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MEMORANDUM

COMMISSION
CLERK

TO: PSC Clerk

FROM: Wayne L. Schiefelbein
Of Counsel

Wayne

050630-GU

RE: Chesapeake Utilities Corporation
Our File No.: 37019.37

DATE: September 21, 2005

On behalf of Chesapeake Utilities Corporation, enclosed for filing are an original and 5 copies of an Application by Chesapeake Utilities Corporation for Authorization to Issue Common Stock, Preferred Stock and Secured and/or Unsecured Debt, and to Enter Into Agreements for Interest Rate Swap Products, and to Exceed Limitation Placed on Short-Term Borrowings in 2006. I have also included one copy to be date stamped and returned to me.

PLEASE OPEN A NEW DOCKET TO PROCESS THE APPLICATION.

If you have any questions, please feel free to call.

WLS/dcr
Enclosures
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FPSC-BUREAU OF RECORDS

DOCUMENT NUMBER-DATE

08958 SEP 21

FPSC-COMMISSION CLERK

050630-GU

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application by Chesapeake Utilities)
Corporation for Authorization to Issue Common)
Stock, Preferred Stock and Secured and/or)
Unsecured Debt, and to Enter into Agreements)
For Interest Rate Swap Products, Equity)
Products and Other Financial Derivatives and to)
Exceed Limitation Placed on Short-Term)
Borrowings in 2006)

APPLICATION BY CHESAPEAKE UTILITIES CORPORATION FOR AUTHORIZATION TO ISSUE COMMON STOCK, PREFERRED STOCK AND SECURED AND/OR UNSECURED DEBT, AND TO ENTER INTO AGREEMENTS FOR INTEREST RATE SWAP PRODUCTS, EQUITY PRODUCTS AND OTHER FINANCIAL DERIVATIVES, AND TO EXCEED LIMITATION PLACED ON SHORT-TERM BORROWINGS IN 2006

Chesapeake Utilities Corporation (Chesapeake, the Company or Applicant) respectfully files this Application, pursuant to Section 366.04 (1), Florida Statutes, seeking authority in 2006 to issue up to 6,000,000 shares of Chesapeake common stock; up to 1,000,000 shares of Chesapeake preferred stock; up to $80,000,000 in secured and/or unsecured debt; to enter into agreements up to $40,000,000 in Interest Rate Swap Products, Equity Products and other Financial Derivatives; and to obtain authorization to exceed the limitation placed on short-term borrowings by Section 366.04, Florida Statutes, so as to issue short-term obligations in 2006, 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
1501 Sixth Street, NW
Winter Haven, Florida 33881

and

(c) 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, Esquire
Of Counsel
Rose, Sundstrom & Bentley, LLP
2548 Blairstone Pines Drive
Tallahassee, Florida 32301
(850) 877-6555
(850) 656-4029 (Fax)

Attorneys 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, 2005: 5,835,431 shares.

(d) Amount held in Treasury: 9,418.

(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, 2005: 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, 2005, there is a remaining balance of $2,463,000 on this issue.

(a)2 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, 2005, there is a remaining balance of $3,000,000 on this issue.

(a)3 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, 2005, there is a remaining balance of $5,454,545 on this issue.

(a)4 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, 2005, there is a remaining balance of $7,000,000 on this issue.

(a)5 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, 2005, there is a remaining balance of $20,000,000 on this issue.

(a)6 6.64% Unsecured Senior Notes due October 31, 2017 and issued on October 31, 2002 in the principal amount of $30,000,000 bearing interest payable semi-annually with provisions for payment of interest only prior to October 31, 2007; thereafter, principal shall be payable, in addition to interest on the unpaid balance, over eleven (11) years at the rate of $2,727,272 per annum. As of June 30, 2005, there is a remaining balance of $30,000,000 on this issue.

(b) The amounts authorized are set forth above.

(c) The amounts outstanding at June 30, 2005 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.

(h) Additional information:

(h)1 5.50% Unsecured Senior Notes due December 28, 2020 and issued on or before December 28, 2006 (unless delayed by Chesapeake, in which case on or before January 15, 2007) in the principal amount of $20,000,000 bearing interest payable quarterly with provisions for payment of interest only prior to December 28, 2011; thereafter, principal shall be payable, in addition to interest on the unpaid balance, for ten (10) years at the rate of $2,000,000 per annum. On September 6, 2005, the Delaware Public Service Commission issued Order No. 6708 approving the issuance of up to $20,000,000 of Chesapeake's 5.50% Unsecured Senior Notes. A Copy of Order No. 6708 is included herewith as Exhibit C. Chesapeake's Board of Directors adopted a resolution on June 29, 2005 for Chesapeake to pursue a long-term debt placement of $20,000,000 with a delayed take-down of funds at a rate not to exceed 6.00%. Chesapeake expects to use the Unsecured Senior Note proceeds to finance the expansion of Chesapeake's natural gas transmission pipeline, expansion of the natural gas distribution system in Delaware and other capital expenditures to support the Company's growth. In addition, Chesapeake signed an agreement in principle on June 29, 2005 with Prudential Investment Management, Inc. doing business as Prudential Capital, pursuant to which Prudential has agreed in principle to purchase from Chesapeake $20,000,000 in principal amount Unsecured Senior Notes issued by Chesapeake if Chesapeake elects to effect the sale of the Unsecured Senior Notes to Prudential at any time prior to January 15, 2007. The interest rate was also fixed at 5.50% on all of the Unsecured Senior Notes. If the funding fails to occur by December 28, 2006, but occurs before January 15, 2007, a delayed delivery fee will be charged to the Company to offset Prudential's hedging costs and to preserve its anticipated yield. Further, if

Chesapeake fails to issue the Notes by January 15, 2007, Chesapeake is required to pay Prudential a cancellation fee equal to the greater of (1) $50,000 or (2) the product of (a) the price increase determined by Prudential as the excess, if any, of the ask price of the Treasury Notes with the duration that most closely approximates the duration of the Notes proposed to be issued, on the date of cancellation, over the bid price of the Hedge Treasury Note (as determined by Prudential) on the date of the acceptance, divided by such bid price, and (b) the principal amount of such Notes. A true and correct copy of the agreement in principle is included herewith at Exhibit C. If the $20,000,000 in principal amount Unsecured Senior Notes are issued by Chesapeake in 2005, the Notes would be issued under the authority for issuance and sale of $40,000,000 in secured and/or unsecured long-term debt during 2005, granted by FPSC Order No. PSC-04-1184-FOF-GU, issued on December 1, 2004. To the extent that the Notes are not issued until 2006, the $40,000,000 in secured and/or unsecured debt for which FPSC approval is being sought to fund general corporate purposes, as described in section 5, would be inclusive of the $20,000,000 principal amount of the Notes. As of June 30, 2005, there is no balance for these Unsecured Senior Notes, as they have not been issued.

(h)2 As of the filing date, the Company had two unsecured committed bank lines of credit in the amounts of $5,000,000 and $10,000,000; and three unsecured, uncommitted bank lines of credit in the amounts of $10,000,000, $20,000,000 and $20,000,000. For one of the $20,000,000 unsecured, uncommitted lines of credit, $5,000,000 of the total line can be used to guarantee letters of credit issued by Chesapeake or one of its subsidiaries for up to 364 days. As of June 30, 2005, the total short-term borrowing outstanding under the bank lines of credit was $0.

5. Authorizations Requested:

Chesapeake requests authorization from the FPSC to issue up to 918,069 new shares of its common stock during 2006 for the purpose of administering Chesapeake's Retirement Savings Plan, Performance Incentive Plan, Dividend Reinvestment and Stock Purchase Plan, conversion of the Company's Convertible Debentures, Directors Stock Compensation Plan, Employee Stock Awards Plan, and to satisfy 30,000 outstanding warrants. The share breakdown for each specific purpose is as follows:

Number of Shares	Purpose
123,872	Issuance pursuant to the Company's Retirement Savings Plan.
200,000	Issuance under the terms of the Company's Performance Incentive Plan.
400,000	Issuance pursuant to the Company's Dividend Reinvestment and Stock Purchase Plan.
144,797	Issuance under the terms of the Company's outstanding 8 1/4% Convertible Debentures.
14,400	Issuance pursuant to the Company's Directors Stock Compensation Plan.
5,000	Issuance under the terms of the Company's Employee Stock Awards Plan.
30,000	Issuance pursuant to Outstanding Stock Warrants.

In addition, Chesapeake is requesting FPSC authorization to issue up to 800,000 shares of Chesapeake stock, or an equity-linked instrument equivalent in value in 2006 to permanently finance Chesapeake's ongoing capital expenditure program. The capital expenditure program is subject to continuous review and modification and is funded from short-term borrowings and cash provided by operating activities. The Company, in an effort to manage its capital structure, may from time to time, permanently finance its short-term borrowings through the issuance of common stock or an equity-linked instrument, as opposed to long-term debt.

Chesapeake requests FPSC authorization to issue up to $40,000,000 in secured and/or unsecured debt during 2006 for general corporate purposes including, but not limited to, working capital, retirement of short-term debt, retirement of long-term debt and capital improvements. To the extent that the 5.50% Unsecured Senior Notes are not issued in 2005, $20,000,000 of the $40,000,000 shall include the 5.50% Unsecured Senior Notes to be purchased by Prudential Investment Management, Inc. doing business as Prudential Capital, on or before January 15, 2007 as more fully described in section 4, paragraph (h)1.

Chesapeake is also requesting FPSC authorization during 2006 to issue up to 4,281,931 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 2006. The bridge financing would subsequently be refinanced as unsecured long-term debt with an estimated rate of interest of up to 300 basis points above U.S. Treasury rates (or extrapolated U.S. Treasury rates) with equivalent average life.

Chesapeake is also requesting authority to issue up to 1,000,000 shares of Chesapeake preferred stock in 2006, 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.

Chesapeake further seeks FPSC approval to enter into financial agreements with institutions in 2006 to negotiate and execute financial derivatives enabling the Company to lock in its future financing costs and minimize its risk. A financial derivative is a risk-shifting agreement, the value of which is derived from the value of an underlying asset. The underlying asset could be a physical commodity, an interest rate, a company's stock, a stock index, a currency, or virtually any other tradable instrument upon which two parties can agree. A financial derivative can be used for hedging, protecting against financial risk, or can be used to speculate on the movement of commodity or security prices, interest rates or the levels of financial indices.

Financial derivatives fall into two categories. One consists of customized, privately negotiated derivatives, referred to as over-the-counter (OTC) derivatives or swaps. The other category consists of standardized, exchange-traded derivatives, known generically as futures. In addition, there are various types of products within each of the two categories. The Company has attempted to identify below some of the financial derivatives that the Company may evaluate in 2006, although the listing is not intended to be all-inclusive. Rather, the Company seeks approval to evaluate and employ those financial derivatives that would mitigate its financial risk associated with a particular financing transaction(s).

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

6. Purposes for which Securities are to be issued:

(a) Chesapeake's Retirement Savings Plan ("RSP") was implemented on February 1, 1977. As of June 30, 2005, the RSP had 347 participants; a total market valuation of $32,910,506 and 498,761 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 within Exhibit J of the Application for Approval of Issuance and Sale of Securities by Chesapeake Utilities Corporation, Docket No. 931112-GU, dated November 17, 1993, and is hereby incorporated by reference. On July 13, 1999, the Delaware Public Service Commission issued Order No. 5165 approving the issuance of an additional 100,000 new shares of Chesapeake common stock for the purpose of administering the RSP. Please note that this Order by the Delaware Public Service Commission is also "open ended" in the sense that there is no time limit by which approved securities need to be issued. A copy of this Order has been previously filed with the FPSC within Exhibit C of the Application by Chesapeake Utilities Corporation for Authorization to Issue Common Stock, Preferred Stock and Secured and/or Unsecured Debt and to Exceed Limitation Placed on Short-Term Borrowings in 2000, Docket No. 991631-GU, dated October 20, 1999, and is hereby incorporated by reference. On December 19, 2000, the Delaware Public Service Commission issued Order No. 5609 approving the issuance of an additional 300,000 new shares of Chesapeake common stock for the purpose of administering the RSP. Please note that this Order by the Delaware Public Service Commission is also "open ended" in the sense that there is no time limit by which approved securities need to be issued. A copy of this Order has been previously filed with the FPSC as Exhibit E of the Consummation Report of Securities Issued by Chesapeake Utilities Corporation, Docket No. 991631-GU, dated March 29, 2001, and is hereby incorporated by reference. Pursuant to these Orders, Chesapeake has issued 376,128 new shares of common stock for the RSP as of June 30, 2005. Thus, there remains to be issued 123,872 shares as authorized by the Delaware Public Service Commission.

