

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 Exceed Limitation)
Placed on Short-Term Borrowings in 2002)

011345-GU

APPLICATION BY CHESAPEAKE UTILITIES CORPORATION FOR AUTHORIZATION TO ISSUE COMMON STOCK, PREFERRED STOCK AND SECURED AND/OR UNSECURED DEBT AND TO EXCEED LIMITATION PLACED ON SHORT-TERM BORROWINGS IN 2002

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

1. Name and principal business offices of Applicant:

- (a) Chesapeake Utilities Corporation
P.O. Box 615
909 Silver Lake Boulevard
Dover, Delaware 19904
- (b) Chesapeake Utilities Corporation
Florida Division
P.O. Box 960
1015 6th Street N.W.
Winter Haven, Florida 33881

DOCUMENT NUMBER-DATE

12749 OCT-8 2002

FPSC-COMMISSION CLERK

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

and

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

2. Incorporated:

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

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

Wayne L. Schiefelbein
P.O. Box 15856
Tallahassee, Florida 32317-5856
(850) 671-1111
(850) 671-1222 (Fax)

Attorney for Chesapeake Utilities Corporation

4. Capital Stock and Funded Debt:

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

- (a) Common stock having par value of \$.4867.
- (b) Amount authorized: 12,000,000 shares.
- (c) Amount outstanding as of June 30, 2001: 5363,755 shares.
- (d) Amount held in Treasury: None.
- (e) Amount pledged by Applicant: None.

(f) Amount owned by affiliated corporations: None.

(g) Amount held in any fund: None.

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

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

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

(c) Amount outstanding as of June 30, 2001: 0 shares.

(d) Amount held in Treasury: None.

(e) Amount pledged by Applicant: None.

(f) Amount owned by affiliated corporations: None.

(g) Amount held in any fund: None.

The funded indebtedness by class and series are as follows:

(a)1 8.25% Convertible Debentures due March 1, 2014 are convertible prior to maturity, unless previously redeemed, into shares of common stock of Chesapeake at a conversion price of \$17.01 per share. interest on the Debentures is payable on the first day of March and September, commencing September 1, 1989. The Debentures are redeemable at 100% of the principal amount plus accrued interest (i) on March 1 in any year, commencing in 1991, at the option of the holder and (ii) at any time within 60 days after a request on behalf of a deceased holder. At Chesapeake's option, beginning March 1, 1990, the Debentures may be redeemed in whole or in part at redemption prices declining from 107.25%, plus accrued interest. No sinking fund will be established to redeem the Debentures. As of June 30, 2001, there is a remaining balance of \$3,422,000 on this issue.

- (a)2 9.37% First Mortgage Sinking Fund Bonds, Series I, due December 15, 2004, issued on December 15, 1989, and secured by the Original Indenture dated as of December 1, 1959 between Chesapeake and Maryland National Bank in the principal amount of \$8,200,000 bearing interest payable semi-annually with provisions for payment of interest only prior to December 15, 1991; thereafter, principal shall be payable, in addition to interest on the unpaid balance, on or before the fifteenth days of December and June in each year (a) commencing on December 15, 1991, and ending on December 15, 1999, in the sum of \$260,000 and (b) commencing on June 15, 2000, and ending on June 15, 2004, in the sum of \$378,000. As of June 30, 2001, there is a remaining balance of \$2,646,000 on this issue.
- (a)3 7.97% Unsecured Senior Notes due February 1, 2008, and issued on February 9, 1993 in the principal amount of \$10,000,000 bearing interest payable semi-annually with provisions for payment of interest only prior to February 1, 1999; thereafter, principal shall be payable, in addition to interest on the unpaid balance, over ten (10) years at the rate of \$1,000,000 per annum. As of June 30, 2001, there is a remaining balance of \$7,000,000 on this issue.
- (a)4 6.91% Unsecured Senior Notes due October 1, 2010, and issued on October 2, 1995 in the principal amount of \$10,000,000 bearing interest payable quarterly with provisions for payment of interest only prior to October 1, 2000; thereafter, principal shall be payable, in addition to interest on the unpaid balance, over eleven (11) years at the rate of \$909,091 per annum. As of June 30, 2001, there is a remaining balance of \$9,090,909 on this issue.

(a)5 6.85% Unsecured Senior Notes due January 1, 2012 and issued on December 15, 1997 in the principal amount of \$10,000,000 bearing interest payable semi-annually with provisions for payment of interest only prior to January 1, 2003; thereafter, principal shall be payable, in addition to interest on the unpaid balance, over ten (10) years at the rate of \$1,000,000 per annum. As of June 30, 2001, there is a remaining balance of \$10,000,000 on this issue.

(a)6 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, 2001, there is a remaining balance of \$20,000,000 on this issue.

(a)7 8.50% Promissory Note due April 6, 2005 and issued on April 6, 2001 in the principal amount of \$300,000. This note shall be due and payable based upon a 10-year amortization schedule, with a 5-year balloon payment due April 6, 2005.

(a)8 As of the filing date, the Company had three unsecured bank lines of credit. Two of these lines are for \$15,000,000 each and the remaining line is for \$30,000,000. For the \$30,000,000 line of credit, \$5,000,000 of the total line can be used to guarantee letters of credit issued by Chesapeake's unregulated subsidiary, Xeron, Inc. for up to 364 days.

(b) The amounts authorized are set forth above.

- (c) The amounts presently outstanding are set forth above.
- (d) Amount held as reacquired securities: None.
- (e) Amount pledged by Applicant: None.
- (f) Amount owned by affiliated corporations: None.
- (g) Amount in Sinking Fund or other funds: None.

5. Authorizations Requested:

Chesapeake requests authorization from the FPSC to issue up to 1,025,562 new shares of its common stock during 2002 for the purpose of administering Chesapeake's Retirement Savings Plan, Performance Incentive Plan, Automatic Dividend Reinvestment and Stock Purchase Plan and conversion of the Company's Convertible Debentures. The share breakdown for each specific purpose is as follows:

<u>Number of Shares</u>	<u>Purpose</u>
303,144	Issuance pursuant to the Company's Retirement Savings Plan.
351,124	Issuance under the terms of the Company's Performance Incentive Plan.
170,118	Issuance pursuant to the Company's Automatic Dividend Reinvestment and Stock Purchase Plan.
201,176	Issuance under the terms of the Company's outstanding 8 1/4% Convertible Debentures.

Chesapeake requests FPSC authorization to issue up to \$40,000,000 in secured and/or unsecured debt during 2002 for general corporate purposes including, but not limited to, working capital, retirement of short-term debt, retirement of long-term debt and capital improvements. In addition, Chesapeake expects to continue its historically aggressive acquisition program. For this purpose, Chesapeake is requesting FPSC authorization during

2002 to issue up to 4,974,438 shares of common stock and up to \$40,000,000 in secured and/or unsecured debt for possible acquisitions. Due to the nature of typical cash for stock acquisitions, the \$40,000,000 in secured and/or unsecured debt may be initially issued through a bridge loan in the form of notes held by banks or some similar form of short-term obligations.

For this reason, Chesapeake seeks FPSC authorization to exceed the limitation placed on short-term borrowings by Section 366.04, Florida Statutes, so as to issue short-term obligations in an amount not to exceed \$40,000,000 during 2002. The bridge financing would subsequently be refinanced as unsecured long-term debt with an estimated rate of interest of up to 250 basis points above U.S. Treasury rates (or extrapolated U.S. Treasury rates) with equivalent average life.

Chesapeake is also requesting authority to issue up to 1,000,000 shares of Chesapeake preferred stock for possible acquisitions, financing transactions, and other general corporate purposes, including potential distribution under the Company's Shareholder Rights Agreement ("Rights Agreement") adopted by the Board of Directors on August 20, 1999.

6. Purpose for which Securities are to be issued:

- (a) Chesapeake's Retirement Savings Plan ("RSP") was implemented on February 1, 1977. As of June 30, 2001, the RSP had 344 participants; a total market valuation of \$18,283,981; and 349,958 shares of the Company's common stock. True and correct copies of the current RSP Plan Document and Adoption Agreement have been previously filed with the FPSC as Exhibits A and B of the Application for Modification of Authority to Issue Common Stock During the Twelve Months Ending December 31,

1999, Docket No. 981213-GU, dated June 25, 1999, and are hereby incorporated by reference. Pursuant to the RSP, the first 100% of an employee's contribution, up to a maximum 6% of his/her salary, is matched by the Company in shares of Chesapeake common stock. Additional employee dollars that are matched by the Company are invested according to the respective employee's 401 (k) designation. The RSP was amended at the end of 1998 to provide for a larger employer matching amount, from 60% to as much as 200%, and at the same time the Company's Pension Plan was closed off to new employees. Accordingly, as the employer matching amount has increased, so has the number of shares being issued under the RSP.

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

On June 23, 1992, the Delaware Public Service Commission issued Order No. 3425 approving the issuance of up to 100,000 new shares of Chesapeake common stock for the purpose of administering Chesapeake's RSP. Please note that this Order by the Delaware Public Service Commission is "open ended" in the sense that there is no time limit by which the approved securities need to be issued. A copy of the Order has been previously filed with the FPSC as Exhibit J of the Application for Approval of Issuance and Sale of Securities by Chesapeake Utilities Corporation, Docket No. 931112-GU, dated November 17, 1993, and is hereby incorporated by reference. On July 13, 1999, the Delaware Public Service Commission issued Order No. 5165 approving the issuance of an additional 100,000 new shares of Chesapeake common stock for the purpose of administering the RSP. Please note

that this Order by the Delaware Public Service Commission is also “open ended” in the sense that there is no time limit by which approved securities need to be issued. A copy of this Order has been previously filed with the FPSC as Exhibit C of the Application by Chesapeake Utilities Corporation for Authorization to Issue Common Stock, Preferred Stock and Secured and/or Unsecured Debt and to Exceed Limitation Placed on Short-Term Borrowings in 2000, Docket No. 991631-GU, dated October 20, 1999, and is hereby incorporated by reference. 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. Pursuant to these Orders, Chesapeake has issued 196,856 new shares of common stock for the RSP as of June 30, 2001. Thus, there remains to be issued 303,144 shares as authorized by the Delaware Public Service Commission.

The FPSC approved the issuance and sale of up to 150,000 shares of common stock for the Plan during 2001 by Order No. PSC-00-2498-FOF-GU, issued December 26, 2000. Chesapeake now seeks FPSC authorization to issue up to 303,144 new shares of Chesapeake common stock for the purpose of administering Chesapeake’s Retirement Savings Plan during 2002.

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

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

To accomplish these objectives, the PIP authorizes the grant of nonqualified stock options, performance shares of the Company’s common stock and stock appreciation rights, or any combination thereof. The PIP, as it was originally adopted by the common stock shareholders of Chesapeake in 1992, provided that over a ten year period beginning in 1992, any one or more types of awards for up to a total of 200,000 shares of Chesapeake’s common stock may be granted. On June 23, 1992, the Delaware Public Service Commission issued Order No. 3425 approving the issuance of up to 200,000 new shares of Chesapeake common stock for the purpose of administering Chesapeake’s PIP. Please note that this Order by the Delaware

Public Service Commission is “open ended” in the sense that there is no time limit by which the approved securities need to be issued. A copy of this Order has been previously filed with the FPSC as Exhibit J of the Application for Approval of Issuance and Sale of Securities by Chesapeake Utilities Corporation, Docket No. 9311 12-GU, dated November 17, 1993, and is hereby incorporated by reference.

The amendments to the PIP adopted by the common stock shareholders of Chesapeake on May 19, 1998 changed the terms and provisions of the PIP as follows: (1) the aggregate number of shares of common stock subject to awards is increased from 200,000 shares to 400,000 shares; (2) the term of the PIP is extended for five years through December 31, 2006; and (3) the Board of Directors is granted greater flexibility to amend, modify or terminate the PIP, subject to shareholder approval requirements imposed by applicable law. On July 13, 1999, the Delaware Public Service Commission issued Order No. 5165 approving the issuance of an additional 200,000 new shares of Chesapeake common stock for the purpose of administering the PIP, coinciding with these amendments. Please note that this Order by the Delaware Public Service Commission is “open ended” in the sense that there is no time limit by which the approved securities need to be issued. A copy of this Order has been previously filed with the FPSC as Exhibit C of the Application by Chesapeake Utilities Corporation for authorization to issue common stock, preferred stock and secured and/or unsecured debt and to exceed limitation placed on short-term borrowings in 2000, Docket No. 99163%GU, dated October 20, 1999, and is hereby incorporated by reference.

Pursuant to the PIP, Chesapeake has issued 48,876 new shares of common stock as of June 30, 2001. Thus, there remains to be issued 351,124 shares as previously authorized by the Delaware Public Service Commission. The FPSC approved the issuance and sale of up to 365,051 shares of common stock for the PIP during 2001 by Order No. PSC-OO-2498-FOF-GU, issued December 26, 2000. Chesapeake now seeks FPSC authorization to issue up to 351,124 new shares of Chesapeake common stock for the purpose of administering Chesapeake's Performance Incentive Plan during 2002. The 351,124 shares should be adequate to cover any awards granted to executives and other key officers of the Company and its subsidiaries in 2002.

- (c) Chesapeake's Automatic Dividend Reinvestment and Stock Purchase Plan ("DRP") was implemented on April 27, 1989. The DRP Administrator currently has the flexibility of purchasing shares of Chesapeake common stock on the open market, using Treasury stock or issuing new common stock. The gradual issuance of new common stock enables Chesapeake to balance the composition of its capital between common stock and long-term debt. As of June 30, 2001, the DRP had 1,286 stockholder participants.

A copy of the DRP as filed on Registration Statement Form S-3 with the Securities and Exchange Commission has been previously filed with the FPSC as Exhibit D of the Application for Approval of Issuance and Sale of Securities by Chesapeake Utilities Corporation, Docket No. 961194-GU, dated October 1, 1996, and is hereby incorporated by reference. On May 23, 1989, the Delaware Public Service Commission issued Order No. 3071 approving the issuance of up to 200,000

new shares of Chesapeake common stock for the purpose of administering Chesapeake's DRP. Please note that this Order by the Delaware Public Service Commission is "open ended" in the sense that there is no time limit by which the approved securities need to be issued. A copy of this Order has been previously filed with the FPSC as Exhibit J of the Application for Approval of Issuance and Sale of Securities by Chesapeake Utilities Corporation, Docket No. 9311 12-GU, dated November 17, 1993, and is hereby incorporated by reference. On December 20, 1995, the Delaware Public Service Commission issued Order No. 4097 approving the issuance of an additional 300,000 new shares of Chesapeake common stock for the purpose of administering Chesapeake's DRP. Please note that this Order by the Delaware Public Service Commission is also "open ended" in the sense that there is no time limit by which the approved securities need to be issued. A copy of this Order has been previously filed with the FPSC as Exhibit E of the Application for Approval of Issuance and Sale of Securities by Chesapeake Utilities Corporation, Docket No. 961194-GU, dated October 1, 1996, and is hereby incorporated by reference. Pursuant to the Orders above, Chesapeake has issued 329,882 new shares of common stock as of June 30, 2001. Thus, there remains to be issued 170,118 shares as authorized by the Delaware Public Service Commission. The FPSC approved the issuance and sale of up to 211,424 shares for the DRP during 2001 by Order No. PSC-OO-2498-FOF-GU, issued on December 26, 2000. Chesapeake now seeks FPSC authorization to issue up to 170,118 new shares of Chesapeake common stock for the purpose of administering Chesapeake's Automatic Dividend Reinvestment and Stock Purchase Plan during 2002.

(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, 2001, \$3,422,000 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 201,175. A true and correct copy of the Registration Statement on Form S-2 dated February 16, 1989, as filed with the Securities and Exchange Commission, has been previously filed with the FPSC as Exhibit I of the Application for Approval of Issuance and Sale of Securities by Chesapeake Utilities Corporation, Docket No. 931112-GU, dated November 17, 1993, and is hereby incorporated by reference.

The Debentures have a conversion premium greater than the offering price of the common stock issue, no mandatory sinking fund, and became callable after one year at a premium equal to the interest rate less 1%, declining 1/2% per year thereafter. There is an optional bondholder redemption feature which allows any debenture holder to present any Debenture for redemption, at par, on the anniversary date of the issue, subject to annual limitations of \$10,000 per debenture holder and \$200,000 in the aggregate. These optional redemption rights began on April 1, 1991.

In addition, subject to the annual limitations of \$10,000 per debenture holder and \$200,000 in the aggregate, Chesapeake will redeem the Debentures of deceased debenture holders within 60 days of notification. Such redemption of estate Debentures shall be made prior to other Debentures.

On February 14, 1989, the Delaware Public Service Commission issued Order No. 3040 approving the issuance of \$5,000,000 in Convertible Debentures and, inherently, their potential conversion into Chesapeake common stock. Please note

that this Order by the Delaware Public Service Commission is “open ended” in the sense that there is no time limit by which the approved securities need to be issued. A copy of this Order has been previously filed with the FPSC as Exhibit J of the Application for Approval of Issuance and Sale of Securities by Chesapeake Utilities Corporation, Docket No. 931112-GU, dated November 17, 1993, and is hereby incorporated by reference.

As of June 30, 2001, a cumulative \$658,000 of the Convertible Debentures have been converted. The FPSC approved the issuance and sale of up to 209,289 new shares of Chesapeake common stock for the purpose of honoring conversion rights pursuant to the Company’s Convertible Debentures during 2001, by Order No. PSC-00-2498-FOF-GU, issued on December 26, 2000. Chesapeake now seeks FPSC authorization to issue up to 201,176 new shares of Chesapeake common stock for the purpose of honoring these conversion rights during 2002.

- (e) Chesapeake seeks FPSC authorization to issue during 2002 up to \$40,000,000 in secured and/or unsecured long-term debt with an estimated rate of interest of up to 250 basis points above U.S. Treasury rates (or extrapolated U.S. Treasury rates) with equivalent average life. Proceeds from this debt issuance would be used for general corporate purposes including, but not limited to, working capital, retirement of short-term debt, retirement of long-term debt and capital improvements. The FPSC approved the issuance and sale of \$40,000,000 in secured and/or unsecured long-term debt during 2001 by Order No. PSC-00-2498-FOF-GU, issued on December 26, 2000.

(f) Chesapeake seeks FPSC authorization to issue during 2002 up to 4,974,673 shares of common stock and \$40,000,000 in secured and/or unsecured long-term debt with an estimated rate of interest of up to 250 basis points above U.S. Treasury rates (or extrapolated U.S. Treasury rates) with equivalent average life. This stock and debt would be used to finance Chesapeake's ongoing acquisition program of related businesses. Chesapeake expects to continue to search for growth opportunities through acquisitions which fit its long-range plan to achieve the proper mix of business activities. Financing of acquisitions will depend upon the nature and extent of potential acquisitions as well as current market and economic conditions.

The FPSC approved the issuance and sale of 5,064,236 shares of common stock and \$40,000,000 in secured and/or unsecured long-term debt during 2001 by Order No. PSC-OO-2498-FOF-GU, issued on December 26, 2000.

(g) Chesapeake seeks FPSC authorization to issue up to 1,000,000 shares of Chesapeake preferred stock during 2002 for possible acquisitions, financing transactions, and other general corporate purposes, including potential distribution under the Company's Rights Agreement adopted by the Board of Directors on August 20, 1999. The Rights Agreement approved by the Board of Directors is designed to protect the value of the outstanding common stock in the event of an unsolicited attempt by an acquirer to take over the Company in a manner or on terms not approved by the Board of Directors. The Rights Agreement is not intended to prevent a takeover of the Company at a fair price and should not interfere with any merger or business combination approved by the Board of Directors. Copies of the Forms 8-A and 8-K filed with the Securities and Exchange Commission in conjunction with the

Rights Agreement have been previously filed with the FPSC as Exhibit D of the Application by Chesapeake Utilities Corporation for Authorization to Issue Common Stock, Preferred Stock and Secured and/or Unsecured Debt and to Exceed Limitation Placed on Short-Term Borrowings in 2000, Docket No. 991631-GU, dated October 20, 1999, and are hereby incorporated by reference.

7. Lawful object and purpose:

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

8. Counsel:

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

9. Other Regulatory Agencies:

Under 26 Del. C Section 215 of the Delaware. statutes, Chesapeake is regulated by the Delaware Public Service Commission and, therefore, must file a Prefiling Notice, a Notice,

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

The address of the Delaware Commission is as follows:

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

10. Control or ownership:

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

11. Exhibits:

The following exhibits submitted with Applicant's Applications in Docket Nos. 991631 -GU, 981213-GU, 961194-GU and 931 1 12-GU, respectively, are incorporated in the instant Application by reference:

Docket No. 991631 -GU

Exhibit C: Delaware Public Service Commission Order No. 5165 Dated July 13, 1999 for the Issuance of Common Stock pursuant to Chesapeake Utilities Corporation Retirement Savings Plan (1 00,000 shares) and Chesapeake Utilities Corporation Performance Incentive Plan (200,000 shares).

Exhibit D: Securities and Exchange Commission Form 8-A For Registration of Certain

Classes of Securities Pursuant to Section 12(B) or 12 (G) of the
Securities Exchange Act of 1934
Securities and Exchange Commission Form 8-K Current Report

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

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

Docket No. 981213-GU

- Exhibit C: Chesapeake Utilities Corporation Amended Performance Incentive
Plan.

Docket No. 961194-GU

- Exhibit D: Chesapeake Utilities Corporation Automatic Dividend Reinvestment and
Stock Purchase Plan as filed with the Securities and Exchange Commission
on Registration Statement Form S-3 dated December 1, 1995.
- Exhibit E: Delaware Public Service Commission Order No. 4097 dated December 20,
1995, for the issuance of 300,000 shares pursuant to Chesapeake Utilities
Corporation's Automatic Dividend Reinvestment and Stock Purchase Plan.

Docket No. 931 1 12-GU

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

Filed herewith:

- Exhibit A: Exhibit A consists of the following attachments:
- A(1) Chesapeake Utilities Corporation Annual Report on Form IO-K
for the year ended December 31, 2000.
 - A(2) Chesapeake Utilities Corporation Quarterly Report on Form IO-Q
for the quarter ended June 30, 2001.

