-market energy assets, including put option	$ 2,379	$ —	$ 2,379	$ —
Liabilities:				
Mark-to-market energy liabilities	$ 2,514	$ —	$ 2,514	$ —

The following valuation techniques were used to measure fair value assets in the table above on a recurring basis as of June 30, 2010 and December 31, 2009:

Level 1 Fair Value Measurements:

Investments — The fair values of these trading securities are recorded at fair value based on unadjusted quoted prices in active markets for identical securities.

Level 2 Fair Value Measurements:

Mark-to-market energy assets and liabilities — These forward contracts are valued using market transactions in either the listed or OTC markets.

Propane put option — The fair value of the propane put option is valued using market transactions for similar assets and liabilities in either the listed or OTC markets.

At June 30, 2010, there were no non-financial assets or liabilities required to be reported at fair value. We review our non-financial assets for impairment at least on an annual basis, as required.

Other Financial Assets and Liabilities

Financial assets with carrying values approximating fair value include cash and cash equivalents and accounts receivable. Financial liabilities with carrying values approximating fair value include accounts payable and other accrued liabilities and short-term debt. The carrying value of these financial assets and liabilities approximates fair value due to their short maturities and because interest rates approximate current market rates for short-term debt.

At June 30, 2010, long-term debt, which includes the current maturities of long-term debt, had a carrying value of $105.7 million, compared to a fair value of $121.3 million, using a discounted cash flow methodology that incorporates a market interest rate based on published corporate borrowing rates for debt instruments with similar terms and average maturities, with adjustments for duration, optionality, and risk profile. At December 31, 2009, long-term debt, including the current maturities, had a carrying value of $134.1 million, compared to the estimated fair value of $145.5 million.

11. Long Term Debt

Our outstanding long-term debt is shown below:

(in thousands)	June 30, 2010	December 31, 2009
FPU secured first mortgage bonds:		
9.57% bond, due May 1, 2018	$ **7,247**	$ 8,156
10.03% bond, due May 1, 2018	**3,986**	4,486
9.08% bond, due June 1, 2022	**7,950**	7,950
6.85% bond, due October 1, 2031	**—**	14,012
4.90% bond, due November 1, 2031	**—**	13,222
Uncollateralized senior notes:		
6.91% note, due October 1, 2010	**909**	909
6.85% note, due January 1, 2012	**2,000**	2,000
7.83% note, due January 1, 2015	**10,000**	10,000
6.64% note, due October 31, 2017	**21,818**	21,818
5.50% note, due October 12, 2020	**20,000**	20,000
5.93% note, due October 31, 2023	**30,000**	30,000
Convertible debentures:		
8.25% due March 1, 2014	**1,478**	1,520
Promissory note	**295**	40
Total long-term debt	**105,683**	134,113
Less: current maturities	**(8,125)**	(35,299)
Total long-term debt, net of current maturities	$ **97,558**	$ 98,814

In January 2010, we redeemed the 6.85 percent and 4.90 percent series of FPU's secured first mortgage bonds prior to their respective maturity for $29.1 million, which included the outstanding principal balances, interest accrued, premium and fees. We used short-term borrowing to finance the redemption of these bonds. The difference between the carrying value of those bonds and the amount paid at redemption, totaling $1.5 million, was deferred as a regulatory asset as allowed by the Florida PSC.

We initially used our existing short-term borrowing facilities to finance the redemption of those bonds. On March 16, 2010, we entered into a new $29.1 million term loan credit facility with an existing lender to continue to finance the redemption. We borrowed $29.1 million for a nine-month period under this new facility, which bears interest at 1.88 percent per annum.

On June 29, 2010, we entered into an agreement with Metropolitan Life Insurance Company and New England Life Insurance Company to issue up to $36 million in uncollateralized senior notes. We expect to use $29 million of the uncollateralized senior notes to permanently finance the redemption of the 6.85 percent and 4.90 percent series of FPU bonds. The terms of the agreement requires us to issue $29 million of the $36 million in uncollateralized senior notes committed by the lender on or before July 9, 2012 with a 15-year term at a rate ranging from 5.28 percent to 6.13 percent based on the timing of the issuance. The remaining $7 million will be issued prior to May 3, 2013 at a rate ranging from 5.28 percent to 6.43 percent based on the timing of the issuance. These notes, when issued, will have similar covenants and default provisions as the existing senior notes, and will have an annual principal payment beginning in the sixth year after the issuance.

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

Management's Discussion and Analysis of Financial Condition and Results of Operations is designed to provide a reader of the financial statements with a narrative report on our financial condition, results of operations and liquidity. This discussion and analysis should be read in conjunction with the attached unaudited condensed consolidated financial statements and notes thereto and our Annual Report on Form 10-K for the year ended December 31, 2009, including the audited consolidated financial statements and notes thereto.

Safe Harbor for Forward-Looking Statements

We make statements in this Quarterly Report on Form 10-Q that do not directly or exclusively relate to historical facts. Such statements are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. You can typically identify forward-looking statements by the use of forward-looking words, such as "project," "believe," "expect," "anticipate," "intend," "plan," "estimate," "continue," "potential," "forecast" or other similar words, or future or conditional verbs such as "may," "will," "should," "would" or "could." These statements represent our intentions, plans, expectations, assumptions and beliefs about future financial performance, business strategy, projected plans and objectives of the Company. These statements are subject to many risks, uncertainties and other important factors that could cause actual results to differ materially from those expressed in the forward-looking statements. Such factors include, but are not limited to:

- state and federal legislative and regulatory initiatives that affect cost and investment recovery, have an impact on rate structures, and affect the speed at and degree to which competition enters the electric and natural gas industries (including deregulation);
- the outcomes of regulatory, tax, environmental and legal matters, including whether pending matters are resolved within current estimates;
- industrial, commercial and residential growth or contraction in our service territories;
- the weather and other natural phenomena, including the economic, operational and other effects of hurricanes and ice storms;
- the timing and extent of changes in commodity prices and interest rates;
- general economic conditions, including any potential effects arising from terrorist attacks and any consequential hostilities or other hostilities or other external factors over which we have no control;
- changes in environmental and other laws and regulations to which we are subject;
- the results of financing efforts, including our ability to obtain financing on favorable terms, which can be affected by various factors, including credit ratings and general economic conditions;
- declines in the market prices of equity securities and resultant cash funding requirements for our defined benefit pension plans;
- the creditworthiness of counterparties with which we are engaged in transactions;
- growth in opportunities for our business units;
- the extent of success in connecting natural gas and electric supplies to transmission systems and in expanding natural gas and electric markets;
- the effect of accounting pronouncements issued periodically by accounting standard-setting bodies;
- conditions of the capital markets and equity markets during the periods covered by the forward-looking statements;
- the ability to successfully execute, manage and integrate merger, acquisition or divestiture plans, regulatory or other limitations imposed as a result of a merger, acquisition or divestiture, and the success of the business following a merger, acquisition or divestiture;
- the ability to manage and maintain key customer relationships;
- the ability to maintain key supply sources;

- the effect of spot, forward and future market prices on our distribution, wholesale marketing and energy trading businesses;
- the effect of competition on our businesses;
- the ability to construct facilities at or below estimated costs;
- changes in technology affecting our advanced information services business; and
- operating and litigation risks that may not be covered by insurance.

Introduction

We are a diversified utility company engaged, directly or through subsidiaries, in regulated energy businesses, unregulated energy businesses, and other unregulated businesses, including advanced information services.

Our strategy is focused on growing earnings from a stable utility foundation and investing in related businesses and services that provide opportunities for returns greater than traditional utility returns. The key elements of this strategy include:

- executing a capital investment program in pursuit of organic growth opportunities that generate returns equal to or greater than our cost of capital;
- expanding the regulated energy distribution and transmission businesses through expansion into new geographic areas and providing new services in our current service territories;
- expanding the propane distribution business in existing and new markets through leveraging our community gas system services and our bulk delivery capabilities;
- utilizing our expertise across our various businesses to improve overall performance;
- enhancing marketing channels to attract new customers;
- providing reliable and responsive customer service to retain existing customers;
- maintaining a capital structure that enables us to access capital as needed;
- maintaining a consistent and competitive dividend for shareholders; and
- creating and maintaining a diversified customer base, energy portfolio and utility foundation.

Due to the seasonality of our business, results for interim periods are not necessarily indicative of results for the entire fiscal year. Revenue and earnings are typically greater during the first and fourth quarters, when consumption of energy is highest due to colder temperatures.

As a result of the merger with FPU in October 2009, we changed our operating segments to better reflect how the chief operating decision maker (our Chief Executive Officer) reviews the various operations of the Company. Our three operating segments are now composed of the following:

- *Regulated Energy* . The regulated energy segment includes natural gas distribution, electric distribution and natural gas transmission operations. All operations in this segment are regulated, as to their rates and services, by the PSC having jurisdiction in each operating territory or by the FERC in the case of ESNG.
- *Unregulated Energy*. The unregulated energy segment includes natural gas marketing, propane distribution and propane wholesale marketing operations, which are unregulated as to their rates and services.
- *Other* . The "Other" segment consists primarily of the advanced information services operation, unregulated subsidiaries that own real estate leased to Chesapeake and certain corporate costs not allocated to other operations.

We revised the segment information for the three and six months ended June 30, 2009 to reflect the new operating segments.

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

In addition, certain information is presented, which, for comparison purposes, includes only FPU's results of operations or excludes FPU's results from the consolidated results of operations for the periods ended June 30, 2010. Certain other information is presented, which, for comparison purposes, excludes all merger-related costs incurred in connection with the FPU merger. Although non-GAAP measures are not intended to replace the GAAP measures for evaluation of our performance, we believe that the portions of the presentation, which include only the FPU results, or which exclude FPU's financial results for the post-merger period and merger-related costs, provide helpful comparisons for an investor's evaluation purposes.

Results of Operations for the Quarter Ended June 30, 2010

Overview and Highlights

Our net income for the quarter ended June 30, 2010 was $3.3 million, or $0.35 per share (diluted). This represents an increase of $2.5 million, or $0.23 per share (diluted), compared to a net income of $806,000, or $0.12 per share (diluted), reported in the same period in 2009.

For the Three Months Ended June 30, *(in thousands)*	2010	2009	Change
Operating Income (Loss)			
Regulated Energy	**$ 8,308**	$ 4,086	$ 4,222
Unregulated Energy	**(791)**	2	(793)
Other	**244**	(1,232)	1,476
Operating Income	**7,761**	2,856	4,905
Other Income (Loss), net of expenses	**(11)**	12	(23)
Interest Charges	**2,305**	1,573	732
Income Taxes	**2,105**	489	1,616
Net Income	**$ 3,340**	$ 806	$ 2,534
Earnings Per Share of Common Stock:			
Basic	**$ 0.35**	$ 0.12	$ 0.23
Diluted	**$ 0.35**	$ 0.12	$ 0.23

Our results for the second quarter of 2010 included approximately $3.7 million in operating income and $1.8 million in net income recorded by FPU. Included in the operating income and net income contributed by FPU for the period were the effects of transferring propane distribution customers previously served by Chesapeake in Florida to FPU after the merger in an effort to integrate operations. Pursuant to the acquisition method of accounting, we consolidated FPU's results into our consolidated results from October 28, 2009, which is the effective date of the merger. Therefore, our consolidated results for the second quarter of 2009 did not include any results from FPU.

During the second quarter of 2010 and 2009, we expensed approximately $92,000 ($55,000 net of tax) and $1.1 million ($654,000 net of tax), respectively, of merger-related transaction costs, which are included in the "Other" segment. Transaction-related costs expensed in the second quarter of 2010 reflected our costs to integrate operations of Chesapeake and FPU, including certain termination benefits offered to employees, net of the portion we expect to recover through future rates when we complete the appropriate rate proceedings. Transaction-related costs expensed in the second quarter of 2009 included our costs to consummate the merger.

	2010			
For the Three Months Ended June 30,	**Chesapeake, excluding FPU**	**FPU**	**Chesapeake Total**	**2009**
(in thousands)				
Operating Income (Loss)				
Regulated Energy	$ 5,079	$ 3,229	$ 8,308	$ 4,086
Unregulated Energy	(1,240)	449	(791)	2
Other	244	—	244	(1,232)
Operating Income	4,083	3,678	7,761	2,856
Other Income (Loss), net of expenses	(43)	32	(11)	12
Interest Charges	1,452	853	2,305	1,573
Income Taxes	1,012	1,093	2,105	489
Net Income	$ 1,576	$ 1,764	$ 3,340	$ 806
Excluding effect of transaction-related costs:				
Net Income	$ 1,576	$ 1,764	$ 3,340	$ 806
Transaction-related costs	92	—	92	1,090
Income tax impact	(37)	—	(37)	(436)
Net Income, excluding transaction-related costs	$ 1,631	$ 1,764	$ 3,395	$ 1,460

Key Factors Affecting Our Businesses

The following is a summary of key factors affecting our businesses and their impacts on our results in the second quarter of 2010. More detailed analysis is provided in the following section of our results by segment.

Merger. FPU contributed $3.7 million in operating income to our consolidated results in the second quarter of 2010. FPU's operating results by business for the quarter ended June 30, 2010 are presented below.

For the Three Months Ended June 30, 2010	**Regulated Energy**		**Unregulated Energy**		
(in thousands)	**Natural Gas**	**Electric**	**Propane**	**Other**	**Total**
Revenue	$ 13,465	$ 21,906	$ 3,837	$ 603	$ 39,811
Cost of sales	5,121	17,442	1,853	368	24,784
Gross margin	8,344	4,464	1,984	235	15,027
Other operating expenses	6,115	3,464	1,647	123	11,349
Operating Income	$ 2,229	$ 1,000	$ 337	$ 112	$ 3,678
Average number of residential customers	47,163	23,584	12,787	—	83,534

During the second quarter of 2010, we incurred $284,000 to integrate certain operations of Chesapeake and FPU, principally combining customer service and billing functions in Florida, of which $92,000 was expensed. In June 2010, we appointed Jeff Householder as the president of FPU to bring his extensive knowledge and experience of the Florida energy market to FPU. Also during the second quarter of 2010, we completed the integration of the propane distribution operations in Florida by transferring to FPU all of the customers previously served by Chesapeake in Florida to FPU, a process which began in late 2009 after the merger.

Weather. Temperatures on the Delmarva Peninsula during the second quarter of 2010 were nine-percent warmer than the same period in 2009 and consistent with the normal (10-year average) temperatures for the period. The warmer weather on the Delmarva Peninsula reduced gross margin by approximately $162,000 in the second quarter of 2010 compared to the same period in 2009. As our residential natural gas rates in Maryland are normalized for weather, our residential natural gas margin in Maryland is not affected by the weather. There were 90 more cooling degree-days in Florida during the second quarter of 2010 compared to the same period in 2009, which benefited our Florida electric distribution operation. Our Florida natural gas and propane distribution operations are not typically affected by the weather during the second quarter.

Growth. The average number of Delmarva natural gas residential customers increased by one percent in the second quarter of 2010, compared to the same period in 2009. This growth and an increase in commercial and industrial customers contributed approximately $256,000 in period-over-period additional gross margin. Although not affecting the results in the second quarter of 2010, we entered into agreements in 2010 to provide natural gas service to two industrial customers in southern Delaware, which will add annual margin equivalent to 1,575 average residential heating customers once the services begin in the fourth quarter of 2010 and early 2011. New transportation services and new expansion facilities placed in service during 2009 and 2010 by our natural gas transmission subsidiary, ESNG, contributed an additional gross margin of $370,000 in the second quarter of 2010 compared to the same period in 2009. Chesapeake's Florida natural gas distribution division experienced a period-over-period net customer loss, primarily from the loss of several large industrial customers as a result of plant closings in 2009, which decreased gross margin by $25,000.

Rates and Regulatory Matters. In December 2009, the Florida PSC approved a rate increase of approximately $2.5 million, applicable to all meters read on or after January 14, 2010, for Chesapeake's Florida natural gas distribution division. The rate increase contributed an additional gross margin of $574,000 in the second quarter of 2010 compared to the same period in 2009. The operating results of FPU's natural gas distribution operation for the second quarter of 2010 also reflect an increase of $1.3 million in gross margin from its rate increase of approximately $8.0 million approved by the Florida PSC in 2009.

Propane Prices. During the first half of 2009, our Delmarva propane distribution operation experienced higher retail margins benefited from the $939,000 loss recorded in late 2008 on a swap agreement for the 2008/2009 winter Pro-Cap (propane price cap) program. This loss lowered the propane inventory costs and, therefore, increased retail margins during the first half of 2009. During the first half of 2010, the retail margins returned to more normal levels, and it resulted in a lower gross margin per gallon in the second quarter of 2010 compared to the same period in 2009, which decreased gross margin by $290,000. Lower trading volumes in the wholesale propane market have led to greater uncertainty, reducing Xeron's trading activity and its gross margin by $225,000.

Advanced Information Services. Our advanced information services subsidiary, BravePoint, generated $230,000 in operating income in the second quarter of 2010, compared to an operating loss of $240,000 reported in the same period of 2009. Increased billable consulting hours in 2010 and cost containment actions implemented throughout 2009 contributed to the increased period-over-period operating results.