The FPSC approved the issuance and sale of up to 157,321 shares of common stock for the Plan during 2005 by Order No. PSC-04-1184-FOF-GU, I issued on December 1, 2004. Chesapeake now seeks FPSC authorization to issue up to 123,872 new shares of Chesapeake common stock for the purpose of administering Chesapeake's Retirement Savings Plan during 2006.

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

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

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

No. 5165 approving the issuance of an additional 200,000 new shares of Chesapeake common stock for the purpose of administering the PIP, coinciding with these amendments. Please note that this Order by the Delaware Public Service Commission is "open ended" in the sense that there is no time limit by which the approved securities need to be issued. A copy of this Order has been previously filed with the FPSC within Exhibit C of the 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.

As of June 30, 2005 Chesapeake had 9,418 shares of treasury stock, which can be reissued from the Performance Incentive Plan to satisfy outstanding awards.

Pursuant to the PIP, Chesapeake has issued 106,050 new shares of common stock as of June 30, 2005. Thus, there remains to be issued 293,950 shares as previously authorized by the Delaware Public Service Commission. The FPSC approved the issuance and sale of up to 307,233 shares of common stock for the PIP during 2005 by Order No. PSC-04-1184-FOF-GU, issued on December 1, 2004. The current PIP expires on December 31, 2005. Stock awards granted prior to 2006, would be issued under the authority of the current PIP. Stock awards granted in 2006 through 2014, to the extent earned and awarded in such years, would be issued under the authority of the new PIP.

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

Chesapeake now seeks FPSC authorization to issue up to 200,000 new shares of Chesapeake common stock for the purpose of administering Chesapeake's Performance Incentive Plan during 2006. The 200,000 shares should be adequate to cover any shares issued in 2006 pursuant to awards granted to executives and other key officers of the Company and its subsidiaries prior to 2006.

(c) Chesapeake's Dividend Reinvestment and Stock Purchase Plan ("DRP") was implemented on April 27, 1989. The DRP Administrator currently has the flexibility of purchasing shares of Chesapeake common stock on the open market, using Treasury stock or issuing new common stock. The gradual issuance of new common stock enables Chesapeake to balance the composition of its capital between common stock and long-term debt. As of June 30, 2005, the DRP had 1,261 stockholder participants.

A copy of the DRP as filed on Registration Statement Form S-3 with the Securities and Exchange Commission has been previously filed with the FPSC as Exhibit D of the Application for Approval of Issuance and Sale of Securities by Chesapeake Utilities Corporation, Docket No. 961194-GU, dated October 1, 1996, and is hereby incorporated by reference. On May 23, 1989, the Delaware Public Service Commission issued Order No. 3071 approving the issuance of up to 200,000 new shares of Chesapeake common stock for the purpose of administering Chesapeake's DRP. Please note that this Order by the Delaware Public Service Commission is "open ended" in the sense that there is no time limit by which the approved securities need to be issued. A copy of this Order has been previously filed with the FPSC within Exhibit J of the Application for Approval of Issuance and Sale of Securities by Chesapeake Utilities Corporation, Docket No. 931112-GU, dated November 17, 1993, and is hereby incorporated by reference. On December 20, 1995, the Delaware Public Service Commission issued Order No. 4097 approving the issuance of an additional 300,000 new shares of Chesapeake common stock for the purpose of administering Chesapeake's DRP. Please note that this Order by the Delaware Public Service Commission is also "open ended" in the sense that there is no time limit by which the approved securities need to be issued. A copy of this Order has been previously filed with the FPSC within Exhibit E of the Application for Approval of Issuance and Sale of Securities by Chesapeake Utilities Corporation, Docket No. 961194-GU, dated October 1, 1996, and is hereby incorporated by reference. On August 5, 2004, Chesapeake's Board of Directors approved 750,000 additional shares of common stock to be authorized and reserved for issuance under the Dividend Reinvestment and Stock Purchase Plan, as well as several amendments to the terms of the Plan. The amended plan (a) allows for direct stock purchases by persons who at the times of purchase are not shareholders of the Company; (b) establishes the minimum investment amount for direct stock purchases by persons who are not shareholders of the Company; (c) fixes the minimum monthly and maximum annual optional cash investment limits for participating shareholders; (d) allows for direct debiting of shareholder-designated bank accounts for purchases; and (e) adds a provision to the Plan, whereby the Company, with the prior approval of the Board of Directors or under guidelines adopted by the Board of Directors, could on a case-by-case basis waive the maximum annual optional cash investment limit and accept investments in excess of that amount. On December 21, 2004 the Delaware Public Service Commission issued Order No. 6543, approving the issuance of an additional 750,000 shares of Chesapeake common stock for the purpose of administering Chesapeake's amended Dividend Reinvestment and Stock Purchase Plan. Please note that this Order by the Delaware Public Service Commission is "open ended" in the sense that there is no time limit by which the approved securities need to be issued. A copy of this Order has been previously filed with the FPSC within Exhibit C of the Consummation Report of Securities Issued by Chesapeake Utilities Corporation, Docket No. 030942-GU, dated March 22, 2005, and is hereby incorporated by reference. Pursuant to the Orders above, Chesapeake has issued 512,664 new shares of common stock as of June 30, 2005. Thus, there remains to be issued 737,336 shares as authorized by the Delaware Public Service Commission. The FPSC approved the issuance and sale of up to 777,657 shares for the DRP during 2005 by Order No. PSC-04-1184-FOF-GU, issued on December 1, 2004.

Chesapeake now seeks FPSC approval to issue up to 400,000 new shares of Chesapeake common stock for the purpose of administering Chesapeake's amended Dividend Reinvestment and Stock Purchase Plan during 2006.

(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, 2005, $2,463,000 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 144,797. A true and correct copy of the Registration Statement on Form S-2 dated February 16, 1989, as filed with the Securities and Exchange Commission, has been previously filed with the FPSC as Exhibit I of the Application for Approval of Issuance and Sale of Securities by Chesapeake Utilities Corporation, Docket No. 931112-GU, dated November 17, 1993, and is hereby incorporated by reference.

The Debentures had a conversion premium greater than the offering price of the common stock 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 within Exhibit J of the Application for Approval of Issuance and Sale of Securities by Chesapeake Utilities Corporation, Docket No. 931112-GU, dated November 17, 1993, and is hereby incorporated by reference.

As of June 30, 2005, a cumulative $1,612,000 of the Convertible Debentures has been converted. The FPSC approved the issuance and sale of up to 161,964 new shares of Chesapeake common stock for the purpose of honoring conversion rights pursuant to the Company's Convertible Debentures during 2005, by Order No.PSC-04-1184-FOF-GU, issued on December 1, 2004. Chesapeake now seeks FPSC authorization to issue up to 144,797 new shares of Chesapeake common stock for the purpose of honoring these conversion rights during 2006.

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

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

Copies of the application to the Delaware Public Service Commission and Order No. 6607 are included as Exhibit D, as well as the DSCP plan document, included as Exhibit F. The FPSC approved the issuance of up to 75,000 shares of common stock for the DSCP during 2005 by Order No. PSC-05-0479-FOF-GU, issued on May 3, 2005. Pursuant to the DSCP, Chesapeake has issued 5,850 new shares of common stock as of June 30, 2005. Thus, there remains to be issued 69,150 shares as previously authorized by the Delaware Public Service Commission.

Chesapeake now seeks FPSC authorization to issue up to 14,400 new shares of Chesapeake common stock for the purpose of administering Chesapeake's DSCP during 2006. The 14,400 shares should be adequate to cover any awards granted to non-employee directors of the Company in 2006.

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

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

Copies of the application and Order No. 6607 are included within Exhibit D, as well as the ESAP document, included as Exhibit G. The FPSC approved the issuance of up to 25,000 shares of common stock for the ESAP during 2005 by Order No. PSC-05-0479-FOF-GU, issued on May 3, 2005. Pursuant to the ESAP, Chesapeake has issued zero (0) shares of common stock as of June 30, 2005. Thus, there remains to be issued 25,000 shares as previously authorized by the Delaware Public Service Commission. Chesapeake now seeks FPSC authorization to issue up to 5,000 new shares of Chesapeake common stock for the purpose of administering Chesapeake's ESAP during 2006. The 5,000 shares should be adequate to cover any awards granted to managers and employees of the Company and its subsidiaries in 2006.

(g) Chesapeake is also requesting authority during 2006 to issue up to 30,000 shares of the Company's common stock to satisfy outstanding stock purchase warrants. In 2000 and 2001, the Company entered into agreements with an investment banking firm to provide consulting services. Under the agreements, the Company issued warrants to the investment banking firm to purchase shares of Chesapeake common stock. On March 31, 2000, the Company issued warrants to the investment banker to purchase 15,000 shares of Company stock at a strike price of $18.00 per share. On March 31, 2001, the Company issued warrants to the investment banker to purchase another 15,000 shares of Company stock at a strike price of $18.25 per share. The warrants are exercisable during a seven-year period after the date granted. Upon exercise, the investment banker will surrender each warrant along with payment in full, by cash, check or wire transfer of the purchase price payable, in respect of the number of shares of stock purchased upon such exercise. The Company may satisfy any exercised warrants by issuing new shares, purchasing shares of common stock in the open market, or reissuing out of treasury to the extent available.

On December 21, 2004, the Delaware Public Service Commission issued Order No. 6543 approving the issuance of 30,000 shares of new common stock to satisfy 30,000 outstanding warrants. Copies of the application and Order are included as Exhibit H. The FPSC approved the issuance of 30,000 shares of the Company's common stock to satisfy outstanding stock purchase warrants in 2005 in Order No. PSC-04-1184-FOF-GU, issued on December 1, 2004. Chesapeake now seeks FPSC authorization to issue up to 30,000 shares of common stock to satisfy outstanding stock purchase warrants in 2006.

(h) Chesapeake is seeking FPSC approval to issue up to 800,000 shares of Chesapeake stock, or an equity-linked instrument equivalent in value in 2006 to permanently finance Chesapeake's ongoing expenditure program.

Financing for the Company's capital expenditure program is subject to continuous review and modification and is funded from short-term borrowings and cash provided by operating activities. The Company, in an effort to manage its capital structure, may, from time to time permanently finance through the issuance of common stock or an equity-linked instrument, as opposed to long-term debt.

(i) Chesapeake seeks FPSC authorization to issue during 2006 up to $40,000,000 in secured and/or unsecured long-term debt with an estimated rate of interest of up to 300 basis points above U.S. Treasury rates (or extrapolated U.S. Treasury rates) with equivalent average life. 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. $20,000,000 of the $40,000,000 would include the 5.50% Unsecured Senior Notes to be purchased by Prudential Investment Management, Inc. doing business as Prudential Capital, on or before January 15, 2007 as more fully described in section 4, paragraph (h)1. The FPSC approved the issuance and sale of $40,000,000 in secured and/or unsecured long-term debt during 2005 by Order No. PSC-04-1184-FOF-GU, issued on December 1, 2004.

(j) Chesapeake seeks further FPSC authorization to issue during 2006 up to an additional 4,281,931 shares of common stock and an additional $40,000,000 in secured and/or unsecured long-term debt with an estimated rate of interest of up to 300 basis points above U.S. Treasury rates (or extrapolated U.S. Treasury rates) with equivalent average life. This additional stock and debt would be used to finance Chesapeake's ongoing acquisition program. Chesapeake expects to continue to search for growth opportunities through acquisitions, which fit its long-range plan to achieve the proper mix of business activities. Financing of acquisitions will depend upon the nature and extent of potential acquisitions as well as current market and economic conditions.

The FPSC approved the issuance and sale of 4,565,825 shares of common stock and $40,000,000 in secured and/or unsecured long-term debt for this purpose during 2005 by Order No. PSC-04-1184-FOF-GU, issued on December 1, 2004.