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

12. Constitutionality of Statute:

Chesapeake has taken the position that the statutory requirement of FPSC approval of the issuance and sale of securities by a public utility, under Section 366.04 (I), 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 2002 to issue up to 6,000,000 shares of common stock, up to 1,000,000 shares of preferred stock, and up to \$80,000,000 of secured and/or unsecured debt and authorizing it to exceed the limitation placed on short-term borrowings by Section 366.04, Florida Statutes, so as to issue up to \$40,000,000 in short-term obligations.

Respectfully submitted,

Date: _____

10/8/01



Wayne L. Schiefelbein

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Tallahassee, Florida 32317-5856
(850) 671-1111
(850) 671-1222 (Fax)

Attorney for
Chesapeake Utilities Corporation

STATE OF DELAWARE *

COUNTY OF KENT *
* ss

BE IT REMEMBERED that on this 4th day of October, 2001, personally appeared before me, a Notary Public for the State of Delaware, Michael P. McMasters, who being by me duly sworn, did depose and say that he is Vice President, Treasurer and CFO of Chesapeake Utilities Corporation, a Delaware corporation, and that insofar as the Application of Chesapeake Utilities Corporation states facts, and insofar as those facts are within his personal knowledge, they are true; and insofar as those facts that are not within his personal knowledge, he believes them to be true, and that the exhibits accompanying this Application and attached hereto are true and correct copies of the originals of the aforesaid exhibits,' and that he has executed this Application on behalf of the Company and pursuant to the authorization of its Board of Directors.

Michael P. McMasters

Michael P. McMasters
Vice President, Treasurer & CFO

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

Patricia L. Connors

Notary Public
My Commission Expires: 2/19/04

EXHIBIT A

- A(1) Chesapeake Utilities Corporation Annual Report on Form IO-K for the year ended December 31, 2000.
- A(2) Chesapeake Utilities Corporation Quarterly Report on Form IO-Q for the quarter ended June 30, 2001.

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, 2000 Commission File Number: 001-11590

CHESAPEAKE UTILITIES CORPORATION

(Exact name of registrant as specified in its charter)

State of Delaware
(State or other jurisdiction of
incorporation or organization)

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

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

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

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

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Common Stock - par value per share \$.4867	New York Stock Exchange, Inc.

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

8.25% Convertible Debentures Due 2014
(Title of class)

Indicate by check mark whether the registrant (1) has filed all reports required to be **filed** by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for **such** shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [].

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. []

As of March 23, 2001, 5,329,000 shares of common stock were outstanding. The aggregate market value of the common **shares** held by non-affiliates of Chesapeake Utilities Corporation, based on the last trade price on March 23, 2001, as reported by the New York Stock Exchange, was approximately \$98 million.

DOCUMENTS INCORPORATED BY REFERENCE

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

CHESAPEAKE UTILITIES CORPORATION
FORM 10- K

YEAR ENDED DECEMBER 31, 2000

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PART I

ITEM 1. BUSINESS

Chesapeake has made statements in this Form 10-K that are considered to be forward-looking statements. These statements are not matters of historical fact. Sometimes they contain words such as “believes,” “expects,” “intends,” “plans,” “will,” or “may,” and other similar words of a predictive nature. These statements relate to matters such as customer growth, changes in revenues or margins, capital expenditures, environmental remediation costs, regulatory approvals, market risks associated with the Company’s propane marketing operation, the competitive position of the Company and other matters. It is important to understand that these forward-looking statements are not guarantees, but are subject to certain risks and uncertainties and other important factors that could cause actual results to differ materially from those in the forward-looking statements. See Item 7 under the heading “Management’s Discussion and Analysis — Cautionary Statement.”

(a) General Development of Business

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

Chesapeake’s three natural gas distribution divisions serve approximately 40,800 residential, commercial and industrial customers in southern Delaware, Maryland’s Eastern Shore and Florida. The Company’s natural gas transmission subsidiary, Eastern Shore Natural Gas Company (“Eastern Shore”), operates a 28 1-mile interstate pipeline system that transports gas from various points in Pennsylvania to the Company’s Delaware and Maryland distribution divisions, as well as to other utilities and industrial customers in Delaware and on the Eastern Shore of Maryland. The Company’s propane distribution operation serves approximately 35,300 customers in southern Delaware, the Eastern Shore of both Maryland and Virginia and parts of Florida. The advanced information services segment provides consulting, custom programming, training and development tools for national and international clients.

(b) Financial Information about Industry Segments

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

(c) Narrative Description of Business

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

(i) (a) Natural Gas Distribution and Transmission

General

Chesapeake distributes natural gas to approximately 40,900 residential, commercial and industrial customers in southern Delaware, the Salisbury and Cambridge, Maryland areas on Maryland’s Eastern Shore, and Florida. These activities are conducted through three utility divisions, one division in Delaware, another in Maryland and a third division in Florida. The Company offers natural gas supply management services in the state of Florida under the name of Peninsula Energy Services Company (“PESCO”).

Delaware and Maryland. Chesapeake’s Delaware and Maryland utility divisions (“Delaware”, “Maryland” or “the divisions”) serve an average of approximately 30,885 customers, of which approximately 30,730 are residential and commercial customers purchasing gas primarily for heating purposes and the remainder are industrial customers. For the year, residential and commercial customers account for approximately 64% of the volume delivered by the

divisions and 69% of the divisions' revenue. The divisions' industrial customers purchase gas, primarily on an interruptible basis, for a variety of manufacturing, agricultural and other uses. Most of Chesapeake's customer growth in these divisions comes from new residential construction using gas heating equipment.

Florida. The Florida division distributes natural gas to approximately 9,953 residential and commercial and 88 industrial customers in Polk, Osceola, Hillsborough, Gadsden, Gilchrist, Union, Holmes, Jackson, Desoto and Citrus Counties. Currently 42 of the division's 88 industrial customers, which purchase and transport gas on a firm and interruptible basis, account for approximately 89% of the volume delivered by the Florida division and 39% of the revenues. These customers are primarily engaged in the citrus and phosphate industries and in electric cogeneration. The Company's Florida division, through Peninsula Energy Services Company also provides natural gas supply management services to 19 customers.

Eastern Shore. The Company's wholly owned transmission subsidiary, Eastern Shore, operates an interstate natural gas pipeline and provides open access transportation services for affiliated and non-affiliated companies through an integrated gas pipeline extending from southeastern Pennsylvania to Delaware and the Eastern Shore of Maryland. Eastern Shore also provides contract storage services as a sales service for system balancing purposes ("swing gas"). Eastern Shore's rates are subject to regulation by the Federal Energy Regulatory Commission ("FERC").

Adequacy of Resources

General. The Delaware and Maryland divisions have firm and interruptible contracts with four interstate "open access" pipelines including Eastern Shore. The divisions are directly interconnected with Eastern Shore and services upstream of Eastern Shore are contracted with Transco Gas Pipeline Corporation ("Transco"), Columbia Gas Transmission ("Columbia") and Columbia Gulf Transmission Company ("Gulf"). The divisions use their firm transportation supply sources to meet a significant percentage of their projected demand requirements. In order to meet the difference between firm supply and firm demand, peak-shaving (Delaware and Maryland divisions inject propane into their system which increases the BTU and the level of natural gas) and purchases natural gas on the "spot market" from various other suppliers that is transported by the upstream pipelines and delivered to the divisions' interconnects with Eastern Shore, as needed. The Company believes that the availability of gas supply to the Delaware and Maryland divisions is adequate under existing arrangements to meet customer's needs.

Delaware. Delaware's contracts with Transco include: (a) firm transportation capacity of 8,663 dekatherms ("Dt") per day, which expires in 2005; (b) firm transportation capacity of 3 11 Dt per day for December through February, expiring in 2006; and (c) firm storage service, providing a total capacity of 142,830 Dt, with provisions to continue from year to year, subject to six (6) months notice for termination.

Delaware's contracts with Columbia include: (a) firm transportation capacity of 852 Dt per day, which expires in 2014; (b) firm transportation capacity of 1,132 Dt per day, which expires in 2017; (c) firm transportation capacity of 549 Dt per day, which expires in 2018; (d) firm transportation capacity of 899 per day, which expires in 2019; (e) firm storage service providing a peak day entitlement of 6,193 Dt and a total capacity of 298,195 Dt, which expires in 2014; and (f) firm storage service, providing a peak day entitlement of 635 Dt and a total capacity of 57,139 Dt, which expires in 2017; (g) firm storage service providing a peak day entitlement of 583 Dt and a total capacity of 52,460 Dt, which expires in 20 18; and (h) firm storage service providing a peak day entitlement of 583 Dt and a total capacity of 52,460 Dt, which expires in 2019. Delaware's contracts with Columbia for storage-related transportation provide quantities that are equivalent to the peak day entitlement for the period of October through March and are equivalent to fifty percent (50%) of the peak day entitlement for the period of April through September. The terms of the storage-related transportation contracts mirror the storage services that they support.

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

Delaware's contracts with Eastern Shore include: (a) firm transportation capacity of 28,425 Dt per day for the period December through February, 27,203 Dt per day for the months of November, March and April, and 18,127 Dt per day for the period May through October, with various expiration dates ranging from 2004 to 2017; (b) firm storage capacity under Eastern Shore's Rate Schedule GSS providing a peak day entitlement of 2,655 Dt and a total capacity of 13,137 Dt, which expires in 2013; (c) firm storage capacity under Eastern Shore's Rate Schedule LSS providing a peak day entitlement of 580 Dt and a total capacity of 29,000 Dt, which expires in 2013; and (d) firm storage capacity under Eastern Shore's Rate Schedule LGA providing a peak day entitlement of 9,111 Dt and a total capacity of 5,708 Dt, which expires in 2006. Delaware's firm transportation contracts with Eastern Shore also include Eastern Shore's provision of swing transportation service. This service includes: (a) firm transportation capacity of 1,846 Dt per day on Transco's pipeline system, retained by Eastern Shore, in addition to Delaware's Transco capacity referenced earlier and (b) an interruptible storage service under Transco's Rate Schedule ESS that supports a swing supply service provided under Transco's Rate Schedule FS.

Delaware currently has contracts for the purchase of firm natural gas supply with four suppliers. These supply contracts provide the availability of a maximum firm daily entitlement of 19,700 Dt and the supplies are transported by Transco, Columbia, Gulf and Eastern Shore under Delaware's transportation contracts. The gas purchase contracts have various expiration dates and daily quantities may vary from day to day and month to month.

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

Maryland's contracts with Columbia include: (a) firm transportation capacity of 442 Dt per day, which expires in 2014; (b) firm transportation capacity of 908 Dt per day, which expires in 2017; (c) firm transportation capacity of 350 Dt per day, which expires in 2018; (d) firm storage service providing a peak day entitlement of 3,142 Dt and a total capacity of 154,756 Dt, which expires in 2014; and (e) firm storage service providing a peak day entitlement of 521 Dt and a total capacity of 46,881 Dt, which expires in 2017. Maryland's contracts with Columbia for storage-related transportation provide quantities that are equivalent to the peak day entitlement for the period October through March and are equivalent to fifty percent (50%) of the peak day entitlement for the period April through September. The terms of the storage-related transportation contracts mirror the storage services that they support.

Maryland's contract with Gulf, which expires in 2004, provides firm transportation capacity of 590 Dt per day for the period November through March and 543 Dt per day for the period April through October.

Maryland's contracts with Eastern Shore include: (a) firm transportation capacity of 13,378 Dt per day for the period December through February, 12,654 Dt per day for the months of November, March and April, and 8,093 Dt per day for the period May through October; (b) firm storage capacity under Eastern Shore's Rate Schedule GSS providing a peak day entitlement of 1,428 Dt and a total capacity of 70,665 Dt, which expires in 2013; (c) firm storage capacity under Eastern Shore's Rate Schedule LSS providing a peak day entitlement of 309 Dt and a total capacity of 15,500 Dt, which expires in 2013; and (d) firm storage capacity under Eastern Shore's Rate Schedule LGA providing a peak day entitlement of 569 Dt and a total capacity of 3,560 Dt, which expires in 2006. Maryland's firm transportation contracts with Eastern Shore also include Eastern Shore's provision of swing transportation service. This service includes: (a) firm transportation capacity of 969 Dt per day on Transco's pipeline system, retained by Eastern Shore, in addition to Maryland's Transco capacity referenced earlier and (b) an interruptible storage service under Transco's Rate Schedule ESS that supports a swing supply service provided under Transco's Rate Schedule FS.

Maryland currently has contracts for the purchase of firm natural gas supply with four suppliers. These contracts provide the availability of a maximum firm daily entitlement of 9,000 Dt and the supplies are transported by

Transco, Columbia, Gulf and Eastern Shore under Maryland's transportation contracts. The gas purchase contracts have various expiration dates and daily quantities may vary from day to day and month to month.

Florida. The Florida division receives transportation service from Florida Gas Transmission Company ("FGT"), a major interstate pipeline. Chesapeake has contracts with FGT for: (a) daily firm transportation capacity of 27,579 Dt in November through April, 21,200 Dt in May through September, and 27,416 Dt in October under FGT's firm transportation service FTS-I rate schedule; (b) daily firm transportation capacity of 5,100 Dt in May through October, and 8,100 in November through April under FGT's firm transportation service FTS-2 rate schedule. The firm transportation contract FTS- I expires on August 1, 2010 with the Company retaining a right of first refusal on this capacity. The firm transportation contract FTS-2 expires on March 1, 20 15. Chesapeake has requested and been approved for a turnback of all but 1,000 Dt per day year round of it's FTS-2 capacity in two increments. These turnbacks coincide with the in service dates of FGT's Phase 4 Project scheduled to be in service in May 200 1, and the Phase 5 Project scheduled to be in service in the second quarter of 2002.

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

Eastern Shore. Eastern Shore has 4,916 thousand cubic feet ("Mcf ") of firm transportation capacity under Rate Schedule FT under contract with Transco, which expires in 2005. Eastern Shore also has 7,046 Mcf of firm peak day entitlements and total storage capacity of 278,244 Mcf under Rate Schedules GSS, LSS and LGA, respectively, under contract with Transco. The GSS and LSS contracts expire in 2013 and the LGA contract expires in 2006.

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

Eastern Shore has retained the firm transportation capacity and firm storage services described above in order to provide swing transportation service to those customers that requested such service.

Competition

See discussion on competition in Item 7 under the heading "Management's Discussion and Analysis Competition."

Rates and Regulation

General. Chesapeake's natural gas distribution divisions are subject to regulation by the Delaware, Maryland and Florida Public Service Commissions with respect to various aspects of the Company's business, including the rates for sales to all of their customers in each jurisdiction. All of Chesapeake's firm distribution rates are subject to purchased gas adjustment clauses, which match revenues with gas costs and normally allow eventual full recovery of gas costs. Adjustments under these clauses require periodic filings and hearings with the relevant regulatory authority, but do not require a general rate proceeding. Rates on interruptible sales by the Florida division are also subject to purchased gas adjustment clauses.

Eastern Shore is subject to regulation by the FERC as an interstate pipeline. The FERC regulates the provision of service, terms and conditions of service, and the rates and fees Eastern Shore can charge to its transportation customers. In addition, the FERC regulates the rates Eastern Shore is charged for transportation and transmission line capacity and services provided by Transco and Columbia.

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

Regulatory Proceedings

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

The Company proposed certain rate design changes to its existing margin sharing mechanism in order to address the level of recovery of fixed distribution costs from the residential heating service customers and smaller commercial heating customers. The Company also proposed to change the existing margin sharing mechanism to take into consideration the appropriate treatment of margins achieved by the addition of new interruptible customers on the distribution system for which the Company makes additional capital investments

In March 1999, the Company, DPSC Staff and the Division of the Public Advocate settled all the issues in this matter and executed a proposed settlement agreement. The settlement allows the Company to increase or decrease the current margin sharing thresholds based on the actual level of recovery of fixed distribution costs from residential service heating and general service heating customers as compared to the level at which the base tariff rates were designed to recover in the last rate case. Per the settlement, the Company can implement an adjustment to the margin sharing thresholds if the weather is at least 6.5% warmer or colder than normal; however, the total increase or decrease in the amount of additional gross margin that the Company will retain or credit to the firm ratepayers cannot exceed a \$500,000 cap.

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

The Company earned or retained \$500,000 of additional gross margin during 2000 as the Company met the requirements of the approved settlement in order to implement the approved mechanism.

Maryland. During the 1999 Maryland General Assembly legislative session, taxation of electric and gas utilities changed by the passage of The Electric and Gas Utility Tax Reform Act ("Tax Act"). Effective January 1, 2000, the Tax Act altered utility taxation to account for the restructuring of the electric and gas industries by either repealing and/or amending the existing Public Service Company Franchise Tax, Corporate Income Tax and Property Tax. Chesapeake submitted a regulatory filing with the Maryland Public Service Commission ("MPSC") on December 30, 1999 to implement new tariff sheets necessary to incorporate the changes necessitated by the passage of the Tax Act. The tariff revisions (1) would implement new base tariff rates to reflect the estimated state corporate income tax liability; (2) assess the new per unit distribution franchise tax; and (3) repeal specified portions of the tariff that related to the former 2% gross receipts tax.

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

Florida. On July 15, 1999, the Florida Division filed a Joint Petition with Tampa Electric / Peoples Gas System for approval of a territorial boundary agreement in Hillsborough, Polk and Osceola Counties. On November 10, 1999, the Florida Public Service Commission issued an order approving the terms and conditions of the agreement. The

agreement included the transfer of facilities in Hillsborough County owned by Chesapeake to Peoples Gas System and the transfer of facilities in Gilchrist and Union Counties owned by Peoples Gas System to Chesapeake. The transfers were made at the depreciated book value of the facilities.

On August 19, 1999, the Florida Division filed a petition with the Florida Public Service Commission for approval of a gas transportation agreement with Citrusco North America, Inc. located in Polk County, Florida. The Florida Public Service Commission approved the agreement on October 25, 1999. The agreement provides for the Florida Division to lease an 8-inch steel natural gas pipeline from Citrusco and in return, the Florida Division will provide natural gas service under its CTS rate schedule as a special contract.

On January 28, 2000, the Florida Division filed a request for approval of a rate increase with the Florida Public Service Commission. An Order was issued on November 28, 2000 approving a rate increase of \$1,251,900 that was 69% of the requested \$1,826,569. A return on equity of 11.5% was approved with an overall rate of return of 8.6%. The new rates were effective December 7, 2000. In addition, all non-residential customers became eligible for transportation services. In order to transport, each customer with annual consumption less than 100,000 therms per year must aggregate into pools to meet certain established minimums for therm thresholds and number of customer per pool.

On October 17, 2000, the FPSC approved a special contract with Peace River Citrus in Desoto County. The agreement is for the construction of a 4" steel natural gas main extending from Florida Gas Transmission's new Phase IV pipeline in Desoto County approximately eight miles to the citrus processing plant near Arcadia,

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

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

On December 9, 1999, Eastern Shore filed an application before the FERC requesting authorization for the following: (1) construct and operate approximately two miles of 16-inch mainline looping in Pennsylvania, (2) abandonment of one mile of 2-inch lateral in Delaware and Maryland and replacement of the segment with a 4-inch lateral, (3) construct and operate approximately ten miles of 6-inch mainline extension in Delaware, (4) construct and operate five delivery points on the new 6-inch mainline extension in Delaware, and (5) install certain minor auxiliary facilities at the existing Daleville compressor station in Pennsylvania. The purpose of the construction was to enable Eastern Shore to provide 7,065 Dts of additional daily firm service capacity on Eastern Shore's system. The FERC approved Eastern Shore's application on April 28, 2000. The two miles of 16-inch mainline looping in Pennsylvania and the one mile of 4-inch lateral replacement in Delaware and Maryland were completed and placed in service during the fourth quarter of 2000. The ten miles of 6-inch mainline extension and associated delivery points in Delaware are expected to be completed and placed into service during the second quarter of 2001.

On December 22, 2000, Eastern Shore filed an application before the FERC requesting authorization for the following: (1) to construct and operate six miles of 16-inch pipeline looping in Pennsylvania and Maryland, (2)

install 3,330 horsepower of additional capacity at the existing Daleville compressor station and (3) construct and operate a new delivery point in Chester County, Pennsylvania. The purpose of the construction is to enable Eastern Shore to provide 19,800 Dts of additional daily firm service capacity on its system. The proposed expansion is targeted for completion by November 1, 2001 and is expected to cost approximately \$12.5 million.

On January 4, 2001 FERC notified Eastern Shore that its December 22 application was deficient in that it did not conform to the Commission's minimum certificate filing requirements and was therefore rejected without prejudice to Eastern Shore filing a complete application. Eastern Shore re-filed a complete application on January 11, 2001.

(i) (b) Propane Distribution and Marketing
General

Chesapeake's propane distribution group consists of (1) Sharp Energy, Inc. ("Sharp Energy"), a wholly owned subsidiary of Chesapeake, (2) Sharpgas, Inc. ("Sharpgas"), a wholly owned subsidiary of Sharp Energy, and (3) Tri-County Gas Company, Inc. ("Tri-County"), a wholly owned subsidiary of Chesapeake. The propane marketing group consists of Xeron, Inc. ("Xeron"), a wholly owned subsidiary of Chesapeake.

The Company's consolidated propane distribution operation served approximately 35,600 propane customers on the Delmarva Peninsula and delivered approximately 28 million retail and wholesale gallons of propane during 2000.

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

In May 1998, Chesapeake acquired Xeron, a natural gas liquids trading company located in Houston, Texas. Xeron markets propane to large independent and petrochemical companies, resellers and southeastern retail propane companies in the United States.

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

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

Adequacy of Resources

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

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

Xeron has no physical storage facilities or equipment to transport propane; however, it contracts for storage and pipeline capacity to facilitate the sale of propane on a wholesale basis.

Competition

The Company's propane distribution operations compete with several other propane distributors in their service territories, primarily on the basis of service and price, emphasizing reliability of service and responsiveness. Competition is generally local because distributors located in close proximity to customers incur lower costs of providing service. Propane competes with electricity as an energy source, because it is typically less expensive than electricity, based on equivalent BTU value. Since natural gas has historically been less expensive than propane, propane is generally not distributed in geographic areas serviced by natural gas pipeline or distribution systems.