Other Operating Expenses. Our other operating expenses, excluding expenses reported by FPU, decreased by $350,000 in the second quarter of 2010 compared to the same period in 2009. Lower expenses related to collections and allowance for doubtful accounts receivable as well as cost containment actions implemented throughout 2009 by the advanced information services operation more than fully offset higher other operating expenses related to increased compensation and costs associated with increased capital investments.

Regulated Energy

For the Three Months Ended June 30, (in thousands)	2010	2009	Change
Revenue	$ 52,740	$ 18,869	$ 33,871
Cost of sales	24,406	4,285	20,121
Gross margin	28,334	14,584	13,750
Operations & maintenance	13,800	7,325	6,475
Depreciation & amortization	4,247	1,820	2,427
Other taxes	1,979	1,353	626
Other operating expenses	20,026	10,498	9,528
Operating Income	$ 8,308	$ 4,086	$ 4,222
Statistical Data — Delmarva Peninsula			
Heating degree-days ("HDD"):			
Actual	428	470	(42)
10-year average (normal)	495	494	1
Estimated gross margin per HDD	$ 2,429	$ 1,937	$ 492
Per residential customer added:			
Estimated gross margin	$ 375	$ 375	$ —
Estimated other operating expenses	$ 105	$ 103	$ 2
Florida			
HDD:			
Actual	9	25	(16)
10-year average (normal)	23	32	(9)
Cooling degree-days:			
Actual	1,043	953	90
10-year average (normal)	880	894	(14)
Residential Customer Information			
Average number of customers [1]:			
Delmarva	47,431	46,756	675
Florida — Chesapeake	13,418	13,342	76
Total	60,849	60,098	751

(1) Average number of residential customers for FPU are included in the discussions of FPU's results on page 35.

Operating income for the regulated energy segment increased by approximately $4.2 million, or 103 percent, in the second quarter of 2010, compared to the same period in 2009, which was generated from a gross margin increase of $13.7 million offset partially by an increase in operating expenses of $9.5 million.

Gross Margin

Gross margin for our regulated energy segment increased by $13.7 million, or 94 percent, in the second quarter of 2010 compared to the same period in 2009.

The natural gas distribution operations for the Delmarva Peninsula generated an increase in gross margin of $235,000 in the second quarter of 2010 compared to the same period in 2009. The factors contributing to this increase were as follows:

- The Delmarva natural gas distribution operations experienced growth in residential, commercial and industrial customers, which contributed $256,000 to the gross margin increase.
- Non-weather-related customer consumption decreased during the second quarter of 2010, compared to the same period in 2009, resulting in a decrease of $63,000 in gross margin. This decrease in consumption is primarily by residential customers for our Delaware division. Residential heating rates for the Maryland division are normalized, and we typically do not experience an impact on gross margin from the weather and non-weather factors for our residential customers in Maryland.
- The remaining gross margin change is attributable primarily to an increase in gross margin due to changes in rates and rate classifications, offset partially by a decrease in gross margin from warmer weather on the Delmarva Peninsula.

Our Florida natural gas distribution operation experienced an increase in gross margin of $8.9 million in the second quarter of 2010 compared to the same period in 2009. The factors contributing to this increase were as follows:

- FPU's natural gas distribution operation contributed $8.3 million in gross margin in the second quarter of 2010. FPU's results in the second quarter of 2009 were not included in our consolidation. Gross margin from FPU's natural gas distribution operation in the second quarter of 2010 was positively affected by a rate increase of approximately $8.0 million approved by the Florida PSC on December 15, 2009.
- Chesapeake's Florida division also experienced an increase in gross margin of $574,000 from a rate increase of approximately $2.5 million approved by the Florida PSC on December 15, 2009 (applicable to all meters read on or after January 14, 2010).
- Partially offsetting the gross margin increase was a decrease of $68,000 due primarily to the loss of several large industrial customers served by Chesapeake's Florida division as a result of plant closings in 2009.

The natural gas transmission operations achieved gross margin growth of $124,000 in the second quarter of 2010 compared to the same period in 2009. The factors contributing to this increase were as follows:

- New transportation services implemented by ESNG in November 2009 as a result of the completion of its latest expansion program, provided for an additional 6,957 Mcfs per day and added $254,000 to gross margin during the second quarter. In addition, a new expansion project, which was completed in May 2010, provided an additional 1,120 Mcfs of service per day, adding $40,000 to gross margin during the second quarter. The new expansion project completed in May 2010 is expected to provide an annualized gross margin of $343,000.
- New firm transportation service for an industrial customer for the period from November 2009 to October 2012 provided for an additional 2,705 Mcfs per day and added $76,000 to gross margin in the second quarter of 2010. During the second quarter of 2009, a temporary increase in service to the same customer added $106,000 to ESNG's gross margin but this did not recur in 2010.
- Offsetting the abovementioned increases to gross margin, ESNG received notices from two customers of their intentions not to renew their firm transportation service contracts. These contracts expired in November 2009 and April 2010, decreasing gross margin by $103,000 in the second quarter of 2010.

Our Florida electric distribution operation, which was acquired in the FPU merger, generated gross margin of $4.5 million in the second quarter of 2010.

Other Operating Expenses

Other operating expenses for the regulated energy segment increased by $9.5 million, or 91 percent, in the second quarter of 2010 compared to the same period in 2009. Other operating expenses of FPU's regulated energy segment during the period were $9.6 million. The remaining difference in other operating expenses is due primarily to the decrease of $174,000 in allowance for doubtful accounts as a result of lower commodity prices and improved collections.

Other Developments

The following developments, which are not discussed above, may affect the future operating results of the regulated energy segment:

- In the first half of 2010, we announced two agreements to provide natural gas service to industrial customers in southern Delaware. The anticipated annual margin from these services equates to approximately 1,575 average residential heating customers once the services begin in the fourth quarter of 2010 and early 2011. These services further extend our natural gas distribution and transmission infrastructures to serve other potential customers in the same area.
- On April 8, 2010, we entered into a Precedent Agreement with TETLP to secure firm transportation service from TETLP in conjunction with its new expansion project. The Precedent Agreement provides that, upon satisfaction of certain conditions, the parties will execute two firm transportation service contracts, one for our Delaware division and one for our Maryland division, for 30,000 and 10,000 Dts/d, respectively, to be effective on the service commencement date of the project, currently projected to occur in November 2012. As a result of this new service, our Delaware and Maryland divisions will have access to new supplies of natural gas, providing increased reliability and diversity of supply. This will also provide them additional upstream transportation capacity, which is essential to meet their current customer demands and to plan for sustainable growth. In conjunction with this project, ESNG will build and operate an eight-mile mainline extension from TETLP's pipeline to ESNG's existing facility to provide transportation services for the Delaware and Maryland divisions at ESNG's current tariff rate for service in that area. ESNG's transmission service is expected to begin in 2011.

Unregulated Energy

For the Three Months Ended June 30,	2010	2009	Change
(in thousands)			
Revenue	**$ 24,615**	$ 19,830	$ 4,785
Cost of sales	**19,068**	15,143	3,925
Gross margin	**5,547**	4,687	860
Operations & maintenance	**5,331**	3,963	1,368
Depreciation & amortization	**718**	517	201
Other taxes	**289**	205	84
Other operating expenses	**6,338**	4,685	1,653
Operating Income (Loss)	**$ (791)**	$ 2	$ (793)
Statistical Data — Delmarva Peninsula			
Heating degree-days ("HDD"):			
Actual	**428**	470	(42)
10-year average (normal)	**495**	494	1
Estimated gross margin per HDD	**$ 3,083**	$ 2,465	$ 618

Operating income for the unregulated energy segment decreased by approximately $793,000 in the second quarter of 2010, compared to the same period in 2009, which was attributable to an operating expense increase of $1.7 million, partially offset by a gross margin increase of $860,000.

Gross Margin

Gross margin for our unregulated energy segment increased by $860,000 or 18 percent, in the second quarter of 2010, compared to the same period in 2009.

Our Delmarva propane distribution operations experienced a decrease in gross margin of $712,000, in the second quarter compared to the same period in 2009. The factors contributing to this change are as follows:

- A lower retail margin per gallon during the second quarter of 2010 compared to the same period in 2009 decreased gross margin by $290,000. Retail margins for the first half of 2009 benefited from the $939,000 loss recorded in late 2008 on a swap agreement for the 2008/2009 winter Pro-Cap (propane price cap) program. This loss lowered the propane inventory costs and, therefore, increased retail margins during the first half of 2009. Retail margins for the first half of 2010 returned to more normal levels.

- Non-weather-related volumes sold in the second quarter of 2010 decreased by 709,000 gallons, or 15 percent, and provided for a decrease in gross margin of approximately $343,000. The decrease in non-weather-related volumes was primarily related to lower consumption and timing of propane deliveries based on propane prices and weather. Slightly offsetting the impact of conservation and timing of propane deliveries was the addition of 454 community gas system customers and 1,000 customers acquired in February 2010 as part of the purchase of the operating assets of a propane distributor serving Northampton and Accomack counties in Virginia, which contributed $35,000 and $26,000 to gross margin, respectively, in the second quarter.

- A decrease in gross margin of $140,000 was attributable to warmer weather on the Delmarva Peninsula as the heating degree-days decreased by nine percent over the previous year's second quarter.

Our Florida propane distribution operations experienced an increase in gross margin of $1.7 million in the second quarter of 2010 compared to the same period in 2009 due to inclusion of FPU's propane distribution operations.

Xeron, our propane wholesale marketing operation, experienced a decrease in gross margin of $225,000 in the second quarter of 2010 compared to the same period in 2009 as a result of decreased trading activity. Lower trading volumes in the wholesale propane market have led to greater uncertainty, reducing Xeron's trading activity. Xeron's trading volumes decreased by 18 percent for the quarter compared to the prior year.

Our natural gas marketing operation experienced a decrease in gross margin of $89,000 in the second quarter of 2010 due primarily to decreased spot sales to one industrial customer on the Delmarva Peninsula. Spot sales are not predictable and, therefore, are not included in our long-term financial plans or forecasts.

Other Operating Expenses

Total other operating expenses for the unregulated energy segment increased by $1.7 million in the second quarter of 2010. Other operating expenses of FPU during the second quarter of 2010 were $1.8 million. Excluding FPU, total other operating expenses decreased by $117,000, due primarily to a decrease in bad debt expense for the natural gas marketing operations, as a result of expanded credit and collection initiatives, and a decrease in accruals for incentive compensation as a result of lower operating results.

Other

For the Three Months Ended June 30,	**2010**	**2009**	**Change**
(in thousands)			
Revenue	**$ 2,706**	$ 2,135	$ 571
Cost of sales	**1,316**	1,039	277
Gross margin	**1,390**	1,096	294
Operations & maintenance	**818**	1,003	(185)
Transaction-related costs	**92**	1,090	(998)
Depreciation & amortization	73	76	(3)
Other taxes	**163**	159	4
Other operating expenses	**1,146**	2,328	(1,182)
Operating Income (Loss)	**$ 244**	$ (1,232)	$ 1,476

Note: Eliminations are entries required to eliminate activities between business segments from the consolidated results.

Operating income for the "Other" segment increased by approximately $1.5 million in the second quarter of 2010 compared to the same period in 2009. Increased operating income from our advanced information services operation of $470,000 and decreased merger-related transaction costs of $1.0 million contributed to this increase.

Gross margin

Period-over-period gross margin increased by $294,000 for our "Other" segment. During the second quarter, our advanced information services operation recognized higher consulting revenues as the result of a 20-percent increase in the number of billable hours. Our advanced information services operation also contributed to the increase in gross margin for the second quarter of 2010, compared to the same period in 2009, with an increase in revenue and gross margin from its professional database monitoring and support solution services.

Operating expenses

Other operating expenses decreased by $1.2 million in the second quarter of 2010 due primarily to the lower merger-related costs expensed in the second quarter of 2010, compared to the same period in 2009 and cost containment actions, including layoffs and compensation adjustments, implemented by our advanced information services operation in March, September and October 2009, that reduced costs to offset the decline in revenues.

Interest Expense

Our total interest expense for the second quarter of 2010 increased by approximately $732,000, or 47 percent, compared to the same period in 2009. The primary drivers of the increased interest expense are related to FPU, including:

- An increase in long-term interest expense of $467,000 is related to interest on FPU's first mortgage bonds.
- Interest expense from a new term loan facility during the second quarter of 2010 was $162,000. Two series of the FPU bonds, 4.9 percent and 6.85 percent series, were redeemed by using this new short-term term loan facility at the end of January 2010.
- Additional interest expense of $190,000 is related to interest on deposits from FPU's customers.

Offsetting the increased interest expense from FPU was lower non-FPU-related interest expense from Chesapeake's unsecured senior notes, as the principal balances decreased from scheduled payments, and absence of any additional short-term borrowings as a result of the timing of our capital expenditures and the increased cash flow generated from ordinary operating activities.

Income Taxes

We recorded an income tax expense of $2.1 million for the quarter ended June 30, 2010, compared to $489,000 for the quarter ended June 30, 2009. The increase in income tax expense primarily reflects the higher earnings for the period. The effective income tax rate for the second quarter of 2010 is 38.7 percent compared to an effective tax rate of 37.8 percent for the second quarter of 2009. Higher earnings for the period decreased the effect of tax-exempt items in the effective tax rate for the quarter.

Results of Operations for the Six Months Ended June 30, 2010

Overview and Highlights

Our net income for the six months ended June 30, 2010 was $17.3 million, or $1.82 per share (diluted). This represents an increase of $7.9 million, or $0.46 per share (diluted), compared to a net income of $9.4 million, or $1.36 per share (diluted), reported in the same period in 2009.

For the Six Months Ended June 30,	2010	2009	Change
(in thousands)			
Operating Income (Loss)			
Regulated Energy	**$ 25,824**	$ 13,583	$ 12,241
Unregulated Energy	**6,969**	6,594	375
Other	**366**	(1,355)	1,721
Operating Income	**33,159**	18,822	14,337
Other Income, net of expenses	**103**	45	58
Interest Charges	**4,667**	3,215	1,452
Income Taxes	**11,281**	6,253	5,028
Net Income	**17,314**	9,399	7,915
Earnings Per Share of Common Stock:			
Basic	**$ 1.83**	$ 1.37	$ 0.46
Diluted	**$ 1.82**	$ 1.36	$ 0.46

Our results for the six months ended June 30, 2010 included approximately $11.7 million in operating income and $6.2 million in net income recorded by FPU, which included the effects of transferring propane distribution customers previously served by Chesapeake in Florida to FPU after the merger in an effort to integrate operations. Pursuant to the acquisition method of accounting, we consolidated FPU's results into our consolidated results from October 28, 2009, which is the effective date of the merger. Therefore, our consolidated results for the six months ended June 30, 2009 did not include any results from FPU.

During the six months ended June 30, 2010 and 2009, we expensed approximately $111,000 ($67,000 net of tax) and $1.2 million ($722,000 net of tax), respectively, of merger-related transaction costs, which are included in the "Other" segment. Transaction-related costs expensed in the six months ended June 30, 2010 reflected our costs to integrate operations of Chesapeake and FPU, including certain termination benefits offered to employees, net of the portion we expect to recover through future rates when we complete the appropriate rate proceedings. Transaction-related costs expensed in the six months ended June 30, 2009 included our costs to consummate the merger.

For the Six Months Ended June 30,	2010 Chesapeake, excluding FPU	2010 FPU	2010 Chesapeake Total	2009
(in thousands)				
Operating Income (Loss)				
Regulated Energy	$ 15,905	$ 9,919	$ 25,824	$ 13,583
Unregulated Energy	5,158	1,811	6,969	6,594
Other	366	—	366	(1,355)
Operating Income	21,429	11,730	33,159	18,822
Other Income, net of expenses	11	92	103	45
Interest Charges	2,921	1,746	4,667	3,215
Income Taxes	7,432	3,849	11,281	6,253
Net Income	$ 11,087	$ 6,227	$ 17,314	$ 9,399
Excluding effect of transaction-related costs:				
Net Income	$ 11,087	$ 6,227	$ 17,314	$ 9,399
Transaction-related costs	111	—	111	1,204
Income tax impact	(44)	—	(44)	(482)
Net Income, excluding transaction-related costs	$ 11,154	$ 6,227	$ 17,381	$ 10,121

Key Factors Affecting Our Businesses

The following is a summary of key factors affecting our businesses and their impacts on our results in the six months ended June 30, 2010. More detailed analysis is provided in the following section of our results by segment.

Merger. FPU contributed $11.7 million in operating income to our consolidated results in the six months ended June 30, 2010. FPU's operating results by business for the six months ended June 30, 2010 are presented below.

For the Six Months Ended June 30, 2010	Regulated Energy		Unregulated Energy		
	Natural Gas	Electric	Propane	Other	Total
(in thousands)					
Revenue	$ 36,628	$ 46,161	$ 10,065	$ 1,184	$ 94,038
Cost of fuel	16,454	37,070	4,845	707	59,076
Gross margin	20,174	9,091	5,220	477	34,962
Other operating expenses	12,503	6,843	3,665	221	23,232
Operating Income	$ 7,671	$ 2,248	$ 1,555	$ 256	$ 11,730
Average number of residential customers	47,090	23,558	12,742	—	83,390

During the six months ended June 30, 2010, we incurred $278,000 to integrate certain operations of Chesapeake and FPU, principally combining customer service and billing functions in Florida, of which $111,000 was expensed. In June 2010, we appointed Jeff Householder as the president of FPU to bring his extensive knowledge and experience of the Florida energy market to FPU. Also during the first half of 2010, we completed the integration of propane distribution operations in Florida by transferring to FPU all of the customers previously served by Chesapeake in Florida to FPU, a process which began in late 2009 after the merger.