(k) Chesapeake seeks FPSC authorization to issue up to 1,000,000 shares of Chesapeake preferred stock during 2006 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. As of June 30, 2005, zero (0) shares of Chesapeake preferred stock have been issued. The FPSC approved the issuance and sale of up to 1,000,000 shares of Chesapeake preferred stock for possible acquisitions, financing transactions, and other general corporate purposes, including potential distribution under the Company's Rights Agreement, during 2005 by Order No. PSC-04-1184-FOF-GU, issued on December 1, 2004.

(l) Chesapeake is also requesting authority during 2006 to enter into agreements for financial derivatives including, but not limited to Interest Rate Swap Products, Equity Products, and/or other Financial Derivatives on such terms as Chesapeake considers appropriate provided that the notional amount(s) for said Interest Rate Swap Products, Equity Products, and/or other Financial Derivatives do not, in the aggregate, exceed the sum of $40 million. On July 9, 2002, the Delaware Public Service Commission issued Order No. 5989 approving the Company's application for approval of the issuance of certain long-term debt, and acknowledging that the Company was considering entering into, or utilizing Interest Rate Swap Products. While the Company does not consider such Interest Rate Swap Products, Equity Products, and/or other Financial Derivatives to involve the actual issuance of securities within the ambit of Section 366.04(1), Florida Statutes, in an abundance of caution, Chesapeake requests such authority to the extent the FPSC considers Interest Rate Swap Products, Equity Products, and/or other Financial Derivatives subject to its jurisdiction. In the event that the FPSC does not consider Interest Rate Swap Products, Equity Products, and/or other Financial Derivatives to be jurisdictional, Chesapeake requests that that FPSC issue an Order acknowledging the Company's request and confirming the FPSC's absence of jurisdiction regarding these instruments.

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

7. Lawful objects and purposes:

The common stock, preferred stock and long-term debt authorized for issuance will be used for the purpose of administering Chesapeake's Retirement Savings Plan, Performance Incentive Plan, Dividend Reinvestment and Stock Purchase Plan, Directors Stock Compensation Plan, Employee Stock Awards Plan, conversion of the Company's Convertible Debentures, satisfaction of outstanding stock warrants, financing of the Company's acquisition program and for other corporate purposes including, but not limited to the following: working capital; retirement of short-term debt; retirement of long-term debt; capital improvements; and potential distribution under the Rights Agreement. Chesapeake believes that

Interest Rate Swap Products, Equity Products and other Financial Derivatives would provide Chesapeake with an additional opportunity to achieve lower cost funding of existing and prospective debt and equity placements, as well as enhanced flexibility to manage the Company's exposure to risk as market conditions permit. These are all for lawful objects within the corporate purposes of Chesapeake and compatible with the public interest and are reasonably necessary or appropriate for such purposes.

8. Counsel:

The legality of the common stock, preferred stock and debt issuances will be passed upon by William A. Denman, Esquire, Parkowski, Guerke and Swayze, P.A., 116 West Water Street, Dover, Delaware 19904, who will rely on Wayne L. Schiefelbein, Esquire, Of Counsel, Rose, Sundstrom & Bentley, LLP, 2548 Blairstone Pines Drive, Tallahassee, Florida 32301, as to matters of Florida law.

9. Other Regulatory Agencies:

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

The address of the Delaware Commission is as follows:

Delaware Public Service Commission
861 Silver Lake Boulevard
Cannon Building
Dover, Delaware 19904
Attention: 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. 030942-GU, 991631-GU, 981213-GU, 961194-GU and 931112-GU, respectively, are incorporated in the instant Application by reference:

Docket No. 030942-GU

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

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

Docket No. 991631-GU

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

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

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

<u>Docket No. 981213-GU (as amended on June 25, 1999)</u>

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

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

<u>Docket No. 981213-GU</u>

Exhibit C: Chesapeake Utilities Corporation Amended Performance Incentive Plan.

<u>Docket No. 961194-GU</u>

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

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

<u>Docket No. 931112-GU</u>

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

Exhibit J: Delaware Public Service Commission Order No. 3425 dated June 23, 1992 for the Issuance of Common Stock pursuant to

Chesapeake Utilities Corporation Retirement Savings Plan (100,000 shares);

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

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

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

Filed herewith:

Exhibit A: Exhibit A consists of the following attachments:

A(1) Chesapeake Utilities Corporation Annual Report on Form 10-K for the year ended December 31, 2004.
A(2) Chesapeake Utilities Corporation Quarterly Report on Form 10-Q for the quarter ended June 30, 2005.

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

Exhibit C: Delaware Public Service Commission Order No. 6708 dated September 6, 2005 for the Issuance of up to $20,000,000 of Chesapeake Utilities Corporation 5.50% Unsecured Senior Notes;

and

Chesapeake Utilities Corporation Agreement in Principle with Prudential Investment Management (doing business as Prudential Capital).

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

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

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

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

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

Exhibit H: Delaware Public Service Commission Application and Order No. 6543 dated December 21, 2004 for the issuance of Chesapeake Utilities Corporation Common Stock to satisfy 30,000 Outstanding Warrants (30,000 shares).

12. <u>Constitutionality of Statute:</u>

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

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

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

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

PRAYER FOR RELIEF

Based on the foregoing, Chesapeake Utilities Corporation requests that the FPSC issue an Order authorizing it in 2006 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 enter into agreements up to $40,000,000 in Interest Rate Swap Products, Equity Products and other Financial Derivatives, and to exceed the limitation placed on short-term borrowings by Section 366.04, Florida Statutes, so as to issue up to $40,000,000 in short-term obligations.

Respectfully submitted,

Date: 9/21/05

Wayne L. Schiefelbein

Wayne L. Schiefelbein
Of Counsel
Rose, Sundstrom & Bentley, LLP
2548 Blairstone Pines Drive
Tallahassee, Florida 32301
(850) 877-6555
(850) 656-4029 (Fax)

Attorneys for
Chesapeake Utilities Corporation

STATE OF DELAWARE *

*

COUNTY OF KENT * SS

BE IT REMEMBERED that on this the day of September 14, 2005, 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 Senior Vice President 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, 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
Senior Vice President and CFO

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

[illegible]

Notary Public
My Commission Expires: 10/24/05

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, 2004 Commission File Number: 001-11590

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

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

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

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

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

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

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

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

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

Indicate by checkmark whether the registrant is an accelerated filer (as defined by Exchange Act Rule 12b-2). Yes [X]. No [ ].

As of March 11, 2005, 5,757,146 shares of common stock were outstanding. The aggregate market value of the common shares held by non-affiliates of Chesapeake Utilities Corporation as of June 30, 2004, the last business day of its most recently completed second fiscal quarter, based on the last trade price on that date, as reported by the New York Stock Exchange, was approximately $124 million.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the 2005 Annual Meeting of Stockholders are incorporated by reference in Part III.

CHESAPEAKE UTILITIES CORPORATION

FORM 10-K

YEAR ENDED DECEMBER 31, 2004

TABLE OF CONTENTS

PART I

ITEM 1. BUSINESS

Chesapeake Utilities Corporation ("Chesapeake" or "the Company") 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 operations, 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."

As a public company, Chesapeake files annual, quarterly and other reports, as well as its annual proxy statement and other information, with the Securities and Exchange Commission ("the SEC"). The SEC maintains an Internet site that contains reports, proxy and information statements and other information regarding the Company. The address of the SEC's Internet website is www.sec.gov. Chesapeake makes available, free of charge, on its Internet website its Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports, as soon as reasonably practicable after such reports are electronically filed with or furnished to the SEC. The address of Chesapeake's Internet website is www.chpk.com. The content of this website is not part of this report.

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

If Chesapeake makes any amendment to, or grants a waiver of, any provision of the Business Code of Ethics and Conduct or the Financial Officer Code of Ethics applicable to its principal executive officer, principal financial officer, principal accounting officer or controller, the amendment or waiver will be disclosed within five business days on the Company's Internet website.

(a) General Development of Business

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

Chesapeake's three natural gas distribution divisions serve approximately 50,900 residential, commercial and industrial customers in central and southern Delaware, Maryland's Eastern Shore and parts of Florida. The Company's natural gas transmission subsidiary, Eastern Shore Natural Gas Company ("Eastern Shore"), operates a 307-mile interstate pipeline system that transports gas from various points in Pennsylvania to the Company's Delaware and Maryland distribution divisions, as well as to other utilities and industrial customers in southern Pennsylvania, Delaware and on the Eastern Shore of Maryland. The Company's propane distribution operation serves approximately 34,900 customers in central and southern Delaware, the Eastern Shore of both Maryland and Virginia and parts of Florida. The advanced information services segment provides domestic and international clients with information technology related business services and solutions for both enterprise and e-business applications.

During 2003, Chesapeake decided to exit the water services business and sold the assets of six of the seven dealerships. Chesapeake sold the remaining water dealership during 2004.

(b) Financial Information about Industry Segments

Financial information by business segment is included in Item 8 under the heading "Notes to Consolidated Financial Statements — Note D."

(c) Narrative Description of Business

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

(i) (a) Natural Gas Distribution and Transmission

General

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

Delaware and Maryland. Chesapeake's Delaware and Maryland utility divisions serve approximately 38,900 customers, of which approximately 38,700 are residential and commercial customers purchasing gas primarily for heating purposes. The remainder are industrial customers. For the year 2004, residential and commercial customers accounted for approximately 65% of the volume delivered by the divisions and 71% 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 12,300 residential and commercial and 90 industrial customers in Polk, Osceola, Hillsborough, Gadsden, Gilchrist, Union, Holmes, Jackson, Desoto, Suwannee, Liberty and Citrus Counties. Currently the 90 industrial customers, which purchase and transport gas on a firm basis, account for approximately 97% of the volume delivered by the Florida division and 64% of the revenues. These customers are primarily engaged in the citrus and phosphate industries and in electric cogeneration. PESCO provides natural gas supply management services to 320 customers.

Eastern Shore. The Company's wholly owned transmission subsidiary, Eastern Shore, owns and 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 through Delaware to its terminus on the Eastern Shore of Maryland. Eastern Shore also provides swing transportation service and contract storage services. Eastern Shore's rates and services are subject to regulation by the Federal Energy Regulatory Commission ("FERC").

Adequacy of Resources

General. The Delaware and Maryland divisions have both firm and interruptible contracts with four interstate "open access" pipelines including Eastern Shore. The divisions are directly interconnected with Eastern Shore and services upstream of Eastern Shore are contracted with Transcontinental Gas Pipeline Corporation ("Transco"), Columbia Gas Transmission Corporation ("Columbia") and Columbia Gulf Transmission Company ("Gulf"). The divisions use their firm transportation supply resources to meet a significant percentage of their projected demand requirements. In order to meet the difference between firm supply and firm demand, the divisions purchase natural gas supply on the spot market from various suppliers. This gas is transported by the upstream pipelines and delivered to the divisions' interconnects with Eastern Shore. The divisions also have the capability to use propane-air peak-shaving to supplement or displace the spot market purchases. The Company believes that the availability of gas supply and transportation to the Delaware and Maryland divisions is adequate under existing arrangements to meet the anticipated needs of their customers.

Delaware. The Delaware division's contracts with Transco include: (a) firm transportation capacity of 9,029 dekatherms ("Dt") per day, which expires in 2005; (b) firm transportation capacity of 311 Dt per day for December through February, expiring in 2006; (c) firm transportation capacity of 174 Dt per day, which expires in 2005 and (d) 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.

The Delaware division's contracts with Columbia include: (a) firm transportation capacity of 880 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 2015; (f) firm storage service, providing a peak day entitlement of 635 Dt and a total capacity of 57,139 Dt, which expires in 2018; (g) firm storage service providing a peak day entitlement of 583 Dt and a total capacity of 52,460 Dt, which expires in 2019; (h) firm storage service providing a peak day entitlement of 583 Dt and a total capacity of 52,460 Dt, which expires in 2020; (i) firm storage service providing a peak day entitlement of 15 Dt and a total capacity of 1,350 Dt, which expires in 2018; and (j) firm storage service providing a peak day entitlement of 215 Dt and a total capacity of 10,646 Dt, which expires in 2010. 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.

The Delaware division's contract with Gulf, which expires in 2009, provides firm transportation capacity of 880 Dt per day for the period November through March and 809 Dt per day for the period April through October.