Xeron competes against various marketers, many of which have significantly greater resources and are able to obtain price or volumetric advantages over Xeron.

The Company's propane distribution and marketing activities are not subject to any federal or state pricing regulation. Transport operations are subject to regulations concerning the transportation of hazardous materials promulgated under the Federal Motor Carrier Safety Act, which is administered by the United States Department of Transportation and enforced by the various states in which such operations take place. Propane distribution operations are also subject to state safety regulations relating to "hook-up" and placement of propane tanks.

The Company's propane operations are subject to all operating hazards normally associated with the handling, storage and transportation of combustible liquids, such as the risk of personal injury and property damage caused by fire. The Company carries general liability insurance in the amount of \$35,000,000 per occurrence, but there is no assurance that such insurance will be adequate.

(i) (c) Advanced Information Services

General

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

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

Competition

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

(i) (d) Other Subsidiaries

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

In March 1998, the Company acquired Sam Shannahan Well Co., based in Salisbury, Maryland, doing business as Tolan Water Service ("Tolan"). Tolan was a privately owned EcoWater dealership serving 3,000 customers on the

Delmarva Peninsula with divisions supporting residential, commercial and industrial water treatment. The 3000 customers are receiving recurring water treatment services during the year.

In 1999, the Company established Sharp Water, Inc., a wholly owned subsidiary of Chesapeake, which in November 1999, acquired EcoWater Systems of Michigan, Inc., doing business as Douglas Water Conditioning, an EcoWater dealership that has services the Detroit, Michigan area. This dealership provides water treat products and services.

In January 2000, the Company acquired Carroll Water Systems, Inc. of Westminster, Maryland. Carroll was a privately owned EcoWater dealership serving the suburban area of Baltimore, Maryland. This dealership provides water treat products and services

(ii) Seasonal Nature of Business

Revenues from the Company's residential and commercial natural gas sales and from its propane distribution activities are affected by seasonal variations, since the majority of these sales are to customers using the fuels for heating purposes, Revenues from these customers are accordingly affected by the mildness or severity of the heating season.

(iii) Capital Budget

A discussion of capital expenditures by business segment is included in Item 7 under the heading "Management Discussion and Analysis -- Liquidity and Capital Resources."

(iv) Employees

As of December 31, 2000, Chesapeake had 542 employees, including 344 in natural gas and propane, 82 in advanced information services and 71 in water conditioning. The remaining 45 employees are considered general and administrative and include officers of the Company, treasury, accounting, information technology, human resources and other administrative personnel. The acquisition of Carroll Water Services added 15 employees.

(v) Executive Officers of the Registrant

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

Ralph J. Adkins (age 58) Mr. Adkins is Chairman of the Board of Directors of Chesapeake. He has served as Chairman since 1997. Prior to January 1, 1999, Mr. Adkins served as Chief Executive Officer, a position he had held since 1990. During his tenure with Chesapeake Mr. Adkins has also served as President and Chief Executive Officer, President and Chief Operating Officer, Executive Vice President, Senior Vice President, Vice President and Treasurer of Chesapeake. He has been a director of Chesapeake since 1989.

John R. Schimkaitis (age 53) Mr. Schimkaitis assumed the role of Chief Executive Officer on January 1, 1999. He has served as President since 1997. His present term will expire on May 15, 2001. Prior to his new post, Mr. Schimkaitis has also served as President and Chief Operating Officer, Executive Vice President and Chief Operating Officer, Senior Vice President and Chief Financial Officer, Vice President, Treasurer, Assistant Treasurer and Assistant Secretary of Chesapeake. He has been a director of Chesapeake since 1996.

Michael P. McMasters (age 42) Mr. McMasters is Vice President, Chief Financial Officer and Treasurer of Chesapeake Utilities Corporation. He has served as Vice President, Chief Financial Officer and Treasurer since December 1996. He previously served as Vice President of Eastern Shore, Director of Accounting and Rates and Controller. From 1992 to May 1994, Mr. McMasters was employed as Director of Operations Planning for Equitable Gas Company.

Stephen-C. Thompson (age 40) Mr. Thompson is Vice President of the Natural Gas Operations as well as Vice President of Chesapeake Utilities Corporation. He has served as Vice President since May 1997. He has served as

President, Vice President, Director of Gas Supply and Marketing, Superintendent of Eastern Shore and Regional Manager for the Florida distribution Operations.

William C. Boyles (age 43) Mr. Boyles is Vice President and Corporate Secretary of Chesapeake Utilities Corporation. Mr. Boyles has served as Corporate Secretary since 1998 and Vice President since 1997. He previously served as Director of Administrative Services, Director of Accounting and Finance, Treasurer, Assistant Treasurer and Treasury Department Manager. Prior to joining Chesapeake, he was employed as a Manager of Financial Analysis at Equitable Bank of Delaware and Group Controller at Irving Trust Company of New York.

ITEM 2. PROPERTIES

(a) General

The Company owns offices and operates facilities in the following locations: Pocomoke, Salisbury, Cambridge and Princess Anne, Maryland; Dover, Seaford, Laurel and Georgetown, Delaware; and Winter Haven, Florida. Chesapeake rents office space in Dover, Delaware; Plant City, Jupiter, and Lecanto, Florida; Chincoteague and Belle Haven, Virginia; Easton, Salisbury, Westminster and Pocomoke, Maryland; Detroit, Michigan; Houston, Texas and Atlanta, Georgia. In general, the properties of the Company are adequate for the uses for which they are employed. Capacity and utilization of the Company's facilities can vary significantly due to the seasonal nature of the natural gas and propane distribution businesses.

(b) Tolan Water Service

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

(c) Natural Gas Distribution

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

(d) Natural Gas Transmission

Eastern Shore owns approximately 281 miles of transmission lines extending from Parkesburg, Pennsylvania to Salisbury, Maryland. Eastern Shore also owns three compressor stations located in Delaware City, Delaware; Daleville, Pennsylvania and Bridgeville, Delaware. The compressor stations are used to provide increased pressures required to meet demands on the system.

(e) Propane Distribution and Marketing

The company's Delmarva-based propane distribution operation owns bulk propane storage facilities with an aggregate capacity of approximately 1.9 million gallons at 32 plant facilities in Delaware, Maryland and Virginia, located on real estate they either own or lease. The company's Florida-based propane distribution operation owns one bulk propane storage facility with a capacity of 30,000 gallons. Xeron has no physical storage facilities or equipment to transport propane.

ITEM 3. LEGAL PROCEEDINGS

(a) General

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

(b) Environmental

Dover Gas Light Site

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

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

In October 1989, the Environmental Protection Agency (“EPA”) listed the Dover Gas Light Site (“site”) on the National Priorities List under the Comprehensive Environmental Response, Compensation and Liability Act (“CERCLA” or “Superfund”). EPA named both the State of Delaware and the Company as potentially responsible parties (“PRPs”) for the site.

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

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

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

In June 1997, the Company submitted a supplement to the focused feasibility study, which proposed an alternative soil remedy that would take into account the 1986 Agreement between Chesapeake and the State of Delaware restricting

future development at the site. On December 16, 1997, the EPA issued a ROD Amendment to modify the soil remedy to include: (1) excavation and off-site thermal treatment of the contents of the former subsurface gas holders; (2) implementation of soil vapor extraction; (3) pavement of the parking lot and (4) use of institutional controls restricting future development on the site. The overall clean-up cost of the site was estimated at \$4.2 million (\$1.5 million for soil remediation and \$2.7 million for ground-water remediation).

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

During 1999, the Company completed the construction of the soil vapor extraction ("SVE") system (another major component of the soil remediation) and continued with the ongoing operation of the system at a cost of \$250,000. In 2000, the Company operated the SVE system and during the last quarter of 2000, the Company submitted to the EPA their finding along with a request to discontinue the SVE operations. The Company is awaiting a response from the EPA on their request. If discontinuation of the SVE procedures is approved, the company will initiate final construction of a parking lot and proceed with a ground-water remedial program.

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

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

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

In June 1996, the Company initiated litigation against GPU for response costs incurred by Chesapeake and a declaratory judgment as to GPU's liability for future costs at the site. In August 1997, the United States Department of Justice also filed a lawsuit against GPU seeking a Court Order to require GPU to participate in the site clean-up, pay penalties for GPU's failure to comply with the EPA Order, pay EPA's past costs and a declaratory judgment as to GPU's liability for future costs at the site. In November 1998, Chesapeake's case was consolidated with the United States' case against GPU. A case management order scheduled the trial for February 2001. In early February 2001, the Company and GPLJ reached a tentative settlement agreement that is subject to approval of the courts.

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

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

Through December 31, 2000, the Company has incurred approximately \$8.4 million in costs relating to environmental testing and remedial action studies. In 1990, the Company entered into settlement agreements with a number of insurance companies resulting in proceeds to fund actual environmental costs incurred over a five to seven-year period. In 1995, the Delaware Public Service Commission, authorized recovery of all unrecovered environmental costs incurred by a means of a rider (supplement) to base rates, applicable to all firm service customers. The costs, exclusive of carrying costs, would be recovered through a five-year amortization offset by the associated deferred tax benefit. The deferred tax benefit is the carrying cost savings associated with the timing of the deduction of environmental costs for tax purposes as opposed to financial reporting purposes. Each year an environmental surcharge rate is calculated to become effective December 1. The surcharge or rider rate is based on the amortization of expenditures through September of the filing year plus amortization of expenses from previous years. The rider is that it makes it unnecessary to file a rate case every year to recover expenses incurred. Through December 31, 2000, the unamortized balance and amount of environmental costs not included in the rider; effective January 1, 2001 were \$3,048,000 and \$335,000, respectively. With the rider mechanism established, it is management's opinion that these costs and any future cost, net of the deferred income tax benefit, will be recoverable in rates.

Salisbury Town Gas Light Site

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

The estimated cost of the remaining remediation is approximately \$125,000 per year for operating expenses for a period of two years and capital costs of \$50,000 to shut down the remediation process in year two. Based on these estimated costs, the Company adjusted both its liability and related regulatory asset to \$175,000 on December 31, 2000, to cover the Company's projected remediation costs for this site. Through December 31, 2000, the Company has incurred approximately \$2.7 million for remedial actions and environmental studies. Of this amount, approximately \$972,000 of incurred costs have not been recovered through insurance proceeds or received ratemaking treatment. Chesapeake will apply for the recovery of these and any future costs in the next base rate filing with the Maryland Public Service Commission.

Winter Haven Coal Gas Site

Chesapeake has been working with the Florida Department of Environmental Protection ("FDEP") in assessing a coal gas site in Winter Haven, Florida. In May 1996, the Company filed an Air Sparging and Soil Vapor Extraction Pilot Study Work Plan for the Winter Haven site with the FDEP. The Work Plan described the Company's proposal to undertake an Air Sparging and Soil Vapor Extraction ("AS/SVE") pilot study to evaluate the site. After discussions with the FDEP, the Company filed a modified AS/SVE Pilot Study Work Plan, the description of the scope of work to complete the site assessment activities and a report describing a limited sediment investigation performed in 1997. In December 1998, the

FDEP approved the AS/SVE Pilot Study Work Plan, which the Company completed during the third quarter of 1999. Chesapeake has reported the results of the Work Plan to the FDEP for further discussion and review. In February 2001, the company filed a remedial action plan ("RAP") with the FDEP to address the contamination of the subsurface soil and groundwater in the northern portion of the site. The RAP included a cost estimate of \$635,000 to complete this phase of the remediation. The Company is awaiting FDEP approval of the RAP. Once the FDEP approves the RAP, the Company will commence remediation procedures according to the RAP.

Based on the RAP filed with the FDEP, the Company has accrued \$635,000 as of December 31, 2000 for the Florida site, as well as a regulatory asset for an equivalent amount. The Company has recovered all environmental costs incurred to date, approximately \$781,000, through rates charged to customers. Additionally, the Florida Public Service Commission has allowed the Company to continue to recover amounts for future environmental costs that might be incurred. At December 31, 2000, Chesapeake had received \$560,000 related to future costs, which might be incurred.

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

None

PART II

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

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

The Company's Common Stock is listed on the New York Stock Exchange under the symbol "CPK." The high, low and closing prices of Chesapeake's Common Stock and dividends declared per share for each calendar quarter during the years 2000 and 1999 were as follows:

Quarter Ended	High	Low	Close	Dividends Declared Per Share
2000				
March 31	\$18.8750	\$16.2500	\$16.9375	\$0.2600
June 30	18.5000	16.3750	17.7500	0.2600
September 30	18.1250	16.6250	18.1250	0.2700
December 31	18.7500	16.7500	18.6250	0.2700
1999				
March 31	\$19.5000	\$15.8750	\$16.0625	\$0.2500
June 30	18.8750	14.8750	18.5625	0.2500
September 30	19.8125	17.1875	17.2500	0.2600
December 31	19.6250	17.1250	18.3750	0.2600

Indentures pertaining to the long-term debt of the Company and its subsidiaries each contain a restriction that the Company cannot, until the retirement of its Series I Bonds, pay any dividends after December 31, 1988 which exceed the sum of \$2,135,188, plus consolidated net income recognized on or after January 1, 1989. As of December 31, 2000, the amounts available for future dividends permitted by the Series I covenant are \$19.3 million.

At December 31, 2000, there were approximately 2,166 shareholders of record of the Common Stock.

ITEM 6. SELECTED FINANCIAL DATA

For the Years Ended December 31.	2000	1999	1998
Operating (in thousands of dollars)			
Revenues			
Natural gas distribution and transmission	\$ 99,750	\$ 75,592	\$ 68,745
Propane distribution and marketing	216,267	138,437	102,063
Advanced informations systems	12,353	13,531	10,331
Other	7,037	2,640	1,781
Total revenues	\$ 335,407	\$ 230,200	\$ 182,920
Gross margin			
Natural gas distribution and transmission	\$ 36,430	\$ 33,063	\$ 29,516
Propane distribution and marketing	16,194	14,099	12,071
Advanced informations systems	5,716	6,575	5,316
Other	3,431	963	901
Total gross margin	\$ 61,771	\$ 54,700	\$ 47,804
Operating income before taxes			
Natural gas distribution and transmission	\$ 12,365	\$ 10,300	\$ 8,814
Propane distribution and marketing	2,319	2,627	971
Advanced informations systems	336	1,470	1,316
Other	1,006	452	504
Total operating income before taxes	\$ 16,026	\$ 14,849	\$ 11,605
Net income from continuing operations ⁽²⁾	\$ 7,489	\$ 8,271	\$ 5,303
Assets (in thousands of dollars)			
Gross property, plant and equipment	\$ 192,928	\$ 172,088	\$ 152,991
Net property, plant and equipment	\$ 131,466	\$ 117,663	\$ 104,266
Total assets	\$ 210,700	\$ 166,989	\$ 145,234
Capital expenditures	\$ 23,056	\$ 25,917	\$ 12,650
Capitalization (in thousands of dollars)			
Stockholders' equity	\$ 63,972	\$ 60,165	\$ 56,356
Long-term debt, net of current maturities	\$ 50,921	\$ 33,777	\$ 37,597
Total capitalization	\$ 114,893	\$ 93,941	\$ 93,953
Current portion of long-term debt	\$ 2,665	\$ 2,665	\$ 520
Short-term debt	\$ 25,400	\$ 23,000	\$ 11,600
Total capitalization & short-term financing	\$ 142,958	\$ 119,606	\$ 106,073

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

(2) For the years 1992 and 1991, the Company had discontinued operations, which had an effect on earnings of \$73,500 and (\$594,000), respectively.

	1997	1996	1995	1994 ⁽¹⁾	1993 ⁽¹⁾	1992 ⁽¹⁾	1991 ⁽¹⁾
\$	88,105	\$ 90,093	\$ 79,105	\$ 71,716	\$ 64,380	\$ 55,877	\$ 51,468
	125,159	161,812	147,596	20,684	16,908	16,489	14,961
	7,636	6,903	7,307	2,288	1,706	1,122	522
	1,589	1,294	1,277	3,884	2,879	2,447	2,876
\$	222,489	\$ 260,102	\$ 235,285	\$ 98,572	\$ 85,873	\$ 75,935	\$ 69,827
\$	30,064	\$ 29,612	\$ 29,094	\$ 23,943	\$ 22,833	\$ 22,055	\$ 20,910
	12,492	17,579	13,235	9,359	8,579	7,954	7,567
	3,856	2,503	1,823	1,281	955	628	292
	737	915	1,016	1,472	1,078	942	1,187
\$	47,149	\$ 50,609	\$ 45,168	\$ 36,055	\$ 33,445	\$ 31,579	\$ 29,956
\$	9,219	\$ 9,625	\$ 10,811	\$ 7,715	\$ 7,207	\$ 7,083	\$ 7,408
	1,158	2,669	2,128	2,288	1,588	1,440	559
	1,046	1,017	587	305	136	70	40
	671	672	508	(551)	(631)	(705)	66
\$	12,094	\$ 13,983	\$ 14,034	\$ 9,757	\$ 8,300	\$ 7,888	\$ 8,073
\$	5,868	\$ 7,782	\$ 7,696	\$ 4,460	\$ 3,972	\$ 3,549	\$ 2,501
\$	144,251	\$ 134,001	\$ 120,746	\$ 110,023	\$ 100,330	\$ 91,039	\$ 85,038
\$	99,879	\$ 94,014	\$ 85,055	\$ 75,313	\$ 69,794	\$ 64,596	\$ 61,970
\$	145,719	\$ 155,787	\$ 130,998	\$ 108,271	\$ 100,775	\$ 89,214	\$ 85,963
\$	13,471	\$ 15,399	\$ 12,887	\$ 10,653	\$ 10,064	\$ 6,720	\$ 5,923
\$	53,656	\$ 50,700	\$ 45,587	\$ 37,063	\$ 34,817	\$ 33,105	\$ 32,107
\$	38,226	\$ 28,984	\$ 31,619	\$ 24,329	\$ 25,682	\$ 25,668	\$ 22,901
\$	91,882	\$ 79,684	\$ 77,206	\$ 61,392	\$ 60,499	\$ 58,773	\$ 55,071
\$	1,051	\$ 3,526	\$ 1,787	\$ 1,348	\$ 1,286	\$ 5,026	\$ 1,760
\$	7,600	\$ 12,735	\$ 5,400	\$ 8,000	\$ 8,900	\$ -	\$ 8,800
\$	100,533	\$ 95,945	\$ 84,393	\$ 70,740	\$ 70,685	\$ 63,799	\$ 65,631

For the Years Ended December 31.	2000	1999	1998
<u>Common Stock Data and Ratios</u>			
Basic earnings per share ^{(2) (3) (4) (5)}	\$ 1.43	\$ 1.61	\$ 1.05
Return on average equity	12.1%	14.2%	9.6%
Common equity / total capitalization	55.7%	64.0%	60.0%
Common equity / total capitalization & short-term financing	44.7%	50.3%	53.1%
Book value per share	\$ 12.08	\$ 11.60	\$ 11.06
Market price:			
High	\$ 18.875	\$ 19.625	\$ 20.500
Low	\$ 16.250	\$ 14.875	\$ 16.500
Close	\$ 18.625	\$ 18.375	\$ 18.313
Average number of shares outstanding	5,249,439	5,144,449	5,060,328
Shares outstanding end of year	5,297,443	5,186,546	5,093,788
Registered common shareholders	2,166	2,212	2,271
Cash dividends per share	\$ 1.06	\$ 1.02	\$ 1.00
Dividend yield (annualized)	5.8%	5.7%	5.5%
Payout ratio	74.1%	63.4%	95.2%
<u>Additional Data</u>			
Customers			
Natural gas distribution and transmission	40,853	39,029	37,128
Propane distribution	35,563	35,267	34,113
Volumes			
Natural gas deliveries (in MMCF)	30,830	27,383	21,400
Propane distribution (in thousands of gallons)	28,469	27,788	25,979
Heating degree-days	4,730	4,082	3,704
Propane bulk storage capacity (in thousands of gallons)	1,928	1,926	1,890
Total employees	542	522	456

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

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

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

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

(4) 1991 excludes a loss per share of \$0.17 for discontinued operations.

	1997	1996	1995	1994''	1993 ⁽¹⁾	1992 ⁽¹⁾	1991 ⁽¹⁾
\$	1.18	\$ 1.58	\$ 1.59	\$ 1.23	\$ 1.12	\$ 1.02	\$ 0.73
	1.3%	16.2%	18.6%	12.4%	11.2%	10.5%	9.6%
	58.4%	63.6%	59.0%	60.4%	57.5%	56.3%	58.3%
	53.4%	52.8%	54.0%	52.4%	49.3%	51.9%	48.9%
\$	10.72	\$ 10.26	\$ 9.38	\$ 10.15	\$ 9.76	\$ 9.50	\$ 9.37
\$	21,750	\$ 18,000	\$ 15,500	\$ 15,250	\$ 17,500	\$ 15,000	\$ 14,000
\$	16,250	\$ 15,125	\$ 12,250	\$ 12,375	\$ 13,000	\$ 11,500	\$ 11,000
\$	20,500	\$ 16,875	\$ 14,625	\$ 12,750	\$ 15,375	\$ 13,000	\$ 13,750
	4,972,086	4,912,136	4,836,430	3,628,056	3,551,932	3,477,244	3,434,008
	5,004,078	4,939,515	4,860,588	3,653,182	3,575,068	3,487,778	3,437,934
	2,178	2,213	2,098	1,721	1,743	1,674	1,723
\$	0.97	\$ 0.93	\$ 0.90	\$ 0.88	\$ 0.86	\$ 0.86	\$ 0.86
	4.7%	5.5%	6.2%	6.9%	5.6%	6.6%	6.3%
	82.2%	58.9%	56.6%	71.5%	76.8%	84.3%	117.8%
	35,797	34,713	33,530	32,346	31,270	30,407	29,464
	33,123	31,961	31,115	22,180	21,622	21,132	22,145
	23,297	24,835	29,260	22,728	19,444	17,344	16,337
	26,682	29,975	26,184	18,395	17,250	17,125	14,837
	4,430	4,717	4,594	4,398	4,705	4,645	4,140
	1,866	1,860	1,818	1,230	1,140	1,140	1,221
	397	338	335	320	326	317	311

Management's Discussion and Analysis

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Business Description

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

Liquidity and Capital Resources

Chesapeake's capital requirements reflect the capital-intensive nature of its business and are principally attributable to the construction program and the retirement of outstanding debt. The Company relies on cash generated from operations and short-term borrowing to meet normal working capital requirements and to temporarily finance capital expenditures. During 2000, net cash provided by operating activities was \$8.4 million, cash used by investing activities was \$21.8 million and cash provided by financing activities was \$15.7 million. Based upon anticipated cash requirements in 2001, Chesapeake may refinance its short-term debt and fund capital requirements through the issuance of long-term debt. The timing of such an issuance is dependent upon the nature of the securities involved as well as current market and economic conditions.