Weather. Temperatures on the Delmarva Peninsula during the six months ended June 30, 2010 were two-percent colder than the same period in 2009 and five-percent colder than normal (10-year average) for the period. The colder weather on the Delmarva Peninsula increased gross margin by approximately $311,000 in the six months ended June 30, 2010 compared to the same period in 2009. As our residential rates in Maryland are normalized for weather, our residential margin in Maryland is not affected by the weather. Temperatures in Florida during the six months ended June 30, 2010 were 56-percent colder than the same period in 2009 and 60-percent colder than normal (10-year average) based on the heating-degree-days, which benefited our Florida operations.

Growth. The average number of Delmarva natural gas residential customers increased by two percent in the six months ended June 30, 2010, compared to the same period in 2009. This growth and an increase in commercial and industrial customers contributed approximately $699,000 in period-over-period additional gross margin. Although not affecting the results in the first half of 2010, we entered into agreements in 2010 to provide natural gas service to two industrial customers in southern Delaware, which will add annual margin equivalent to 1,575 average residential heating customers once the services begin in the fourth quarter of 2010 and early 2011. New transportation services and new expansion facilities placed in service during 2009 and 2010 by our natural gas transmission subsidiary, ESNG, contributed an additional gross margin of $776,000 in the six months ended June 30, 2010 compared to the same period in 2009. Chesapeake's Florida natural gas distribution division experienced a period-over-period net customer decrease, primarily from the loss of several large industrial customers as a result of plant closings in 2009, which decreased gross margin by $43,000.

Rates and Regulatory Matters. In December 2009, the Florida PSC approved a rate increase of approximately $2.5 million, applicable to all meters read on or after January 14, 2010, for Chesapeake's Florida natural gas distribution division. The rate increase contributed an additional gross margin of $1.2 million in the six months ended June 30, 2010 compared to the same period in 2009. The operating results of FPU's natural gas distribution operation for the first half of 2010 also reflect an increase of $3.8 million in gross margin from its rate increase of approximately $8.0 million approved by the Florida PSC in 2009.

Propane Prices. During the first half of 2009, our Delmarva propane distribution operation experienced higher retail margins benefited from the $939,000 loss recorded in late 2008 on a swap agreement for the 2008/2009 winter Pro-Cap (propane price cap) program. This loss lowered the propane inventory costs and, therefore, increased retail margins during the first half of 2009. During the first half of 2010, the retail margins returned to more normal levels, and it resulted in a lower retail margin per gallon, which decreased gross margin of the Delmarva propane distribution operation by $872,000. Our propane wholesale marketing subsidiary, Xeron, increased its gross margin by $179,000, primarily from opportunities generated by increased price fluctuations in early 2010.

Natural Gas Spot Sale Opportunities. During the first six months of 2009, our unregulated natural gas marketing subsidiary, PESCO, benefited from increased spot sales on the Delmarva Peninsula. Although PESCO continued to identify spot sale opportunities on the Delmarva Peninsula during the six months ended June 30, 2010, the decreased spot sales, largely due to reduced sales to one industrial customer, resulted in a decrease in gross margin of $688,000 in the six months ended June 30, 2010 compared to the same period in 2009. Spot sales are not predictable, and, therefore, are not included in our long-term financial plans or forecasts.

Advanced Information Services. Our advanced information services subsidiary, BravePoint, generated $265,000 in operating income in the first six months of 2010, compared to an operating loss of $345,000 reported in the same period of 2009. Increased billable consulting hours in 2010 and cost containment actions implemented throughout 2009 contributed to the increased period-over-period operating results.

Other Operating Expenses. Our other operating expenses, excluding FPU's expenses, decreased by $427,000 in the six months ended June 30, 2010 compared to the same period in 2009. Lower expenses related to collection and allowance for doubtful accounts receivable and cost containment actions implemented throughout 2009 for the advanced information services operation more than fully offset the increases in other operating expenses related to increased compensation and increased costs associated with increased capital investments.

Regulated Energy

For the Six Months Ended June 30,	2010	2009	Change
(in thousands)			
Revenue	**$ 144,367**	$ 71,050	$ 73,317
Cost of sales	**78,174**	36,798	41,376
Gross margin	**66,193**	34,252	31,941
Operations & maintenance	**27,331**	14,275	13,056
Depreciation & amortization	**8,751**	3,612	5,139
Other taxes	**4,287**	2,782	1,505
Other operating expenses	**40,369**	20,669	19,700
Operating Income	**$ 25,824**	$ 13,583	$ 12,241
Statistical Data — Delmarva Peninsula			
Heating degree-days ("HDD"):			
Actual	**2,971**	2,923	48
10-year average (normal)	**2,831**	2,800	31
Estimated gross margin per HDD	**$ 2,429**	$ 1,937	$ 492
Per residential customer added:			
Estimated gross margin	**$ 375**	$ 375	$ —
Estimated other operating expenses	**$ 105**	$ 103	$ 2
Florida			
HDD:			
Actual	**941**	604	337
10-year average (normal)	**587**	546	41
Cooling degree-days:			
Actual	**1,045**	1,009	36
10-year average (normal)	**952**	961	(9)
Residential Customer Information			
Average number of customers [1]:			
Delmarva	**47,808**	47,068	740
Florida — Chesapeake	**13,441**	13,407	34
Total	**61,249**	60,475	774

[1] Average number of residential customers for FPU are included in the discussions of FPU's results on page 43.

Operating income for the regulated energy segment increased by approximately $12.2 million, or 90 percent, in the first six months of 2010, compared to the same period in 2009, which was generated from a gross margin increase of $31.9 million, offset partially by an operating expense increase of $19.7 million.

Gross Margin

Gross margin for our regulated energy segment increased by $31.9 million, or 93 percent in the first half of 2010 compared to the same period in 2009.

The natural gas distribution operations for the Delmarva Peninsula generated an increase in gross margin of $636,000 during the period. The factors contributing to this increase are as follows:

- The Delmarva natural gas distribution operations experienced growth in residential, commercial and industrial customers, which contributed $699,000 to the gross margin increase. Residential, commercial and industrial growth by our Delaware division contributed $360,000, $119,000 and $114,000, respectively, to the gross margin increase, and $106,000 was contributed to our gross margin increase by the customer growth in Maryland. We experienced a two-percent increase in average residential customers by the Delmarva natural gas distribution operation since the first half of 2009.
- Colder weather on the Delmarva Peninsula generated an additional $311,000 to the gross margin as heating degree-days increased by two percent for the first six months of 2010 compared to the same period in 2009. Residential heating rates for our Maryland division are weather-normalized, and we typically do not experience an impact on gross margin from the weather for our residential customers in Maryland.
- In addition, a decrease of $298,000 in gross margin was attributable to the decline in non-weather-related customer consumption. The decrease in consumption is primarily by residential customers of our Delaware Division.
- Changes in negotiated rates for a commercial customer in Delaware and an industrial customer in Maryland contributed an increase in gross margin of $137,000 for the first six months of 2010. These increases were offset by a change in rate classifications for certain residential customers in Delaware, which decreased gross margin by $204,000 during the period.

Our Florida natural gas distribution operation experienced an increase in gross margin of $21.7 million for the first six months of 2010 compared to the same period in 2009. The factors contributing to this increase are as follows:

- FPU's natural gas distribution operation contributed $20.2 million in gross margin in the six months ended June 30, 2010. FPU's results in the six months ended June 30, 2009 were not included in our consolidation. Gross margin from FPU's natural gas distribution operation in the second quarter of 2010 was positively affected by a rate increase of approximately $8.0 million approved by the Florida PSC on December 15, 2009 and colder temperatures during the first quarter of 2010.
- Chesapeake's Florida division also experienced an increase in gross margin of $1.2 million from a rate increase of approximately $2.5 million approved by the Florida PSC on December 15, 2009 (applicable to all meters read on or after January 14, 2010).
- During the first six months of 2010, Chesapeake's Florida division experienced an increase in customer consumption, which was heavily affected by the colder temperatures in Florida during the first quarter of 2010. We estimate that the colder temperatures contributed an additional $246,000 to gross margin in the first six months of 2010 compared to the same period in 2009.

Our Florida electric distribution operation, which was acquired in the FPU merger, generated gross margin of $9.1 million in the six months ended June 30, 2010.

The natural gas transmission operations achieved gross margin growth of $562,000 during the first six months of 2010 compared to the same period in 2009. The factors contributing to this increase are as follows:

- New transportation services, implemented by ESNG in November 2009 as a result of the completion of its latest expansion program, provided for an additional 6,957 Mcfs per day and added $508,000 to gross margin during the first six months in 2010. In addition, a new expansion project, which was completed in May 2010, provided for an additional 1,120 Mcfs of service per day, adding $40,000 to gross margin during the six months ended June 30, 2010. The new expansion project completed in May 2010 is expected to provide an annualized gross margin of $343,000.
- New firm transportation service for an industrial customer for the period from November 2009 to October 2012 provided for an additional 9,662 Mcfs per day for the period January 1, 2010 through February 5, 2010, and an additional 2,705 Mcfs per day for the period February 6, 2010 through June 30, 2010. These new services added $228,000 to gross margin for the first six months of 2010. During the second quarter of 2009, the same customer temporarily increased the service, which increased ESNG's gross margin by $107,000. This temporary increase in service did not recur in 2010.

- Offsetting the abovementioned increases to gross margin, ESNG received notices from two customers of their intentions not to renew their firm transportation service contracts. These contracts expired in November 2009 and April 2010, decreasing gross margin by $186,000 for the first six months of 2010. A change in certain customer rates offset these decreases.

Other Operating Expenses

Other operating expenses for the regulated energy segment increased by $19.7 million, or 95 percent, in the first six months of 2010 compared to the same period in 2009, $19.3 million of which was related to other operating expenses of FPU's regulated energy segment during the period.

Other Developments

The following developments, which are not discussed above, may affect the future operating results of the regulated energy segment:

- In the first half of 2010, we announced two agreements to provide natural gas service to industrial customers in southern Delaware. The anticipated annual margin from these services equate to approximately 1,575 average residential heating customers once the services begin in the fourth quarter of 2010 and early 2011. These services further extend our natural gas distribution and transmission infrastructures to serve other potential customers in the same area.

- On April 8, 2010, we entered into a Precedent Agreement with TETLP to secure firm transportation service from TETLP in conjunction with its new expansion project. The Precedent Agreement provides that, upon satisfaction of certain conditions, the parties will execute two firm transportation service contracts, one for our Delaware division and one for our Maryland division, for 30,000 and 10,000 Dts/d, respectively, to be effective on the service commencement date of the project, currently projected to occur in November 2012. As a result of this new service, our Delaware and Maryland divisions will have access to new supplies of natural gas, providing increased reliability and diversity of supply. This will also provide them additional upstream transportation capacity, which is essential to meet their current customer demands and to plan for sustainable growth. In conjunction with this project, ESNG will build and operate an eight-mile mainline extension from TETLP's pipeline to ESNG's existing facility to provide transportation services for the Delaware and Maryland divisions at ESNG's current tariff rate for service in that area. ESNG's transmission service is expected to begin in 2011.

Unregulated Energy

For the Six Months Ended June 30,	**2010**	**2009**	**Change**
(in thousands)			
Revenue	**$ 83,885**	$ 69,225	$ 14,660
Cost of sales	**63,027**	52,232	10,795
Gross margin	**20,858**	16,993	3,865
Operations & maintenance	**11,356**	8,868	2,488
Depreciation & amortization	**1,765**	1,031	734
Other taxes	**768**	500	268
Other operating expenses	**13,889**	10,399	3,490
Operating Income	**$ 6,969**	$ 6,594	$ 375
Statistical Data — Delmarva Peninsula			
Heating degree-days ("HDD"):			
Actual	**2,971**	2,923	48
10-year average (normal)	**2,831**	2,800	31
Estimated gross margin per HDD	**$ 3,083**	$ 2,465	$ 618

Gross Margin

Gross margin for our unregulated energy segment increased by $3.9 million, or 23 percent, in the first six months of 2010, compared to the same period in 2009. FPU's unregulated energy operation, which is primarily its propane distribution operation, contributed $5.7 million, which included approximately $800,000 generated from customers previously served by Chesapeake and now served by FPU following the integration of our Florida propane distribution operations.

Our Delmarva propane distribution operation experienced a decrease in gross margin of $564,000, as a result of the following factors:

- A lower margin per gallon during the first six months of 2010 compared to the same period in 2009 decreased gross margin by $872,000. Retail margins for the first half of 2009 benefited from the $939,000 loss recorded in late 2008 on a swap agreement for the 2008/2009 winter Pro-Cap (propane price cap) program. This loss lowered the propane inventory costs and, therefore, increased retail margins during the first half of 2009. Retail margins for the first half of 2010 returned to more normal levels.

- The addition of 422 community gas system customers and 1,000 customers acquired in February 2010 as part of the purchase of the operating assets of a propane distributor serving Northampton and Accomack Counties in Virginia contributed $125,000 and $114,000, respectively, to gross margin during the first half of 2010.

- The remaining change was primarily related to an increase in other fees of $128,000, as a result of continued growth and successful implementation of various customer loyalty programs, offset partially by the net impact of the colder weather and decline in non-weather-related volumes.

Our Florida propane distribution operations experienced an increase in gross margin of $4.9 million due to inclusion of FPU's propane distribution operations.

Xeron, our propane wholesale marketing operation, experienced an increase in gross margin of $179,000 during the first six months of 2010 compared to the same period in 2009. Xeron benefited from increased propane price fluctuations in early 2010.

During the first six months of 2009, our unregulated natural gas marketing subsidiary, PESCO, benefited from increased spot sales on the Delmarva Peninsula. Although PESCO continued to identify spot sale opportunities on the Delmarva Peninsula during the first six months of 2010, the decreased spot sales, due primarily to one industrial customer, resulted in a decrease in gross margin of $688,000 in the first six months of 2010 compared to the same period in 2009. Spot sales are not predictable and, therefore, are not included in our long-term financial plans or forecasts.

Other Operating Expenses

Total other operating expenses for the unregulated energy segment increased by $3.5 million for the six months ended June 30, 2010 compared to the same period in 2009. Other operating expenses of FPU during the first six months of 2010 were $3.9 million. Excluding FPU, total other operating expenses decreased due to a decrease in bad debt expense for the natural gas marketing operations, as a result of expanded credit and collection initiatives, and in lower accruals for incentive compensation

Other

For the Six Months Ended June 30,	2010	2009	Change
(in thousands)			
Revenue	$ 5,069	$ 5,038	$ 31
Cost of sales	2,448	2,659	(211)
Gross margin	2,621	2,379	242
Operations & maintenance	1,657	2,009	(352)
Transaction-related costs	111	1,204	(1,093)
Depreciation & amortization	145	154	(9)
Other taxes	342	367	(25)
Other operating expenses	2,255	3,734	(1,479)
Operating Income (Loss)	$ 366	$ (1,355)	$ 1,721

Note: Eliminations are entries required to eliminate activities between business segments from the consolidated results.

Operating income for the "Other" segment increased by approximately $1.7 million in the first six months of 2010 compared to the same period in 2009. Increased operating income from our advanced information services operation of $610,000 and decreased merger-related transaction costs of $1.1 million contributed to this increase.

Gross margin

The period-over-period increase in gross margin of $242,000 for our "Other" segment was contributed by our advanced information services operation's increase in revenue and gross margin from its professional database monitoring and support solution services and higher consulting revenues as a result of a nine-percent increase in the number of billable consulting hours for the first six months of 2010 compared to the same period in 2009.

Operating expenses

Other operating expenses decreased by $1.5 million in the first six months of 2010 compared to the same period in 2009. The decrease in operating expenses was attributable primarily to the lower merger-related costs expensed in the first half of 2010 compared to the same period in 2009 and the cost containment actions, including layoffs and compensation adjustments, implemented by the advanced information services operation in March, September and October 2009.

Interest Expense

Our total interest expense increased by approximately $1.5 million or 45 percent, during the first six months of 2010, compared to the same period in 2009. The primary drivers of the increased interest expense are related to FPU, including:

- An increase in long-term interest expense of $1.1 million is related to interest on FPU's first mortgage bonds.
- Interest expense from a new term loan credit facility during the first six months of 2010 was $216,000. Two series of the FPU bonds, 4.9 percent and 6.85 percent series, were redeemed by using this new short-term term loan facility at the end of January 2010.
- Additional interest expense of $370,000 is related to interest on deposits from FPU's customers.

Offsetting the increased interest expense from FPU was lower non-FPU-related interest expense from Chesapeake's unsecured senior notes, as the principal balances decreased from scheduled payments, the absence of any additional short-term borrowings as a result of the timing of our capital expenditures and the increased cash flow generated from ordinary operating activities.