The Delaware division's contracts with Eastern Shore include: (a) firm transportation capacity of 39,987 Dt per day for the period December through February, 38,765 Dt per day for the months of November, March and April, and 29,689 Dt per day for the period May through October, with various expiration dates ranging from 2005 to 2017; (b) firm storage capacity providing a peak day entitlement of 2,655 Dt and a total capacity of 131,370 Dt, which expires in 2013; (c) firm storage capacity providing a peak day entitlement of 580 Dt and a total capacity of 29,000 Dt, which expires in 2013; (d) firm storage capacity providing a peak day entitlement of 911 Dt and a total capacity of 5,708 Dt, which expires in 2006. The Delaware division's firm transportation contracts with Eastern Shore also include Eastern Shore's provision of swing transportation service that expires March 31, 2005. 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 the Delaware division's Transco capacity referenced earlier and (b) an interruptible storage service that supports a swing supply service provided by Transco. Upon expiration of this Eastern shore contract, the associated transportation and storage entitlements will become Delaware division entitlements.

The Delaware division currently has contracts for the purchase of firm natural gas supply with several suppliers. These supply contracts provide the availability of a maximum firm daily entitlement of 27,500 Dt and the supplies are transported by Transco, Columbia, Gulf and Eastern Shore under firm transportation contracts. The gas purchase contracts have various expiration dates and daily quantities may vary from day to day and month to month.

Maryland. The Maryland division'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.

The Maryland division'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 2015; and (e) firm storage service providing a peak day entitlement of 521 Dt and a total capacity of 46,881 Dt, which expires in 2018. The Maryland division'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.

The Maryland division's contract with Gulf, which expires in 2009, 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.

The Maryland division's contracts with Eastern Shore include: (a) firm transportation capacity of 14,918 Dt per day for the period December through February, 14,254 Dt per day for the months of November, March and April and 9,693 Dt per day for the period May through October, with various expiration dates ranging from 2004 to 2013; (b) firm storage capacity 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 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 providing a peak day entitlement of 569 Dt and a total capacity of 3,560 Dt, which expires in 2006. The Maryland division's firm transportation contracts with Eastern Shore also include Eastern Shore's provision of swing transportation service that expires March 31, 2005. This service includes: (a) firm transportation capacity of 969 Dt per day on Transco's pipeline system, retained by Eastern Shore, in addition to the Maryland division's Transco capacity referenced earlier and (b) an interruptible storage service that supports a swing supply service provided by Transco. Upon expiration of this Eastern Shore contract, the associated transportation and storage entitlements will become Maryland division entitlements.

The Maryland division currently has contracts for the purchase of firm natural gas supply with several suppliers. These supply contracts provide the availability of a maximum firm daily entitlement of 9,000 Dt and the supplies are transported by Transco, Columbia, Gulf and Eastern Shore under the Maryland division'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, which expires in 2010; and (b) daily firm transportation capacity of 1,000 Dt daily, which expires in 2015.

The Florida division also began receiving transportation service from Gulfstream Natural Gas System ("Gulfstream"), beginning in June 2002. Chesapeake has a contract with Gulfstream for daily firm transportation capacity of 10,000 Dt daily. The contract with Gulfstream expires May 31, 2022.

Eastern Shore. Eastern Shore has 2,888 thousand cubic feet ("Mcf") of firm transportation capacity under contract with Transco, which expires in 2005. Eastern Shore also has contracts with Transco for: (a) 5,406 Mcf of firm peak day entitlements and total storage capacity of 267,981 Mcf, which expires in 2013; and (b) 1,640 Mcf of firm peak day entitlements and total storage capacity of 10,283 Mcf, which expires in 2006.

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

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

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

Regulatory Proceedings

See discussion of regulatory activities in Item 7 under the heading "Management's Discussion and Analysis — Regulatory Activities."

(i) (b) Propane Distribution and Wholesale 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 Co., Incorporated ("Tri-County"), a wholly owned subsidiary of Chesapeake. The propane wholesale marketing group consists of Xeron, Inc. ("Xeron"), a wholly owned subsidiary of Chesapeake.

Propane is a form of liquefied petroleum gas, which is typically extracted from natural gas or separated during the crude oil refining process. Although propane is a gas at normal pressure, it is easily compressed into liquid form for storage and transportation. Propane is a clean-burning fuel, gaining increased recognition for its environmental superiority, safety, efficiency, transportability and ease of use relative to alternative forms of 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.

During 2004, the Company's propane distribution operations served approximately 34,900 propane customers on the Delmarva Peninsula, southeastern Pennsylvania and in Florida and delivered approximately 25 million retail and wholesale gallons of propane.

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

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

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 take-or-pay premiums) and maximum purchase provisions.

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

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

Competition

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

Rates and Regulation

The Company's propane distribution and wholesale marketing activities are not subject to any federal or state pricing regulation. Transport operations are subject to regulations concerning the transportation of hazardous materials promulgated 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 million, but there is no assurance that such insurance will be adequate.

(i) (c) Advanced Information Services

General

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

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

Competition

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

(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 in Delaware and Maryland to affiliates of Chesapeake. Chesapeake Investment Company is a Delaware affiliated investment company. During 2004, Chesapeake formed a new company, OnSight Energy, LLC ("OnSight"), to provide distributed energy solutions to customers requiring reliable, uninterrupted energy sources and/or those wishing to reduce energy costs. OnSight signed its first contract in January 2005.

Chesapeake conducted its water conditioning and treatment and bottled water services business through separate subsidiaries. The assets of all of the water businesses were sold in 2003 and 2004 and the subsidiaries are now inactive.

(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 and capital expenditures for environmental control facilities are included in Item 7 under the heading "Management Discussion and Analysis — Liquidity and Capital Resources."

(iv) Employees

As of December 31, 2004, Chesapeake had 426 employees, including 187 in natural gas, 138 in propane and 71 in advanced information services. The remaining 30 employees are considered general and administrative and include officers of the Company, treasury, accounting, information technology, human resources and other administrative personnel.

(v) Executive Officers of the Registrant

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

John R. Schimkaitis (age 57) Mr. Schimkaitis is President and Chief Executive Office of Chesapeake and its subsidiaries. Mr. Schimkaitis assumed the role of Chief Executive Officer on January 1, 1999. He has served as President since 1997. Prior to this, Mr. Schimkaitis served as President and Chief Operating Officer, Executive Vice President, Senior Vice President, Chief Financial Officer, Vice President, Treasurer, Assistant Treasurer and Assistant Secretary of Chesapeake.

Paul M. Barbas (age 48) Mr. Barbas is Executive Vice President and President of Chesapeake Service Company. He was appointed Executive Vice President in 2004 and served as Vice President and President of Chesapeake Service Company since joining the company in 2003. Prior to joining Chesapeake, Mr. Barbas was Executive Vice President of Allegheny Power. Mr. Barbas joined Allegheny Energy as President of Allegheny Ventures in 1999 and was appointed Executive Vice President of Allegheny Power in 2001. Prior to 1999 Mr. Barbas held a variety of executive position within G.E. Capital.

Michael P. McMasters (age 46) Mr. McMasters is Senior Vice President and Chief Financial Officer of Chesapeake Utilities Corporation. He was appointed Senior Vice President in 2004 and has served as Chief Financial Officer since December 1996. He has previously held the positions of Vice President, Treasurer, Director of Accounting and Rates, and Controller. From 1992 to May 1994, Mr. McMasters was employed as Director of Operations Planning for Equitable Gas Company.

Stephen C. Thompson (age 44) Mr. Thompson is President of Eastern Shore Natural Gas Company and Senior Vice President of Chesapeake Utilities Corporation. Prior to becoming Senior Vice President in 2004, he served as Vice

President of Chesapeake since May 1997. He has also served as Vice President, Director of Gas Supply and Marketing, Superintendent of Eastern Shore and Regional Manager for the Florida distribution operations.

William C. Boyles (age 47) 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 Accounting and Finance, Treasurer, Assistant Treasurer, Treasury Department Manager and Assistant Secretary. 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.

S. Robert Zola (age 52) Mr. Zola joined Sharp Energy in August of 2002 as President. Prior to joining Sharp Energy, Mr. Zola most recently served as Northeast Regional Manager of Synergy Gas, now Cornerstone MLP in Philadelphia, PA. During his 24-year career in the propane industry, Mr. Zola also started Bluestreak Propane in Phoenix, AZ, which after successfully developing the business, was sold to Ferrell Gas.

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 and Ocean View, Delaware; Jupiter and Lecanto, Florida; Chincoteague and Belle Haven, Virginia; Easton, and Salisbury, Maryland; Honey Brook, Pennsylvania; Houston, Texas; and Atlanta, Georgia. In general, the Company believes that its properties are adequate for the uses for which they are employed. Capacity and utilization of the Company's facilities can vary significantly due to the seasonal nature of the natural gas and propane distribution businesses.

(b) Natural Gas Distribution

Chesapeake owns over 800 miles of natural gas distribution mains (together with related service lines, meters and regulators) located in its Delaware and Maryland service areas and 678 miles of natural gas distribution 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. During 2004, portions of the properties constituting Chesapeake's distribution system were encumbered by the lien of the Mortgage securing Chesapeake's First Mortgage Bonds. In December 2004, the outstanding First Mortgage Bonds were repaid in full.

(c) Natural Gas Transmission

Eastern Shore owns and operates approximately 307 miles of transmission pipelines extending from supply interconnects at Parkesburg, Pennsylvania; Daleville, Pennsylvania and Hockessin, Delaware to approximately seventy-five delivery points in southeastern Pennsylvania, Delaware and the eastern shore of Maryland. Eastern Shore also owns compressor stations located in Daleville, Pennsylvania, Delaware City, Delaware and Bridgeville, Delaware. The compressor stations are used to increase pressures as necessary to meet system demands.

(d) Propane Distribution and Wholesale Marketing

The company's Delmarva-based propane distribution operation owns bulk propane storage facilities with an aggregate capacity of approximately 2.0 million gallons at 38 plant facilities in Delaware, Maryland and Virginia, located on real estate that is either owned or leased. The company's Florida-based propane distribution operation owns three bulk propane storage facilities with a total capacity of 66,000 gallons. Xeron does not own physical storage facilities or equipment to transport propane; however, it leases propane storage capacity and pipeline capacity.

(e) Water Services

The Company owns a facility in Salisbury, Maryland, formerly used in connection with its water business, which is listed for sale.

ITEM 3. LEGAL PROCEEDINGS

(a) General

The Company and its subsidiaries are involved in various 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

See discussion of environmental commitments and contingencies in Item 8 under the heading "Notes to Consolidated Financial Statements — Note N."

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

None

PART II

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

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

The Company's Common Stock is listed on the 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 2004 and 2003 were as follows:

	Quarter Ended	High	Low	Close	Dividends Declared Per Share
2004					
	March 31	**$26.51**	**$24.30**	**$25.62**	**$0.275**
	June 30	**26.20**	**20.42**	**22.70**	**0.275**
	September 30	**25.40**	**22.10**	**25.10**	**0.280**
	December 31	**27.55**	**24.50**	**26.70**	**0.280**
2003					
	March 31	$19.84	$18.40	$18.80	$0.275
	June 30	23.84	18.45	22.60	0.275
	September 30	24.45	20.49	22.92	0.275
	December 31	26.70	23.02	26.05	0.275

Indentures to the long-term debt of the Company contain various restrictions. The most stringent restrictions state that the Company must maintain equity of at least 40 percent of total capitalization and the times interest earned ratio must be at least 2.5. Additionally, under the terms of the Company's Note Agreement for the 6.64 percent Senior Notes, the Company cannot, until the retirement of the Senior Note, pay any dividends after October 31, 2002 which exceed the sum of $10 million plus consolidated net income recognized after January 1, 2003. As of December 31, 2004, the amount available for future dividends under this covenant is $14.6 million.

At December 31, 2004, there were approximately 2,026 shareholders of record of the Common Stock.

(b) Changes in Securities, Use of Proceeds and Issues Purchases of Equity Securities

The following table sets forth information on purchases by or on behalf of Chesapeake of shares of its Common Stock during the quarter ended December 31, 2004.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs (1)
October 1, 2004 through October 31, 2004 (2)	417	$25.59	-	-
November 1, 2004 through November 30, 2004	-	$0.00	-	-
December 1, 2004 through December 31, 2004	-	$0.00	-	-
Total	417	$25.59	-	-

(1) Chesapeake has no publicly announced plans or programs to repurchase its shares.