The Board of Directors has authorized the Company to borrow up to \$45.0 million from various banks and trust companies. As of December 31, 2000, Chesapeake had four unsecured bank lines of credit with two financial institutions, totaling \$60.0 million, for short-term cash needs to meet seasonal working capital requirements and to temporarily fund portions of its capital expenditures. Two of the bank lines are committed. The outstanding balances of short-term borrowing at December 31, 2000 and 1999 were \$25.4 million and \$23.0 million, respectively. In 2000, Chesapeake used funds provided from operations and the issuance of long-term debt to fund capital expenditures and the increase in working capital associated with high gas costs. At December 31, 2000, the Company had an under-recovered purchased gas cost balance of \$7.3 million, an increase of \$6.1 million over the 1999 balance. The Company expects to recover these gas costs through the gas cost recovery mechanism in each of our regulated jurisdictions. In 1999, Chesapeake used cash provided by operations and short-term borrowing to fund capital expenditures.

During 2000, 1999 and 1998, capital expenditures were approximately \$21.8 million, \$25.1 million and \$12.0 million, respectively. Capital expenditures in 2000 were slightly less than 1999 due to a reduced level of acquisition-related expenditures. The increase in capital expenditures in 1999 when compared to 1998 was primarily due to the expansion of both the Company's natural gas transmission pipeline and its Florida natural gas distribution system, as well as the acquisition of EcoWater Systems of Michigan. Chesapeake has budgeted \$31.5 million for capital expenditures during 2001. This amount includes \$25.8 million for natural gas distribution and transmission, \$2.5 million for propane distribution and marketing, \$500,000 for advanced information services and \$2.7 million for general plant. The natural gas distribution expenditures are for expansion and improvement of facilities. Natural gas transmission expenditures are for improvement and expansion of the pipeline system to increase the level of service provided to existing customers and to provide service to customers in the City of Milford, Delaware. The propane expenditures are to support customer growth and for the replacement of equipment. The advanced information services expenditures are for computer hardware, software and related equipment. Expenditures for general plant include building improvements, computer software and hardware. Financing for the 2001 capital expenditure program is expected to be provided from short-term borrowing, cash provided by operating activities and the potential issuance of long-term debt. The capital expenditure program is subject to continuous review and modification. Actual capital expenditures may vary from the above estimates due to a number of factors including acquisition opportunities, changing economic conditions, customer growth in existing areas, regulation and new growth opportunities.

Chesapeake has budgeted \$1.9 million for environmental-related expenditures during 2001 and expects to incur additional expenditures in future years, a portion of which may need to be financed through external sources (see Note L to the Consolidated Financial Statements). Management does not expect such financing to have a material adverse effect on the financial position of capital resources of the Company.

Capital Structure

As of December 31, 2000, common equity represented 55.7 percent of permanent capitalization, compared to 64.0 percent in 1999 and 60.0 percent in 1998. Including short-term borrowing, the equity component of the Company's capitalization would have been 45.6 percent, 51.5 percent and 53.4 percent. The reduction in common equity as a percentage of permanent capitalization is primarily the result of the issuance of \$20.0 million in long-term debt in 2000. Chesapeake remains committed to maintaining a sound capital structure and strong credit ratings to provide the financial flexibility needed to access the capital markets when required. This commitment, along with adequate and timely rate relief for the Company's regulated operations, is intended to ensure that Chesapeake will be able to attract capital from outside sources at a reasonable cost. The Company believes that the achievement of these objectives will provide benefits to customers and creditors, as well as to the Company's investors.

Financing Activities

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

In December 2000, Chesapeake completed a private placement of \$20.0 million of 7.83% Senior Notes due January 1, 2015. The Company used the proceeds to repay short-term borrowing.

During 2000 and 1999, Chesapeake repaid approximately \$2.7 million and \$1.5 million of long-term debt, respectively. In connection with its Automatic Dividend Reinvestment and Stock Purchase Plan, Chesapeake issued 41,056, 36,319 and 32,925 shares of its common stock during the years of 2000, 1999 and 1998, respectively.

Results of Operations

Net income for 2000 was \$7.5 million as compared to \$8.3 million for 1999 and \$5.3 million for 1998. The reduction in net income for 2000 is primarily due to a one-time after tax gain of \$863,000 on the sale of the Company's investment in Florida Public Utilities Company recorded in the fourth quarter of 1999 (see Note E to the Consolidated Financial Statements). Exclusive of this gain, net income for 2000 increased by \$81,000; however, earnings per share decreased \$0.01 per share. This increase in net income for 2000 reflected improved pre-tax operating income for the natural gas business segment, offset by a reduction in contribution from the advanced information services and the propane gas segments. The natural gas segment benefited from cooler temperatures, a 5 percent growth in customers and increased transportation services. In terms of heating degree-days, temperatures for the year were 16 percent cooler than the prior year and 4 percent cooler than normal. The reduced contribution from the advanced information services segment reflects lower revenues from their traditional lines of business in 2000. The propane gas segment also benefited from cooler weather and an increase in marketing margins; however, higher operating expenses offset these increases. Also contributing to the increase in net income for 2000 was the Company's other business operations, which included a full year of operations from the water business acquisitions that occurred in late 1999 and early 2000.

The increase in net income for 1999 when compared to 1998 was due to increased contributions from all three business segments and the gain on the sale of Company's investment in Florida Public Utilities Company. The natural gas and propane segments each benefited from increased deliveries related to customer growth, averaging more than 4 percent in 1999, combined with cooler temperatures. In terms of heating degree-days, temperatures for 1999 were 10 percent cooler than 1998, but still 11 percent warmer than normal. The natural gas segment also benefited from an increase in transportation services. Pre-tax operating income for the advanced information services segment increased due to additional consulting projects and product sales.

Net income for 1999 includes an after-tax gain of \$863,000 on the sale of the Company's investment in Florida Public Utilities Company, while net income for 1998 includes an after-tax gain of \$750,000 from the restructuring of the

Management's Discussion and Analysis

Company's retirement benefit plans (see Note J to the Consolidated Financial Statements). Both of these gains are shown in non-operating income on the Company's financial statements.

PRE-TAX OPERATING INCOME (in thousands)

For the Years Ended December 31.	2000	1999	Increase (decrease)	1999	1998	Increase (decrease)
Business Segment:						
Natural gas distribution & transmission	\$ 12,365	\$ 10,300	\$ 2,065	\$ 10,300	\$ 8,814	\$ 1,486
Propane distribution & marketing	2,319	2,627	(308)	2,627	971	1,656
Advanced information services	336	1,470	(1,134)	1,470	1,316	154
Other & Eliminations	1,006	452	554	452	504	(52)
Total Pre-tax Operating Income	\$ 16,026	\$ 14,849	\$ 1,177	\$ 14,849	\$ 11,605	\$ 3,244

Natural Gas Distribution and Transmission

Pre-tax operating income increased \$2.1 million from 1999 to 2000. The increase was the result of a \$3.4 million increase in gross margin offset by a \$1.3 million increase in operating expenses. The principal factors responsible for this increase in gross margin were:

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

The customer growth and cooler temperatures resulted in a 14 percent increase in volumes delivered to residential and commercial customers. Under normal temperatures and customer usage, the Company estimates that 5 percent customer growth would generate an additional margin of \$850,000 on an annual basis.

The principal costs that contributed to higher operating expenses were depreciation, compensation, marketing and employee benefits.

NATURAL GAS GROSS MARGIN SUMMARY (in thousands)

For the Years Ended December 31,	2000	1999	Increase (decrease)	1999	1998	Increase (decrease)
Gross Margin:						
Sales	\$ 29,460	\$ 26,496	\$ 2,964	\$ 26,496	\$ 25,186	\$ 1,310
Transportation	6,486	5,830	656	5,830	3,969	1,861
Marketing	184	208	(24)	208	174	34
Non-gas sales	300	529	(229)	529	187	342
Total Gross Margin	\$ 36,430	\$ 33,063	\$ 3,367	\$ 33,063	\$ 29,516	\$ 3,547

Pre-tax operating income increased \$1 .5 million from 1998 to 1999. The increase was the result of a \$3.5 million increase in gross margin offset by a \$2.0 million increase in operating expenses. The principal factors responsible for this increase in gross margin were:

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

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

The customer growth and cooler temperatures resulted in an 11 percent increase in volumes delivered to residential and commercial customers.

In 1998, the Company restructured its retirement benefit plans (“the benefit restructuring”), resulting in a one-time reduction of \$1.2 million in consolidated pension expenses. Exclusive of the benefit restructuring, operating expenses increased by \$1 .0 million, or 4.7 percent. The principal costs that contributed to higher operating expenses were depreciation, compensation, marketing and employee benefits.

Propane Distribution and Marketing

Pre-tax operating income for 2000 was \$2.3 million compared to \$2.6 million for 1999. This decrease of \$308,000 was the result of an increase in operating expenses of \$2.4 million offset by an increase of \$2.1 million in gross margin.

Operating expenses were higher due to several initiatives the Company has undertaken to enhance long-term growth and the level of service we are providing our current customers. These initiatives include:

- the opening of a customer service/marketing office in a location convenient to retail shopping;
- an increase in merchandise sales and service activities;
- the extension of customer service hours; and
- three propane distribution start-ups in Florida.

The Company expects that some of the increased costs associated with these initiatives will decrease during the first half of 2001. However, the propane distribution start-ups in Florida may take up to three years to achieve profitability.

Gross margin was higher in 2000 due primarily to an increase of 102 percent in wholesale marketing margins earned. Additionally, gallons delivered by the distribution operation increased 2 percent. During 2000, marketing revenues increased by \$73 million or 64 percent while margins increased \$1.7 million over 1999. Wholesale marketing is a high volume, low margin business.

Pre-tax operating income for 1999 was \$2.6 million compared to \$1 .0 million for 1998. This increase of \$1.6 million was the result of a \$1.9 million increase in gross margin, offset by an increase in operating expenses of \$300,000. Gross margin was higher due to the following: gallons delivered by the distribution operation increased by 11 percent; margin earned per gallon sold by the distribution operation increased by 6 percent; and wholesale marketing margins earned increased by 28 percent.

The increase in gallons delivered by the distribution operation was directly related to temperatures, which were 10 percent cooler than 1998 coupled with a 3.4 percent growth in customers. In 1999, marketing revenues increased by \$35

Management's Discussion and Analysis

million or 44 percent over 1998, while margins increased \$360,000. Operating expenses increased in 1999, primarily in the areas of incentive compensation, marketing and employee benefit costs.

Advanced Information Services

The advanced information services segment contribution to consolidated pre-tax operating income for 2000 decreased \$1.1 million or 77 percent from 1999. The decline is directly related to a reduction in revenues earned from the traditional information technology business. This reduction occurred primarily due to many clients implementing their year 2000 contingency plans in 1999, then significantly reducing their information technology expenditures in 2000. This reduction was somewhat offset by continued growth in revenue earned on web-related products and services. Operating expenses increased 5 percent, primarily in the areas of compensation, marketing and uncollectible accounts.

Pre-tax operating income for 1999 increased \$154,000 or 12 percent over 1998. This increase was the result of revenue growth of \$3.2 million or 31 percent, resulting in a gross margin increase of \$1.3 million or 24 percent. The majority of revenue growth was due to increased web-related products and services. The increase in costs were primarily in the areas of compensation, marketing and uncollectible accounts.

Income Taxes

Income taxes were higher in 2000 when compared to 1999; however, pre-tax operating income for 2000 was slightly lower. The increase is the result of adjusting 1999 income tax expenses to recognize accumulated deferred income tax timing differences at the 35 percent federal rate. This was offset by a \$238,000 reduction in the income tax accrual due to a reassessment of known tax exposures.

Other

Non-operating income was \$361,000, \$1,066,000 and \$253,000 for the years 2000, 1999 and 1998, respectively. In 1999, the Company recognized a pre-tax gain of \$1,415,000, or \$863,000 after tax, on the sale of Chesapeake's investment in Florida Public Utilities Company (see Note E to the Consolidated Financial Statements). Exclusive of this transaction, non-operating income for 1999 was \$203,000. The resulting decrease from 1998 was primarily due to a reduction in interest income.

Interest Expense

Interest expense increased in 2000 due to a higher average short-term borrowing balance of \$24.2 million in 2000 compared to \$9.9 million in 1999. Also contributing to the increase in interest expense is a higher short-term borrowing rate of 6.89 percent in 2000, up from 5.51 percent in 1999.

Regulatory Activities

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

In January 2000, the Company filed a request for approval of a rate increase with the Florida Public Service Commission. In November 2000, an order was issued approving a rate increase of \$1.25 million effective in early December 2000. During 2000, the Company was notified that two of its large industrial customers would be closing their operations. As a result of the rate increase, offset by the loss of these two customers, the Company estimates that margins earned in 2001 will increase by approximately \$449,000 over those earned in 2000.

In 1999, the Company requested and received approval from the Delaware Public Service Commission to annually adjust its interruptible margin sharing mechanism in order to address the level of recovery of fixed distribution costs from residential and small commercial heating customers. The annual period runs from August 1 to July 31. During 2000, the

weather for the period ending August 31, 2000 was warmer than the threshold, resulting in a reduction in margin sharing. This reduction resulted in a \$417,000 increase in margin for 2000.

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

The Company plans to file for a base rate increase with the Delaware Public Service Commission during the second quarter of 2001. Interim rates are expected to be put into effect, subject to refund, in the second or third quarter of 2001.

Environmental Matters

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

Market Risk

Market risk represents the potential loss arising from adverse changes in market rates and prices. Long-term debt is subject to potential losses based on the change in interest rates. The Company's long-term debt consists of first mortgage bonds, senior notes and convertible debentures (see Note G to the Consolidated Financial Statements for annual maturities of consolidated long-term debt). All of Chesapeake's long-term debt is fixed-rate debt and was not entered into for trading purposes. The carrying value of the Company's long-term debt was \$53.6 million at December 31, 2000 as compared to a fair value of \$56.0 million, based mainly on current market prices or discounted cash flows using current rates for similar issues with similar terms and remaining maturities. The Company is exposed to changes in interest rates as a result of financing through its issuance of fixed-rate long-term debt. The Company evaluates whether to refinance existing debt or permanently finance existing short-term borrowing based in part on the fluctuation in interest rates.

The propane marketing operation is a party to natural gas liquids ("NGL") forward contracts, primarily propane contracts, with various third parties. These contracts require that the propane marketing operation purchase or sell NGL at a fixed price at fixed future dates. At expiration, the contracts are settled by the delivery of NGL to the Company or the counter party. The wholesale propane marketing operation also enters into futures contracts that are traded on the New York Mercantile Exchange. In certain cases, the futures contracts are settled by the payment of a net amount equal to the difference between the current market price of the futures contract and the original contract price.

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The forward and futures contracts are entered into for trading and wholesale marketing purposes. The propane marketing operation is subject to commodity price risk on its open positions to the extent that market prices for NGL deviate from fixed contract settlement amounts. Market risk associated with the trading of futures and forward contracts are monitored daily for compliance with Chesapeake's Risk Management Policy, which includes volumetric limits for open positions. To manage exposures to changing market prices, open positions are marked up or down to market prices and reviewed by oversight officials on a daily basis. Additionally, the Risk Management Committee reviews periodic reports on market and credit risk, approves any exceptions to the Risk Management Policy (within the limits established by the Board of Directors) and authorizes the use of any new types of contracts. Quantitative information on the forward and futures contracts at December 31, 2000 and 1999 are shown below.

At December 31, 2000	Quantity in gallons	Estimated Market Prices		Weighted Average Contract Prices
Forward Contracts				
Sale	33,007,800	\$0.6800	— \$1.2000	\$0.7869
Purchase	33,419,400	\$0.5625	— \$1.0200	\$0.7597
Futures Contracts				
Sale	2,814,000	\$0.6800	— \$0.8700	\$0.7714
Purchase	1,260,000	\$0.5625	— \$0.7700	\$0.5397
At December 31, 1999				
Forward Contracts				
Sale	9,954,000	\$0.3350	\$0.5250	\$0.4412
Purchase	8,064,000	\$0.3250	— \$0.5200	\$0.4121
Futures Contracts				
Purchase	2,730,000	\$0.4270	— \$0.4350	\$0.4229

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

All contracts expire within twelve months.

Competition

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

The Company's natural gas distribution operations located in Maryland and Delaware began offering transportation services to certain industrial customers during 1998 and 1997, respectively. With transportation services now available on the Company's distribution systems, the Company is competing with third party suppliers to sell gas to industrial customers. The Company's competitors include the interstate transmission company if the distribution customer is located close enough to the transmission company's pipeline to make a connection economically feasible. The customers at risk are usually large volume commercial and industrial customers with the financial resources and capability to bypass the distribution operations in this manner. In certain situations, the distribution operations may adjust services and rates for these customers to retain their business. The Company expects to expand the availability of transportation services to

additional classes of distribution customers in the future. The Florida distribution operation has been providing transportation services to certain industrial customers since 1994. At that time, the Company established a natural gas brokering and supply operation in Florida to compete for these customers,

The Company's propane distribution operations compete with several other propane distributors in their service territories, primarily on the basis of service and price. Competitors include several large national propane distribution companies, as well as an increasing number of local suppliers.

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

Inflation

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

Recent Pronouncements

In 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 133, establishing accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. Chesapeake will adopt the requirements of this standard in the first quarter of 2001, as required. The adoption of SFAS No. 133, as amended by SFAS No. 137 and SFAS No. 138, will not have a material impact on the Company's financial position or results of operations.

In February 2001, the FASB issued a revised limited Exposure Draft on Business Combinations and Intangible Assets. Under the draft, the pooling-of-interests method of accounting for business combinations would be eliminated and the purchase method would be required. Additionally, the draft would require a non-amortization approach to account for purchased goodwill, which would be separately tested for impairment. The provisions of the draft would be effective as of the beginning of the first fiscal quarter following the issuance of the final statement. Neither early application, nor retroactive application, would be permitted. Once the exposure draft is final, the Company will be able to determine the impact the standard will have on the Company's financial position and results of operations.

Management's Discussion and Analysis

Cautionary Statement

Chesapeake has made statements in this report that are considered to be forward-looking statements. These statements are not matters of historical fact. Sometimes they contain words such as "believes," "expects," "intends," "plans," "will," or "may," and other similar words of a predictive nature. These statements relate to matters such as customer growth, changes in revenues or margins, capital expenditures, environmental remediation costs, regulatory approvals, market risks associated with the Company's propane marketing operation, the competitive position of the Company and other matters. It is important to understand that these forward-looking statements are not guarantees, but are subject to certain risks and uncertainties and other important factors that could cause actual results to differ materially from those in the forward-looking statements. These factors include, among other things:

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

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

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA

REPORT OF INDEPENDENT ACCOUNTANTS

To the Stockholders of Chesapeake Utilities Corporation

In our opinion, the consolidated financial statements listed in the index appearing under Item 14(a)(1) of this Form 1 O-K present fairly, in all material respects, the financial position of Chesapeake Utilities Corporation and its subsidiaries at December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 14(a)(2) of this Form 1 O-K presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. The financial statements and the financial statement schedule are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

PRICEWATERHOUSECOOPERS LLP
Philadelphia, Pennsylvania
February 13, 2001

Consolidated Statements of Income

For the Years Ended December 31,	2000	1999	1998
Operating Revenues	\$ 335,407,036	\$ 230,200,335	\$ 182,919,848
<i>Cost of Sales</i>	273,635,709	175,500,379	135,116,125
Gross Margin	61,771,327	54,699,956	47,803,723
Operating Expenses			
Operations	32,385,261	27,554,796	24,110,315
Maintenance	1,868,260	1,521,302	2,118,066
Depreciation and amortization	7,142,611	6,523,669	5,945,901
Other taxes	4,349,224	4,251,051	4,024,129
Income taxes	4,387,925	4,174,896	3,175,693
Total operating expenses	50,133,281	44,025,714	39,374,104
Operating Income	11,638,046	10,674,242	8,429,619
Other Income			
Gain on sale of investment	0	1,415,343	0
Interest income	220,462	99,660	192,262
Other income	248,748	60,799	110,506
Income taxes	(108,667)	(509,351)	(50,051)
Total other income	360,543	1,066,451	252,717
Income Before Interest Charges	11,998,589	11,740,693	8,682,336
Interest Charges			
Interest on long-term debt	2,628,781	2,793,712	2,966,043
Interest on short-term borrowing	1,699,402	55,193	242,695
Amortization of debt expense	111,122	117,966	123,335
Other	70,083	6,092	47,677
Total interest charges	4,509,388	3,469,707	3,379,750
Net Income	\$ 7,489,201	\$ 8,270,986	\$ 5,302,586
Earnings Per Share of Common Stock:			
Basic	\$ 1.43	\$ 1.01	\$ 1.05
Diluted	\$ 1.40	\$ 1.57	\$ 1.04

Consolidated Statements of Comprehensive Income

For the Years Ended December 31,	2000	1999	1998
Net Income	\$ 7,489,201	\$ 8,270,986	\$ 5,302,586
Unrealized gain on marketable securities, net of income taxes of \$362,000			566,472
Total Comprehensive Income	\$ 7,489,201	\$ 8,270,986	\$ 5,869,058