Income Taxes

We recorded an income tax expense of $11.3 million for the first six months of 2010, compared to $6.3 million for the same period in 2009. The increase in income tax expense primarily reflects the higher earnings for the period. The effective income tax rate for the six months ended June 30, 2010 is 39.5 percent compared to an effective tax rate of 40.0 percent for the same period in 2009. The decreased effective income tax rate resulted from a greater portion of our consolidated pre-tax income having been generated from entities in states with lower income tax rates, largely as a result of our expansion in Florida operations through the merger with FPU.

FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

Our capital requirements reflect the capital-intensive nature of our business and are principally attributable to investment in new plant and equipment and retirement of outstanding debt. We rely on cash generated from operations, short-term borrowing, and other sources to meet normal working capital requirements and to finance capital expenditures.

During the first six months of 2010, net cash provided by operating activities was $57.7 million, cash used in investing activities was $15.0 million, and cash used in financing activities was $36.3 million.

During the first six months of 2009, net cash provided by operating activities was $46.8 million, cash used in investing activities was $12.0 million, and cash used in financing activities was $34.8 million.

As of June 30, 2010, we had four unsecured bank lines of credit with two financial institutions, for a total of $100.0 million, two of which totaling $60.0 million are available under committed lines of credit. None of the unsecured bank lines of credit requires compensating balances. These bank lines are available to provide funds for our short-term cash needs to meet seasonal working capital requirements and to fund temporarily portions of the capital expenditure program. We are currently authorized by our Board of Directors to borrow up to $85.0 million of short-term debt, as required, from these short-term lines of credit. Advances offered under the uncommitted lines of credit are subject to the discretion of the banks. In addition to the four unsecured bank lines of credit, we entered into a new credit facility for $29.1 million with one of the financial institutions in March 2010. We borrowed $29.1 million under this new credit facility for a term of nine months to finance the early redemption of two series of FPU's secured first mortgage bonds. The outstanding balance of short-term borrowing at June 30, 2010 and December 31, 2009, was $29.1 and $30.0 million, respectively.

On June 29, 2010, we entered into an agreement with one lender to issue up to $36 million in uncollateralized senior notes. We expect to use $29 million of the uncollateralized senior notes to permanently finance the redemption of the FPU bonds. The terms of the agreement require us to issue $29 million of the $36 million in uncollateralized senior notes committed by the lender on or before July 9, 2012, with a 15-year term at a rate ranging from 5.28 percent to 6.13 percent based on the timing of the issuance. The remaining $7 million will be issued prior to May 3, 2013 at a rate ranging from 5.28 percent to 6.43 percent based on the timing of the issuance.

We have originally budgeted $53.9 million for capital expenditures during 2010. As a result of continued growth, expansion opportunities and timing of capital projects, we increased our capital spending projection for 2010 to $60.9 million. This amount includes $55.5 million for the regulated energy segment, $2.7 million for the unregulated energy segment and $2.7 million for the "Other" segment. The amount for the regulated energy segment includes estimated capital expenditures for the following: natural gas distribution operation ($23.7 million), natural gas transmission operation ($28.4 million) and electric distribution operation ($3.4 million) for expansion and improvement of facilities. The amount for the unregulated energy segment includes estimated capital expenditures for the propane distribution operations for customer growth and replacement of equipment. The amount for the "Other" segment includes an estimated capital expenditure of $762,000 for the advanced information services operation, with the remaining balance for other general plant, computer software and hardware. We expect to fund the 2010 capital expenditures program from short-term borrowing, cash provided by operating activities, and other sources. The capital expenditures program is subject to continuous review and modification. Actual capital requirements may vary from the above estimates due to a number of factors, including changing economic conditions, customer growth in existing areas, regulation, new growth or acquisition opportunities and availability of capital.

Capital Structure

The following presents our capitalization, excluding short-term borrowing, as of June 30, 2010 and December 31, 2009:

(in thousands)	**June 30, 2010**		**December 31, 2009**	
Long-term debt, net of current maturities	**$ 97,558**	**30%**	$ 98,814	32%
Stockholders' equity	**222,686**	**70%**	209,781	68%
Total capitalization, excluding short-term debt	**$ 320,244**	**100%**	$ 308,595	100%

At June 30, 2010, common equity represented 70 percent of total capitalization, excluding short-term borrowing, compared to 68 percent at December 31, 2009. If short-term borrowing and the current portion of long-term debt were included in total capitalization, the equity component of our capitalization would have been 62 percent at June 30, 2010, compared to 56 percent at December 31, 2009.

We remain committed to maintaining a sound capital structure and strong credit ratings to provide the financial flexibility needed to access capital markets when required. This commitment, along with adequate and timely rate relief for our regulated operations, is intended to ensure our ability to attract capital from outside sources at a reasonable cost. We believe that the achievement of these objectives will provide benefits to our customers, creditors and investors.

Cash Flows Provided By Operating Activities

Cash flows provided by operating activities were as follows:

For the Six Months Ended June 30,		2010		2009
(in thousands)				
Net Income	$	**17,314**	$	9,399
Non-cash adjustments to net income		**15,900**		11,466
Changes in assets and liabilities		**24,494**		25,955
Net cash provided by operating activities	**$**	**57,708**	$	46,820

During the six months ended June 30, 2010 and 2009, net cash flow provided by operating activities was $57.7 million and $46.8 million, respectively, a period-over-period increase of $10.9 million. The increase in cash flow provided by operating activities was due primarily to the following:

- Net income increased by $7.9 million due to consolidation of FPU and lower merger-related costs.
- Non-cash adjustments increased by $4.4 million, due primarily to higher depreciation and amortization as a result of the FPU merger and changes in unrealized gains/losses on commodity contracts.
- Net cash flows from income taxes receivable decreased by $3.9 million due to large tax refunds received during the first half of 2009.
- Net cash flows from the changes in regulatory assets/liabilities decreased by approximately $1.3 million, primarily as a result of lower over-collection of fuel costs from rate-payers.
- Net cash flows from changes in inventory decreased by approximately $1.6 million due primarily to increased propane commodity costs.
- Partially offsetting these decreases were increased net cash flows from customer deposits and refunds by approximately $2.9 million primarily from a large deposit, which we required from a new industrial customer for our Delmarva natural gas distribution operations.

Cash Flows Used in Investing Activities

Net cash flows used in investing activities totaled $15.0 million and $12.0 million during the six months ended June 30, 2010 and 2009, respectively. Cash utilized for capital expenditures was $14.3 million and $12.0 million for the first six months of 2010 and 2009, respectively. Additions to property, plant and equipment in the first six months of 2010 included $3.5 million of FPU's capital expenditures. We also paid $310,000 of the $600,000 in total consideration for the purchase of certain propane assets from a propane distributor during the first six months of 2010.

Cash Flows Used by Financing Activities

Cash flows used in financing activities totaled $36.3 million and $34.8 million for the first six months of 2010 and 2009, respectively. Significant financing activities reflected in the change in cash flows used by financing activities are as follows:

- During the first six months of 2010, we repaid approximately $30.0 million of our short-term borrowings related to working capital, compared to net repayments of $31.0 million in the first six months of 2009, as we generated higher amounts of cash from operating activities.
- In January 2010, we borrowed $29.1 million from our short-term credit facilities to redeem two series of FPU's secured first mortgage bonds prior to their respective maturities. We paid $28.9 million, including fees and penalties, related to the redemption.
- We paid $5.4 million and $3.8 million in cash dividends for the six months ended June 30, 2010 and 2009, respectively. Dividends paid in the first six months of 2010 increased as a result of growth in the annualized dividend rate and in the number of shares outstanding.

Off-Balance Sheet Arrangements

We have issued corporate guarantees to certain vendors of our subsidiaries, primarily the propane wholesale marketing subsidiary and the natural gas marketing subsidiary. These corporate guarantees provide for the payment of propane and natural gas purchases in the event of the respective subsidiary's default. None of these subsidiaries have ever defaulted on its obligations to pay its suppliers. The liabilities for these purchases are recorded in our financial statements when incurred. The aggregate amount guaranteed at June 30, 2010 was $22.5 million, with the guarantees expiring on various dates in 2011.

In addition to the corporate guarantees, we have issued a letter of credit to our primary insurance company for $725,000, which expires on August 31, 2010. The letter of credit is provided as security to satisfy the deductibles under our various insurance policies. There have been no draws on this letter of credit as of June 30, 2010, and we do not anticipate that this letter of credit will be drawn upon by the counterparty in the future.

We provided a letter of credit for $526,000 under the Precedent Agreement with TETLP. The letter of credit is expected to increase quarterly as TETLP's pre-service costs increases. The letter of credit will not exceed more than the three-month reservation charge under the firm transportation service contracts, which we currently estimate to be $2.1 million.

Contractual Obligations

There have not been any material changes in the contractual obligations presented in our 2009 Annual Report on Form 10-K, except for commodity purchase obligations and forward contracts entered into in the ordinary course of our business. The following table summarizes the commodity and forward contract obligations at June 30, 2010.

Purchase Obligations	**Less than 1 year**	**1 - 3 years**	**3 - 5 years**	**More than 5 years**	**Total**
(in thousands)					
Commodities [1] [3]	$ 36,558	$ 134	$ —	$ —	**$ 36,692**
Propane [2]	23,236	—	—	—	**23,236**
Total Purchase Obligations	$ 59,794	$ 134	$ —	$ —	**$ 59,928**

(1) In addition to the obligations noted above, the natural gas distribution, the electric distribution and propane distribution operations have agreements with commodity suppliers that have provisions with no minimum purchase requirements. There are no monetary penalties for reducing the amounts purchased; however, the propane contracts allow the suppliers to reduce the amounts available in the winter season if we do not purchase specified amounts during the summer season. Under these contracts, the commodity prices will fluctuate as market prices fluctuate.

(2) We have also entered into forward sale contracts in the aggregate amount of $11.7 million. See Part I, Item 3, "Quantitative and Qualitative Disclosures about Market Risk," below, for further information.

(3) In March 2009, we renewed our contract with an energy marketing and risk management company to manage a portion of our natural gas transportation and storage capacity. There were no material changes to the contract's terms, as reported in our 2009 Annual Report on Form 10-K.

Environmental Matters

As more fully described in Note 4, "Commitments and Contingencies," to these unaudited condensed consolidated financial statements in this Quarterly Report on Form 10-Q, we continue to work with federal and state environmental agencies to assess the environmental impact and explore corrective action at seven environmental sites. We believe that future costs associated with these sites will be recoverable in rates or through sharing arrangements with, or contributions by, other responsible parties.

OTHER MATTERS

Rates and Regulatory Matters

Our natural gas distribution operations in Delaware, Maryland and Florida and electric distribution operation in Florida are subject to regulation by their respective PSC; ESNG is subject to regulation by the FERC; and Peninsula Pipeline Company, Inc. ("PIPECO") is subject to regulation by the Florida PSC. At June 30, 2010, we were involved in rate filings and/or regulatory matters in each of the jurisdictions in which we operate. Each of these rates or regulatory matters is fully described in Note 4, "Commitments and Contingencies," to these unaudited condensed consolidated financial statements in this Quarterly Report on Form 10-Q.

Competition

Our natural gas and electric distribution operations and our natural gas transmission operation compete with other forms of energy including natural gas, electricity, oil and propane. The principal competitive factors are price and, to a lesser extent, accessibility. Our natural gas distribution operations have several large-volume industrial customers that are able to use fuel oil as an alternative to natural gas. When oil prices decline, these interruptible customers may convert to oil to satisfy their fuel requirements, and our interruptible sales volumes may decline. Oil prices, as well as the prices of other fuels, fluctuate for a variety of reasons; therefore, future competitive conditions are not predictable. To address this uncertainty, we use flexible pricing arrangements on both the supply and sales sides of this business to compete with alternative fuel price fluctuations. As a result of the natural gas transmission operation's conversion to open access and Chesapeake's Florida natural gas distribution division's restructuring of its services, these businesses have shifted from providing bundled transportation and sales service to providing only transmission and contract storage services. Our electric distribution operation currently does not face substantial competition as the electric utility industry in Florida has not been deregulated. In addition, natural gas is the only viable alternative fuel to electricity in our electric service territories and is available only in a small area.

Our natural gas distribution operations in Delaware, Maryland and Florida offer unbundled transportation services to certain commercial and industrial customers. In 2002, Chesapeake's Florida natural gas distribution division extended such service to residential customers. With such transportation service available on our distribution systems, we are competing with third-party suppliers to sell gas to industrial customers. With respect to unbundled transportation services, our competitors include interstate transmission companies, if the distribution customers are located close enough to a transmission company's pipeline to make connections economically feasible. The customers at risk are usually large volume commercial and industrial customers with the financial resources and capability to bypass our existing distribution operations in this manner. In certain situations, our distribution operations may adjust services and rates for these customers to retain their business. We expect to continue to expand the availability of unbundled transportation service to additional classes of distribution customers in the future. We have also established a natural gas marketing operation in Florida, Delaware and Maryland to provide such service to customers eligible for unbundled transportation services.

Our propane distribution operations compete with several other propane distributors in their respective geographic markets, primarily on the basis of service and price, emphasizing responsive and reliable service. Our competitors generally include local outlets of national distributors and local independent distributors, whose proximity to customers entails lower costs to provide service. Propane competes with electricity as an energy source, because it is typically less expensive than electricity, based on equivalent BTU value. Propane also competes with home heating oil as an energy source. Since natural gas has historically been less expensive than propane, propane is generally not distributed in geographic areas served by natural gas pipeline or distribution systems.

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

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

Inflation

Inflation affects the cost of supply, labor, products and services required for operations, 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. In the regulated natural gas and electric distribution operations, fluctuations in natural gas and electricity prices are passed on to customers through the fuel cost recovery mechanism in our tariffs. To help cope with the effects of inflation on our capital investments and returns, we seek rate increases from regulatory commissions for our regulated operations and closely monitor the returns of our unregulated business operations. To compensate for fluctuations in propane gas prices, we adjust propane selling prices to the extent allowed by the market.

Recent Authoritative Pronouncements on Financial Reporting and Accounting

Recent accounting developments and their impact on our financial position, results of operations and cash flows are described in the Recent Accounting Pronouncements section of Note 1, "Summary of Accounting Policies," to these unaudited condensed consolidated financial statements in this Quarterly Report on Form 10-Q.

Item 3. Quantitative and Qualitative Disclosures about 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 changes in interest rates. Our long-term debt consists of fixed-rate senior notes, secured debt and convertible debentures. All of our long-term debt is fixed-rate debt and was not entered into for trading purposes. The carrying value of long-term debt, including current maturities, was $105.7 million at June 30, 2010, as compared to a fair value of $121.3 million, based on a discounted cash flow methodology that incorporates a market interest rate that is based on published corporate borrowing rates for debt instruments with similar terms and average maturities with adjustments for duration, optionality, credit risk, and risk profile. We evaluate whether to refinance existing debt or permanently refinance existing short-term borrowing, based in part on the fluctuation in interest rates.

Our propane distribution business is exposed to market risk as a result of propane storage activities and entering into fixed price contracts for supply. We can store up to approximately four million gallons (including leased storage and rail cars) of propane during the winter season to meet our customers' peak requirements and to serve metered customers. Decreases in the wholesale price of propane may cause the value of stored propane to decline. To mitigate the impact of price fluctuations, we have adopted a Risk Management Policy that allows the propane distribution operation to enter into fair value hedges or other economic hedges of our inventory.

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

The forward and futures contracts are entered into for trading and wholesale marketing purposes. The propane wholesale marketing business is subject to commodity price risk on its open positions to the extent that market prices for natural gas liquids deviate from fixed contract settlement prices. Market risk associated with the trading of futures and forward contracts is monitored daily for compliance with our 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 daily by our oversight officials. In addition, the Risk Management Committee reviews periodic reports on markets and the credit risk of counter-parties, 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 June 30, 2010 is presented in the following tables.

At June 30, 2010	Quantity in Gallons	Estimated Market Prices	Weighted Average Contract Prices
Forward Contracts			
Sale	10,962,000	$0.9750 — $1.19125	$ 1.0676
Purchase	10,710,000	$0.9750 — $1.18250	$ 1.0510

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

All contracts expire by the end of the first quarter of 2011.

At June 30, 2010 and December 31, 2009, we marked these forward contracts to market, using market transactions in either the listed or OTC markets, which resulted in the following assets and liabilities:

(in thousands)	June 30, 2010	December 31, 2009
Mark-to-market energy assets	$ 814	$ 2,379
Mark-to-market energy liabilities	$ 574	$ 2,514

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Chief Executive Officer and Chief Financial Officer of the Company, with the participation of other Company officials, have evaluated our "disclosure controls and procedures" (as such term is defined under Rules 13a-15(e) and 15d-15(e), promulgated under the Securities Exchange Act of 1934, as amended) as of June 30, 2010. Based upon their evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of June 30, 2010.