(2) The Company maintains a Rabbi Trust ("the Trust") that holds Chesapeake Utilities Corporation common stock, pursuant to a deferred compensation plan.T he stock in the Trust is recorded as treasury stock. The Trustee reinvests cash dividends in Company stock. The stock is purchased on the open market.

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ITEM 6. SELECTED FINANCIAL DATA

For the Years Ended December 31,	2004	2003	2002
Operating (in thousands of dollars) [2]			
Revenues			
Natural gas distribution & transmission	$124,246	$110,247	$93,588
Propane	41,500	41,029	29,238
Advanced informations systems	12,427	12,578	12,764
Other & eliminations	(218)	(286)	(334)
Total revenues	$177,955	$163,568	$135,256
Operating income			
Natural gas distribution & transmission	$17,091	$16,653	$14,973
Propane	2,364	3,875	1,052
Advanced informations systems	387	692	343
Other & eliminations	128	359	237
Total operating income	$19,970	$21,579	$16,605
Net income from continuing operations	$9,550	$10,079	$7,535
Assets (in thousands of dollars)			
Gross property, plant and equipment	$250,267	$234,919	$229,128
Net property, plant and equipment [3]	$177,053	$167,872	$166,846
Total assets [3]	$241,938	$222,058	$223,721
Capital expenditures [2]	$17,852	$11,822	$13,836
Capitalization (in thousands of dollars)			
Stockholders' equity	$77,962	$72,939	$67,350
Long-term debt, net of current maturities	66,190	69,416	73,408
Total capitalization	$144,152	$142,355	$140,758
Current portion of long-term debt	$2,909	$3,665	$3,938
Short-term debt	4,700	3,515	10,900
Total capitalization and short-term financing	$151,761	$149,535	$155,596

[1] The years 1998, 1997, 1996 and 1995 have not been restated to reflect the "accrual" revenue recognition method due to the immateriality of the impact on the Company's financial results.

[2] These amounts exclude the results of water services due to their reclassification to discontinued operations.

[3] The years 2004, 2003, 2002 and 2001 reflect the results of adopting SFAS No. 143.

2001	2000	1999	1998 [1]	1997 [1]	1996 [1]	1995 [1]
$107,418	$101,138	$75,637	$68,770	$88,108	$90,044	$79,110
35,742	31,780	25,199	23,377	28,614	36,727	26,806
14,104	12,390	13,531	10,331	7,786	7,230	8,862
(113)	(131)	(14)	(15)	(182)	(243)	(1,661)
$157,151	$145,177	$114,353	$102,463	$124,326	$133,758	$113,117
$14,405	$12,798	$10,388	$8,820	$9,240	$9,627	$10,812
913	2,135	2,622	965	1,137	2,668	2,128
517	336	1,470	1,316	1,046	1,056	1,061
386	816	495	485	558	560	(34)
$16,221	$16,085	$14,975	$11,586	$11,981	$13,911	$13,967
$7,341	$7,665	$8,372	$5,329	$5,812	$7,764	$7,681
$216,903	$192,925	$172,068	$152,991	$144,251	$134,001	$120,746
$161,014	$131,466	$117,663	$104,266	$99,879	$94,014	$85,055
$222,229	$211,764	$166,958	$145,029	$145,719	$155,786	$130,998
$26,293	$22,057	$21,365	$12,516	$13,471	$15,399	$12,887
$67,517	$64,669	$60,714	$56,356	$53,656	$50,700	$45,587
48,409	50,921	33,777	37,597	38,226	28,984	31,619
$115,926	$115,590	$94,491	$93,953	$91,882	$79,684	$77,206
$2,686	$2,665	$2,665	$520	$1,051	$3,526	$1,787
42,100	25,400	23,000	11,600	7,600	12,735	5,400
$160,712	$143,655	$120,156	$106,073	$100,533	$95,945	$84,393

ITEM 6. SELECTED FINANCIAL DATA

For the Years Ended December 31,	2004	2003	2002
Common Stock Data and Ratios			
Basic earnings per share from continuing operations (2)	$1.66	$1.80	$1.37
Return on average equity from continuing operations (2)	12.7%	14.4%	11.2%
Common equity / total capitalization	54.1%	51.2%	47.8%
Common equity / total capitalization and short-term financing	51.4%	48.8%	43.3%
Book value per share	$13.49	$12.89	$12.16
Market price:			
High	$27.550	$26.700	$21.990
Low	$20.420	$18.400	$16.500
Close	$26.700	$26.050	$18.300
Average number of shares outstanding	5,735,405	5,610,592	5,489,424
Shares outstanding at year-end	5,730,913	5,612,935	5,500,357
Registered common shareholders	2,026	2,069	2,130
Cash dividends declared per share	$1.12	$1.10	$1.10
Dividend yield (annualized)	4.2%	4.2%	6.0%
Payout ratio from continuing operations (2)	67.5%	61.1%	80.3%
Additional Data			
Customers			
Natural gas distribution and transmission	50,878	47,649	45,133
Propane distribution	34,888	34,894	34,566
Volumes			
Natural gas deliveries (in MMCF)	31,430	29,375	27,935
Propane distribution (in thousands of gallons)	24,979	25,147	21,185
Heating degree-days (Delmarva Peninsula)	4,539	4,715	4,161
Propane bulk storage capacity (in thousands of gallons)	2,045	2,195	2,151
Total employees (2)	426	439	455

(1) The years 1998, 1997, 1996 and 1995 have not been restated to reflect the "accrual" revenue recognition method due to the immateriality of the impact on the Company's financial results.

(2) These amounts exclude the results of water services due to their reclassification to discontinued operations.

2001	2000	1999	1998[1]	1997[1]	1996[1]	1995[1]
$1.37	$1.46	$1.63	$1.05	$1.17	$1.58	$1.59
11.1%	12.2%	14.3%	9.7%	11.1%	16.1%	18.6%
58.2%	55.9%	64.3%	60.0%	58.4%	63.6%	59.0%
42.0%	45.0%	50.5%	53.1%	53.4%	52.8%	54.0%
$12.45	$12.21	$11.71	$11.06	$10.72	$10.26	$9.38
$19.900	$18.875	$19.813	$20.500	$21.750	$18.000	$15.500
$17.375	$16.250	$14.875	$16.500	$16.250	$15.125	$12.250
$19.800	$18.625	$18.375	$18.313	$20.500	$16.875	$14.625
5,367,433	5,249,439	5,144,449	5,060,328	4,972,086	4,912,136	4,836,430
5,394,516	5,290,001	5,186,546	5,093,788	5,004,078	4,939,515	4,860,588
2,171	2,166	2,212	2,271	2,178	2,213	2,098
$1.10	$1.07	$1.03	$1.00	$0.97	$0.93	$0.90
5.6%	5.8%	5.7%	5.5%	4.7%	5.5%	6.2%
80.3%	73.3%	63.2%	95.2%	82.9%	58.9%	56.6%
42,741	40,854	39,029	37,128	35,797	34,713	33,530
35,530	35,563	35,267	34,113	33,123	31,961	31,115
27,264	30,830	27,383	21,400	23,297	24,835	29,260
23,080	28,469	27,788	25,979	26,682	29,975	26,184
4,368	4,730	4,082	3,704	4,430	4,717	4,594
1,958	1,928	1,926	1,890	1,866	1,860	1,818
458	471	466	431	397	338	335

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

Business Description

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

Critical Accounting Policies

Chesapeake's reported financial condition and results of operations are affected by the accounting methods, assumptions and estimates that are used in the preparation of the Company's financial statements. Because most of Chesapeake's businesses are regulated, the accounting methods used by Chesapeake must comply with the requirements of the regulatory bodies. Therefore, the choices available are limited by these regulatory requirements. Management believes that the following policies require significant estimates or other judgments of matters that are inherently uncertain. These policies and their application have been discussed with the Audit Committee of Chesapeake.

Regulatory Assets and Liabilities

Chesapeake records certain assets and liabilities in accordance with SFAS No. 71 "Accounting for the Effects of Certain Types of Regulation." Costs are deferred when there is a probable expectation that they will be recovered in future revenues as a result of the regulatory process. At December 31, 2004, Chesapeake had recorded regulatory assets of $4.0 million, including $1.5 million for under-recovered purchased gas costs, $737,000 for Florida flex rates and $712,000 for tax-related regulatory assets. The Company has recorded regulatory liabilities totaling $17.2 million, including $15.0 million for accrued asset removal cost and $1.3 million for self-insurance at December 31, 2004. If the Company were required to terminate application of SFAS No. 71, it would be required to recognize all such deferred amounts as a charge to earnings, net of applicable income taxes. Such a charge could have a material adverse effect on the Company's results of operations.

Valuation of Environmental Assets and Liabilities

As more fully described in Note N to the Financial Statements, Chesapeake has completed its responsibilities related to one environmental site and is currently participating in the investigation, assessment or remediation of three other former gas manufacturing plant sites. Amounts have been recorded as environmental liabilities and associated environmental regulatory assets based on estimates of future costs provided by independent consultants. There is uncertainty in these amounts because the Environmental Protection Agency ("EPA") or state authority may not have selected the final remediation methods. Additionally, there is uncertainty due to the outcome of legal remedies sought from other potentially responsible parties. At December 31, 2004, Chesapeake had recorded environmental regulatory assets of $279,000 and a liability for environmental costs of $462,000.

Propane Wholesale Marketing Contracts

Chesapeake's propane wholesale marketing operation enters into forward and futures contracts that are considered derivatives under Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities." In accordance with the pronouncement, open positions are marked to market prices at the end of each reporting period and unrealized gains or losses are recorded in the Consolidated Statement of Income as revenue. The contracts all mature within one year, and are almost exclusively for propane commodities with delivery points of Mt. Belvieu, Texas and Hattiesburg, Mississippi. Management estimates the market valuation based on reference to exchange-traded futures prices, historical differentials and actual trading activity at the end of the reporting period. At December 31, 2004, these contracts had net unrealized losses of $182,000 that were recorded in the financial statements. At December 31, 2003, these contracts had net unrealized gains of $172,000 that were recorded in the financial statements.

Operating Revenues
Revenues for the natural gas distribution operations of the Company are based on rates approved by the public service commissions of the jurisdictions in which the Company operates. The natural gas transmission operation's revenues are based on rates approved by the Federal Energy Regulatory Commission ("FERC"). Customers' base rates may not be changed without formal approval by these commissions. However, the regulatory authorities have granted the Company's regulated natural gas distribution operations the ability to negotiate rates with customers that have competitive alternatives using approved methodologies. In addition, the natural gas transmission operation can negotiate rates above or below the FERC approved tariff rates.

Chesapeake's natural gas distribution operations in Delaware and Maryland 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 interruptible customer is contractually obligated to deliver or receive natural gas.

The propane wholesale marketing operation records trading activity net, on a mark-to-market basis, for open contracts. The natural gas segment recognizes revenue on an accrual basis. The propane distribution, advanced information services and other segments record revenue in the period the products are delivered and/or services are rendered.

Goodwill Impairment
In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets," Chesapeake no longer amortizes goodwill. Instead, goodwill is tested for impairment. The initial test was performed upon adoption of SFAS No. 142 on January 1, 2002, and again at the end of 2002, 2003 and 2004. These tests were based on subjective measurements, including discounted cash flows of expected future operating results and market valuations of similar businesses. Those tests indicated that the goodwill associated with the water business was impaired and charges totaling $4.7 million (pre-tax) were recorded in 2002. At December 31, 2003 and 2004, no goodwill remained related to the water companies. The propane unit had $674,000 in goodwill at both December 31, 2003 and 2004. Testing has not indicated that any impairment is necessary. Goodwill is tested annually and when events change.

Results of Operations
The Company's net income from continuing operations was $9.6 million, or $1.64 per share (diluted), for 2004, a decline of $530,000 compared to net income from continuing operations of $10.1 million, or $1.76 per share (diluted), for 2003. The decrease principally reflects a decline in operating income caused by warmer temperatures on the Delmarva Peninsula and cost increases associated with documenting and auditing internal control and compliance efforts in accordance with Section 404 of the Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley").