See accompanying notes

Consolidated Statements of Cash Flows

For the Years Ended December 31,	2000	1999	1998
Operating Activities			
Net Income	\$ 7,489,201	\$ 8,270,986	\$ 5,302,586
Adjustments to reconcile net income to net operating cash:			
Depreciation and amortization	8,044,315	7,509,841	6,864,063
Investment tax credit adjustments, net	(54,815)	(54,815)	(54,815)
Deferred income taxes, net	2,922,815	385,104	1,711,510
Mark-to-market adjustments	(689,032)	65,076	(242,757)
Employee benefits	80,165	8,659	(801,898)
Employee compensation	217,000	298,756	206,378
Other, net	(816,049)	212,711	(171,619)
Changes in assets and liabilities:			
Accounts receivable, net	(16,347,454)	(6,902,950)	1,797,425
Inventories, storage gas and materials	(3,307,420)	(1,704,544)	1,118,973
Prepaid expenses and other current assets	247,892	96,687	(488,771)
Other deferred charges	(333,147)	1,105,748	156,786
Accounts payable, net	16,789,601	5,778,418	(5,327,048)
Refunds payable to customers	235,619	143,356	279,112
(Under) overrecovered purchased gas costs	(6,111,373)	315,351	121,123
Other current liabilities	(687)	1,068,928	554,359
Net cash provided by operating activities	8,366,631	16,597,312	11,027,407
Investing Activities			
Property, plant and equipment expenditures, net	(21,821,006)	(25,128,670)	(12,021,735)
Sale (purchase) of investments	0	2,189,312	(500,000)
Net cash used by investing activities	(21,821,006)	(22,939,358)	(12,521,735)
Financing Activities			
Common stock dividends, net of amounts reinvested of \$520,712, \$456,962 and \$421,382 in 2000, 1999 and 1998, respectively	(5,022,313)	(4,774,338)	(4,340,687)
Issuance of stock — Dividend Reinvestment Plan optional cash	197,797	187,369	188,564
Issuance of stock — Retirement Savings Plan	916,159	8,163,306	466,759
Net borrowing under line of credit agreements	2,400,000	11,400,000	3,999,990
Proceeds from issuance of long-term debt, net	19,887,194	0	0
Repayment of long-term debt	(2,675,319)	(1,528,202)	(1,051,390)
Net cash provided (used) by financing activities	15,703,518	6,101,135	(736,764)
Net Increase (Decrease) in Cash and Cash Equivalents	2,249,143	(240,911)	(2,231,092)
Cash and Cash Equivalents at Beginning of Year	2,357,173	2,598,084	4,829,176
Cash and Cash Equivalents at End of Year	\$ 4,606,316	\$ 2,357,173	\$ 2,598,084
Supplemental Disclosure of Cash Flow Information			
Cash paid for interest	\$ 4,410,230	\$ 3,409,070	\$ 3,490,993
Cash paid for income taxes	\$ 3,212,080	\$ 4,413,155	\$ 2,670,580

See accompanying notes

Consolidated Balance Sheets

At December 31 ,	2000	1999
Assets		
<i>Property, Plant and Equipment</i>		
Natural gas distribution and transmission	\$ 149,109,573	\$ 132,929,885
Propane distribution and marketing	31,630,208	28,679,766
Advanced information services	1,699,968	1,460,417
Other plant	10,488,581	9,017,458
Total property, plant and equipment	192,928,330	172,087,520
Less: Accumulated depreciation and amortization	(61,462,011)	(54,424,105)
Net property, plant and equipment	131,466,319	117,663,415
<i>Investments, at fair market value</i>	615,293	595,644
<i>Current Assets</i>		
Cash and cash equivalents	4,606,316	2,357,173
Accounts receivable (less allowance for uncollectibles of \$549,961 and \$475,592 in 2000 and 1999, respectively)	38,046,582	21,699,128
Materials and supplies at average cost	1,566,126	1,547,225
Merchandise inventory at average cost	1,234,072	859,989
Propane inventory, at average cost	4,379,599	2,754,401
Storage gas prepayments	3,500,323	2,211,084
Underrecovered purchased gas costs	838,725	1,236,914
Income taxes receivable	1,159,761	73,772
Deferred income taxes receivable	0	745,888
Prepaid expenses and other current assets	1,946,535	1,505,396
Total current assets	61,828,039	34,990,970
<i>Deferred Charges and Other Assets</i>		
Environmental regulatory assets	2,910,000	2,340,000
Environmental expenditures	3,626,475	3,574,888
Underrecovered purchased gas costs	1,959,562	0
Other deferred charges and intangible assets	8,292,815	7,823,597
Total deferred charges and other assets	16,788,852	13,738,485
Total Assets	\$ 210,699,503	\$ 166,988,514

See accompanying notes

At December 31,	2000	1999
Capitalization and Liabilities		
<i>Capitalization</i>		
Stockholders' equity		
Common stock	\$ 2,577,992	\$ 2,524,018
Additional paid-in capital	27672,005	25,782,824
Retained earnings	33,721,747	31,857,732
Total stockholders' equity	63,971,744	60,164,574
Long-term debt, net of current maturities	50,920,818	33,776,909
Total capitalization	114,892,562	93,941,483
<i>Current Liabilities</i>		
Current maturities of long-term debt	2,665,091	2,665,091
Short-term borrowing	25,400,000	23,000,000
Accounts payable	33,654,718	16,865,110
Refunds payable to customers	1,015,128	779,508
Accrued interest	595,175	581,649
Dividends payable	1,429,945	1,347,784
Deferred income taxes payable	985,349	0
Other accrued liabilities	5,674,419	4,613,357
Total current liabilities	71,419,825	49,852,508
<i>Deferred Credits and Other Liabilities</i>		
Deferred income taxes	15,086,951	13,895,373
Deferred investment tax credits	657,172	711,987
Environmental liability	2,910,000	2,340,000
Accrued pension costs	1,625,128	1,544,963
Other liabilities	4,107,865	4,702,200
Total deferred credits and other liabilities	24,387,116	23,194,523
<i>Commitments and Contingencies</i>		
<i>(Notes L and M)</i>		
Total Capitalization and Liabilities	\$ 210,699,503	\$ 166,988,514

See accompanying notes

Consolidated Statements of Stockholders' Equity

For the Years Ended December 31,	2000	1999	1998
Common Stock			
Balance — beginning of year	\$ 2,524,018	\$ 2,479,019	\$ 2,435,142
Dividend Reinvestment Plan	19,983	17,530	16,240
Retirement Savings Plan	25,353	22,489	12,663
Conversion of debentures	5,173	4,201	3,115
Performance shares	3,465	779	11,859
Balance — end of year	2,577,992	2,524,018	2,479,019
Additional Paid-in Capital			
Balance — beginning of year	25,782,824	24,192,188	22,581,463
Dividend Reinvestment Plan	698,526	626,801	593,706
Retirement Savings Plan	890,806	793,817	454,096
Conversion of debentures	175,599	142,597	105,736
Performance shares	124,250	27,421	457,187
Balance — end of year	27,672,005	25,782,824	24,192,188
Retained Earnings			
Balance — beginning of year	31,857,732	28,892,384	28,533,145
Net income	7,489,201	8,270,986	5,302,586
Cash dividends ⁽¹⁾	(5,625,186)	(5,305,638)	(4,943,347)
Balance — end of year	33,721,747	31,857,732	28,892,384
Unearned Compensation			
Balance — beginning of year	0	(71,041)	(190,886)
Amortization of prior years' awards	0	71,041	119,845
Balance — end of year	0	0	(71,041)
Accumulated Other Comprehensive Income,			
<i>net of income tax expense of approximately \$552,000</i>	<i>0</i>	<i>0</i>	<i>863,344</i>
Total Stockholders' equity	\$ 63,971,744	\$ 60,164,574	\$ 56,355,894

⁽¹⁾ Cash dividends per share for 2000, 1999 and 1998 were \$1.06, \$1.02 and \$1.00, respectively.

See accompanying notes

Consolidated Statements of Income Taxes

For the Years Ended December 31,	2000	1999	1998
Current Income Tax Expense			
Federal	\$ 1,598,184	\$ 3,948,746	\$ 1,553,839
State	264,294	807,214	307,054
Investment tax credit adjustments, net	(54,815)	(54,815)	(54,815)
Total current income tax expense	1,807,663	4,701,145	1,806,678
Deferred Income Tax Expense ⁽¹⁾			
Property, plant and equipment	1,071,852	734,705	887,175
Deferred gas costs	2,404,994	(124,576)	(111,416)
Pensions and other employee benefits	(115,815)	(153,697)	546,237
Unbilled revenue	(736,700)	(45,290)	(16,198)
Contributions in aid of construction	0	(160,971)	(104,003)
Environmental expenditures	879	97,480	415,845
Other ⁽²⁾	63,519	(364,609)	(198,574)
Total deferred income tax expense	2,688,929	(16,898)	1,419,066
Total Income Tax Expense	\$ 4,496,592	\$ 4,684,247	\$ 3,225,744
Reconciliation of Effective Income Tax Rates			
Federal income tax expense at 34%	4,075,170	\$ 4,404,779	\$ 2,899,632
State income taxes, net of federal benefit	489,831	553,444	363,041
Other ⁽²⁾	(68,409)	(273,976)	(30,929)
Total Income Tax Expense	\$ 4,496,592	\$ 4,684,247	\$ 3,225,744
Effective income tax rate	37.5%	36.2%	37.8%
At December 31,			
	2000	1999	
Deferred Income Taxes			
Deferred income tax liabilities:			
Property, plant and equipment	\$ 15,088,379	\$ 14,016,527	
Environmental costs	1,478,259	1,477,380	
Deferred gas costs	2,844,140	439,146	
Other	736,255	527,643	
Total deferred income tax liabilities	20,147,033	16,460,696	
Deferred income tax assets:			
Unbilled revenue	1,790,563	1,053,863	
Pension and other employee benefits	1,382,628	1,267,013	
Self insurance	502,416	687,158	
Other	399,126	303,177	
Total deferred income tax assets	4,074,733	3,311,211	
Deferred Income Taxes Per Consolidated Balance Sheet	\$ 16,072,300	\$ 13,149,485	

⁽¹⁾ Includes \$298,000, \$39,000 and \$156,000 of deferred state income taxes for the years 2000, 1999 and 1998, respectively.

⁽²⁾ 1999 includes a \$238,000 tax benefit associated with the adjustment to deferred income taxes for known tax exposures, offset by a \$78,000 charge to adjust deferred income taxes to the 35% federal income tax rate.

See accompanying notes

A. SUMMARY OF ACCOUNTING POLICIES

Nature of Business

Chesapeake Utilities Corporation (“Chesapeake” or “the Company”) is engaged in natural gas distribution to approximately 40,900 customers located in central and southern Delaware, Maryland’s Eastern Shore and Florida. The Company’s natural gas transmission subsidiary operates a pipeline from various points in Pennsylvania and northern Delaware to the Company’s Delaware and Maryland distribution divisions, as well as other utility and industrial customers in Delaware and the Eastern Shore of Maryland. The Company’s propane distribution and marketing segment provides distribution service to approximately 35,600 customers in central and southern Delaware, the Eastern Shore of Maryland, Florida and Virginia, and markets propane to a number of large independent oil and petrochemical companies, resellers and propane distribution companies in the southeastern United States. The advanced information services segment provides consulting, custom programming, training, development tools and website development for national and international clients.

Principles of Consolidation

The Consolidated Financial Statements include the accounts of the Company and its wholly owned subsidiaries. Investments in all entities in which the Company owns more than 20 percent but less than 50 percent, are accounted for by the equity method. All significant intercompany transactions have been eliminated in consolidation.

System of Accounts

The natural gas distribution divisions of the Company located in Delaware, Maryland and Florida are subject to regulation by their respective Public Service Commissions with respect to their rates for service, maintenance of their accounting records and various other matters. Eastern Shore Natural Gas Company (“Eastern Shore”) is an open access pipeline and is subject to regulation by the Federal Energy Regulatory Commission (“FERC”). The Company’s financial statements are prepared in accordance with generally accepted accounting principles, which give appropriate recognition to the ratemaking and accounting practices and policies of the various commissions. The propane distribution and marketing and advanced information services segments are not subject to regulation with respect to rates or maintenance of accounting records.

Property, Plant, Equipment and Depreciation

Utility property is stated at original cost while the assets of the non-utility segments are recorded at cost. The costs of repairs and minor replacements are charged to income as incurred and the costs of major renewals and betterments are capitalized. Upon retirement or disposition of utility property, the recorded cost of removal, net of salvage value, is charged to accumulated depreciation. Upon retirement or disposition of non-utility property, the gain or loss, net of salvage value, is charged to income. The provision for depreciation is computed using the straight-line method at rates that amortize the unrecovered cost of depreciable property over the estimated useful life of the asset. Depreciation and amortization expenses are provided at an annual rate for each segment. Average rates for the past three years were 4 percent for natural gas distribution and transmission, 5 percent for propane distribution and marketing, 19 percent for advanced information services and 7 percent for general plant.

Cash and Cash Equivalents

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

Environmental Regulatory Assets

Environmental regulatory assets represent amounts related to environmental liabilities for which cash expenditures have not been made. As expenditures are incurred, the environmental liability is reduced along with the environmental regulatory asset. These amounts, awaiting ratemaking treatment, are recorded to either environmental expenditures as an

asset or accumulated depreciation as cost of removal. Environmental expenditures are amortized and/or recovered through a rider to base rates in accordance with the ratemaking treatment granted in each jurisdiction.

Other Deferred Charges and Intangible Assets

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

Intangible assets are associated with the acquisition of non-utility companies and are amortized on a straight-line basis over a weighted average period of seventeen years. Gross intangibles and the net unamortized balance at December 31, 2000 were \$7.7 million and \$5.9 million, respectively. Gross intangibles and the net unamortized balance at December 31, 1999 were \$7.1 million and \$5.6 million, respectively.

Income Taxes and Investment Tax Credit Adjustments

The Company files a consolidated federal income tax return. Income tax expense allocated to the Company's subsidiaries is based upon their respective taxable incomes and tax credits.

Deferred tax assets and liabilities are recorded for the tax effect of temporary differences between the financial statements and tax bases of assets and liabilities and are measured using current effective income tax rates. The portions of the Company's deferred tax liabilities applicable to utility operations, which have not been reflected in current service rates, represent income taxes recoverable through future rates. Investment tax credits on utility property have been deferred and are allocated to income ratably over the lives of the subject property.

Financial Instruments

Xeron, the Company's propane marketing operation, engages in trading activities using forward and futures contracts which have been accounted for using the mark-to-market method of accounting. Under mark-to-market accounting, the Company's trading contracts are recorded at fair value, net of future servicing costs, and changes in market price are recognized as gains or losses in the period of change. The resulting unrealized gains and losses are recorded as assets or liabilities, respectively. At December 31, 2000 and 1999, the unrealized gains were \$831,000 and \$142,000, respectively. These trading assets are recorded in prepaid expenses and other current assets.

Operating Revenues

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

Chesapeake's natural gas distribution operations each have a gas cost recovery mechanism that provides for the adjustment of rates charged to customers as gas costs fluctuate. These amounts are collected or refunded through adjustments to rates in subsequent periods.

The Company charges flexible rates to the natural gas distribution's industrial interruptible customers to make them competitive with alternative types of fuel. Based on pricing, these customers can choose natural gas or alternative types of supply. Neither the Company nor the customer is contractually obligated to deliver or receive natural gas.

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

Notes to Consolidated Financial Statements

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

Earnings Per Share

The calculations of both basic and diluted earnings per share are presented in the following table.

For the Years Ended December 31,	2000	1999	1998
Calculation of Basic Earnings Per Share:			
Net Income	\$ 7,489,201	\$ 8,270,986	\$ 5,302,586
Weighted Average Shares Outstanding	5,249,439	5,144,449	5,060,328
Basic Earnings Per Share	\$ 1.43	\$ 1.61	\$ 1.05
Calculation of Diluted Earnings Per Share:			
Reconciliation of Numerator:			
Net Income basic	\$ 7,489,201	\$ 8,270,986	\$ 5,302,586
Effect of 8.25% Convertible debentures	179,701	188,982	193,666
Adjusted numerator — diluted	\$ 7,668,902	\$ 8,459,968	\$ 5,496,252
Reconciliation of Denominator:			
Weighted Shares Outstanding — basic	5,249,439	5,144,449	5,060,328
Effect of 8.25% Convertible debentures	209,893	220,732	226,203
Effect of stock options	11,484	11,875	12,245
Adjusted denominator — diluted	5,470,816	5,377,056	5,298,776
Diluted Earnings Per Share	\$ 1.40	\$ 1.57	\$ 1.04

Certain Risks and Uncertainties

The financial statements are prepared in conformity with generally accepted accounting principles that require management to make estimates in measuring assets and liabilities and related revenues and expenses (see Notes L and M to the Consolidated Financial Statements for significant estimates). These estimates involve judgments with respect to, among other things, various future economic factors that are difficult to predict and are beyond the control of the Company; therefore, actual results could differ from those estimates.

The Company records certain assets and liabilities in accordance with Statement of Financial Accounting Standards (“SFAS”) No. 7 1. If the Company were required to terminate application of SFAS No. 7 1 for its regulated operations, all such deferred amounts would be recognized in the income statement at that time. This would result in a charge to earnings, net of applicable income taxes, which could be material.

FASB Statements and Other Authoritative Pronouncements

In 1998, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 133, establishing accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. This statement does not allow retroactive application to financial statements for prior periods. Chesapeake will adopt the requirements of this standard in the first quarter of 2001, as required. The Company believes that adoption of SFAS No. 133 will not have a material impact on the Company’s financial position or results of operations. This statement, originally effective for all fiscal quarters of the fiscal years beginning after June 15, 1999 was deferred by the FASB under SFAS No. 137 and now is effective for all fiscal quarters of the fiscal years beginning after June 15, 2000. In June 2000, the FASB issued SFAS No. 138, amending the accounting and reporting standards of SFAS No. 133. The adoption of SFAS No. 138 will not have a material impact on the Company’s financial position or results of operations.

In February 2001, the FASB issued a revised limited Exposure Draft on Business Combinations and Intangible Assets. Under the draft, the pooling-of-interests method of accounting for business combinations would be eliminated and the purchase method would be required. Additionally, the draft would require a non-amortization approach to account for purchased goodwill, which would be separately tested for impairment. The provisions of the draft would be effective as

of the beginning of the first fiscal quarter following the issuance of the final statement. Neither early application, nor retroactive application, would be permitted. Once the exposure draft is final, the Company will be able to determine the impact the standard will have on the Company's financial position and results of operations.

Restatement and Reclassification of Prior Years' Amounts

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

B. BUSINESS COMBINATIONS

In January 2000, Chesapeake acquired Carroll Water Systems, Inc. ("Carroll") of Westminster, Maryland. Carroll was a privately owned EcoWater dealership serving the suburban areas around Baltimore, Maryland. The acquisition was accounted for as a purchase and the Company's financial results include the results of operations of Carroll from the date of acquisition.

In November 1999, Chesapeake acquired EcoWater Systems of Michigan, Inc., operating as Douglas Water Conditioning ("Douglas"). Douglas is an EcoWater dealership that has served the Detroit, Michigan area for 11 years. The acquisition was accounted for as a purchase and the Company's financial results include the results of operations of Douglas from the date of acquisition.

Notes to Consolidated Financial Statements

C. SEGMENT INFORMATION

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

For the Years Ended December 31,	2000	1999	1998
Operating Revenues, Unaffiliated Customers			
Natural gas distribution and transmission	\$ 99,750,303	\$ 75,592,453	\$ 68,744,667
Propane distribution and marketing	216,267,133	138,436,520	102,062,740
Advanced information services	12,353,056	13,531,261	10,330,703
Other	7,036,544	2,640,101	1,781,738
Total operating revenues unaffiliated customers	\$ 335,407,036	\$ 230,200,335	\$ 182,919,848
Intersegment Revenues ⁽¹⁾			
Natural gas distribution and transmission	\$ 119,480	\$ 61,141	\$ 59,321
Advanced information services	36,535		
Other	814,995	659,624	638,408
Total intersegment revenues	\$ 971,010	\$ 720,765	\$ 697,729
Operating Income Before Income Taxes			
Natural gas distribution and transmission	\$ 12,364,535	\$ 10,300,455	\$ 8,814,125
Propane distribution and marketing	2,319,461	2,627,123	971,215
Advanced information services	335,849	1,469,958	1,316,158
Other and eliminations	1,006,126	451,602	503,814
Total	\$ 16,025,971	\$ 14,849,138	\$ 11,605,312
Depreciation and Amortization			
Natural gas distribution and transmission	\$ 4,930,445	\$ 4,762,285	\$ 4,381,337
Propane distribution and marketing	1,429,405	1,201,693	1,171,114
Advanced information services	280,053	268,082	183,553
Other	502,708	291,609	209,897
Total depreciation and amortization	\$ 7,142,611	\$ 6,523,669	\$ 5,945,901
Capital Expenditures			
Natural gas distribution and transmission	\$ 17,882,724	\$ 17,853,885	\$ 10,018,491
Propane distribution and marketing	3,235,288	2,168,269	1,544,992
Advanced information services	240,727	372,501	246,153
Other	1,696,990	5,522,615	840,186
Total capital expenditures	\$ 23,055,729	\$ 25,917,270	\$ 12,649,822
At December 31,			
	2000	1999	1998
Identifiable Assets			
Natural gas distribution and transmission	\$ 141,335,457	\$ 117,024,633	\$ 102,618,587
Propane distribution and marketing	47,495,133	31,888,633	27,526,019
Advanced information services	2,372,407	2,854,670	2,304,609
Other	19,496,506	15,220,578	12,784,398
Total identifiable assets	\$ 210,699,503	\$ 166,988,514	\$ 145,233,613

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

D. FAIR VALUE OF FINANCIAL INSTRUMENTS

Various items within the balance sheet are considered to be financial instruments because they are cash or are to be settled in cash. The carrying values of these items generally approximate their fair value (see Note E to the Consolidated Financial Statements for disclosure of fair value of investments). The Company's open forward and futures contracts at December 31, 2000 and December 31, 1999 had a net fair value of \$83,100 and \$142,000, respectively based on market rates. The fair value of the Company's long-term debt is estimated using a discounted cash flow methodology. The Company's long-term debt at December 31, 2000, including current maturities, had an estimated fair value of \$56.0 million as compared to a carrying value of \$53.6 million. At December 31, 1999, the estimated fair value was approximately \$36.3 million as compared to a carrying value of \$36.4 million. These estimates are based on published corporate borrowing rates for debt instruments with similar terms and average maturities.