Changes in Internal Control Over Financial Reporting

During the quarter ended June 30, 2010, there was no change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

On October 28, 2009, the merger between Chesapeake and FPU was consummated. We are currently in the process of integrating FPU's operations and have not included FPU's activity in our evaluation of internal control over financial reporting. FPU's operations will be included in our assessment and report on internal control over financial reporting as of December 31, 2010.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

As disclosed in Note 4, "Commitments and Contingencies," of these unaudited condensed consolidated financial statements in this Quarterly Report on Form 10-Q, we are involved in certain legal actions and claims arising in the normal course of business. We are also involved in certain legal and administrative proceedings before various governmental or regulatory agencies concerning rates and other regulatory actions. In the opinion of management, the ultimate disposition of these proceedings and claims will not have a material effect on our condensed consolidated financial position, results of operations or cash flows.

Item 1A. Risk Factors

Our business, operations, and financial condition are subject to various risks and uncertainties. The risk factors described in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2009 and in Part II, Item 1A, "Risk Factors" in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2010, should be carefully considered, together with the other information contained or incorporated by reference in this Quarterly Report on Form 10-Q and in our other filings with the SEC in connection with evaluating the Company, our business and the forward-looking statements contained in this Report. Additional risks and uncertainties not presently known to us or that we currently deem immaterial also may affect the Company. The occurrence of any of these known or unknown risks could have a material adverse impact on our business, financial condition, and results of operations.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs [2]	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs [2]
April 1, 2010 through April 30, 2010 [1]	301	$ 30.06	—	—
May 1, 2010 through May 31, 2010	—	$ —	—	—
June 1, 2010 through June 30, 2010	—	$ —	—	—
Total	301	$ 30.06	—	—

(1) Chesapeake purchased shares of stock on the open market for the purpose of reinvesting the dividend on deferred stock units held in the Rabbi Trust accounts for certain Directors and Senior Executives under the Deferred Compensation Plan. The Deferred Compensation Plan is discussed in detail in Item 8 under the heading "Notes to the Consolidated Financial Statements — Note M, Employee Benefit Plans" of our Form 10-K filed with the Securities and Exchange Commission on March 8, 2010. During the quarter, 301 shares were purchased through the reinvestment of dividends on deferred stock units.

(2) Except for the purposes described in Footnote (1), Chesapeake has no publicly announced plans or programs to repurchase its shares.

Item 3. Defaults upon Senior Securities

None.

Item 5. Other Information

None.

Item 6. Exhibits

3.1	Amended and Restated Certificate of Incorporation
31.1	Certificate of Chief Executive Officer of Chesapeake Utilities Corporation pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, dated August 5, 2010.
31.2	Certificate of Chief Financial Officer of Chesapeake Utilities Corporation pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, dated August 5, 2010.
32.1	Certificate of Chief Executive Officer of Chesapeake Utilities Corporation pursuant to 18 U.S.C. Section 1350, dated August 5, 2010.
32.2	Certificate of Chief Financial Officer of Chesapeake Utilities Corporation pursuant to 18 U.S.C. Section 1350, dated August 5, 2010.

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/ BETH W. COOPER

Beth W. Cooper
Senior Vice President and Chief Financial Officer

Date: August 5, 2010

Exhibit 3.1

AMENDED AND RESTATED
CERTIFICATE OF INCORPORATION

OF

CHESAPEAKE UTILITIES CORPORATION
(as amended July 22, 2010)

Chesapeake Utilities Corporation, a corporation organized and existing under the laws of the State of Delaware, hereby certifies as follows:

1. The name of the Corporation is CHESAPEAKE UTILITIES CORPORATION. The date of filing the Corporation's original Certificate of Incorporation with the Secretary of State of the State of Delaware was November 12, 1947.

2. This amended and restated Certificate of Incorporation restates and integrates and further amends the Certificate of Incorporation of this Corporation.

3. The text of the Certificate of Incorporation of the Corporation as amended or supplemented heretofore and herewith is hereby restated to read as herein set forth in full:

FIRST : The name of the Corporation is CHESAPEAKE UTILITIES CORPORATION.

SECOND : The address of its registered office in the State of Delaware is 2711 Centerville Road, Suite 400, in the City of Wilmington, County of New Castle, Delaware 19808. The name of its registered agent at such address is Corporation Service Company.

THIRD : The nature of the business, or objects or purposes to be transacted, promoted or carried on are:

To produce, transmit, distribute and sell natural and manufactured gas; to construct, maintain and operate works for the supply and distribution of electricity for electric lights, heat or power; to supply and distribute water; to transport and store oil; and to produce and distribute steam, heat and power; in each case to or for all persons and places, public and private, where it may be desired, and to carry on all activities and businesses that are usually or may be conveniently carried on by a company in such business or that are incidental to such business; and

To supply in any manner light, heat, steam, energy or power to the public; to explore, impound, develop, acquire and transport natural resources incident to the above-stated businesses; and to supply, maintain and service equipment and systems incident to the above-stated businesses; and

In general, to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of the State of Delaware.

The objects and purposes specified in the foregoing clauses shall, except where otherwise expressed, not be limited or restricted by reference to each other but shall be regarded as separate, independent businesses and purposes.

FOURTH : The total number of shares of all classes of stock which the Corporation shall have authority to issue is Twenty Seven Million (27,000,000) shares of which Twenty Five Million (25,000,000) shares shall be Common Stock having a par value of forty-eight and two-thirds cents ($.48 2/3) per share, and Two Million (2,000,000) shares shall be Preferred Stock having a par value of one cent ($0.01) per share.

The express terms and provisions of the shares classified and designated as the Preferred Shares, par value $0.01, are as follows:

A) General — Preferred Stock

(1) Authority to Issue in Series . The Board of Directors is authorized, subject to limitations prescribed by the General Corporation Law of the State of Delaware, to provide for the issuance of the Preferred Shares in series, and by filing a certificate pursuant to the General Corporation Law of the State of Delaware, to establish from time to time the number of shares to be included in such series, and to fix the designations, powers, preferences and relative, participating or other special rights of the shares of each such series, and the qualifications, limitations or restrictions thereof;

(2) Terms . The authority of the Board of Directors with respect to each series of Preferred Shares shall include, but not be limited to, determination of the following:

(a) The number of shares constituting that series and the distinctive designation of that series and the stated value thereof, if any, if different from the par value thereof;

(b) The dividends, if any, payable on the shares of that series, whether dividends shall be cumulative, and, if so, from which date or dates, and the preference, if any, or relation which such dividends shall bear to the dividends payable on any shares of stock of any other class or any other series of any class;

(c) Whether that series shall have voting rights or power, in addition to the voting rights provided by law, and, if so, the terms of such voting rights;

(d) Whether or not that series shall have conversion or exchange privileges, and, if so, the terms and conditions of such conversion, including provision for adjustment of the conversion rate in such events as the Board of Directors shall determine;

(e) Whether or not the shares of that series shall be redeemable, and, if so, the terms and conditions of such redemption, including the date upon or date after which they shall be redeemable, and the amount per share payable in case of redemption, which amount may vary under different conditions and at different redemption dates;

(f) Whether that series shall have a sinking fund for the redemption or purchase of shares of that series, and, if so, the terms and amount of such sinking fund;

(g) The rights of the shares of that series in the event of voluntary or involuntary liquidation, dissolution or winding up of the Corporation, and the relative rights of priority, if any, of payment of the shares of that series;

(h) The limitations and restrictions, if any, to be effective while any shares of such series are outstanding upon the payment of dividends or the making of other distributions on, and upon the purchase, redemption or other acquisition by the Corporation of, the Common Stock or shares of stock of any other class or any other series of this class;

(i) The conditions or restrictions, if any, upon the creation of indebtedness of the Corporation or upon the issue of any additional stock, including additional shares of such series or of any other series of this class or of any other class; and

(j) Any other voting powers, designations, preferences, and relative, participating optional or other special rights, or qualifications, limitations or restrictions thereof, of the shares of such series; in each case, to the full extent now or hereafter permitted by the laws of the State of Delaware.

B) Series A Participating Cumulative Preferred Stock

The Board of Directors adopted and approved the creation of a series of Preferred Stock designated as "Series A Participating Cumulative Preferred Stock" which series of Preferred Stock was originally created upon the filing of a Certificate of the Voting Powers, Designation, Preferences and Relative Participating Common Optional and Other Special Rights and Qualifications, Limitations, or Restrictions of Series A Participating Cumulative Preferred Stock with the Secretary of State of the State of Delaware on August 25, 1999. The Series A Participating Cumulative Preferred Stock has voting powers, designations, preferences, and relative, participating optional or other special rights, or qualifications limitations or restrictions as follows:

(1) Designation, Par Value and Amount. The shares of such series shall be designated as "Series A Participating Cumulative Preferred Stock" (hereinafter referred to as "Series A Preferred Stock"), par value of $0.01 per share. The number of shares initially constituting such series shall be 200,000; provided, however, that, if more than a total of 200,000 shares of Series A Preferred Stock shall be issuable upon the exercise of Rights (the "Rights") issued pursuant to the Rights Agreement, dated as of August 20, 1999, between the Corporation and Bank Boston, N.A., as Rights Agent (as amended from time to time, the "Rights Agreement"), the Board of Directors of the Corporation, pursuant to Section 151(g) of the General Corporation Law of the State of Delaware, shall direct by resolution or resolutions that a certificate be properly executed, acknowledged, filed and recorded in accordance with Section 103 thereof providing for the total number of shares of Series A Preferred Stock authorized to be issued to be increased (to the extent that the Certificate of Incorporation then permits) to the largest number of whole shares (rounded up to the nearest whole number) issuable upon exercise of the Rights.

(2) Dividends and Distributions.

(a) Subject to the prior and superior rights of the holders of any shares of any other series of Preferred Stock and any other class of equity securities of the Corporation ranking prior and superior to the shares of Series A Preferred Stock with respect to dividends, the holders of shares of Series A Preferred Stock shall be entitled to receive, when, as and if declared by the Board of Directors, out of assets legally available for the purpose, quarterly dividends payable in cash on the first business day of September, December, March and June in each year (each such date being referred to herein as a "Quarterly Dividend Payment Date"), commencing on the first Quarterly Dividend Payment Date after the first issuance of a share of fraction of a share of Series A Preferred Stock, in an amount per share (rounded to the nearest cent) equal to the greater of (i) $12.50 or (ii) the Formula Number times the aggregate

per share amount of all cash dividends declared on the Common Stock, par value $0.48 2/3 per share, of the Corporation (the "Common Stock"), since the immediately preceding Quarterly Dividend Payment Date, or, with respect to the first Quarterly Dividend Payment Date, since the first issuance of any share or fraction of a share of Series A Preferred Stock. In addition, if the Corporation shall pay any dividend or make any distribution on the Common Stock payable in assets, securities or other forms of noncash consideration (other than dividends or distributions solely in shares of Common Stock), then, in each such case, the Corporation shall simultaneously pay or make on each outstanding whole share of Series A Preferred Stock a dividend or distribution in like kind in an amount equal to such dividend or distribution on each share of the Common Stock multiplied by the Formula Number. As used herein, the "Formula Number" shall be 50; provided, however, that, if at any time after August 20, 1999, the Corporation shall (i) declare or pay any dividend on the Common Stock payable in shares of Common Stock or make any distribution on the Common Stock in shares of Common Stock, (ii) subdivide (by a stock split or otherwise) the outstanding shares of Common Stock into a larger number of shares of Common Stock, or (iii) combine (by a reverse stock split or otherwise) the outstanding shares of Common Stock into a smaller number of shares of Common Stock, then in each such event the Formula Number shall be adjusted to a number determined by multiplying the Formula Number in effect immediately prior to such event by a fraction, (A) the numerator

of which is the number of shares of Common Stock that are outstanding immediately after such event and (B) the denominator of which is the number of shares of Common Stock that are outstanding immediately prior to such event (and rounding the result to the nearest whole number); and provided further, that, if at any time after August 20, 1999, the Corporation shall issue any shares of its capital stock in a merger, reclassification, or change of the outstanding shares of Common Stock, then, in each such event the Formula Number shall be appropriately adjusted, as necessary, to reflect such merger, reclassification or change so that each share of Preferred Stock continues to be the economic equivalent of a Formula Number of shares of Common Stock prior to such merger, reclassification or change.

(b) The Corporation shall declare a dividend or distribution on the Series A Preferred Stock as provided in paragraph (a) above immediately prior to or at the same time it declares a dividend or distribution on the Common Stock (other than a dividend or distribution payable in shares of Common Stock), and in which case the record date for the determination of holders of shares of Series A Preferred Stock entitled to receive a dividend or distribution declared thereon shall be the same date as the record date for any corresponding dividend or distribution on the Common Stock.

(c) Dividends shall begin to accrue and be cumulative on outstanding shares of Series A Preferred Stock from and after the Quarterly Dividend Payment Date next preceding the date of original issue of such shares of Series A Preferred Stock, unless the date of issue is a date after the record date for the determination of holders of shares of Series A Preferred Stock entitled to receive a quarterly dividend, in which event such dividends shall begin to accrue and be cumulative from the first Quarterly Dividend Payment Date following the date of issue. Accrued by unpaid dividends shall not bear interest. Dividends paid on the shares of Series A Preferred Stock in an amount less than the total amount of such dividends at the time accrued and payable on such shares shall be allocated pro rata on a share-by-share basis among all such shares at the time outstanding. Except as otherwise provided in paragraph (b) of this subpart B.(2) to this Article Fourth, the Board of Directors may fix a record date for the determination of holders of shares of Series A Preferred Stock entitled to receive payment of a dividend or distribution declared thereon, which record date shall be not more than 50 days or less than 10 days prior to the date fixed for the payment of such dividend or distribution.

(3) Voting Rights. The holders of shares of Series A Preferred Stock shall have the following voting rights:

(a) Except as otherwise provided in paragraph (c) of this subpart B.(3) to this Article Fourth and subpart B.(11) to this Article Fourth or as is required by law, the holders of shares of Series A Preferred Stock and the holders of shares of Common Stock shall vote together as one class for the election of directors and on all other matters submitted to a vote of stockholders of the Corporation.

(b) Each share of Series A Preferred Stock shall entitle the holder thereof to one vote on all matters submitted to the vote of the holders of Series A Preferred Stock except that, when voting as a single class with the holders of the Common Stock, each share of Series A Preferred Stock shall entitle the holder to a number of votes equal to the Formula Number then in effect.

(c) (i) If, on the date used to determine stockholders of record for any meeting of stockholders for the election of directors, a default in preference dividends (as defined in subparagraph (iv) below) on the Series A Preferred Stock shall exist, the holders of the Series A Preferred Stock shall have the right, voting as a class (in addition to voting together with the holders of Common Stock for the election of directors of the Corporation), to elect two directors (each a "Preferred Director"). Such right may be exercised (A) at any meeting of stockholders for the election of directors or (B) at a meeting of the holders of Series A Preferred Stock called for the purpose in accordance with the By-laws of the Corporation, and shall continue until all such cumulative dividends (referred to above) shall have been paid in full.

(ii) Each Preferred Director shall continue to serve as a Preferred Director for a term of one year, except that upon any termination of the right of all holders of shares of Series A Preferred Stock to vote as a class for Preferred Directors, the term of office of each Preferred Director shall terminate. Any Preferred Director may be removed by, and shall not be removed except by, the vote of the holders of record of a majority of the outstanding shares of Series A Preferred Stock then entitled to vote for the election of directors, present (in person or by proxy) and voting together as a single class (A) at a meeting of the stockholders, (B) at a meeting of the holders of Series A Preferred Stock called for the purpose in accordance with the By-laws of the Corporation, or (C) by a written consent signed by the holders of a majority of then outstanding shares of Series A Preferred Stock then entitled to vote for the election of directors.

(iii) So long as a default in any preference dividends on the Series A Preferred Stock shall exist (A) any vacancy in the office of a Preferred Director may be filled (except as provided in the following clause (B) by an instrument in writing signed by the remaining Preferred Director and filed with the Corporation or (B) in the case of the removal of any Preferred Director, the vacancy may be filled by the vote or written consent of the holders of a majority of the outstanding shares of Series A Preferred Stock then entitled to vote for the election of directors at such time as the removal shall be effected. Each director appointed as aforesaid by the remaining Preferred Director shall be deemed, for all purposes hereof, to be a Preferred Director. Whenever a default in preference dividends on the Series A Preferred Stock ceases to exist, then the number of directors constituting the Board of Directors of the Corporation shall be reduced by two.

(iv) A " default in preference dividends " on the Series A Preferred Stock shall be deemed to have occurred whenever the amount of cumulative and unpaid dividends on the Series A Preferred Stock shall be equivalent to six full quarterly dividends or more (whether or not consecutive), and having so occurred, such default shall be deemed to exist thereafter until, but only until, all cumulative dividends on all shares of the Series A Preferred Stock then outstanding shall have been paid through the last Quarterly Dividend Payment Date.

(d) Except as set forth in this subpart B.(3) to this Article Fourth and subpart B.(11) to this Article Fourth and as otherwise required by applicable law, holders of Series A Preferred Stock shall have not special voting rights and their consent shall not be required (except to the extent they are entitled to vote with the holders of Common Stock as set forth herein) to authorize the taking of any corporate action.

(4) Certain Restrictions .