Management's Discussion and Analysis

Net income from continuing operations for 2003 was $10.1 million compared to $7.5 million for 2002. Net income for 2003 was $9.3 million, or $1.63 per share (diluted), compared to net income of $3.7 million in 2002, or $0.68 per share (diluted). During 2003, Chesapeake decided to exit the water services business and had sold the assets of six of seven dealerships by December 31, 2003. The remaining operation was sold in 2004. The results of water services were classified as discontinued operations for all periods. Discontinued operations experienced losses of $0.02, $0.13 and $0.34 per share (diluted) for 2004, 2003 and 2002, respectively. Chesapeake adopted SFAS No. 142 "Goodwill and Other Intangible Assets" in 2002. This resulted in a non-cash charge of $0.35 per share for goodwill impairment recorded as the cumulative effect of a change in accounting principle.

Net Income & Diluted Earnings Per Share Summary

For the Years Ended December 31,	2004	2003	Increase (decrease)	2003	2002	Increase (decrease)
Net Income *						
Continuing operations	**$9,550**	$10,080	($530)	$10,080	$7,535	$2,545
Discontinued operations	**(121)**	(788)	667	(788)	(1,898)	1,110
Change in accounting principle	**-**	-	-	-	(1,916)	1,916
Total Net Income	**$9,429**	$9,292	$137	$9,292	$3,721	$5,571
Diluted Earnings Per Share						
Continuing operations	**$1.64**	$1.76	($0.12)	$1.76	$1.37	$0.39
Discontinued operations	**(0.02)**	(0.13)	0.11	(0.13)	(0.34)	0.21
Change in accounting principle	**-**	-	-	-	(0.35)	0.35
Total Earnings Per Share	**$1.62**	$1.63	($0.01)	$1.63	$0.68	$0.95

** Dollars in thousands.*

Chesapeake's 2004 results reflected strong customer growth, warmer weather as compared to 2003, customers' energy conservation and costs incurred to comply with Sarbanes-Oxley. Weather, measured in heating degree-days, was 4 percent warmer than 2003. Management estimates that warmer weather negatively impacted gross margin by $614,000. The natural gas segment was able to offset the impact of warmer weather through customer growth of 7 percent. Additionally, the Company incurred approximately $600,000 of expenses through December 31, 2004 related to compliance with Section 404 of Sarbanes-Oxley. These costs include incremental audit fees, expansion of the Internal Audit Department and the temporary hiring of an outside consultant. The increase in operating income from the Company's natural gas operations was more than offset by decreases in the propane and advanced information services businesses.

Improvement in Chesapeake's 2003 overall results compared to 2002 was primarily related to strong customer growth and colder weather, which led to increased contributions from the Company's natural gas and propane operations. The Delmarva natural gas operations experienced an increase of 6.4 percent in residential customers. Weather, measured in heating degree-days, was 13 percent colder than 2002. The propane wholesale marketing operation and the advanced information services segment also improved operating income compared to 2002.

Operating Income Summary (in thousands)

For the Years Ended December 31,	2004	2003	Increase (decrease)	2003	2002	Increase (decrease)
Business Segment:						
Natural gas distribution & transmission	**$17,091**	$16,653	$438	$16,653	$14,973	$1,680
Propane	**2,364**	3,875	(1,511)	3,875	1,052	2,823
Advanced information services	**387**	692	(305)	692	343	349
Other & eliminations	**128**	359	(231)	359	237	122
Total Operating Income	**$19,970**	$21,579	($1,609)	$21,579	$16,605	$4,974

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

Natural Gas Distribution and Transmission

The natural gas distribution and transmission segment earned operating income of $17.1 million for 2004, $16.7 million for 2003, and $15.0 million for 2002, resulting in an increase of $438,000 for 2004 and an increase of $1.7 million for 2003.

Natural Gas Distribution and Transmission (in thousands)

For the Years Ended December 31,	2004	2003	Increase (decrease)	2003	2002	Increase (decrease)
Revenue	**$124,246**	$110,247	$13,999	$110,247	$93,588	$16,659
Cost of gas	**77,456**	65,495	11,961	65,495	52,737	12,758
Gross margin	**46,790**	44,752	2,038	44,752	40,851	3,901
Operations & maintenance	**21,129**	19,893	1,236	19,893	18,045	1,848
Depreciation & amortization	**5,418**	5,188	230	5,188	5,050	138
Other taxes	**3,152**	3,018	134	3,018	2,783	235
Other operating expenses	**29,699**	28,099	1,600	28,099	25,878	2,221
Total Operating Income	**$17,091**	$16,653	$438	$16,653	$14,973	$1,680

Natural Gas Heating Degree-Day (HDD) and Customer Analysis

For the Years Ended December 31,	2004	2003	Increase (decrease)	2003	2002	Increase (decrease)
Heating degree-days — Delmarva						
Actual	**4,539**	4,715	(176)	4,715	4,161	554
10-year average	**4,383**	4,409	(26)	4,409	4,393	16
Average number of residential customers						
Delmarva	**34,352**	31,996	2,356	31,996	30,073	1,923
Florida	**10,910**	10,189	721	10,189	9,755	434
Total	**45,262**	42,185	3,077	42,185	39,828	2,357
Estimated gross margin per HDD	**$1,800**	$1,680		$1,680	$1,730	
Per Delmarva residential customer added:						
Estimated gross margin	**$372**	$360		$360	$360	
Estimated other operating expenses	**$104**	$100		$100	$100	

2004 Compared to 2003

Revenue and cost of gas increased in 2004 compared to 2003, primarily due to changes in natural gas commodity prices and customer growth. Commodity cost changes are passed on to the ratepayers through a gas cost recovery or purchased gas cost adjustment in all jurisdictions; therefore, they have limited impact on the Company's profitability. However, higher commodity prices may cause customers to reduce their energy consumption through conservation efforts and may cause the Company to have higher bad debt expense.

Gross margin grew by $2.0 million in 2004 compared to 2003. The Company estimates that warmer weather reduced gross margin by $317,000. After adjusting for the effect of weather, gross margin would have increased 5.3 percent. The Company estimates that residential and commercial growth for the distribution operations generated $1.1 million of gross margin increase. The Company added 3,077 residential customers, an increase of 7 percent, in 2004. This growth was net of lower consumption per customer, that reflects customer conservation efforts in light of higher energy costs and a higher mix of apartments rather than single family homes in the customer additions for some divisions. Additionally, the natural gas supply and management services operation increased gross margin by $565,000, primarily through industrial customer growth and resale of seasonal excess capacity on upstream pipelines. The natural gas transmission operation also achieved gross margin growth of $716,000, due to additional transportation services provided to its firm customers.

Higher other operating expenses partially offset the gross margin increase. Included in the 2004 expenses were $382,000 related to Sarbanes-Oxley Section 404 compliance implementation. Excluding the Sarbanes-Oxley costs, expenses would have increased $1.2 million, or 4.3 percent. The higher other operating expenses reflect the costs to support customer growth.

2003 Compared to 2002

Revenue and cost of gas increased in 2003 compared to 2002, primarily due to changes in natural gas commodity prices. Revenue and cost of gas were also affected by the unbundling of services that took effect in 2001 for all non-residential customers of the Florida division and in November 2002 for residential customers. As a result, all Florida customers have switched from sales service, where they purchased both the commodity and transportation service from the Company, to purchasing transportation service only. Therefore, there are no longer revenues or costs associated with the commodities.

Gross margin for the Delaware and Maryland distribution divisions increased $2.7 million in 2003 over 2002. Temperatures in 2003 were 13 percent colder than the prior year. The Company estimates that the colder weather in 2003 generated an additional $931,000 of gross margin compared to 2002. Additionally, the increase of 1,923 residential customers, or 6.4 percent, contributed an estimated $692,000 to gross margin. The growth also required an estimated additional cost of $192,000 for operations and maintenance expenses. Also contributing to the increased gross margin were rate increases in Delaware that became effective in December 2002 and volumetric increases for existing customers.

Gross margin for the Florida distribution operations increased $1.2 million, due to the implementation of transportation services for residential customers and customer additions. Residential customer growth reached 4.4 percent in Florida, an increase of 434 customers. Agreements with two new industrial customers also helped increase gross margin.

Gross margin for the transmission operation increased by $219,000 in 2003 compared to 2002. An increase in interruptible transportation gross margin and volume added through a system expansion completed in November 2002 were partially offset by a rate reduction that became effective December 2002. The rate agreement is more fully discussed in the section below captioned "Regulatory Activities."

The natural gas gross margin increases in 2003 were partially offset by higher operating expenses, primarily operations and maintenance expenses and other taxes that relate to the increased volumes and earnings as well as pension and employee costs.

Propane

During 2004, the propane segment experienced a decrease of $1.5 million in operating income compared to 2003, reflecting a gross margin decrease of $1.9 million, partially offset by a decrease in operating expenses of $411,000. During 2003, the propane segment experienced an increase in operating income of $2.8 million, or 268 percent, over 2002. In addition, gross margin increased $3.4 million, partially offset by an increase of $527,000 in operating expenses.

Propane (in thousands)

For the Years Ended December 31,	2004	2003	Increase (decrease)	2003	2002	Increase (decrease)
Revenue	**$41,500**	$41,029	$471	$41,029	$29,238	$11,791
Cost of sales	**25,155**	22,762	2,393	22,762	14,321	8,441
Gross margin	**16,345**	18,267	(1,922)	18,267	14,917	3,350
Operations & maintenance	**11,718**	12,053	(335)	12,053	11,519	534
Depreciation & amortization	**1,524**	1,506	18	1,506	1,603	(97)
Other taxes	**739**	833	(94)	833	743	90
Other operating expenses	**13,981**	14,392	(411)	14,392	13,865	527
Total Operating Income	**$2,364**	$3,875	($1,511)	$3,875	$1,052	$2,823

Propane Heating Degree-Day (HDD) Analysis

For the Years Ended December 31,	2004	2003	Increase (decrease)	2003	2002	Increase (decrease)
Heating degree-days — Delmarva						
Actual	**4,539**	4,715	(176)	4,715	4,161	554
10-year average	**4,383**	4,409	(26)	4,409	4,393	16
Estimated gross margin per HDD	**$1,691**	$1,670		$1,670	$1,566	

<u>2004 Compared to 2003</u>

Increases in revenues and cost of sales in 2004 were caused by an increase in the commodity prices of propane, partially offset by lower sales volumes due to warmer weather. Commodity price changes are generally passed on to the customer, subject to competitive market conditions. High commodity prices may cause customers to reduce their energy consumption through conservation efforts and may cause higher bad debt expense.

Propane distribution gross margin declined $1.2 million and propane wholesale marketing gross margin fell by $710,000. The Company estimates that warmer weather negatively impacted gross margin by $298,000. After adjusting for the impact of weather, gross margin decreased 9 percent. Lower retail gross margin per gallon in the distribution business reduced gross margin by approximately $493,000. In addition, lower sales volumes, not attributable to the weather, reduced gross margin by approximately $197,000, including $172,000 related to customers in the poultry industry. The closing of a poultry processing plant in the fourth quarter of 2003 is estimated to have reduced gross margin by $129,000. The plant is not expected to reopen. An outbreak of avian influenza on the Delmarva Peninsula in the first quarter of 2004 also contributed to the lower sales volumes. The influenza outbreak was contained. Volumes were also down partially due to customers conserving energy in light of higher energy costs. Finally, gross margin earned from a non-recurring service project in 2003 contributed $192,000 to the decline in gross margin.

The Company's propane wholesale marketing operation contributed $373,000 to operating income; however, this was a decrease of $533,000 compared to 2003. This reflects a conservative strategy taken in the wholesale marketing operation, due to the high level of energy prices.

Other operating expenses decreased $411,000 despite additional costs of $142,000 associated with the implementation of Sarbanes-Oxley Section 404 compliance procedures. Adjusted for Sarbanes-Oxley, operating expenses dropped $553,000. The decrease included reductions in incentive compensation, revenue-related taxes and lower delivery costs.

2003 Compared to 2002

The increases in revenues and cost of sales in 2003 compared to 2002 were caused both by increases in volumes and by increases in the commodity prices of propane. Commodity price changes are generally passed on to the customer, subject to competitive market conditions.

The gross margin increase for the propane segment was due primarily to an increase of $2.9 million for the Delmarva distribution operations. Volumes sold in 2003 increased 3.3 million gallons or 15 percent. Temperatures in 2003 were 13 percent colder than 2002 causing an estimated gross margin increase of $925,000. Additionally, the gross margin per retail gallon improved by $0.0374 in 2003 compared to 2002. The gross margin increase was partially offset by increased operating expenses, primarily related to the higher volumes, such as delivery costs, and incentive compensation costs associated with higher income. The Florida propane distribution operations experienced an increase in gross margin of $102,000 in 2003; however, the gross margin included $192,000 related to a non-recurring service project.