E. INVESTMENTS

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

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

F. COMMON STOCK AND ADDITIONAL PAID-IN CAPITAL

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

For the Years Ended December 31,	2000	1999	1998
Common Stock: Shares issued and outstanding ⁽¹⁾			
Balance — beginning of year	5,186,546	5,093,788	5,004,078
Dividend Reinvestment Plan ⁽²⁾	41,056	36,319	32,925
Sale of stock to the Company's Retirement Savings Plan	52,093	46,208	26,018
Conversion of debentures	10,628	8,631	6,401
Performance shares	7,120	1,600	24,366
Balance — end of year ⁽³⁾	5,297,443	5,186,546	5,093,788

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

⁽²⁾ Includes dividends and reinvested optional cash payments.

⁽³⁾ The Company has 7,442 shares held in a Rabbi Trust as of December 31, 2000

In 2000, the Company entered into an agreement with an investment banker to assist in identifying acquisition candidates. Under the agreement, the Company issued warrants to the investment banker to purchase 15,000 shares of Company stock, which are exercisable during the next seven years at a price of \$18.00 per share. During 2000, no warrants were exercised.

Notes to Consolidated Financial Statements

G. LONG-TERM DEBT

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

At December 31,	2000	1999
First mortgage sinking fund bonds:		
9.37% Series I, due December 15, 2004	\$ 2,268,000	\$ 3,024,000
Uncollateralized senior notes:		
7.97% note, due February 1, 2008	7,000,000	8,000,000
6.91% note, due October 1, 2010	8,181,818	9,090,909
6.85% note, due January 1, 2012	10,000,000	10,000,000
7.83% note, due January 1, 2015	20,000,000	
Convertible debentures:		
8.25% due March 1, 2014	3,471,000	3,662,000
Total long-term debt	\$ 50,920,818	\$ 33,776,909

Annual maturities of consolidated long-term debt for the next five years are as follows: \$2,665,091 for the years 2001 and 2002, \$3,665,091 for the years 2003 and 2004 and \$2,909,091 for the year 2005.

The convertible debentures may be converted, at the option of the holder, into shares of the Company's common stock at a conversion price of \$17.01 per share. During 2000 and 1999, debentures totaling \$181,000 and \$147,000, respectively, were converted. The debentures are redeemable at the option of the holder, subject to an annual non-cumulative maximum limitation of \$200,000 in the aggregate. At the Company's option, the debentures may be redeemed at the stated amounts. During 2000, debentures totaling \$10,000 were redeemed.

Indentures to the long-term debt of the Company and its subsidiaries contain various restrictions. The most stringent restrictions state that the Company must maintain equity of at least 40 percent of total capitalization, the times interest earned ratio must be at least 2.5 and the Company cannot, until the retirement of its Series I bonds, pay any dividends after December 31, 1988 which exceed the sum of \$2.1 million plus consolidated net income recognized on or after January 1, 1989. As of December 31, 2000, the amounts available for future dividends permitted by the Series I covenant approximated \$19.3 million.

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

H. SHORT-TERM BORROWING

The Board of Directors has authorized the Company to borrow up to \$45.0 million from various banks and trust companies. As of December 31, 2000, the Company had four unsecured bank lines of credit totaling \$60.0 million, none of which required compensating balances. Under these lines of credit, the Company had short-term debt outstanding of \$25.4 million and \$23.0 million at December 31, 2000 and 1999, respectively, with weighted average interest rates of 6.89 percent and 5.51 percent, respectively.

I. LEASE OBLIGATIONS

The Company has entered several operating lease arrangements for office space at various locations and pipeline facilities. Rent expense related to these leases was \$652,000, \$357,000 and \$385,000 for 2000, 1999 and 1998, respectively. Future minimum payments under the Company's current lease agreements are \$719,000, \$573,000, \$520,000, \$483,000 and \$385,000 for the years of 2001 through 2005, respectively; and \$464,000 thereafter, totaling \$3.1 million.

J. EMPLOYEE BENEFIT PLANS

Pension Plan

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

The following schedule sets forth the funded status of the pension plan at December 31, 2000 and 1999:

At December 31,	2000	1999
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 8,241,995	\$ 12,187,885
Service cost	354,031	400,921
Interest cost	605,185	638,198
Effect of curtailment		(16,369)
Change in discount rate		(896,201)
Actuarial loss	8,153	263,562
Benefits paid ⁽¹⁾	(382,830)	(4,386,001)
Benefit obligation at end of year	8,826,534	8,241,995
Change in plan assets:		
Fair value of plan assets at beginning of year	10,185,394	14,585,169
Actual return on plan assets	1,068,566	(13,774)
Benefits paid ⁽¹⁾	(382,830)	(4,386,001)
Fair value of plan assets at end of year	10,871,130	10,185,394
Funded Status	2,044,596	1,943,399
Unrecognized transition obligation	(81,163)	(96,267)
Unrecognized prior service cost	(57,754)	(62,453)
Unrecognized net gain	(3,015,953)	(2,956,318)
Accrued pension cost	\$ (1,110,274)	\$ (1,171,639)
Assumptions:		
Discount rate	7.50%	7.50%
Rate of compensation increase	4.75%	4.75%
Expected return on plan assets	8.50%	8.50%

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

Notes to Consolidated Financial Statements

Net periodic pension costs for the defined pension benefit plan for 2000, 1999 and 1998 include the following components:

For the Years Ended December 31,	2000	1999	1998
Components of net periodic pension cost:			
Service cost	\$ 354,031	\$ 400,021	\$ 838,177
Interest cost	605,185	688,198	803,727
Expected return on assets	(859,245)	(1,046,254)	(1,149,754)
Amortization of:			
Transition assets	(15,104)	(15,104)	(15,104)
Prior service cost	(4,699)	(4,699)	(4,699)
Actuarial gain	(141,533)	(118,142)	(143,622)
Net periodic pension (benefit) cost	(61,345)	(95,080)	328,725
Curtailement gain			(1,224,298)
Total pension (benefit) cost	\$ (61,365)	\$ (95,080)	\$ (895,573)

The Company sponsors an unfunded executive excess benefit plan. The accrued benefit obligation and accrued pension costs were \$676,000 and \$515,000, respectively as of December 31, 2000 and \$478,000 and \$373,000, respectively at December 31, 1999.

Retirement Savings Plan

The Company sponsors a 401(k) Retirement Savings Plan, which provides participants a mechanism for making contributions for retirement savings. Each participant may make pre-tax contributions of up to 15 percent of eligible base compensation, subject to IRS limitations. For participants still covered by the defined benefit pension plan, the Company makes a contribution matching 60 percent or 100 percent of each participant's pre-tax contributions based on the participant's years of service, not to exceed 6 percent of the participant's eligible compensation for the plan year.

Effective January 1, 1999, the Company began offering an enhanced 401(k) plan to all new employees, as well as existing employees that elected to no longer participate in the defined benefit plan. The Company makes matching contributions on a basis of up to 6 percent of each employee's pre-tax compensation for the year. The match is between 100 percent and 200 percent, based on a combination of the employee's age and years of service. The first 100 percent of the funds are matched with Chesapeake common stock. The remaining match is invested in the Company's 401(k) plan according to each employee's election options.

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

The Company's contributions to the 401(k) plans totaled \$1,231,000, \$1,066,000 and \$495,000 for the years ended December 31, 2000, 1999 and 1998, respectively. As of December 31, 2000, there are 32,055 shares reserved to fund future contributions to the Retirement Savings Plan.

Other Post-retirement Benefits

The Company sponsors a defined benefit post-retirement health care and life insurance plan that covers substantially all natural gas and corporate employees.

Net periodic post-retirement costs for 2000, 1999 and 1998 include the following components:

For the Years Ended December 31,	2000	1999	1998
Components of net periodic post-retirement cost:			
Service cost	\$ 1,803	\$ 3,332	\$ 3,301
Interest cost	57,584	55,023	59,321
Amortization of:			
Transition obligation	27,859	27,859	27,859
Actuarial loss		3,130	6,071
Net periodic post-retirement cost	87,246	89,334	96,612
Amounts amortized	25,028	25,254	25,254
Total post-retirement cost	\$ 112,274	\$ 114,588	\$ 121,866

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

At December 31,	2000	1999
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 788,532	\$ 887,060
Retirees	23,708	(19,169)
Fully-eligible active employees	48,992	(59,211)
Other active	(28,697)	(20,148)
Benefit obligation at end of year	\$ 832,535	\$ 788,532
Funded Status	\$ (832,535)	\$ (788,532)
Unrecognized transition obligation	161,577	189,436
Unrecognized net loss	6,154	23,329
Accrued post-retirement cost	\$ (609,415)	\$ (575,767)
<u>Assumptions:</u>		
Discount rate	7.50%	7.50%

The health care inflation rate for 2000 is assumed to be 8.0 percent. This rate is projected to gradually decrease to an ultimate rate of 5 percent by the year 2007. A one percentage point increase in the health care inflation rate from the assumed rate would increase the accumulated post-retirement benefit obligation by approximately \$84,511 as of January 1, 2001, and would increase the aggregate of the service cost and interest cost components of the net periodic post-retirement benefit cost for 2001 by approximately \$6,846.

Notes to Consolidated Financial Statements

K. EXECUTIVE INCENTIVE PLANS

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

The Company executed Stock Option Agreements for a three-year performance period ending December 31, 2000 with certain executive officers. One-half of these options become exercisable over time and the other half become exercisable if certain performance targets are achieved. In 2000, the Company replaced the third year of this Stock Option Agreement with Stock Appreciation Rights ("SARs"). The SARs are awarded based on performance with a minimum number of SARs established for each participant. During 2000, the Company awarded 26,300 SARs in conjunction with the agreement. Chesapeake currently awards Performance Share Agreements annually for certain other executive officers. Each year participants are eligible to earn a maximum number of performance shares, based on the Company's achievement of certain performance goals. The Company recorded compensation expense of \$18,000, \$13,000 and \$49,000 associated with these performance shares in 2000, 1999 and 1998, respectively.

Changes in outstanding options were as follows:

	2000		1999		1998	
	Number of shares	Option Price	Number of shares	Option Price	Number of shares	Option Price
Balance beginning of year	163,637	\$12.75 — \$20.50	163,637	\$12.75 — \$20.50	208,543	\$12.625 — \$20.50
Options expired					(44,906)	\$12.625
Options forfeited or replaced	(53,544)	\$20.50				
Balance -- end of year	110,093	\$12.75 — \$20.50	163,637	\$12.75 — \$20.50	163,637	\$12.75 — \$20.50
Exercisable	110,093	\$12.75 — \$20.50	85,735	\$12.75 — \$20.50	68,145	\$12.75

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

For the Years Ended December 31,	2000	1999	1998
Pro forma Net Income	\$ 7,475,885	\$ 8,230,868	\$ 5,262,468
Pro forma Earnings Per Share:			
Basic	\$ 1.42	\$ 1.60	\$ 1.04
Diluted	\$ 1.40	\$ 1.57	\$ 1.03
Assumptions:			
Dividend yield	4.73%	4.73%	4.73%
Expected volatility	15.53%	15.53%	15.53%
Risk-free interest rate	5.89%	5.89%	5.89%
Expected lives	4 years	4 years	4 years

L. ENVIRONMENTAL COMMITMENTS AND CONTINGENCIES

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

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

During 1999, the Company completed the first phase of the soil remediation process at that site. During 2000, the Company initiated the second soil remediation phase, soil vapor extraction procedures (“SVE”) with the finding submitted to the EPA for review. Based on the finding the Company has filed a request with the EPA to discontinue the SVE and is awaiting the EPA’s response. Once the SVE remediation procedures are completed, the Company expects to complete the third and final phase of soil remediation and then initiate the ground-water remedial activities.

The Company’s independent consultants have prepared preliminary estimates of the costs of two potentially acceptable alternatives to complete the ground-water remediation activities at the site. The costs to remediate the ground-water range from a low of \$390,000 in capital and \$37,000 per year of operating costs for 30 years for natural attenuation to a high of \$3.3 million in capital and \$1 .0 million per year in operating costs to operate a pump-and-treat/ground-water containment system. The pump-and-treat/ground-water containment system is intended to contain the manufactured gas plant (“MGP”) contaminants to allow the ground-water outside of the containment area to attenuate naturally. The operating cost estimate for the pump-and-treat containment system is dependent upon the actual ground-water quality and flow conditions at the site. The Company continues to believe that a ground-water pump-and-treat system is not necessary for the MGP contaminants, that there is insufficient information to design an overall ground-water containment program and that natural attenuation is the appropriate remedial action for the MGP wastes.

Chesapeake cannot predict the ground-water remediation that the EPA will require; therefore, the Company in 2000 has not adjusted the \$2.1 million accrued at December 31, 1999 for the Dover site and the associated regulatory asset for an equivalent amount. Of this amount, \$1.5 million is for ground-water remediation and \$600,000 is for the remaining soil remediation. The \$1.5 million represents the low end of the ground-water remedy estimates described above.

In 1996, the Company initiated litigation against GPU, one of the other potentially responsible parties, for contribution to the remedial costs incurred by Chesapeake in connection with complying with the ROD. In February 2001, the Company and GPU reached a tentative settlement, pending the approval of the courts. The terms of the settlement prohibit disclosure of the provisions of the settlement until finalized. Management believes that the Company will be equitably entitled to contribution from other responsible parties for a portion of the expenses to be incurred in connection with the remedies selected in the ROD. The Company expects that it will be able to recover actual costs incurred, which are not recovered from other responsible parties, exclusive of associated carrying costs, through the ratemaking process in accordance with environmental cost recovery rider provisions currently in effect.

In cooperation with the Maryland Department of the Environment (“MDE”), the Company is engaged in remediation procedures at the Salisbury site. In addition, the Company reports the remediation and monitoring results to the MDE. The remediation procedures at the site are currently suspended awaiting approval from the MDE to permanently shutdown the remediation procedures. The Company has adjusted the liability with respect to the Salisbury site to \$175,000 in December 2000. The Company had previously accrued \$240,000 as of December 31, 1999. This amount is based on the estimated operating costs of the remediation facilities over the next two years and capital costs to shut down

Notes to Consolidated Financial Statements

the remediation procedures in 2002. A corresponding regulatory asset has been recorded, reflecting the Company's belief that costs incurred will be recoverable in base rates.

The third site is located in the state of Florida and in January 2001 the Company filed a remedial action plan ("RAP") with the Florida Department of the Environment. The RAP included an estimate of \$635,000 to complete the remediation procedures at a portion on the site. Accordingly in December 2000, the Company accrued \$635,000 and an associated regulatory asset. Once the FDEP approves the RAP, the Company will commence with the remediation procedures per the RAP. The Company continues to accrue for future environmental costs and at December 31, 2000 has collected \$505,000 in excess of costs incurred.

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

M. OTHER COMMITMENTS AND CONTINGENCIES

Natural Gas Supply

The Company's natural gas distribution operations have entered into contractual commitments for daily entitlements of natural gas from various suppliers. The contracts have various expiration dates. In 2000, the Company entered into a long-term contract with an energy marketing and risk management company to manage the Company's natural gas transportation and storage capacity.

Other

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

N. QUARTERLY FINANCIAL DATA (UNAUDITED)

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

For the Quarters Ended	March 31	June 30	September 30	December 31
2000				
Operating Revenue	\$ 98,509,179	\$ 65,950,982	\$ 59,212,768	\$ 111,734,107
Operating Income	6,640,727	1,235,233	(43,959)	3,806,045
Net Income	5,669,466	319,548	(1,044,709)	2,544,896
Earnings per share:				
Basic	\$ 1.09	\$ 0.06	\$ (0.20)	\$ 0.48
Diluted	\$ 1.05	\$ 0.06	\$ (0.20)	\$ 0.47
1999				
Operating Revenue	\$ 55,409,379	\$ 36,718,030	\$ 56,397,315	\$ 11,635,602
Operating Income	5,757,404	1,542,744	22,546	3,351,548
Net Income ⁽¹⁾	4,942,983	796,103	(784,981)	3,316,881
Earnings per share:				
Basic	\$ 0.97	\$ 0.16	\$ (0.15)	\$ 0.64
Diluted	\$ 0.93	\$ 0.16	\$ (0.15)	\$ 0.62

⁽¹⁾ Results for the fourth quarter of 1999 reflect a gain on the sale of investments of \$863,000, net of income tax expense.

See Note E to the Consolidated Financial Statements.

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

None

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information pertaining to the Directors of the Company is incorporated herein by reference to the Proxy Statement, under "Information Regarding the Board of Directors and Nominees", Section 1 6(a) Beneficial Ownership Reporting Compliance" to be filed on or before May 1, 2001 in connection with the Company's Annual Meeting to be held on May 15, 2001

The information required by this item with respect to executive officers is, pursuant to instruction 3 of paragraph (b) of Item 401 of Regulation S-K, set forth in Part I of this Form 1 O-K under "Executive Officers of the Registrant."

ITEM 11. EXECUTIVE COMPENSATION

This information is incorporated herein by reference to the Proxy Statement, under "Management Compensation Committee Interlocks and Insider Participation", in the Proxy Statement to be filed on or before April 30, 2001, in connection with the Company's Annual Meeting to be held on May 15, 2001,

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

This information is incorporated herein by reference to the information included, under "Beneficial Ownership of the Company's Securities", in the Proxy Statement, dated and to be filed on or before March 30, 2001 in connection with the Company's Annual Meeting to be held on May 15, 2001.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

This information is incorporated herein by reference to the information included, under "Certain Transactions" in the Proxy Statement, dated and to be filed on or before April 30, 2001, in connection with the Company's Annual Meeting to be held on May 15, 2001

PART IV

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

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

1. Financial Statements:

- Accountants' Report dated February 13, 2001 of PricewaterhouseCoopers LLP, Independent Accountants
- Consolidated Statements of Income for each of the three years ended December 31, 2000, 1999, and 1998
- Consolidated Balance Sheets at December 31, 2000 and December 31, 1999
- Consolidated Statements of Cash Flows for each of the three years ended December 31, 2000, 1999, and 1998
- Consolidated Statements of Common Stockholders' Equity for each of the three years ended December 31, 2000, 1999, and 1998
- Consolidated Statements of Income Taxes for each of the three years ended December 31, 2000, 1999, and 1998
- Notes to Consolidated Financial Statements

2. Financial Statement Schedules — Schedule II - Valuation and Qualifying Accounts

All other schedules are omitted because they are not required, are inapplicable or the information is otherwise shown in the financial statements or notes thereto.

(b) Reports on Form 8-K:

None

(c) Exhibits:

- Exhibit 3(a) Amended Certificate of Incorporation of Chesapeake Utilities Corporation is incorporated herein by reference to Exhibit 3.1 of the Company's Quarterly Report on Form 10-Q for the period ended June 30, 1998, File No. 001-11590.
- Exhibit 3(b) Amended Bylaws of Chesapeake Utilities Corporation, effective August 20, 1999, are incorporated herein by reference to Exhibit 3 of the Company's Registration Statement on Form 8-A, File No. 001-11590, filed August 24, 1999.
- Exhibit 4(a) Form of Indenture between the Company and Boatmen's Trust Company, Trustee, with respect to the 8 1/4% Convertible Debentures is incorporated herein by reference to Exhibit 4.2 of the Company's Registration Statement on Form S-2, Reg. No. 33-26582, filed on January 13, 1989.
- Exhibit 4(b) Note Agreement dated February 9, 1993, by and between the Company and Massachusetts Mutual Life Insurance Company and MML Pension Insurance Company, with respect to \$10 million of 7.97% Unsecured Senior Notes due February 1, 2008, is incorporated herein by reference to Exhibit 4 to the Company's Annual Report on Form 10-K for the year ended December 31, 1992, File No. O-593.
- Exhibit 4(c) Note Purchase Agreement entered into by the Company on October 2, 1995, pursuant to which the Company privately placed \$10 million of its 6.91% Senior Notes due in 2010, is not being filed herewith, in accordance with Item 601(b)(4)(iii) of Regulation S-K. The Company hereby agrees to furnish a copy of that agreement to the Commission upon request.
- Exhibit 4(d) Note Purchase Agreement entered into by the Company on December 15, 1997, pursuant to which the Company privately placed \$10 million of its 6.85% senior notes due 2012, is not being filed herewith, in accordance with Item 601(b)(4)(iii) of Regulation S-K. The Company hereby agrees to furnish a copy of that agreement to the Commission upon request.
- Exhibit 4(u) Note Purchase Agreement entered into by the Company on December 27, 2000, pursuant to which the Company privately placed \$20 million of its 7.83% senior notes due 2015, is not being filed herewith,

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

- *Exhibit 10(a) Executive Employment Agreement dated March 26, 1997, by and between Chesapeake Utilities Corporation and each Ralph J. Adkins and John R. Schimkaitis is incorporated herein by reference to Exhibit 10 to the Company's Quarterly Report on Form 1 O-Q for the period ended June 30, 1997, File No. 001-1 1590.
- *Exhibit 1 0(b) Executive Employment Agreement dated January 1, 2001, by and between Chesapeake Utilities Corporation and Ralph J. Adkins, filed herewith.
- *Exhibit 1 0(c) Form of Performance Share Agreement dated January 1, 1998, pursuant to Chesapeake Utilities Corporation Performance Incentive Plan by and between Chesapeake Utilities Corporation and each of Ralph J. Adkins and John R. Schimkaitis is incorporated herein by reference to Exhibit 10 of the Company's Annual Report on Form 1 O-K for the year ended December 31, 1997, File No. 001- 11590.
- *Exhibit 1 0(d) Form of Performance Share Agreement dated January 1, 2001, pursuant to Chesapeake Utilities Corporation Performance Incentive Plan by and between Chesapeake Utilities Corporation and each of Ralph J. Adkins, John R. Schimkaitis, Michael P. McMasters and Stephen C. Thompson, filed herewith.
- *Exhibit 1 0(e) Chesapeake Utilities Corporation Cash Bonus Incentive Plan dated January 1, 1992, is incorporated herein by reference to Exhibit 10 to the Company's Annual Report on Form 10-K for the year ended December 31, 1991, File No. O-593.
- *Exhibit 10(f) Chesapeake Utilities Corporation Performance Incentive Plan dated January 1, 1992, is incorporated herein by reference to the Company's Proxy Statement dated April 20, 1992, in connection with the Company's Annual Meeting held on May 19, 1992,
- *Exhibit 1 0(g) Form of Stock Appreciation Rights Agreement dated January 1, 2001, pursuant to Chesapeake Utilities Corporation Performance Incentive Plan by and between Chesapeake Utilities Corporation and each of Philip S. Barefoot, William C. Boyles, Thomas A. Geoffroy, James R. Schneider and William P. Schneider, filed herewith.
- *Exhibit 1 0(h) Directors Stock Compensation Plan adopted by Chesapeake Utilities Corporation in 1995 is incorporated herein by reference to the Company's Proxy Statement dated April 17, 1995 in connection with the Company's Annual Meeting held in May 1995.
- *Exhibit 10(i) United Systems, Inc. Executive Appreciation Rights Plan dated December 31, 2000, filed herewith.
- *Exhibit 1 0(j) United Systems, Inc. Employee Appreciation Rights Plan dated December 31, 2000, filed herewith.
- Exhibit 12 Computation of Ratio of Earning to Fixed Charges, filed herewith.
- Exhibit 21 Subsidiaries of the Registrant, filed herewith,
- Exhibit 23 Consent of Independent Accountants, filed herewith.