(a) Whenever quarterly dividends or other dividends or distributions payable on the Series A Preferred Stock, as provided in subpart B.(2) to this Article Fourth, are in arrears, thereafter and until all accrued and unpaid dividends and distributions, whether or not declared, on shares of Series A Preferred Stock outstanding shall have been paid in full, the Corporation shall not (i) declare or pay dividends, or make any other distributions on, or redeem, purchase or otherwise acquire for consideration, any shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up of the Corporation) to the Series A Preferred Stock; (ii) declare or pay dividends, or make any other distributions on any shares of stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up of the Corporation) with the Series A Preferred Stock, except dividends paid ratably on the Series A Preferred Stock and all such parity stock on which dividends are payable or in arrears in proportion to the total amounts to which the

holders of all such shares are then entitled; (iii) redeem, purchase or otherwise acquire for consideration shares of any stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up of the Corporation) to the Series A Preferred Stock, provided that the Corporation may at any time redeem, purchase or otherwise acquire shares of any such parity stock in exchange for shares of any stock of the Corporation ranking junior (both as to dividends and upon dissolution, liquidation or winding up) to the Series A Preferred Stock; or (iv) purchase or otherwise acquire for consideration any shares of Series A Preferred Stock, except in accordance with a purchase offer made in writing or by publication (as determined by the Board of Directors) to all holders of shares of Series A Preferred Stock upon such terms as the Board of Directors determines.

(b) The Corporation shall not permit any subsidiary of the Corporation to purchase or otherwise acquire for consideration any shares of stock of the Corporation unless the Corporation could, under paragraph (a) of this subpart B.(4) to this Article Fourth, purchase or otherwise acquire such shares at such time and on the same terms.

(5) Reacquired Shares . Any shares of Series A Preferred Stock purchased or otherwise acquired by the Corporation in any manner whatsoever shall be retired and cancelled promptly after the acquisition thereof. All such shares shall upon their cancellation become authorized but unissued shares of Preferred Stock, and may be reissued as part of a new series of Preferred Stock in accordance with the Certificate of Incorporation and applicable law.

(6) Liquidation, Dissolution or Winding Up .

(a) Subject to the prior and superior rights of holders of any shares of any other series of Preferred Stock and any other class of equity securities of the Corporation ranking prior and superior to the shares of Series A Preferred Stock, upon a liquidation, dissolution or winding up (voluntary or otherwise) of the Corporation, the holders of shares of Series A Preferred Stock shall be entitled to receive an amount equal to $18.00 per share, plus an amount equal to accrued and unpaid dividends and distributions thereon, whether or not declared, to the date of such payment (the "Series A Liquidation Preference"). Unless and until the holders of Series A Preferred Stock receive the Series A Liquidation Preference, no distribution shall be made to the holders of shares of Common Stock, any other series of Preferred Stock, or other class of equity securities of the Corporation ranking junior to the Series A Preferred Stock upon the liquidation, dissolution or winding up of the Corporation. Following the payment of the full amount of the Series A Liquidation Preference, no additional distributions shall be made to the holders of shares of Series A Preferred Stock unless, prior thereto, the holders of shares of Common Stock shall have received an amount per share (the "Common Stock Amount") equal to the quotient obtained by dividing (i) the Series A Liquidation Preference by (ii) Formula Number then in effect. Following the payment of the full amount of the Series A Liquidation Preference and the Common Stock Amount respect of all outstanding shares of Series A Preferred Stock and Common Stock, respectively, holders of Series A Preferred Stock and holders of Common Stock shall receive their ratable and proportionate share of the remaining assets to be distributed in the ratio of the Formula Number to one with respect to such Preferred Stock and Common Stock, respectively.

(b) In the event, however, that there are not sufficient assets available to permit payment in full of the Series A Liquidation Preference and the liquidation preferences of all other stock ranking on a parity with the Series A Preferred Stock, then such remaining assets shall be distributed ratably to the holders of Series A Preferred Stock and the holders of such parity shares in proportion to their respective liquidation preferences.

(7) Consolidation, Merger, etc. In case the Corporation shall enter into any consolidation, merger, combination or other transaction in which the shares of Common Stock are exchanged for or changed into other stock or securities, cash and/or any other property, then in any such case the then outstanding shares of Series A Preferred Stock shall at the same time be similarly exchanged or changed in an amount per share equal to the Formula Number times the aggregate amount of stock, securities, cash and/or any other property (payable in kind), as the case may be, into which or for which each share of CommonStock in changed or exchanged.

(8) No Redemption; No Sinking Fund. The shares of Series A Preferred Stock shall not be redeemable by the Corporation or at the option of any holder of Series A Preferred Stock. The shares of Series A Preferred Stock shall not be subject to or entitled to the operation of a retirement or sinking fund.

(9) Ranking. The Series A Preferred Stock shall rank junior to all other series of the Preferred Stock of the Corporation as to the payment of dividends and a to the distribution of assets upon the liquidation, dissolution or winding up of the Corporation, unless the terms of any such other series of Preferred Stock shall provide otherwise.

(10) Fractional Shares. The Series A Preferred Stock shall be issuable upon exercise of the Rights issued pursuant to the Rights Agreement in whole shares or in any fraction of a share that is one-fiftieth (1/50 th) of a share or any integral multiple thereof, which fractional shares of Series A Preferred Stock shall entitle the holder, in proportion to such holder's fractional shares to receive dividends, exercise voting rights, participate in distributions and to have the benefit of any other rights of a holder of Series A Preferred Stock. As provided in the Rights Agreement, (a) in lieu of the issuance of a fraction of a share (other one-fiftieth (1/50 th) of a share or an integral multiple thereof), the Corporation may elect to make a cash payment for the fraction of a share in excess of one-fiftieth (1/50 th) of a share or any integral multiple thereof and (b) to issue depository receipts evidencing authorized fractions of a share of Series A Preferred Stock pursuant to an appropriate agreement between the Corporation and a depository selected by the Corporation; provided that such agreement shall provide that the holders of such depository receipts shall have all the rights, privileges and preferences to which they are entitled as beneficial owners of the Series A Preferred Stock represented by such depository receipts.

(11) Amendment. None of the powers, preferences and relative, participating, optional and other special rights of the Series A Preferred Stock as provided herein or in the Certificate of Incorporation shall be amended in any manner which would alter or change the powers, preferences, rights or privileges of the holders of Series A Preferred Stock so as to affect them adversely without the affirmative vote of the holders of at least 66 2/3% of the outstanding shares of Series A Preferred Stock, voting as a separate class.

FIFTH : In furtherance, and not in limitation of the powers conferred by statute, the Board of Directors is expressly authorized to make, alter, amend and rescind the Bylaws of this Corporation subject to the right of the stockholders to alter, amend or rescind the same.

SIXTH : Whenever a compromise or arrangement is proposed between this Corporation and its creditors or any class of them and/or between this Corporation and its stockholders or any class of them, any court of equitable jurisdiction within the State of Delaware may, on the application in a summary way of this Corporation or of any creditor or stockholder thereof or on the application of any receiver or receivers appointed for this Corporation under the provisions of Section 291 of Title 8 of the Delaware Code or on the application of trustees in dissolution or of any receiver or receivers appointed for this Corporation under the provisions of Section 279 of Title 8 of the Delaware Code order a meeting of the creditors or class of creditors, and/or of the stockholders or class of stockholders, of this Corporation, as the case may be, to be

summoned in such manner as the said court directs. If a majority in number representing three-fourths in value of the creditors or class of creditors, and/or of the stockholders or class of stockholders of this Corporation, as the case may be, agree to any compromise or arrangement and to any reorganization of this Corporation as consequence of such compromise or arrangement, the said compromise or arrangement and the said reorganization shall, if sanctioned by the court to which the said application has been made, be binding on all the creditors or class of creditors, and/or on all the stockholders or class of stockholders, of this Corporation, as the case may be, and also on this Corporation.

SEVENTH : Meetings of stockholders may be held without the State of Delaware, if the Bylaws so provide. The books of the Corporation may be kept (subject to any provision contained in the statutes) outside of the State of Delaware at such place or places as may be from time to time designated by the Board of Directors or in the Bylaws of the Corporation.

EIGHTH : The number of directors which shall constitute the whole Board of Directors of the Corporation shall be fixed from time to time by resolution of a majority of directors in office provided that there shall be not fewer than five or more than fifteen directors. The Board shall be divided into three classes, Class I, Class II and Class III. The number of directors in each class shall be the whole number contained in the quotient arrived at by dividing the number of directors fixed by the Board by three and if a fraction is also contained in such quotient and if such fraction is one-third (1/3) the extra director shall be a member of Class III and if the fraction is two-thirds (2/3) one of the directors shall be a member of Class III and the other shall be a member of Class II. Each director shall serve for a term ending on the third annual meeting following the annual meeting at which such director was elected. The foregoing notwithstanding each director shall serve until such director's successor shall have been duly elected and qualified unless such director shall resign become disqualified, disabled or shall otherwise be removed.

At each annual election the directors chosen to succeed those whose terms then expire shall be identified as being of the same class as the directors they succeed. If for any reason the number of directors in the various classes shall not conform with the formula set forth in the preceding paragraph, the Board of Directors may redesignate any director into a different class in order that the balance of directors in such classes shall conform thereto.

The Board of Directors at its first meeting after each annual meeting of stockholders shall choose such officers with such titles and duties as shall be stated in the Bylaws of the Corporation who shall hold office until their successors are chosen and qualify in their stead.

A majority of the number of directors fixed by the Board shall constitute a quorum for the transaction of business and if at any meeting of the Board of Directors there shall be less than a quorum, a majority of those present may adjourn the meeting from time to time. Every act or decision done or made by a majority of the directors present at a meeting duly held at which a quorum is present shall be regarded as the act of the Board of Directors unless a greater number be required by law or by the Certificate of Incorporation.

No director of the Corporation shall be removed from office as a director by vote or other action of stockholders or otherwise unless the director to be removed is physically or mentally disabled or incapacitated to such an extent that such director is unable to perform the duties of a director, or unless the director has been convicted of a felony by a court of competent jurisdiction and such conviction is no longer subject to direct appeal or unless the director to be removed has been adjudged to be liable for misconduct in the performance of such directors duty to the Corporation by a court of competent jurisdiction and such adjudication is no longer subject to direct appeal.

NINTH : In the event that it is proposed that this Corporation enter into a merger or consolidation with any other corporation and such other corporation or its affiliates singly or in the aggregate own or control directly or indirectly five percent (5%) or more of the outstanding shares of the Common Stock of this Corporation, or that this Corporation sell substantially all of its assets or business, the affirmative vote of the holders of not less than seventy-five percent (75%) of the total voting power of all outstanding shares of stock of this Corporation shall be required for the approval of any such proposal; provided, however, that the foregoing shall not apply to any such merger, consolidation or sale of assets or business which was approved by resolution of the Board of Directors of this Corporation prior to the acquisition of the ownership or control of five percent (5%) of the outstanding shares of this Corporation by such other corporation or its affiliates, nor shall it apply to any such merger, consolidation or sale of assets or business between this Corporation and

another corporation fifty percent (50%) or more of the stock of which is owned by this Corporation. For the purposes hereof an "affiliate" is any person (including a corporation, partnership, trust, estate or individual) who directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, the person specified; and "control" means the possession, directly or indirectly, of the power to direct or cause the direction of management and policies of a person, whether through the ownership of voting securities, by contract, or otherwise.

TENTH : No action required to be taken or which may be taken at any annual or special meeting of shareholders of the Corporation may be taken without a meeting and the power of stockholders to consent in writing to the taking of any action is specifically denied.

ELEVENTH : A director of the Corporation shall not be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except for liability (i) for any breach of the director's duty of loyalty to the Corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the Delaware General Corporation Law, or (iv) for any transaction from which the director derived any improper personal benefit. If the Delaware General Corporation Law is amended after approval by the stockholders of this article to authorize corporate action further eliminating or limiting the personal liability of directors, then the liability of a director of the Corporation shall be eliminated or limited to the fullest extent permitted by the Delaware General Corporation Law, as so amended.

Any repeal or modification of the foregoing paragraph by the stockholders of the Corporation shall not adversely affect any right or protection of a director of the Corporation existing at the time of such repeal or modification.

TWELFTH : The provisions set forth in Articles EIGHTH, NINTH, TENTH and here in Article TWELFTH, may not be repealed or amended in any respect unless such repeal or amendment is approved by the affirmative vote of the holders of not less than seventy-five percent (75%) of the total voting power of all outstanding shares of stock of this Corporation. Except as expressly provided in the preceding sentence, the Corporation reserves the right to amend, alter, change or repeal any provision contained in this Certificate of Incorporation, in the manner now or hereafter prescribed by statute, and all rights conferred upon stockholders herein are granted subject to this reservation.

4. This Amended and Restated Certificate of Incorporation was duly adopted in accordance with Sections 242 and 245 of the General Corporation Law of the State of Delaware.

5. That the capital of said Corporation will not be reduced under or by reason of any amendment in this amended and restated Certificate of Incorporation.

IN WITNESS WHEREOF, said CHESAPEAKE UTILITIES CORPORATION has caused its corporate seal to be hereunto affixed and this Amended and Restated Certificate of Incorporation to be signed by Michael P. McMasters, President and attested by Beth W. Cooper, its Corporate Secretary, this 22 nd day of July, 2010.

Chesapeake Utilities Corporation

By: /s/ Michael P. McMasters
President

(Corporate Seal)

Attest:

By: /s/ Beth W. Cooper, Corporate Secretary

EXHIBIT 31.1

CERTIFICATE PURSUANT TO RULE 13A-14(A)
UNDER THE SECURITIES EXCHANGE ACT OF 1934

I, John R. Schimkaitis, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarter ended June 30, 2010 of Chesapeake Utilities Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a—15(e) and 15d—15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a—15(f) and 15d—15(f)) for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 5, 2010

/S/ JOHN R. SCHIMKAITIS
John R. Schimkaitis
Vice Chairman and Chief Executive Officer

EXHIBIT 31.2

CERTIFICATE PURSUANT TO RULE 13A-14(A)
UNDER THE SECURITIES EXCHANGE ACT OF 1934

I, Beth W. Cooper, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarter ended June 30, 2010 of Chesapeake Utilities Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a—15(e) and 15d—15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a—15(f) and 15d—15(f)) for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 5, 2010

/S/ BETH W. COOPER

Beth W. Cooper
Senior Vice President and Chief Financial Officer

Certificate of Chief Executive Officer

of

Chesapeake Utilities Corporation

(pursuant to 18 U.S.C. Section 1350)

I, John R. Schimkaitis, Vice Chairman and Chief Executive Officer of Chesapeake Utilities Corporation, certify that, to the best of my knowledge, the Quarterly Report on Form 10-Q of Chesapeake Utilities Corporation ("Chesapeake") for the period ended June 30, 2010, filed with the Securities and Exchange Commission on the date hereof (i) fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and (ii) the information contained therein fairly presents, in all material respects, the financial condition and results of operations of Chesapeake.

/S/ JOHN R. SCHIMKAITIS
John R. Schimkaitis
August 5, 2010

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Chesapeake Utilities Corporation and will be retained by Chesapeake Utilities Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

EXHIBIT 32.2

Certificate of Chief Financial Officer

of

Chesapeake Utilities Corporation

(pursuant to 18 U.S.C. Section 1350)

I, Beth W. Cooper, Senior Vice President and Chief Financial Officer of Chesapeake Utilities Corporation, certify that, to the best of my knowledge, the Quarterly Report on Form 10-Q of Chesapeake Utilities Corporation ("Chesapeake") for the period ended June 30, 2010, filed with the Securities and Exchange Commission on the date hereof (i) fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and (ii) the information contained therein fairly presents, in all material respects, the financial condition and results of operations of Chesapeake.

/S/ BETH W. COOPER
Beth W. Cooper
August 5, 2010

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Chesapeake Utilities Corporation and will be retained by Chesapeake Utilities Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

EXHIBIT B

State of Delaware
Secretary of State
Division of Corporations
Delivered 02:25 PM 07/22/2010
FILED 02:25 PM 07/22/2010
SRV 100766677 - 0417629 FILE

AMENDED AND RESTATED CERTIFICATE OF INCORPORATION

OF

CHESAPEAKE UTILITIES CORPORATION
(as amended July 22, 2010)

Chesapeake Utilities Corporation, a corporation organized and existing under the laws of the State of Delaware, hereby certifies as follows:

1. The name of the Corporation is CHESAPEAKE UTILITIES CORPORATION. The date of filing the Corporation's original Certificate of Incorporation with the Secretary of State of the State of Delaware was November 12, 1947.

2. This amended and restated Certificate of Incorporation restates and integrates and further amends the Certificate of Incorporation of this Corporation.

3. The text of the Certificate of Incorporation of the Corporation as amended or supplemented heretofore and herewith is hereby restated to read as herein set forth in full:

FIRST: The name of the Corporation is CHESAPEAKE UTILITIES CORPORATION.

SECOND: The address of its registered office in the State of Delaware is 2711 Centerville Road, Suite 400, in the City of Wilmington, County of New Castle, Delaware 19808. The name of its registered agent at such address is Corporation Service Company.