The Company's propane wholesale marketing operation experienced an increase in gross margin of $51,000 and a decrease of $148,000 in operating expenses, leading to an improvement of $199,000 in operating income over 2002. Wholesale price volatility created trading opportunities during some portions of the year; however, these were partially offset by reduced trading activities particularly during the third quarter.

Advanced Information Services

The advanced information services segment provides domestic and international clients with information technology related business services and solutions for both enterprise and e-business applications. The advanced information services business contributed operating income of $387,000 for 2004, $692,000 for 2003, and $343,000 for 2002.

Advanced Information Services (in thousands)

For the Years Ended December 31,	2004	2003	Increase (decrease)	2003	2002	Increase (decrease)
Revenue	**$12,427**	$12,578	($151)	$12,578	$12,764	($186)
Cost of sales	**7,015**	7,018	(3)	7,018	6,700	318
Gross margin	**5,412**	5,560	(148)	5,560	6,064	(504)
Operations & maintenance	**4,405**	4,196	209	4,196	4,940	(744)
Depreciation & amortization	**138**	191	(53)	191	208	(17)
Other taxes	**482**	481	1	481	573	(92)
Other operating expenses	**5,025**	4,868	157	4,868	5,721	(853)
Total Operating Income	**$387**	$692	($305)	$692	$343	$349

The decrease in gross margin and operating income in 2004 was due to the non-recurring revenue recorded in 2003 on the sale of some rights to one of the Company's internally-developed software products to a third party software provider. Absent the sale, gross margin would have increased by $351,000; however, the increase was partially offset by higher costs associated with continued investment in the Company's LAMPS™ product and Sarbanes-Oxley compliance costs of $60,000.

Revenues declined in 2003 compared to 2002. The revenue decline was more than offset by reduced operating costs, primarily payroll and benefits. As noted above, a non-recurring sale of software contributed $302,000 to operating income in 2003.

Other Operations and Eliminations

Other operations and eliminating entries contributed operating income of $128,000 for 2004 compared to income of $359,000 for 2003. Other operations consist primarily of subsidiaries that own real estate leased to other Company subsidiaries. In addition, in 2004 the Company formed OnSight Energy, LLC ("OnSight") to provide distributed energy services. As a result of the start-up, other operating expenses increased by $207,000 over 2003 levels. OnSight entered into its first contract in the first quarter of 2005. Eliminations are entries required to eliminate activities between business segments from the consolidated results.

Other Operations & Eliminations (in thousands)

For the Years Ended December 31,	2004	2003	Increase (decrease)	2003	2002	Increase (decrease)
Revenue	**$647**	$702	($55)	$702	$717	($15)
Cost of sales	**-**	-	-	-	-	-
Gross margin	**647**	702	(55)	702	717	(15)
Operations & maintenance	**279**	80	199	80	83	(3)
Depreciation & amortization	**210**	238	(28)	238	233	5
Other taxes	**63**	55	8	55	57	(2)
Other operating expenses	**552**	373	179	373	373	-
Operating Income — Other	**$95**	$329	($234)	$329	$344	($15)
Operating Income — Eliminations	**$33**	$30	$3	$30	($107)	$137
Total Operating Income	**$128**	$359	($231)	$359	$237	$122

Discontinued Operations

In 2003, Chesapeake decided to exit the water services business. Six of seven water dealerships were sold during 2003 and the remaining operation was sold in October 2004. The results of the water companies' operations, for all periods presented in the consolidated income statements, have been reclassified to discontinued operations and shown net of tax. For 2004, the discontinued operations experienced a net loss of $121,000, compared to a net loss of $788,000 for 2003.

Losses from discontinued operations were $788,000 and $1.9 million for 2003 and 2002, respectively. The 2002 loss included a non-cash impairment charge of $973,000 (after-tax) related to goodwill.

Income Taxes

Operating income taxes decreased in 2004 compared to 2003, due to decreased income. The effective current federal income tax rate for both years was approximately 34 percent. Operating income taxes increased in 2003 compared to 2002, due to increased income. During 2004, 2003 and 2002, the Company benefited from a change in the tax law that allows tax deductions for dividends paid on Company stock held in Employee Stock Ownership Plans ("ESOP").

Other Income

Other income was $549,000, $238,000 and $495,000 for the years 2004, 2003 and 2002, respectively. This includes interest income, earned primarily on regulatory assets, and gains from the sale of assets.

Interest Expense

Total interest expense for 2004 decreased approximately $438,000, or 8 percent, compared to 2003. The decrease reflects the decrease in the average long-term debt balance. The average long-term debt balance during 2004 was $71.3 million with a weighted average interest rate of 7.2 percent, compared to $75.4 million with a weighted average interest rate of 7.2 percent in 2003. The average short-term borrowing balance in 2004 was $870,000, a decrease from $3.5 million in 2003. The weighted average interest rate for short-term borrowing increased from 2.4 percent for 2003 to 3.7 percent for 2004.

In 2002, approximately $103,000 of interest expense was associated with discontinued operations and has been reclassified on the income statement to discontinued operations. Total interest expense for 2003 increased approximately $648,000, or 13 percent, over 2002. The increase reflects the increase in the average long-term debt balance caused by the placement of $30.0 million completed in October 2002. The average long-term debt balance during 2003 was $75.4 million with an average interest rate of 7.2 percent, compared to $54.6 million with an average interest rate of 7.52 percent in 2002. The increase in long-term debt was partially offset by a reduction in the average short-term borrowing balance, which decreased from $29.4 million in 2002 to $3.5 million in 2003. The average interest rate for short-term borrowing was essentially constant at 2.4 percent for 2002 and 2003.

Liquidity and Capital Resources

Chesapeake's capital requirements reflect the capital-intensive nature of its business and are principally attributable to its investment in new plant and equipment 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 temporarily to finance capital expenditures. During 2004, net cash provided by operating activities was $23.5 million, cash used by investing activities was $16.8 million and cash used by financing activities was $8.1 million.

During 2003, net cash provided by operating activities was $22.9 million, cash used by investing activities was $5.9 million and cash used by financing activities was $16.4 million. Cash provided by operating activities declined by $2.0 million from 2002 to 2003, as higher income in 2003 was more than offset by changes in working capital items.

As of December 31, 2004, the Board of Directors has authorized the Company to borrow up to $35.0 million of short-term debt from various banks and trust companies. On December 31, 2004, Chesapeake had five unsecured bank lines of credit with three financial institutions, totaling $65.0 million. These bank lines provide funds for the Company's short-term cash needs to meet seasonal working capital requirements and to temporarily fund portions of its capital expenditures. Two of the bank lines, totaling $15.0 million, are committed. The other three lines are subject to the banks' availability of funds. The outstanding balances of short-term borrowing at December 31, 2004 and 2003 were $4.7 million and $3.5 million, respectively. In 2004 and 2003, Chesapeake used funds provided by operations to fund net investing and financing activities.

During 2004, 2003 and 2002, net cash used for investing activities totaled approximately $16.8, $5.9 and $14.1 million, respectively. Cash used by investing activities was up in 2004, due primarily to increased capital expenditures in 2004, compared to 2003, which included cash provided by the sales of the water businesses in 2003 and lower recoveries of environmental costs. Additions to property, plant and equipment in 2004 totaled $17.8 million and were primarily for natural gas distribution ($8.8 million), natural gas transmission ($5.2 million) and propane distribution ($3.4 million). The property, plant and equipment expenditures for 2003 totaled $11.8 million and were primarily for natural gas distribution ($7.5 million), propane distribution ($2.0 million) and natural gas transmission ($1.8 million). In both 2004 and 2003, the natural gas distribution expenditures were used primarily to fund expansion and facilities improvements. Natural gas transmission expenditures related primarily to expanding the Company's transmission system.

Chesapeake has budgeted $38.6 million for capital expenditures during 2005. This amount includes $15.4 million for natural gas distribution, $16.9 million for natural gas transmission, $5.1 million for propane distribution and wholesale marketing, $504,000 for advanced information services and $695,000 for other operations. The natural gas distribution and transmission expenditures are for expansion and improvement of facilities. The propane expenditures are to support customer growth and for the replacement of equipment. The advanced information services expenditures are for computer hardware, software and related equipment. The other category includes general plant, computer software and hardware. Financing for the 2005 capital expenditure program is expected to be provided from short-term borrowing and cash provided by operating activities. The capital expenditure program is subject to continuous review and modification. Actual capital requirements may vary from the above estimates due to a number of factors, including acquisition opportunities, changing economic conditions, customer growth in existing areas, regulation, new growth opportunities and availability of capital.

Chesapeake expects to incur approximately $245,000 in 2005 and $137,000 in 2006 for environmental-related expenditures. Additional expenditures may be required in future years (see Note N to the Consolidated Financial Statements). Management does not expect financing of future environmental-related expenditures to have a material adverse effect on the financial position or capital resources of the Company.

Capital Structure

As of December 31, 2004, common equity represented 54.1 percent of total capitalization, compared to 51.2 percent in 2003. If short-term borrowing and the current portion of long-term debt were included in total capitalization, the equity component of the Company's capitalization would have been 51.4 percent and 48.8 percent, respectively. Chesapeake remains committed to maintaining a sound capital structure and strong credit ratings to provide the financial flexibility needed to access the capital markets when required. This commitment, along with adequate and timely rate relief for the Company's regulated operations, is intended to ensure that Chesapeake will be able to attract capital from outside sources at a reasonable cost. The Company believes that the achievement of these objectives will provide benefits to customers and creditors, as well as to the Company's investors.

Financing Activities

On October 31, 2002, Chesapeake completed a private placement of $30.0 million of 6.64 percent Senior Notes due October 31, 2017. The Company used the proceeds to repay short-term debt.

Chesapeake issued common stock in connection with its Automatic Dividend Reinvestment and Stock Purchase Plan in the amounts of 40,993 shares in 2004, 51,125 shares in 2003 and 49,782 shares in 2002. Chesapeake also issued shares of common stock totaling 39,157, 43,245 and 52,740 in 2004, 2003 and 2002, respectively, for matching contributions for the Retirement Savings Plan.

Chesapeake liquidated approximately $4.0 million and $4.3 million of long-term debt in 2004 and 2003, respectively. These amounts include conversions to equity of convertible stock.

Contractual Obligations

We have the following contractual obligations and other commercial commitments as of December 31, 2004:

	Payments Due by Period				
Contractual Obligations	**Less than 1 year**	**1 - 3 years**	**3 - 5 years**	**More than 5 years**	**Total**
Long-term debt (1)	$2,909,091	$12,545,455	$14,272,727	$39,371,273	$69,098,546
Operating leases (2)	762,063	629,256	269,333	224,850	1,885,502
Purchase obligations (3)					
Transmission capacity	8,322,842	12,966,711	12,469,841	30,738,701	64,498,095
Storage — Natural Gas	1,412,985	2,752,221	2,719,934	7,916,096	14,801,236
Commodities	12,720,923	-	-	-	12,720,923
Forward and futures contracts — Propane (4)	8,301,983	-	-	-	8,301,983
Unfunded benefits (5)	241,811	483,336	527,639	2,677,588	3,930,374
Funded benefits (6)	48,303	96,606	96,606	144,908	386,423
Total Contractual Obligations	**$34,720,001**	**$29,473,585**	**$30,356,080**	**$81,073,416**	**$175,623,082**

(1) Principal payments on long-term debt, see Note I, "Long-Term Debt," in the Notes to the Consolidated Financial Statements for additional discussion of this item.

(2) See Note K, "Lease Obligations," in the Notes to the Consolidated Financial Statements for additional discussion of this item.

(3) See Note O, "Other Commitments and Contingencies," in the Notes to the Consolidated Financial Statements for further information.

(4) The Company has also entered into forward and futures sale contracts of $8,160,253, see "Market Risk" of the Management's Discussion and Analysis for further information.

(5) The Company has recorded long-term liabilities of $650,000 at December 31, 2004 for unfunded post-retirement benefit plans. The amounts specified in the table are based on expected payments to current retirees and assumes a retirement age of 65 for currently active employees. There are many factors that would cause actual payments to differ from these amounts, including early retirement, future health care costs that differ from past experience and discount rates implicit in calculations.