* Management contract or compensatory plan or agreement.

SIGNATURES

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

CHESAPEAKE UTILITIES CORPORATION

By: /s/ JOHN R. SCHIMKAITIS
John R. Schimkaitis
President and Chief Executive Officer
Date: March 15, 2001

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ RALPH J. ADKINS
Ralph J. Adkins, Chairman of the Board
and Director
Date: March 15, 2001

/s/ JOHN R. SCHIMKAITIS
John R. Schimkaitis, President,
Chief Executive Officer and Director
Date: March 15, 2001

/s/ MICHAEL P. MCMASTERS
Michael P. McMasters, Vice President,
Chief Financial Officer and Treasurer
(Principal Financial and Accounting Officer)
Date: March 15, 2001

/s/ RICHARD BERNSTEIN
Richard Bernstein, Director
Date: March 15, 2001

/s/ WALTER J. COLEMAN
Walter J. Coleman, Director
Date: March 15, 2001

/s/ JOHN W. JARDINE, JR.
John W. Jardine, Jr., Director
Date: March 15, 2001

/s/ CALVERT A. MORGAN, JR.
Calvert A. Morgan, Jr., Director
Date: March 15, 2001

/s/ RUDOLPH M. PEINS, JR.
Rudolph M. Peins, Jr., Director
Date: March 15, 2001

/s/ ROBERT F. RIDER
Robert F. Rider, Director
Date: March 15, 2001

/s/ JEREMIAH P. SHEA
Jeremiah P. Shea, Director
Date: March 15, 2001

/s/ WILLIAM G. WARDEN, III
William G. Warden, III, Director
Date: March 15, 2001

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						
2000	\$ 475,592	\$ 342,407	\$ 63,741	\$ (33,177)	\$ 549,961	
1999	\$ 302,513	\$ 457,367	\$ 74,877	\$ (359,165)	\$ 475,592	
1998	\$ 331,775	\$ 280,391	\$ 57,759	\$ (367,412)	\$ 302,513	

⁽¹⁾ Recoveries.

⁽²⁾ Uncollectible accounts charged off.

Chesapeake Utilities Corporation and Subsidiaries

Exhibit 12

Ratio of Earnings to Fixed Charges

For the Years Ended December 31,	2000	1999	1998
Income from continuing operations	\$ 7,489,201	\$ 8,270,986	\$ 5,302,586
Add:			
Income taxes	4,496,592	4,684,247	3,225,744
Portion of rents representative of interest factor	217,179	162,278	130,717
Interest on indebtedness	4,398,266	3,351,741	3,256,415
Amortization of debt discount and expense	111,122	117,966	123,335
Earnings as adjusted	\$ 16,712,360	\$ 16,587,218	\$ 12,038,797
Fixed Charges			
Portion of rents representative of interest factor	\$ 217,179	\$ 162,278	\$ 130,717
Interest on indebtedness	4,398,266	3,351,741	3,256,415
Amortization of debt discount and expense	111,122	117,966	123,335
Fixed Charges	\$ 4,726,567	\$ 3,631,985	\$ 3,510,467
Ratio of Earnings to Fixed Charges	3.54	4.57	3.43

Chesapeake Utilities Corporation
Exhibit 21
Subsidiaries of the Registrant

<u>Subsidiaries</u>	<u>State Incorporated</u>
Eastern Shore Natural Gas Company	Delaware
Sharp Energy, Inc.	Delaware
Chesapeake Service Company	Delaware
Xeron, Inc.	Mississippi
Sam Shannahan Well Company, Inc.	Maryland
Sharp Water, Inc.	Delaware

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

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

<u>Subsidiaries of Chesapeake Service Company</u>	<u>State Incorporated</u>
Skipjack, Inc.	Delaware
United Systems, Inc.	Georgia
Capital Data Systems, Inc.	North Carolina
Currin and Associates, Inc.	North Carolina
Chesapeake Investment Company	Delaware
Eastern Shore Real Estate	Maryland

<u>Subsidiaries of Sharp Water, Inc.</u>	<u>State Incorporated</u>
EcoWater Systems of Michigan, Inc.	Michigan
Carroll Water Systems, Inc.	Maryland

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statement on Form S-2 (No. 33-26582), Form S-3 (Nos. 33-28391, 33-64671, 33-64757, 33-63381 and 33-94159) and Form S-8 (No. 33-301175) of Chesapeake Utilities Corporation of our report dated February 13, 2001 relating to the financial statements and financial statement schedule, which appears in this Form 10-K.

PricewaterhouseCoopers LLP

PRICEWATERHOUSECOOPERS LLP

Philadelphia, Pennsylvania

March 30, 2001

*Upon written request,
Chesapeake will provide, free of
charge, a copy of any exhibit to
the 2000 Annual Report on
Form 1 O-K not included
in this document.*

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM IO-Q

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

For **the** quarterly period ended: June 30, 2001

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-I 1590

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

Delaware
(State of other jurisdiction of
incorporation or organization)

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

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

(302) 734-6799
(Registrant's Telephone Number, including Area Code)

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

Common Stock, par value \$.4867 — 5,363,755 shares issued as of June 30, 2001.

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

Chesapeake Utilities Corporation and Subsidiaries

Consolidated Statements of income (Unaudited)

For the Three Months Ended June 30,	2001	2000
Operating Revenues	\$ 71,051,256	\$ 65,950,982
Cost of Sales	57,289,023	53,482,299
Gross Margin	13,762,233	12,468,683
Operating Expenses		
Operations	8,305,274	7,903,429
Maintenance	359,163	512,764
Depreciation and amortization	1,937,004	1,806,892
Other taxes	1,016,499	860,864
income taxes	403,064	149,502
Total operating expenses	12,021,004	11,233,451
Operating Income	1,741,229	1,235,232
Other Income, net	114,337	55,451
Income Before Interest Charges	1,855,566	1,290,683
Interest Charges	1,188,840	971,135
Net Income	\$ 666,726	\$ 319,548
Earnings Per Share of Common Stock:		
Basic	\$ 0.12	\$ 0.06
Diluted	\$ 0.12	\$ 0.06

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

Chesapeake Utilities Corporation and Subsidiaries

Consolidated Statements of Income (Unaudited)

For the Six Months Ended June 30.	2001	2000
Operating Revenues	\$ 205,090,741	\$ 164,460,161
Cost of Sales	168,317,775	130,535,663
Gross Margin	36,772,966	33,924,498
Operating Expenses		
Operations	17,529,021	15,999,242
Maintenance	854,199	916,057
Depreciation and amortization	4,035,627	3,668,621
Other taxes	2,174,089	1,889,149
Income taxes	3,772,471	3,575,469
Total operating expenses	28,365,407	26,048,538
Operating Income	8,407,559	7,875,960
Other Income, net	249,210	82,332
Income Before Interest Charges	8,656,769	7,958,292
Interest Charges	2,624,574	1,969,278
Net Income	\$ 6,032,195	\$ 5,989,014
Earnings Per Share of Common Stock:		
Basic	\$ 1.13	\$ 1.15
Diluted	\$ 1.10	\$ 1.12

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

Chesapeake Utilities Corporation and Subsidiaries

Consolidated Statements of Cash Flows [Unaudited]

For the Six Months Ended June 30,	2001	2000
Operating Activities		
Net Income	\$ 6,032,195	\$ 5,989,014
Adjustments to reconcile net income to net operating cash:		
Depreciation and amortization	4,939,875	4,577,274
Deferred income taxes, net	(501,427)	194,063
Investment tax credit adjustments	(1 7,089)	(17,646)
Mark-to-market adjustments	444,419	(10,637)
Other, net	647,783	441,923
Changes in assets and liabilities:		
Accounts receivable, net	19,581,318	1,806,742
Inventory, materials, supplies and storage gas	2,071,093	(672,358)
Other current assets	(182,539)	3 16,592
Other deferred charges	(1,752,404)	(296,094)
Accounts payable, net	(20,865,948)	64,324
Refunds payable to customers	(105,517)	(97,321)
Over (under) recovered purchased gas costs	1,037,234	(81,438)
Other current liabilities	4,018,755	1,685,970
Net cash provided by operating activities	15,347,748	13,900,408
Investing Activities		
Property, plant and equipment expenditures, net	(9,708,090)	(7,718,465)
Net cash used by investing activities	(9,708,090)	(7,718,465)
Financing Activities		
Common stock dividends, net of amounts reinvested	(2,576,452)	(2458,573)
Issuance of stock:		
Dividend Reinvestment Plan optional cash	88,746	111,419
Retirement Savings Plan	535,470	470,471
Net repayment under line of credit agreements	(3,200,000)	(1,600,000)
Proceeds from issuance of long-term debt	300,000	-
Repayment of long-term debt	(1,385,292)	(1,378,068)
Net cash used by financing activities	(6,237,528)	(4,854,751)
Net (Decrease) Increase in Cash and Cash Equivalents	(597,870)	1,327,192
Cash and Cash Equivalents at Beginning of Period	4,606,316	2,357,173
Cash and Cash Equivalents at End of Period	\$ 4,008,446	\$ 3,684,365

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

Chesapeake Utilities Corporation and Subsidiaries

Consolidated Balance Sheets (Unaudited)

Assets	June 30, 2001	December 31, 2000
Property, Plant and Equipment		
Natural gas distribution and transmission	\$ 155,570,386	\$ 149,121,319
Propane gas distribution and marketing	32,343,435	31,630,208
Advanced information set-vices	1,914,936	1,699,968
Other plant	11,372,758	10,488,581
Total property, plant and equipment	201,201,515	192,940,076
Less: Accumulated depreciation and amortization	(65,151,703)	(61,473,757)
Net property, plant and equipment	136,049,812	131,466,319
investments	615,759	616,293
Current Assets		
Cash and cash equivalents	4,008,446	4,606,316
Accounts receivable, less allowance for uncollectibles	17,915,435	37,941,172
Materials and supplies, at average cost	1,326,455	1,566,126
Merchandise inventory, average cost	1,679,377	1,234,072
Propane inventory, at average cost	2,714,209	4,379,599
Storage gas prepayments	2,888,986	3,500,323
Underrecovered purchased gas costs	4,703,861	5,388,725
Income taxes receivable		1,159,761
Prepaid expenses and other current assets	2,197,814	2,015,274
Total current assets	37,434,583	61,791,368
Deferred Charges and Other Assets		
Environmental regulatory assets	2,859,905	2,910,000
Environmental expenditures	3,405,162	3,626,475
Underrecovered purchased gas costs	1,607,193	1,959,562
Other deferred charges and intangible assets	10,487,924	8,329,485
Total deferred charges and other assets	18,360,184	16,825,522
Total Assets	\$ 192,460,338	\$ 210,699,502

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

Capitalization and Liabilities	June 30, 2001	December 31, 2000
Capitalization		
Stockholders' equity		
Common Stock, par value \$.4867 per share; (authorized 12,000,000 shares; issued 5,363,755 and 5,297,443 shares, respectively)	\$ 2,610,157	\$ 2,577,992
Additional paid-in capital	28,706,413	27,672,005
Retained earnings	36,840,027	33,721,747
Total stockholders' equity	68,156,597	63,971,744
Long-term debt, net of current maturities	49,770,437	50,920,818
Total capitalization	117,927,034	114,892,562
Current Liabilities		
Current portion of long-term debt	2,685,283	2,665,091
Short-term borrowing	22,200,000	25,400,000
Accounts payable	12,788,768	33,654,718
Refunds payable to customers	909,610	1,015,128
Income taxes payable	1,378,834	
Accrued interest	1,762,980	595,175
Dividends payable	1,474,968	1,429,945
Deferred income taxes payable	986,664	985,349
Other accrued liabilities	5,881,757	5,674,418
Total current liabilities	50,068,864	71,419,824
Deferred Credits and Other Liabilities		
Deferred income taxes	14,583,676	15,086,951
Deferred investment tax credits	640,083	657,172
Environmental liability	2,859,905	2,910,000
Accrued pension costs	1,701,762	1,625,128
Other liabilities	4,679,014	4,107,865
Total deferred credits and other liabilities	24,464,440	24,387,116
Total Capitalization and Liabilities	\$ 192,460,338	\$ 210,699,502

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Quarterly Financial Data

The financial information for Chesapeake Utilities Corporation (the "Company") included herein is unaudited and should be read in conjunction with the Company's Annual Report on Form 10-K. In the opinion of management, this financial information reflects only normal recurring adjustments, which are necessary for a fair presentation of the Company's interim results. Due to the seasonal nature of the Company's business, there are substantial variations in the results of operations reported on a quarterly basis and, accordingly, results for any particular quarter may not give a true indication of results for the year. Certain amounts in 2000 have been reclassified to conform to the presentation for the current year.

2. Calculation of Earnings Per Share

For the Period Ended June 30,	Three Months Ended		Six Months Ended	
	2001	2000	2001	2000
Calculation of Basic Earnings Per Share:				
Net Income	\$ 666,726	\$ 319,548	\$ 6,032,195	\$ 5,989,014
Weighted Average Shares Outstanding	5,354,405	5,237,741	5,336,184	5,222,004
Basic Earnings Per Share	\$ 0.12	\$ 0.06	\$ 1.13	\$ 1.15
Calculation of Diluted Earnings Per Share:				
Reconciliation of Numerator:				
Net Income — Basic	\$ 666,726	\$ 319,548	\$ 6,032,195	\$ 5,989,014
Effect of 8.25% Convertible debentures			85,793	90,414
Adjusted numerator — Diluted	\$ 666,726	\$ 319,548	\$ 6,117,988	\$ 6,079,428
Reconciliation of Denominator:				
Weighted Shares Outstanding — Basic	5,354,405	5,237,741	5,336,184	5,222,004
Effect of Dilutive Securities				
Stock options	11,635	11,029	11,438	11,461
8.25% Convertible debentures			202,628	212,370
Adjusted denominator — Diluted	5,366,040	5,248,770	5,550,250	5,445,835
Diluted Earnings per Share	\$ 0.12	\$ 0.06	\$ 1.10	\$ 1.12

3. Commitments and Contingencies

Environmental Matters

The Company is continuing to participate in the investigation, assessment and remediation of three former manufactured gas plant sites located in different jurisdictions. The Company continues to seek cost-effective remedial options that are protective of human health and the environment.

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

At June 30, 2001, the Company had accrued \$2.1 million of costs associated with the remediation of the Dover site and an associated regulatory asset for the same amount. Of that amount, \$1.5 million was for estimated ground-water remediation and \$600,000 was for remaining soil remediation. The \$1.5 million represented the low end of the ground-water remediation estimates prepared by an independent consultant and was used because the Company could not, at that time, predict the remedy the EPA might require.

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

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

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

In accordance with approval from the Maryland Department of the Environment ("MDE"), the Company's remedial system at the Salisbury Town Gas Light site has been temporarily shut down. The Company continues to perform ground-water monitoring at the site and is currently collecting ground-water monitoring data to support a permanent shut-down of the remedial system. The Company reduced the accrual for the costs associated with remediation procedures at this site to \$125,000 from the \$175,000 that was accrued as of December 31, 2000. This revised amount is based on current estimates of the costs of continuing the remediation procedures for the next two years and shutting down the process. The corresponding regulatory asset that was recorded based on management's belief that costs incurred will be recoverable in base rates, was also reduced.

The Winter Haven Coal Gas site is located in the state of Florida. In May 2001, a Remedial Action Plan ("RAP") was approved by the Florida Department of the Environment ("FDEP") to address a majority of the site impacts. Proposals for implementation of the remedial system described in the approved RAP for remediation of soil and ground-water impacts on site were received in June 2001. Negotiations are currently underway for performance of this work. The Company has recorded a liability of \$635,000 and a corresponding regulatory asset at June 30, 2001.

Most of the costs associated with the remediation of environmental contamination caused by natural gas distribution or transmission are recoverable by the Company through its base rates. Management believes that any unrecovered costs incurred to date, as well as costs to be incurred in the future, relating to remediation of contamination of the sites identified above will be recoverable through future rates, or from other responsible parties.

Other Commitments and Contingencies

The Company has made contractual commitments of varying terms for daily entitlements of natural gas from various suppliers. In 2000, the Company entered into a long-term contract with an energy marketing and risk management company for management of its natural gas transportation and storage capacity. That contract is still in effect.

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

Certain assets and liabilities of the Company are accounted for in accordance with Statement of Financial Accounting Standards ("SFAS") No. 71, which, among other matters, provides standards for regulated enterprises for the deferral of costs that will be recovered through future rate increases. If the Company were required to terminate the application of these standards to its regulated operations, all such deferred amounts would be recognized in the income statement at that time. This would result in a charge to earnings, net of applicable income taxes, which could be material.

4. **Reclassification of Amounts for Prior Years**

Certain amounts and balances reported in prior years have been reclassified in the financial statements included in this report to conform to the presentation for the current period.

5. **Recent Authoritative Pronouncements on Financial Reporting and Accounting**

The Financial Accounting Standards Board ("FASB") issued SFAS No. 133 in 1998, establishing accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. In June of 2000, SFAS No. 138, amending certain provisions of SFAS No. 133, was issued by the FASB. The Company adopted these new standards in the first quarter of 2001, as required. The adoption of these new standards did not have a material impact on the Company's financial position or results of operations.

On June 30, 2001, the FASB issued SFAS Nos. 141, 142 and 143. A summary of each is listed below.

- SFAS No. 141, "Business Combinations," eliminates the pooling-of-interest method of accounting for business combinations and requires the use of the purchase method. In addition, the reassessment of intangible assets to determine if they are appropriately classified either separately or within goodwill is required. SFAS No. 141 is effective for business combinations initiated after June 30, 2001. The Company adopted SFAS No. 141 on July 1, 2001 with no material impact on net income.
- SFAS No. 142, "Goodwill and Other Intangible Assets," which eliminates the amortization of goodwill and other acquired intangible assets with indefinite economic useful lives. SFAS No. 142 requires an annual impairment test of goodwill and other intangible assets that are not subject to amortization. SFAS No. 142 is effective for fiscal years beginning after December 15, 2001. The impact of adopting SFAS No. 142 is not yet determinable, but may be material.
- SFAS No. 143, "Accounting for Asset Retirement Obligations," on the accounting for obligations associated with the retirement of long-lived assets. SFAS No. 143 requires a liability to be recognized in the financial statements for retirement obligations meeting specific criteria. Measurement of the initial obligation is to approximate fair value with an equivalent amount recorded as an increase in the value of the capitalized asset. The asset will be depreciable in accordance with normal depreciation policy and the liability will be increased, with a charge to the income statement, until the obligation is settled. SFAS No. 143 is effective for fiscal years beginning after June 15, 2002. The potential impact of adopting SFAS No. 143 is not yet determinable.

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

Business Description

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

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

FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

The Company's capital requirements reflect the capital-intensive nature of its business and are principally attributable to the construction program and the retirement of outstanding debt. The Company relies on cash generated by operations and short-term **borrowing** to meet normal working capital requirements and to temporarily finance capital expenditures. To permanently finance capital improvements **and** acquisitions, the Company uses long-term debt and equity as required to maintain a sound capital structure. During the first six months of 2001, net cash provided by operating activities, net cash used by investing activities and net cash used by financing activities were approximately \$15.3 million, \$9.7 million and \$6.2 million, respectively. Based upon anticipated cash requirements in 2001, the Company may fund its capital expenditures and refinance short-term borrowings through the issuance of long-term debt. The timing of the issuance of any long-term debt is dependent upon a number of considerations, including the nature of the securities to be issued, and existing economic and financial market conditions.

The Board of Directors has authorized the Company to borrow up to \$45 million from various banks and trust companies. As of June 30, 2001, the Company had three unsecured bank lines of credit with two financial institutions, totaling \$60 million. One of the lines of credit is fully committed. Short-term debt outstanding at June 30, 2001 and December 31, 2000 was \$22.2 million and \$25.4 million, respectively. In the first six months, cash provided by operations and cash on hand was adequate to fund capital expenditures and the reduction in debt outstanding. As of June 30, 2001, the Company had deferred \$6.3 million, down \$1.0 million since December 31, 2000, of natural gas costs in excess of the cost **of** gas presently included in its base rates. Management expects to continue to recover these deferred costs through the gas cost recovery mechanism in each of the jurisdictions that regulate the Company's natural gas businesses.