THIRD: The nature of the business, or objects or purposes to be transacted, promoted or carried on are:

To produce, transmit, distribute and sell natural and manufactured gas; to construct, maintain and operate works for the supply and distribution of

electricity for electric lights, heat or power; to supply and distribute water; to transport and store oil; and to produce and distribute steam, heat and power; in each case to or for all persons and places, public and private, where it may be desired, and to carry on all activities and businesses that are usually or may be conveniently carried on by a company in such business or that are incidental to such business; and

To supply in any manner light, heat, steam, energy or power to the public; to explore, impound, develop, acquire and transport natural resources incident to the above-stated businesses; and to supply, maintain and service equipment and systems incident to the above-stated businesses; and

In general, to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of the State of Delaware.

The objects and purposes specified in the foregoing clauses shall, except where otherwise expressed, not be limited or restricted by reference to each other but shall be regarded as separate, independent businesses and purposes.

FOURTH: The total number of shares of all classes of stock which the Corporation shall have authority to issue is Twenty Seven Million (27,000,000) shares of which Twenty Five Million (25,000,000) shares shall be Common Stock having a par value of forty-eight and two-thirds cents ($.48 2/3) per share, and Two Million (2,000,000) shares shall be Preferred Stock having a par value of one cent ($0.01) per share.

The express terms and provisions of the shares classified and designated as the Preferred Shares, par value $0.01, are as follows:

A) General – Preferred Stock

(1) Authority to Issue in Series. The Board of Directors is authorized, subject to limitations prescribed by the General Corporation Law of the State of Delaware, to provide for the issuance of the Preferred Shares in series, and by filing a certificate pursuant to the General Corporation Law of the State of Delaware, to establish from time to time the number of shares to be included in such series, and to fix the designations, powers, preferences and relative, participating or other special rights of the shares of each such series, and the qualifications, limitations or restrictions thereof;

(2) Terms. The authority of the Board of Directors with respect to each series of Preferred Shares shall include, but not be limited to, determination of the following:

(a) The number of shares constituting that series and the distinctive designation of that series and the stated value thereof, if any, if different from the par value thereof;

(b) The dividends, if any, payable on the shares of that series, whether dividends shall be cumulative, and, if so, from which date or dates, and the preference, if any, or relation which such dividends shall bear to the dividends payable on any shares of stock of any other class or any other series of any class;

(c) Whether that series shall have voting rights or power, in addition to the voting rights provided by law, and, if so, the terms of such voting rights;

(d) Whether or not that series shall have conversion or exchange privileges, and, if so, the terms and conditions of such conversion, including provision for adjustment of the conversion rate in such events as the Board of Directors shall determine;

(e) Whether or not the shares of that series shall be redeemable, and, if so, the terms and conditions of such redemption, including the date upon or date after which they shall be redeemable, and the amount per share payable in case of redemption, which amount may vary under different conditions and at different redemption dates;

(f) Whether that series shall have a sinking fund for the redemption or purchase of shares of that series, and, if so, the terms and amount of such sinking fund;

(g) The rights of the shares of that series in the event of voluntary or involuntary liquidation, dissolution or winding up of the Corporation, and the relative rights of priority, if any, of payment of the shares of that series;

(h) The limitations and restrictions, if any, to be effective while any shares of such series are outstanding upon the payment of dividends or the making of other distributions on, and upon the purchase, redemption or other acquisition by the Corporation of, the Common Stock or shares of stock of any other class or any other series of this class;

(i) The conditions or restrictions, if any, upon the creation of indebtedness of the Corporation or upon the issue of any additional stock,

including additional shares of such series or of any other series of this class or of any other class; and

(j) Any other voting powers, designations, preferences, and relative, participating optional or other special rights, or qualifications, limitations or restrictions thereof, of the shares of such series; in each case, to the full extent now or hereafter permitted by the laws of the State of Delaware.

B) Series A Participating Cumulative Preferred Stock

The Board of Directors adopted and approved the creation of a series of Preferred Stock designated as "Series A Participating Cumulative Preferred Stock" which series of Preferred Stock was originally created upon the filing of a Certificate of the Voting Powers, Designation, Preferences and Relative Participating Common Optional and Other Special Rights and Qualifications, Limitations, or Restrictions of Series A Participating Cumulative Preferred Stock with the Secretary of State of the State of Delaware on August 25, 1999. The Series A Participating Cumulative Preferred Stock has voting powers, designations, preferences, and relative, participating optional or other special rights, or qualifications limitations or restrictions as follows:

(1) Designation, Par Value and Amount. The shares of such series shall be designated as "Series A Participating Cumulative Preferred Stock" (hereinafter referred to as "Series A Preferred Stock"), par value of $0.01 per share. The number of shares initially constituting such series shall be 200,000; provided, however, that, if more than a total of 200,000 shares of Series A Preferred Stock shall be issuable upon the exercise of Rights (the "Rights")

issued pursuant to the Rights Agreement, dated as of August 20, 1999, between the Corporation and Bank Boston, N.A., as Rights Agent (as amended from time to time, the "Rights Agreement"), the Board of Directors of the Corporation, pursuant to Section 151(g) of the General Corporation Law of the State of Delaware, shall direct by resolution or resolutions that a certificate be properly executed, acknowledged, filed and recorded in accordance with Section 103 thereof providing for the total number of shares of Series A Preferred Stock authorized to be issued to be increased (to the extent that the Certificate of Incorporation then permits) to the largest number of whole shares (rounded up to the nearest whole number) issuable upon exercise of the Rights.

(2) Dividends and Distributions.

(a) Subject to the prior and superior rights of the holders of any shares of any other series of Preferred Stock and any other class of equity securities of the Corporation ranking prior and superior to the shares of Series A Preferred Stock with respect to dividends, the holders of shares of Series A Preferred Stock shall be entitled to receive, when, as and if declared by the Board of Directors, out of assets legally available for the purpose, quarterly dividends payable in cash on the first business day of September, December, March and June in each year (each such date being referred to herein as a "Quarterly Dividend Payment Date"), commencing on the first Quarterly Dividend Payment Date after the first issuance of a share of fraction of a share of Series A Preferred Stock, in an amount per share (rounded to the nearest cent) equal to the greater of (i) $12.50 or (ii) the Formula Number times the aggregate

per share amount of all cash dividends declared on the Common Stock, par value $0.48 2/3 per share, of the Corporation (the "Common Stock"), since the immediately preceding Quarterly Dividend Payment Date, or, with respect to the first Quarterly Dividend Payment Date, since the first issuance of any share or fraction of a share of Series A Preferred Stock. In addition, if the Corporation shall pay any dividend or make any distribution on the Common Stock payable in assets, securities or other forms of noncash consideration (other than dividends or distributions solely in shares of Common Stock), then, in each such case, the Corporation shall simultaneously pay or make on each outstanding whole share of Series A Preferred Stock a dividend or distribution in like kind in an amount equal to such dividend or distribution on each share of the Common Stock multiplied by the Formula Number. As used herein, the "Formula Number" shall be 50; provided, however, that, if at any time after August 20, 1999, the Corporation shall (i) declare or pay any dividend on the Common Stock payable in shares of Common Stock or make any distribution on the Common Stock in shares of Common Stock, (ii) subdivide (by a stock split or otherwise) the outstanding shares of Common Stock into a larger number of shares of Common Stock, or (iii) combine (by a reverse stock split or otherwise) the outstanding shares of Common Stock into a smaller number of shares of Common Stock, then in each such event the Formula Number shall be adjusted to a number determined by multiplying the Formula Number in effect immediately prior to such event by a fraction, (A) the numerator of which is the number of shares of Common Stock that are outstanding immediately after such

event and (B) the denominator of which is the number of shares of Common Stock that are outstanding immediately prior to such event (and rounding the result to the nearest whole number); and provided further, that, if at any time after August 20, 1999, the Corporation shall issue any shares of its capital stock in a merger, reclassification, or change of the outstanding shares of Common Stock, then, in each such event the Formula Number shall be appropriately adjusted, as necessary, to reflect such merger, reclassification or change so that each share of Preferred Stock continues to be the economic equivalent of a Formula Number of shares of Common Stock prior to such merger, reclassification or change.

(b) The Corporation shall declare a dividend or distribution on the Series A Preferred Stock as provided in paragraph (a) above immediately prior to or at the same time it declares a dividend or distribution on the Common Stock (other than a dividend or distribution payable in shares of Common Stock), and in which case the record date for the determination of holders of shares of Series A Preferred Stock entitled to receive a dividend or distribution declared thereon shall be the same date as the record date for any corresponding dividend or distribution on the Common Stock.

(c) Dividends shall begin to accrue and be cumulative on outstanding shares of Series A Preferred Stock from and after the Quarterly Dividend Payment Date next preceding the date of original issue of such shares of Series A Preferred Stock, unless the date of issue is a date after the record date for the determination of holders of shares of Series A Preferred Stock entitled to

receive a quarterly dividend, in which event such dividends shall begin to accrue and be cumulative from the first Quarterly Dividend Payment Date following the date of issue. Accrued by unpaid dividends shall not bear interest. Dividends paid on the shares of Series A Preferred Stock in an amount less than the total amount of such dividends at the time accrued and payable on such shares shall be allocated pro rata on a share-by-share basis among all such shares at the time outstanding. Except as otherwise provided in paragraph (b) of this subpart B.(2) to this Article Fourth, the Board of Directors may fix a record date for the determination of holders of shares of Series A Preferred Stock entitled to receive payment of a dividend or distribution declared thereon, which record date shall be not more than 50 days or less than 10 days prior to the date fixed for the payment of such dividend or distribution.

(3) Voting Rights. The holders of shares of Series A Preferred Stock shall have the following voting rights:

(a) Except as otherwise provided in paragraph (c) of this subpart B.(3) to this Article Fourth and subpart B.(11) to this Article Fourth or as is required by law, the holders of shares of Series A Preferred Stock and the holders of shares of Common Stock shall vote together as one class for the election of directors and on all other matters submitted to a vote of stockholders of the Corporation.

(b) Each share of Series A Preferred Stock shall entitle the holder thereof to one vote on all matters submitted to the vote of the holders of Series A Preferred Stock except that, when voting as a single class with the holders of the

Common Stock, each share of Series A Preferred Stock shall entitle the holder to a number of votes equal to the Formula Number then in effect.

(c) (i) If, on the date used to determine stockholders of record for any meeting of stockholders for the election of directors, a default in preference dividends (as defined in subparagraph (iv) below) on the Series A Preferred Stock shall exist, the holders of the Series A Preferred Stock shall have the right, voting as a class (in addition to voting together with the holders of Common Stock for the election of directors of the Corporation), to elect two directors (each a "Preferred Director"). Such right may be exercised (A) at any meeting of stockholders for the election of directors or (B) at a meeting of the holders of Series A Preferred Stock called for the purpose in accordance with the By-laws of the Corporation, and shall continue until all such cumulative dividends (referred to above) shall have been paid in full.

(ii) Each Preferred Director shall continue to serve as a Preferred Director for a term of one year, except that upon any termination of the right of all holders of shares of Series A Preferred Stock to vote as a class for Preferred Directors, the term of office of each Preferred Director shall terminate. Any Preferred Director may be removed by , and shall not be removed except by, the vote of the holders of record of a majority of the outstanding shares of Series A Preferred Stock then entitled to vote for the election of directors, present (in person or by proxy) and voting together as a single class (A) at a meeting of the stockholders, (B) at a meeting of the holders of Series A Preferred Stock called for the purpose in accordance with the By-laws of the Corporation,

or (C) by a written consent signed by the holders of a majority of then outstanding shares of Series A Preferred Stock then entitled to vote for the election of directors.

(iii) So long as a default in any preference dividends on the Series A Preferred Stock shall exist (A) any vacancy in the office of a Preferred Director may be filled (except as provided in the following clause (B) by an instrument in writing signed by the remaining Preferred Director and filed with the Corporation or (B) in the case of the removal of any Preferred Director, the vacancy may be filled by the vote or written consent of the holders of a majority of the outstanding shares of Series A Preferred Stock then entitled to vote for the election of directors at such time as the removal shall be effected. Each director appointed as aforesaid by the remaining Preferred Director shall be deemed, for all purposes hereof, to be a Preferred Director. Whenever a default in preference dividends on the Series A Preferred Stock ceases to exist, then the number of directors constituting the Board of Directors of the Corporation shall be reduced by two.

(iv) A "default in preference dividends" on the Series A Preferred Stock shall be deemed to have occurred whenever the amount of cumulative and unpaid dividends on the Series A Preferred Stock shall be equivalent to six full quarterly dividends or more (whether or not consecutive), and having so occurred, such default shall be deemed to exist thereafter until, but only until, all cumulative dividends on all shares of the Series A Preferred Stock

then outstanding shall have been paid through the last Quarterly Dividend Payment Date.

(d) Except as set forth in this subpart B.(3) to this Article Fourth and subpart B.(11) to this Article Fourth and as otherwise required by applicable law, holders of Series A Preferred Stock shall have not special voting rights and their consent shall not be required (except to the extent they are entitled to vote with the holders of Common Stock as set forth herein) to authorize the taking of any corporate action.

(4) Certain Restrictions.

(a) Whenever quarterly dividends or other dividends or distributions payable on the Series A Preferred Stock, as provided in subpart B.(2) to this Article Fourth, are in arrears, thereafter and until all accrued and unpaid dividends and distributions, whether or not declared, on shares of Series A Preferred Stock outstanding shall have been paid in full, the Corporation shall not (i) declare or pay dividends, or make any other distributions on, or redeem, purchase or otherwise acquire for consideration, any shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up of the Corporation) to the Series A Preferred Stock; (ii) declare or pay dividends, or make any other distributions on any shares of stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up of the Corporation) with the Series A Preferred Stock, except dividends paid ratably on the Series A Preferred Stock and all such parity stock on which dividends are payable or in arrears in proportion to the total amounts to which the holders of all such shares

are then entitled; (iii) redeem, purchase or otherwise acquire for consideration shares of any stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up of the Corporation) to the Series A Preferred Stock, provided that the Corporation may at any time redeem, purchase or otherwise acquire shares of any such parity stock in exchange for shares of any stock of the Corporation ranking junior (both as to dividends and upon dissolution, liquidation or winding up) to the Series A Preferred Stock; or (iv) purchase or otherwise acquire for consideration any shares of Series A Preferred Stock, except in accordance with a purchase offer made in writing or by publication (as determined by the Board of Directors) to all holders of shares of Series A Preferred Stock upon such terms as the Board of Directors determines.

(b) The Corporation shall not permit any subsidiary of the Corporation to purchase or otherwise acquire for consideration any shares of stock of the Corporation unless the Corporation could, under paragraph (a) of this subpart B.(4) to this Article Fourth, purchase or otherwise acquire such shares at such time and on the same terms.

(5) Reacquired Shares. Any shares of Series A Preferred Stock purchased or otherwise acquired by the Corporation in any manner whatsoever shall be retired and cancelled promptly after the acquisition thereof. All such shares shall upon their cancellation become authorized but unissued shares of Preferred Stock, and may be reissued as part of a new series of Preferred Stock in accordance with the Certificate of Incorporation and applicable law.

(6) Liquidation, Dissolution or Winding Up.

(a) Subject to the prior and superior rights of holders of any shares of any other series of Preferred Stock and any other class of equity securities of the Corporation ranking prior and superior to the shares of Series A Preferred Stock, upon a liquidation, dissolution or winding up (voluntary or otherwise) of the Corporation, the holders of shares of Series A Preferred Stock shall be entitled to receive an amount equal to $18.00 per share, plus an amount equal to accrued and unpaid dividends and distributions thereon, whether or not declared, to the date of such payment (the "Series A Liquidation Preference"). Unless and until the holders of Series A Preferred Stock receive the Series A Liquidation Preference, no distribution shall be made to the holders of shares of Common Stock, any other series of Preferred Stock, or other class of equity securities of the Corporation ranking junior to the Series A Preferred Stock upon the liquidation, dissolution or winding up of the Corporation. Following the payment of the full amount of the Series A Liquidation Preference, no additional distributions shall be made to the holders of shares of Series A Preferred Stock unless, prior thereto, the holders of shares of Common Stock shall have received an amount per share (the "Common Stock Amount") equal to the quotient obtained by dividing (i) the Series A Liquidation Preference by (ii) Formula Number then in effect. Following the payment of the full amount of the Series A Liquidation Preference and the Common Stock Amount respect of all outstanding shares of Series A Preferred Stock and Common Stock, respectively, holders of Series A Preferred Stock and holders of Common Stock shall receive

their ratable and proportionate share of the remaining assets to be distributed in the ratio of the Formula Number to one with respect to such Preferred Stock and Common Stock, respectively.

(b) In the event, however, that there are not sufficient assets available to permit payment in full of the Series A Liquidation Preference and the liquidation preferences of all other stock ranking on a parity with the Series A Preferred Stock, then such remaining assets shall be distributed ratably to the holders of Series A Preferred Stock and the holders of such parity shares in proportion to their respective liquidation preferences.

(7) Consolidation, Merger, etc. In case the Corporation shall enter into any consolidation, merger, combination or other transaction in which the shares of Common Stock are exchanged for or changed into other stock or securities, cash and/or any other property, then in any such case the then outstanding shares of Series A Preferred Stock shall at the same time be similarly exchanged or changed in an amount per share equal to the Formula Number times the aggregate amount of stock, securities, cash and/or any other property (payable in kind), as the case may be, into which or for which each share of CommonStock in changed or exchanged.

(8) No Redemption; No Sinking Fund. The shares of Series A Preferred Stock shall not be redeemable by the Corporation or at the option of any holder of Series A Preferred Stock. The shares of Series A Preferred Stock shall not be subject to or entitled to the operation of a retirement or sinking fund.

(9) Ranking. The Series A Preferred Stock shall rank junior to all other series of the Preferred Stock of the Corporation as to the payment of dividends and a to the distribution of assets upon the liquidation, dissolution or winding up of the Corporation, unless the terms of any such other series of Preferred Stock shall provide otherwise.

(10) Fractional Shares. The Series A Preferred Stock shall be issuable upon exercise of the Rights issued pursuant to the Rights Agreement in whole shares or in any fraction of a share that is one-fiftieth ($1/50^{th}$) of a share or any integral multiple thereof, which fractional shares of Series A Preferred Stock shall entitle the holder, in proportion to such holder's fractional shares to receive dividends, exercise voting rights, participate in distributions and to have the benefit of any other rights of a holder of Series A Preferred Stock. As provided in the Rights Agreement, (a) in lieu of the issuance of a fraction of a share (other one-fiftieth ($1/50^{th}$) of a share or an integral multiple thereof), the Corporation may elect to make a cash payment for the fraction of a share in excess of one-fiftieth ($1/50^{th}$) of a share or any integral multiple thereof and (b) to issue depository receipts evidencing authorized fractions of a share of Series A Preferred Stock pursuant to an appropriate agreement between the Corporation and a depository selected by the Corporation; provided that such agreement shall provide that the holders of such depository receipts shall have all the rights, privileges and preferences to which they are entitled as beneficial owners of the Series A Preferred Stock represented by such depository receipts.

(9) Ranking. The Series A Preferred Stock shall rank junior to all other series of the Preferred Stock of the Corporation as to the payment of dividends and a to the distribution of assets upon the liquidation, dissolution or winding up of the Corporation, unless the terms of any such other series of Preferred Stock shall provide otherwise.

(10) Fractional Shares. The Series A Preferred Stock shall be issuable upon exercise of the Rights issued pursuant to the Rights Agreement in whole shares or in any fraction of a share that is one-fiftieth ($1/50^{th}$) of a share or any integral multiple thereof, which fractional shares of Series A Preferred Stock shall entitle the holder, in proportion to such holder's fractional shares to receive dividends, exercise voting rights, participate in distributions and to have the benefit of any other rights of a holder of Series A Preferred Stock. As provided in the Rights Agreement, (a) in lieu of the issuance of a fraction of a share (other one-fiftieth ($1/50^{th}$) of a share or an integral multiple thereof), the Corporation may elect to make a cash payment for the fraction of a share in excess of one-fiftieth ($1/50^{th}$) of a share or any integral multiple thereof and (b) to issue depository receipts evidencing authorized fractions of a share of Series A Preferred Stock pursuant to an appropriate agreement between the Corporation and a depository selected by the Corporation; provided that such agreement shall provide that the holders of such depository receipts shall have all the rights, privileges and preferences to which they are entitled as beneficial owners of the Series A Preferred Stock represented by such depository receipts.

representing three-fourths in value of the creditors or class of creditors, and/or of the stockholders or class of stockholders of this Corporation, as the case may be, agree to any compromise or arrangement and to any reorganization of this Corporation as consequence of such compromise or arrangement, the said compromise or arrangement and the said reorganization shall, if sanctioned by the court to which the said application has been made, be binding on all the creditors or class of creditors, and/or on all the stockholders or class of stockholders, of this Corporation, as the case may be, and also on this Corporation.

SEVENTH: Meetings of stockholders may be held without the State of Delaware, if the Bylaws so provide. The books of the Corporation may be kept (subject to any provision contained in the statutes) outside of the State of Delaware at such place or places as may be from time to time designated by the Board of Directors or in the Bylaws of the Corporation.

EIGHTH: The number of directors which shall constitute the whole Board of Directors of the Corporation shall be fixed from time to time by resolution of a majority of directors in office provided that there shall be not fewer than five or more than fifteen directors. The Board shall be divided into three classes, Class I, Class II and Class III. The number of directors in each class shall be the whole number contained in the quotient arrived at by dividing the number of directors fixed by the Board by three and if a fraction is also contained in such quotient and if such fraction is one-third (1/3) the extra director shall be a member of Class III and if the fraction is two-thirds (2/3) one

of the directors shall be a member of Class III and the other shall be a member of Class II. Each director shall serve for a term ending on the third annual meeting following the annual meeting at which such director was elected. The foregoing notwithstanding each director shall serve until such director's successor shall have been duly elected and qualified unless such director shall resign become disqualified, disabled or shall otherwise be removed.

At each annual election the directors chosen to succeed those whose terms then expire shall be identified as being of the same class as the directors they succeed. If for any reason the number of directors in the various classes shall not conform with the formula set forth in the preceding paragraph, the Board of Directors may redesignate any director into a different class in order that the balance of directors in such classes shall conform thereto.

The Board of Directors at its first meeting after each annual meeting of stockholders shall choose such officers with such titles and duties as shall be stated in the Bylaws of the Corporation who shall hold office until their successors are chosen and qualify in their stead.

A majority of the number of directors fixed by the Board shall constitute a quorum for the transaction of business and if at any meeting of the Board of Directors there shall be less than a quorum, a majority of those present may adjourn the meeting from time to time. Every act or decision done or made by a majority of the directors present at a meeting duly held at which a quorum is present shall be regarded as the act of the Board of Directors unless a greater number be required by law or by the Certificate of Incorporation.

No director of the Corporation shall be removed from office as a director by vote or other action of stockholders or otherwise unless the director to be removed is physically or mentally disabled or incapacitated to such an extent that such director is unable to perform the duties of a director, or unless the director has been convicted of a felony by a court of competent jurisdiction and such conviction is no longer subject to direct appeal or unless the director to be removed has been adjudged to be liable for misconduct in the performance of such directors duty to the Corporation by a court of competent jurisdiction and such adjudication is no longer subject to direct appeal.

NINTH: In the event that it is proposed that this Corporation enter into a merger or consolidation with any other corporation and such other corporation or its affiliates singly or in the aggregate own or control directly or indirectly five percent (5%) or more of the outstanding shares of the Common Stock of this Corporation, or that this Corporation sell substantially all of its assets or business, the affirmative vote of the holders of not less than seventy-five percent (75%) of the total voting power of all outstanding shares of stock of this Corporation shall be required for the approval of any such proposal; provided, however, that the foregoing shall not apply to any such merger, consolidation or sale of assets or business which was approved by resolution of the Board of Directors of this Corporation prior to the acquisition of the ownership or control of five percent (5%) of the outstanding shares of this Corporation by such other corporation or its affiliates, nor shall it apply to any such merger, consolidation or sale of assets or business between this Corporation and another corporation

fifty percent (50%) or more of the stock of which is owned by this Corporation. For the purposes hereof an "affiliate" is any person (including a corporation, partnership, trust, estate or individual) who directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, the person specified; and "control" means the possession, directly or indirectly, of the power to direct or cause the direction of management and policies of a person, whether through the ownership of voting securities, by contract, or otherwise.

TENTH: No action required to be taken or which may be taken at any annual or special meeting of shareholders of the Corporation may be taken without a meeting and the power of stockholders to consent in writing to the taking of any action is specifically denied.

ELEVENTH: A director of the Corporation shall not be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except for liability (i) for any breach of the director's duty of loyalty to the Corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the Delaware General Corporation Law, or (iv) for any transaction from which the director derived any improper personal benefit. If the Delaware General Corporation Law is amended after approval by the stockholders of this article to authorize corporate action further eliminating or limiting the personal liability of directors, then the liability of a director of the

Corporation shall be eliminated or limited to the fullest extent permitted by the Delaware General Corporation Law, as so amended.

Any repeal or modification of the foregoing paragraph by the stockholders of the Corporation shall not adversely affect any right or protection of a director of the Corporation existing at the time of such repeal or modification.

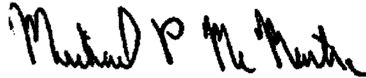
TWELFTH: The provisions set forth in Articles EIGHTH, NINTH, TENTH and here in Article TWELFTH, may not be repealed or amended in any respect unless such repeal or amendment is approved by the affirmative vote of the holders of not less than seventy-five percent (75%) of the total voting power of all outstanding shares of stock of this Corporation. Except as expressly provided in the preceding sentence, the Corporation reserves the right to amend, alter, change or repeal any provision contained in this Certificate of Incorporation, in the manner now or hereafter prescribed by statute, and all rights conferred upon stockholders herein are granted subject to this reservation.

4. This Amended and Restated Certificate of Incorporation was duly adopted in accordance with Sections 242 and 245 of the General Corporation Law of the State of Delaware.

5. That the capital of said Corporation will not be reduced under or by reason of any amendment in this amended and restated Certificate of Incorporation.

IN WITNESS WHEREOF, said CHESAPEAKE UTILITIES CORPORATION has caused its corporate seal to be hereunto affixed and this Amended and Restated Certificate of Incorporation to be signed by Michael P. McMasters, President and attested by Beth W. Cooper, its Corporate Secretary, this 22nd day of July, 2010.

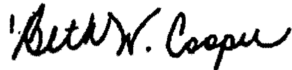
Chesapeake Utilities Corporation



By: /s/ Michael P. McMasters
President

(Corporate Seal)

Attest:



By: /s/ Beth W. Cooper, Corporate Secretary

EXHIBIT C

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 COMPANY STOCK (Filed April 5, 2010)	))))	PSC DOCKET NO. 10-129

ORDER NO. 7769

AND NOW, this 4th day of May 2010:

WHEREAS, on April 5, 2010, Chesapeake Utilities Corporation ("Chesapeake" or the "Applicant") filed an application (the "Application") pursuant to 26 *Del. C.* §215 seeking Commission approval of the issuance of up to 600,000 shares of Chesapeake voting common stock to be used in meeting Chesapeake's matching obligations under its Company's Retirement Savings Plan; and

WHEREAS, the Commission having examined the Application and made such investigation in connection with said matters as the Commission deemed necessary, and having heard the presentation of Chesapeake and the Commission Staff at the Commission meeting of May 4, 2010; and

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

WHEREAS, the Commission Staff has conducted an examination and investigation of the Application and has concluded that Chesapeake's proposed issuance of 600,000 shares of common stock is made in

accordance with law, made for a proper purpose, and is consistent with the public interest;

NOW THEREFORE, IT IS HEREBY ORDERED BY THE AFFIRMATIVE VOTE OF NO FEWER THAN THREE COMMISSIONERS:

1. That the proposed issuance of up to 600,000 shares of common voting stock by Chesapeake Utilities Corporation, to be used in meeting Chesapeake's matching obligations under its Retirement Savings Plan, is made in accordance with law, made for a proper purpose, and is consistent with the public interest.

2. That the Application is hereby approved and Chesapeake Utilities Corporation is hereby authorized to issue up to 600,000 new shares of common voting stock to be used for the purpose set forth above.

3. That said 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; or as approving any portions of the Retirement Savings Plan or the Shareholders' Rights Agreement for the purposes of any future ratemaking proceeding; or as relieving the Company of its burden of proving the merits of any related issue in any future ratemaking proceeding. The Commission's approval of the Application is limited to that which is necessary under 26 *Del. C.* §215.

4. 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

common voting stock to be issued pursuant to the Application and this Order.

5. That Chesapeake Utilities Corporation is hereby placed on notice that the costs of the investigation will be charged to it under the provisions of *26 Del. C.* §114(b).

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:

/s/ Arnetta McRae
Chair

/s/ Joann T. Conaway
Commissioner

/s/ Jaymes B. Lester
Commissioner

/s/ Jeffrey J. Clark
Commissioner

____
Commissioner

ATTEST:

/s/ Alisa Carrow Bentley
Secretary

EXHIBIT D

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 LONG-TERM DEBT (Filed May 25, 2010)	))))	**PSC DOCKET NO. 10-187**

ORDER NO. 7787

AND NOW, this 15th day of June, 2010:

1. On May 25, 2010, Chesapeake Utilities Corporation ("Chesapeake" or the "Company") filed with the Delaware Public Service Commission (the "Commission"), pursuant to 26 *Del. C.* §215, an application (the "Application") seeking approval of the issuance of up to $36 million of Chesapeake long-term debt securities.

2. In its Application, Chesapeake stated that on February 24, 2010, its Board of Directors authorized the Company to proceed with the issuance of unsecured long-term debt. Subsequently, on April 9, 2010, it entered into an agreement in principle ("AIP") with Metropolitan Life Insurance Company ("Metropolitan Life"), in which Metropolitan Life will purchase from the Company unsecured long-term debt in the principal amount of $36 million with a maturity of 15 years. (Application at 2).

3. Under the terms of the AIP, the first $29 million of the debt will be purchased, at the Company's discretion, between approximately June 30, 2010 and June 30, 2012, and the remaining $7 million will be purchased by May 31, 2013. Both purchases will require Metropolitan Life to provide the Company with 30 days' advance notice. Chesapeake will pay interest on the unpaid amount of debt semi-annually. Chesapeake states that it intends to use the proceeds

to the sale of this long-term debt to retire existing long-term secured debt of its subsidiary, Florida Public Utilities Company ("FPU"). (Application at 2).[1]

4. According to the Application, Chesapeake selected the unsecured long-term debt financing because it is consistent with the Company's current debt covenants, which limit the amount of secured debt Chesapeake can issue, and because its terms are more favorable than the terms of the debt it will be replacing. The Company explained that when it acquired FPU in 2009, its Senior Noteholders and management amended the then-existing debt covenants to temporarily allow the current level of secured subsidiary debt to tangible net worth to exceed the 20% limit established in those covenants. The proposed issuance of long-term debt brings Chesapeake back within the 20% limit as set forth in those covenants. (Application at 3). In addition, the interest rates on the proposed debt issuances are competitive: the interest rate on the $29 million issuance is 5.68% (6.13% if it is not taken within the first year of availability), compared to the coupon rate of 5.88%, and the remaining $7 million issuance has an interest rate of 6.43%, compared to an average 9.8% rate on the debt to be redeemed in May 2013. (Application at 3).

5. The anticipated closing date for the AIP is June 30, 2010. Funding will occur, at the Company's discretion, between June 2010 and

[1] In Docket No. 09-215 (Order No. 7591 dated June 16, 2009), the Commission approved Chesapeake's application to issue up to 2.6 million shares of common stock in exchange for all of the outstanding shares of FPU. That merger concluded on October 28, 2009.

June 2012 for the first $29 million and prior to May 2013 for the remaining $7 million. (Application at 3).

6. 26 *Del. C.* §215(d) authorizes the Commission to investigate and hold such hearings on this Application as it deems necessary and, thereafter, to grant the Application in whole or in part with such modification and upon such terms and conditions as may be appropriate. Section 215(d) further requires the Commission to approve any issuance of bonds of other evidences of indebtedness for which approval is required under Section 215(a)(2) when the proposed issuances are to be made in accordance with law, for proper purposes, and are consistent with the public interest.

7. Section 215(d) further requires the Commission to grant, modify, refuse, or prescribe appropriate terms and conditions with respect to every such application within 30 days of its filing. In the absence of such action within 30 days, the issuance described in the application will be deemed to be approved.

8. Commission Staff has examined the proposed issuances and the schedules and exhibits thereto, and conducted discovery on certain issues raised by the Application. As a result of its examination, Staff has determined, pursuant to 26 *Del. C.* §215(d), that the Company has complied with the requirements of Section 215 and furthermore, that the proposed issuances will be made in accordance with law, will be made for a proper purpose, and will be consistent with the public interest. Accordingly, Staff has recommended that the Commission

approve Chesapeake's Application. Staff further recommends that the Commission direct Chesapeake to file the final Note Agreement(s) within 30 days of the closing of the issuance(s) of any debt securities described in the Application.

NOW, THEREFORE, IT IS ORDER BY THE AFFIRMATIVE VOTE OF NOT FEWER THAN THREE COMMSISIONERS:

1. That, the Commission having independently reviewed this matter and having determined that public notice and hearing are not required, finds that the issuance by Chesapeake Utilities Corporation to Metropolitan Life Insurance Company of unsecured long-term debt securities with a maturity of 15 years in the principal amount of $36 million will be made in accordance with law, will be made for a proper purpose, and will be consistent with the public interest. The Application is therefore approved.

2. 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 thereof with respect to the indebtedness of Chesapeake Utilities Corporation that may be issued or incurred under the Application herein approved.

3. That Chesapeake Utilities Corporation shall file the final Note Agreement(s) for the Application within 30 days following the closing of the issuance(s) of the debt securities described in the Application.

4. That Chesapeake Utilities Corporation is hereby placed on notice that the costs of the proceeding will be charged to it under the provisions of 26 *Del. C.* §114(b)(1).

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

BY ORDER OF THE COMMISSION:

/s/ Arnetta McRae
Chair

/s/ Joann T. Conaway
Commissioner

/s/ Jaymes B. Lester
Commissioner

/s/ Dallas Winslow
Commissioner

/s/ Jeffrey J. Clark
Commissioner

ATTEST:

/s/ Alisa Carrow Bentley
Secretary