During the six-month periods ended June 30, 2001 and 2000, capital expenditures, including acquisitions, were approximately \$9.7 million and \$7.7 million, respectively. The Company has budgeted \$31.5 million for capital expenditures during 2001. This amount includes \$25.8 million for natural gas distribution and transmission; \$2.5 million for propane distribution and marketing; \$495,000 for advanced information services; and \$2.7 million for general plant. The natural gas expenditures are for expansion and improvement of facilities, for the improvement and expansion of the pipeline system to better serve existing customers and to extend service to customers in the City of Milford, Delaware. The propane expenditures are to support customer growth and for the replacement of older equipment. The advanced information services expenditures are for computer hardware, software and related equipment. Expenditures for general plant include building improvements, **and computer** software and hardware. Management expects to finance the

2001 construction program from short-term borrowing, cash from operations and the issuance of long-term debt, if conditions warrant. The construction program is subject to continual review and modification. Actual capital expenditures may differ from these estimates due to a number of factors including acquisition opportunities, changing economic conditions, customer growth in existing markets, regulation and new growth opportunities. The Company does not budget for acquisitions.

The Company has budgeted \$1.9 million for capital expenditures in 2001 related to environmental remediation projects, and expects to make additional expenditures in future years, a portion of which may need to be financed through external sources. Management does not expect such financing to have a material adverse effect on the financial position or capital resources of the Company (see Note 3 to the Consolidated Financial Statements).

As of June 30, 2001, common equity represented 57.8 percent of permanent capitalization, compared to 55.7 percent as of December 31, 2000. Including both short-term financing and total capitalization, the equity component would have been 47.7 percent and 44.7 percent, respectively. The Company remains committed to maintaining a sound capital structure and strong credit ratings in order to provide the financial flexibility needed to access the capital markets when required. This commitment, along with adequate and timely rate relief for the Company's regulated operations, is intended to ensure that the Company will be able to attract capital from outside sources at a reasonable cost.

Interest for the first half of 2001 increased approximately \$655,000, or 33%, over the same period in 2000. The increase was caused by an increase in average short-term borrowing for the first six months of \$5.0 million and an increase in the average long-term debt balances of \$17.3 million. The increase in borrowing was generated primarily by capital spending and under-recovered gas costs. The Company earns interest on the under-recovered gas costs in Delaware and Florida. The weighted average interest rates for the first half of 2001 was down.

There was a reduction of \$20,026,000 in accounts receivable and \$20,866,000 in accounts payable from December 31, 2000 to June 30, 2001. Balances at year-end were higher, partially due to the higher wholesale price of propane affecting propane marketing receivables and payables, compared to the June 30, 2001 pricing levels. Additionally, the natural gas and propane distribution operations experienced higher revenue and receivables and the corresponding cost of sales and payables in the winter months due to colder temperatures when compared to the summer months.

Results of Operations for the Quarter Ended June 30, 2001

Consolidated Overview

The Company recognized net income of \$667,000 or \$0.12 per share for the second yuarier of 2001. As indicated in the following table, the increase in income is primarily due to higher contributions of pre-tax operating income by the natural gas, propane and advanced information services businesses. These gains were partially offset by lower pre-tax operating income for other business operations, higher interest expense and higher operating income taxes.

For the Three Months Ended June 30,	2001	2000	Change
Pre-tax Operating Income (Loss)			
Natural Gas Distribution & Transmission	\$ 2,547,649	\$ 2,065,853	\$ 481,796
Propane Gas Distribution & Marketing	(526,508)	(908,013)	381,505
Advanced Information Services	112,154	(51,221)	163,375
Other & Eliminations	10,998	278,115	(267,117)
Pre-tax Operating Income	2,144,293	1,384,734	759,559
Operating Income Taxes	403,064	149,502	253,562
interest	1,188,840	971,135	217,705
Non-Operating Income, net	114,337	55,451	58,806
Net Income	\$ 666,726	\$ 319,548	\$ 347,178

Natural Gas Distribution and Transmission

The natural gas distribution and transmission segment reported pre-tax operating income of \$2.5 million for the second quarter 2001 as compared to \$2.1 million for the corresponding period last year—an increase of \$482,000, or 23%. The increase in pre-tax operating income is due to an increase in gross margin and a reduction in operating expenses.

For the Three Months Ended June 30,	2001	2000	Change
Revenue	\$ 26,360,685	\$ 21,824,727	\$ 4,535,958
Cost of Gas	18,067,903	13,967,238	4,100,665
Gross Margin	8,292,782	7,857,489	435,293
Operations & Maintenance	3,808,183	3,983,137	(174,954)
Depreciation & Amortization	1,330,608	1,286,388	44,220
Other Taxes	606,342	522,111	84,231
Total Operating Expenses	5,745,133	5,791,636	(46,503)
Pre-tax Operating Income	\$ 2,547,649	\$ 2,065,853	\$ 481,796

Gross margins increased principally due to rate increases in Florida and customer and volume growth in Delaware and Maryland. These were partially offset by a reduction in Delaware distribution margins that resulted from a weather normalization adjustment of \$60,000 that was recorded in the second quarter of 2000. Additionally, margins for the Florida gas marketing operations increased. Operating expenses declined primarily due to decreases in operations and maintenance expenses. These were the result of cost containment measures initiated by management.

Propane Gas Distribution and Marketing

For the second quarter of 2001, the propane segment recognized a seasonal pre-tax operating loss of \$527,000 compared to \$908,000 for the same period last year. The decrease in the loss was the result of an increase in propane marketing gross margins and a reduction in operating expenses in distribution.

For the Three Months Ended June 30,	2001	2000	Change
Revenue	\$ 38,742,890	\$ 39,233,290	\$ (490,400)
Cost of Sales	36,213,305	36,885,264	(671,959)
Gross Margin	2,529,585	2,348,026	181,559
Operations & Maintenance	2,567,801	2,766,644	(198,843)
Depreciation & Amortization	327,462	347,375	(19,913)
Other Taxes	160,830	142,020	18,810
Total Operating Expenses	3,056,093	3,256,039	(199,946)
Pre-tax Operating Loss	\$ (526,508)	\$ (908,013)	\$ 381,505

The increase in marketing margins is primarily due to opportunities created by the volatility in propane prices. Operating expenses decreased partially due to cost reduction initiatives undertaken by management during the first quarter.

Advanced Information Services

The advanced information services segment recognized pre-tax operating income of \$112,000 for the second quarter of 2001 as compared to a pre-tax operating loss of \$51,000 for the same period last year.

For the Three Months Ended June 30,	2001	2000	Change
Revenue	\$ 3,605,098	\$ 3,192,537	\$ 412,561
Cost of Sales	1,884,868	1,850,974	33,894
Gross Margin	1,720,230	1,341,563	378,667
Operations & Maintenance	1,379,042	1,181,014	198,028
Depreciation & Amortization	67,649	74,403	(6,754)
Other Taxes	161,385	137,367	24,018
Total Operating Expenses	1,608,076	1,392,784	215,292
Pre-tax Operating Income (Loss)	\$ 112,154	\$ (51,221)	\$ 163,375

The increase in pre-tax operating income was primarily the result of an increase in revenues over the depressed levels experienced in 2000. During 2000, many companies curtailed their information technology expenditures, after implementing their Year 2000 contingency plans. During 2001, this segment has expanded its service offerings and repositioned itself under a new name. The margin increase was partially offset by increased operating expenses, primarily sales and marketing, which increased \$170,000.

Other Business Operations

Pre-tax operating income for the second quarter decreased by \$267,000 over the same period last year for other operations. This decline was primarily the result of costs associated with establishing a management infrastructure for the water businesses recently acquired. Additionally, costs were incurred in conjunction with water expanding into new service territories.

Operating Income Taxes

Operating income taxes were higher due to the increase in operating income for the current quarter. For 2001, the Company anticipates paying tax at a higher composite income tax rate.

Interest Expense

Interest for the second quarter of 2001 increased approximately \$218,000, or 22%, over the same period in 2000. The increase was caused by an increase in average short-term borrowing of \$3.7 million and an

increase in the average long-term debt balances of \$17.5 million. The increase in borrowing was generated primarily by capital spending and under-recovered gas costs. The Company earns interest on the under-recovered gas costs. The weighted average interest rates for the first quarter of 2001 were lower.

Environmental Matters

The Company continues to work with federal and state environmental agencies to assess the environmental impact and explore options for corrective action at three former gas manufacturing plant sites (see Note 3 to the Consolidated Financial Statements). The Company believes that future costs associated with these sites will be recoverable in rates or through sharing arrangements with, or contributions by, other responsible parties.

RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED JUNE 30, 2001

Consolidated Overview

The Company recognized net income of \$6.0 million for the first six months of 2001 — a slight increase over the prior year. As indicated in the following table, the increase in income is primarily due to a greater contribution of pre-tax operating income by the natural gas, propane and advanced information services segments. These gains were mostly offset by lower pre-tax operating income from other business operations and increases interest expense.

For the Six Months Ended June 30,	2001	2000	Change
Pre-tax Operating Income (Loss)			
Natural Gas Distribution & Transmission	\$ 8,815,643	\$ 8,453,272	\$ 362,371
Propane Gas Distribution & Marketing	3,168,965	2,583,985	584,980
Advanced Information Services	215,767	(24,966)	240,733
Other & Eliminations	(20,345)	439,138	(459,483)
Pre-tax Operating Income	12,180,030	11,451,429	728,601
Operating Income Taxes	3,772,471	3,575,469	197,002
Interest	2,624,574	1,969,278	655,296
Non-Operating Income, net	249,210	82,332	166,878
Net Income	\$ 6,032,195	\$ 5,989,014	\$ 43,181

Natural Gas Distribution and Transmission

The natural gas distribution and transmission segment reported pre-tax operating income of \$8.8 million for the first six months of 2001 as compared to \$8.5 million for the corresponding period last year—an increase of \$362,000. The increase in pre-tax operating income is due to an increase in gross margin partially offset by higher operating expenses.

For the Six Months Ended June 30,	2001	2000	Change
Revenue	\$ 70,600,734	\$ 51,897,295	\$18,703,439
Cost of Gas	49,742,525	31,848,320	17,894,205
Gross Margin	20,858,209	20,048,975	809,234
Operations & Maintenance	7,919,677	7,870,325	49,352
Depreciation & Amortization	2,809,976	2,608,489	201,487
Other Taxes	1,312,913	1,116,889	196,024
Total Operating Expenses	12,042,566	11,595,703	446,863
Pre-tax Operating Income	\$ 8,815,643	\$ 8,453,272	\$ 362,371

The increase in margin was the result of a rate increase for the Florida distribution operation, increased volumes in Delaware and Maryland related to customer growth and colder weather, and increased firm revenue generated by an expansion of transmission facilities that was completed in November 2000. These were partially offset by a reduction in Delaware distribution margins that resulted from a weather normalization

adjustment of \$418,000 that was recorded in 2000. Operating expenses were higher primarily due to increased depreciation and property taxes calculated on capital additions during the past year.

Propane Gas Distribution and Marketing

for the first six months of 2001, the propane segment contributed pre-tax operating income of \$3.2 million as compared to \$2.6 million for the same period last year. The increase is the result of an increase in gross margin partially offset by an increase in operating expenses.

For the Six Months Ended June 30,	2001	2000	Change
Revenue	\$ 123,338,796	\$ 103,025,163	\$20,313,633
Cost of Sales	112,905,127	93,600,076	19,305,051
Gross Margin	10,433,669	9,425,087	1,008,582
Operations & Maintenance	6,166,415	5,812,469	353,946
Depreciation & Amortization	714,285	690,976	23,309
Other Taxes	384,004	337,657	46,347
Total Operating Expenses	7,264,704	6,841,102	423,602
Pre-tax Operating Income	\$ 3,168,965	\$ 2,583,985	\$ 584,980

Margins increased for both propane distribution and marketing. Retail margins per gallon for the first quarter of 2001 were improved over depressed levels in 2000. Marketing margins were enhanced due to propane price volatility. These increases were partially offset by increased operating expenses caused by higher energy prices and customer service initiatives implemented in 2000.

Advanced Information Services

The advanced information services segment recognized pre-tax operating income of \$216,000 for the first six months of 2001 as compared to a pre-tax operating loss of \$25,000 for the same period last year.

For the Six Months Ended June 30,	2001	2000	Change
Revenue	\$ 7,095,884	\$ 6,362,604	\$ 733,280
Cost of Sales	3,652,483	3,582,213	70,270
Gross Margin	3,443,401	2,780,391	663,010
Operations & Maintenance	2,777,096	2,352,261	424,835
Depreciation & Amortization	129,922	147,442	(17,520)
Other Taxes	320,616	305,654	14,962
Total Operating Expenses	3,227,634	2,805,357	422,277
Pre-tax Operating income (Loss)	\$ 215,767	\$ (24,966)	\$ 240,733

This increase reflects higher revenues in 2001 compared to depressed levels in 2000. During 2000, revenues from the Company's traditional information technology services (i.e. non web-related services) declined after their clients finished implementing their Year 2000 contingency plans. New service offerings, particularly web-related services, have helped improve 2001 revenues. This business segment adopted a new name and has been marketing aggressively. Sales and marketing expenses, which increased \$357,000, were the main factors in the rise in operating expenses from 2000 to 2001.

Other Business Operations

Pre-tax operating income for the second quarter decreased by \$459,000 over the same period last year for other operations. This decline was primarily the result of costs associated with establishing a management infrastructure for the water businesses recently acquired. Additionally, costs were incurred in conjunction with water expanding into new service territories.

Operating Income Taxes

Operating income taxes were higher due to the increase in operating income for the first half of the year. For 2001, the Company anticipates paying tax at a higher composite income tax rate.

Interest Expense

Interest for the first six months of 2001 increased approximately \$655,000, or 33%, over the same period in 2000. The increase was caused by an increase in average short-term borrowing of \$5.0 million and an increase in the average long-term debt balances of \$17.3 million. The increase in borrowing was generated primarily by capital spending and under-recovered gas costs. The Company earns interest on the under-recovered *gas* costs. The weighted average interest rate for the first six months of 2001 was down.

Environmental Matters

The Company continues to work with federal and state environmental agencies to assess the environmental impact and explore options for corrective action at three former gas manufacturing plant sites (see Note 3 to the Consolidated Financial Statements). The Company believes that future costs associated with these sites will be recoverable in rates or through sharing arrangements with, or contributions by, other responsible parties.

OTHER MATTERS

Acquisitions

During the second quarter of 2001, the Company acquired Absolute Water Care, Inc. and certain assets of Aquarius Systems, Inc., two water conditioning and treatment dealerships operating out of three locations in Florida.

In **July** 2001, the Company purchased selected assets of EcoWater Systems of Rochester, located in Rochester, Minnesota, and Intermountain Water, Inc. and Blue Springs Water, located in Boise, Idaho. As a result, the Company will now provide water treatment, water conditioning and bottled water to customers in those geographic regions.

Regulatory Matters

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

A request for approval of a rate increase was filed in June 2000 and interim rates went into effect on August 10, 2000. An order was issued by the Commission in November 2000 approving a rate increase. Final rates were effective in December 2000. Also, in 2000, the Company was notified that two of its large industrial customers in Florida would be closing their facilities. Considering these two factors, management estimates that gross margin on gas sales in Florida in 2001 will increase by approximately \$449,000 over gross margin earned in 2000.

The Company filed for a base rate increase with the Delaware Public Service Commission on August 2, 2001. Management expects to begin charging higher interim rates, subject to refund, in October 2001 with permanent rates going into effect subject to approval by the Public Service Commission.

Competition

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

In some cases the Company's natural gas operations compete with alternative natural gas delivery companies, including the Company's own interstate pipeline. The customers at risk are usually large volume commercial and industrial customers with the financial resources and capability to bypass the distribution of transmission systems. In certain situations, the Company may adjust services and rates for these customers to retain their business. The Company provides unbundled natural gas supply services to compete more effectively for these customers.

The Company's propane distribution operations compete with several other propane distributors in their service territories, primarily on the basis of service and price. Competitors include both large national companies and many, generally smaller, local companies. The number of small local competitors has increased significantly in the last couple of years as fuel oil dealers have entered the propane distribution business.

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

Inflation

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

Cautionary Statement

The Company has made statements in this report that are considered to be forward-looking statements. Such statements are not matters of historical fact. Sometimes they contain words such as "believes," "expects," "intends," "plans," "will," or "may," and other similar words of a predictive nature. These statements relate to matters such as customer growth, changes in revenues or margins, capital expenditures, environmental remediation costs, regulatory approvals, market risks associated with the Company's propane marketing operation, the competitive position of the Company and other matters. It is important to understand that these forward-looking statements are not guarantees, but are subject to certain risks and uncertainties and other important factors that could cause actual results to differ materially from those in the forward-looking statements. These factors include, among other things:

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Market risk represents the potential loss arising from adverse changes in market rates and prices. The Company's long-term debt consists of first mortgage bonds, senior notes and convertible debentures with fixed interest rates, none of which was entered into for trading purposes. The carrying value of this long-term debt at June 30, 2001 was \$52.5 million with a fair value of \$57.1 million, based mainly on current market prices or discounted cash flows using current rates for similar issues with similar terms and remaining maturities. The Company is exposed to changes in interest rates due to the use of fixed rate long-term debt to

finance the business. Management continually monitors fluctuations in interest rates and debt markets to assess the benefits of changing the mix of long and short-term debt or refinancing existing debt.

The Company's propane marketing business is a party to natural gas liquids ("NGL") forward contracts, primarily propane contracts, with various third parties. These contracts obligate the propane marketing business to purchase or sell NGL at a fixed price at fixed future dates. At expiration, the contracts are settled by the delivery of NGL to the respective party. The propane marketing business also enters into futures contracts that are traded on the New York Mercantile Exchange. In certain cases, the futures contracts are settled by the payment of a net amount equal to the difference between the current market price of the futures contract and the original contract price.

The forward and futures contracts are entered into for trading and wholesale marketing purposes. The propane marketing business is subject to commodity price risk on its open positions to the extent that market prices for NGL deviate from fixed contract settlement prices. Market risk associated with the trading of futures and forward contracts are monitored daily for compliance with the Company's Risk Management Policy, which includes volumetric limits for open positions. To manage exposures to changing market prices, open positions are marked up or down to market prices and reviewed by oversight officials on a daily basis. Additionally, the Risk Management Committee reviews periodic reports on market and credit risk, approves any exceptions to the Risk Management Policy (within limits established by the Board of Directors) and authorizes the use of any new types of contracts. Quantitative information on forward and futures contracts at June 30, 2001 is presented in the following table. All of the contracts mature within twelve months.

At June 30, 2001	Quantity in gallons	Estimated Market Prices	Weighted Average Contract Prices
Forward Contracts			
Sale	32,650,800	\$0.3825 — \$0.4100	\$0.4738
Purchase	27,510,000	\$0.3750 — \$0.4200	\$0.4655
Futures Contracts			
Purchase	3,066,000	\$0.3750	\$0.4485
Estimated market prices and weighted average contract prices are in dollars per gallon.			

PART II -OTHER INFORMATION

- Item 1. **Legal Proceedings**
See Note 3 to the Consolidated Financial Statements
- Item 2. **Changes in Securities and Use of Proceeds**
None
- Item 3. **Defaults upon Senior Securities**
None
- Item 4. **Submission of Matters to a Vote of Security Holders**
(a) The matters described in Item 4(c) below were submitted to a vote of stockholders at the Annual Meeting of Stockholders on May 15, 2001 in connection with which, proxies were solicited in accordance with Regulation 14A under the Securities Exchange Act of 1934, as amended.
(b) Not applicable.
(c) Proposals as submitted in the proxy statement were voted on as follows:
i. The election of Ralph J. Adkins, Richard Bernstein and Robert F. Rider as Class II Directors for three-year terms ending in 2004, and until their successors are elected and qualified; and
ii. The ratification of the selection of PricewaterhouseCoopers, LLP as independent auditors for the fiscal year ending December 31, 2001.
- Item 5. **Other Information**
None
- Item 6. **Exhibits and Reports on Form 8-K**
(a) Exhibits
None
(b) Reports on Form 8-K
On May 14, 2001, Chesapeake filed a Current Report on Form 8-K dated May 11, 2001 reporting on Item 5, Other Events, of the entry into an agreement in principle with General Public Utilities Corporation, Inc.

SIGNATURES

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

CHESAPEAKE UTILITIES CORPORATION

/s/ Michael P. McMasters

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

Date: August 14, 2001

CHESAPEAKE UTILITIES CORPORATION
 2002 SUMMARY OF ESTIMATED CAPITAL EXPENDITURES
 DISTRIBUTION UTILITY PLANT
 UNAUDITED

EXHIBIT B

<u>PLANT ACCOUNT NUMBER</u>	<u>DESCRIPTION</u>	<u>TOTAL 2002 CAPITAL ESTIMATED</u>
301	ORGANIZATION	\$0
302	FRANCHISE AND CONSENTS	\$0
303	INTANGIBLE PLANT	\$0
304	LAND AND LAND RIGHTS	\$0
305	STRUCTURES AND IMPROVEMENTS	\$14,948
311	PROPANE PLANT	\$11,697
374	LAND AND LAND RIGHTS	\$0
375	STRUCTURES AND IMPROVEMENTS	\$0
376	MAINS	\$1,193,965
378	M & R EQUIPMENT - GENERAL	\$12,953
379	M & R EQUIPMENT - CITY GATE	\$33,557
380	SERVICES	\$1,145,272
381	METERS	\$335,871
382	METER INSTALLATIONS	\$80,943
383	HOUSE REGULATORS	\$105,727
384	REGULATOR INSTALLATIONS	\$0
385	INDUSTRIAL M & R STATION	\$76,339
387	OTHER EQUIPMENT	\$20,600
389	LAND AND LAND RIGHTS	\$0
390	STRUCTURES AND IMPROVEMENTS	\$120,000
391	OFFICE FURNITURE AND EQUIPMENT	\$15,585
392	TRANSPORTATION	\$178,175
393	STORES EQUIPMENT	\$0
394	TOOLS, SHOP, AND GARAGE EQUIP	\$17,000
395	LABORATORY EQUIPMENT	\$0
396	POWER OPERATED EQUIPMENT	\$208,000
397	COMMUNICATIONS EQUIPMENT	\$0
398	MISCELLANEOUS EQUIPMENT	\$4,380
399	OTHER TANGIBLE PROPERTY	\$0
	TOTAL CAPITAL EXPENDITURES	\$3,575,012

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SOURCES AND USES OF FUNDS

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