(6) The Company has recorded long-term liabilities of $1.2 million at December 31, 2004 for funded benefits. Of this total, $386,000 has been funded using a Rabbi Trust and an asset in the same amount is recorded in the Investments caption on the Balance Sheet. The other balance, $845,000, represents a liability for a defined benefit pension plan. The plan was closed to new participants on January 1, 1999 and participants in the plan on that date were given the option to leave the plan. See Note L, "Employee Benefit Plans," in the Notes to the Consolidated Financial Statements for further information on the plan. Since the plan modification, no additional funding has been required from the Company and none is expected for the next five years, based on factors in effect at December 31, 2004. However, this is subject to change based on the actual return earned by the plan assets and other actuarial assumptions, such as the discount rate and long-term expected rate of return on plan assets.

Off-Balance Sheet Arrangements

The Company has issued corporate guarantees to certain vendors of its propane wholesale marketing subsidiary. The corporate guarantees provide for the payment of propane purchases by the subsidiary, in the case of the subsidiary's default. The liabilities for these purchases are included in the Company's Consolidated Financial Statements. The guarantees at December 31, 2004, totaled $3.8 million and expire on various dates in 2005.

The Company has issued a letter of credit to its main insurance company for $694,000, which expires June 1, 2005. The letter of credit was provided as security for claims amounts below the deductibles on the Company's policies.

Regulatory Activities

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

Delaware. On September 1, 2004, the Delaware division filed its annual Gas Sales Service Rates ("GSR") application that was effective for service rendered on and after November 1, 2004 with the Delaware Public Service Commission ("Delaware PSC"). On September 14, 2004, the Delaware PSC approved the GSR charges, subject to full evidentiary hearings and a final decision. Due to the most recent rise in natural gas market prices, the Delaware division's under-collection balance was expected to exceed the six percent tolerance as defined in its tariff; therefore, on December 1, 2004, the Delaware division filed an "out-of-cycle" rate application with the Delaware PSC proposing to place revised GSR charges into effect on January 1, 2005, pending approval by the Delaware PSC. On December 21, 2004, the Delaware PSC granted approval of these supplemental GSR charges, subject to full evidentiary hearings and a final decision. An evidentiary hearing is currently scheduled for May 26, 2005, with a final decision by the Delaware PSC expected during the third quarter of 2005.

On November 1, 2004, the Delaware division filed with the Delaware PSC its annual Environmental Rider ("ER") Rate application that was effective for service rendered on and after December 1, 2004. The Delaware PSC granted approval of the ER rate at its regularly scheduled meeting on November 9, 2004, subject to full evidentiary hearings and a final decision. An evidentiary hearing is currently scheduled for June 2, 2005, with a final decision by the Delaware PSC expected during the third quarter of 2005.

Maryland. On December 16, 2004, the Maryland Public Service Commission ("Maryland PSC") held an evidentiary hearing to determine the reasonableness of the Maryland division's four quarterly gas cost recovery filings during the twelve months ended September 30, 2004. On January 4, 2005, the Hearing Examiner issued proposed findings approving the quarterly gas cost recovery rates as filed by the Maryland division, permitting complete recovery of its purchased gas costs for the period under review. Since no parties involved in the case appealed or provided written exceptions to the proposed findings, the findings became a final order of the Maryland PSC on February 4, 2005.

Florida. On March 29, 2002, the Florida division filed tariff revisions with the Florida Public Service Commission ("Florida PSC") to complete the natural gas commodity and transportation unbundling process by requiring all customers, including residential, to migrate to transportation service and authorize the Florida division to exit the commodity merchant function. Transportation services were already available to all non-residential customers. On November 5, 2002, the Florida PSC approved the Company's request for the first phase of the unbundling process as a pilot program for a minimum two-year period. The Company has implemented the program. As a part of this pilot program, the Company submitted several filings during 2003 to address transition costs, the disposition of the over-recovered gas cost balances, the implementation of the operational balancing account and the level of base rates. The Florida PSC approved the transition cost resolution on January 4, 2004. The Florida PSC also approved the refunding of the remaining balance of $246,000 in the over-recovered purchased gas cost account. The refund was made in March 2004. Additionally, the Florida PSC approved the activation of the operational balancing account on January 4, 2004. On July 15, 2003, the Florida PSC approved a rate restructuring proposed by Chesapeake. The restructuring created three new low volume rate classes, with customer charge levels that are designed to ensure that all customers receive benefits from the unbundling.

On August 25, 2004, the Florida division filed a petition with the Florida PSC for authorization to restructure rates and establish new customer classifications. The filing is revenue-neutral, but would allow the Florida division to collect a greater percentage of revenues from fixed charges, rather than variable charges based upon consumption. On February 1, 2005, the Florida PSC voted to approve the petition, as modified by the PSC staff. The vote is expected to become final in March 2005.

Eastern Shore. Pursuant to the requirements of the Stipulation and Agreement dated August 1, 1997, Eastern Shore filed a rate change with the FERC on October 31, 2001. The final agreement reached with the FERC provided for a reduction in rates of approximately $456,000 on an annual basis. Settlement rates went into effect on December 1, 2002.

During October 2002, Eastern Shore filed for recovery of gas supply realignment costs associated with the implementation of FERC Order No. 636. The costs totaled $196,000 (including interest). At that time, the FERC deferred review of the filing pending settlement of a related matter concerning another transmission company. Chesapeake understands that the other matter has now been resolved and Eastern Shore intends to resubmit its transition cost recovery filing during 2005.

On December 16, 2003, Eastern Shore filed revised tariff sheets to implement revisions to its Fuel Retention and Cash-Out provisions. The proposed tariff revisions permit Eastern Shore to incorporate its Deferred Gas Required for Operations amounts into the calculation of its annual Fuel Retention percentage adjustment and to implement a surcharge, effective July 1 of each year, to recover cash-out amounts. The FERC accepted Eastern Shore's revised tariff sheets and they became effective on January 15, 2004, subject to certain revisions to clarify the tariff sheets. On January 30, 2004, Eastern Shore submitted the revised tariff sheets.

On April 1, 2003, Eastern Shore filed an application for a Certificate of Public Convenience and Necessity ("Application") before the FERC requesting authorization to construct the necessary facilities to enable Eastern Shore to provide additional daily firm transportation capacity of 15,100 dekatherms over a three-year period commencing November 1, 2003. On October 8, 2003, the FERC issued an order granting Eastern Shore the authority to construct and operate certain pipeline and measurement facilities in its service territories as requested. Phases I and II were completed in 2003 and 2004 with new Phase II service levels beginning November 1, 2004. Phase III is planned for construction during 2005.

On December 22, 2004, Eastern Shore filed to amend the Application, seeking FERC authorization to construct and operate new pipeline facilities necessary to provide an additional 7,450 dekatherms of daily firm transportation needs identified and requested by its customers to be available November 1, 2005. This amended filing is currently pending before the FERC. Eastern Shore has requested the FERC to expedite its decision-making process in order to construct the proposed new facilities on a timely basis. At December 31, 2004, the Company had recorded $210,000 in construction work in progress related to this project. While the Company cannot predict the final outcome of this pending amended application, the FERC has typically granted approval to construct and operate new pipeline facilities to serve its customers in a timely fashion.

Eastern Shore, on February 9, 2004, filed with the FERC a Plan and Schedule for Standards of Conduct Compliance as directed by the FERC's Order No. 2004, issued on November 25, 2003. Such Standards of Conduct govern the relationship between transmission providers such as Eastern Shore and their energy affiliates. Order No. 2004 revises and conforms the current gas and electric standards by broadening the definition of an energy affiliate covered by such standards of conduct, and applies them uniformly to natural gas pipeline and electric transmission providers. Further, the standards are designed to assure that transmission providers cannot extend their market power over transmission to other energy markets by giving their energy affiliates unduly preferential treatment. The standards also help ensure transmission providers offer service to all customers on a non-discriminatory basis. The deadline for compliance with the Standards of Conduct was September 22, 2004. Eastern Shore performed the necessary training required by FERC and completed the posting of required information as described in Order No. 2004.

Eastern Shore is also following the FERC's recent rulemaking pertaining to creditworthiness standards for customers of interstate natural gas pipelines. FERC has not yet issued its final rules in this proceeding. Upon such issuance, Eastern Shore will evaluate its currently effective tariff creditworthiness provisions to determine whether any actions will need to be taken to conform to the FERC's final rules.

Environmental Matters

The Company has completed its responsibilities related to the Dover Gas Light site and continues to work with federal and state environmental agencies to assess the environmental impact and explore corrective action at three other environmental sites (see Note N 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 I 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, including current maturities, was $69.1 million at December 31, 2004, as compared to a fair value of $74.8 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 evaluates whether to refinance existing debt or permanently finance existing short-term borrowing based in part on the fluctuation in interest rates.

The Company's propane distribution business is exposed to market risk as a result of propane storage activities and entering into fixed price contracts for supply. The Company can store up to approximately four million gallons of propane (including leased storage and rail cars) during the winter season to meet its customers' peak requirements and to serve metered customers. Decreases in the wholesale price of propane may cause the value of stored propane to decline. To mitigate the impact of price fluctuations, the Company has adopted a Risk Management Policy that allows the propane distribution operation to enter into fair value hedges of its inventory. At December 31, 2004, the propane distribution operation had entered into a put contract to protect the value of 1.1 million gallons of propane inventory from a drop in fair value. The put contract expires in January 2005.

The propane wholesale 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 wholesale 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 or booking out the transaction (booking out is a procedure for financially settling a contract in lieu of the physical delivery of energy). The propane wholesale marketing operation also enters into futures contracts that are traded on the New York Mercantile Exchange. In certain cases, the futures contracts are settled by the payment 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 wholesale 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, 2004 and 2003 is shown in the following chart.

At December 31, 2004	Quantity in gallons	Estimated Market Prices	Weighted Average Contract Prices
Forward Contracts			
Sale	10,044,510	$0.7725 — $0.7750	$0.7828
Purchase	9,975,000	$0.7300 — $0.7500	$0.8007
Futures Contracts			
Sale	378,000	$0.7450 — $0.7500	$0.7868
Purchase	420,000	$0.7200 — $0.7300	$0.7500

Estimated market prices and weighted average contract prices are in dollars per gallon.
All contracts expire in 2005.

At December 31, 2003	Quantity in gallons	Estimated Market Prices	Weighted Average Contract Prices
Forward Contracts			
Sale	11,956,000	$0.6650 — $0.6900	$0.6153
Purchase	10,876,000	$0.6650 — $0.6900	$0.6085
Futures Contracts			
Sale	200,000	$0.6650 — $0.6675	$0.6675

Estimated market prices and weighted average contract prices are in dollars per gallon.
All contracts expired in 2004.

The Company's natural gas distribution operations have entered into agreements with natural gas suppliers to purchase natural gas for resale to their customers. Purchases under these contracts either do not meet the definition of derivatives in SFAS No. 133 or are considered "normal purchases and sales" under SFAS No. 138 and are not marked to market.

Competition

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

The Company's natural gas distribution operations located in Delaware, Maryland and Florida offer transportation services to certain commercial and industrial customers. In 2002, the Florida operation extended transportation service to residential customers. With transportation service now available on the Company's distribution systems, the Company is competing with third party suppliers to sell gas to industrial customers. As it relates to transportation services, the Company's competitors include the interstate transmission company if the distribution customer is located close enough to the transmission company's pipeline to make a connection economically feasible. The customers at risk are usually large volume commercial and industrial customers with the financial resources and capability to bypass the distribution operations in this manner. In certain situations, the distribution operations may adjust services and rates for these customers to retain their business. The Company expects to continue to expand the availability of transportation service to additional classes of distribution customers in the future. The Company established a natural gas sales and supply operation in Florida in 1994 to compete for customers eligible for transportation services. The Company also provides sales service in Delaware.

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

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

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

Inflation

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

Recent Pronouncements

On January 12, 2004, the Financial Accounting Standards Board ("FASB") released FASB Staff Position No. SFAS 106-1, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003," ("the Act"). On May 19, 2004, the FASB released FASB Staff Position No. SFAS 106-2, which superseded SFAS 106-1. SFAS No. 106-2 provides guidance on the accounting for the effects of the Act and requires certain disclosures regarding the effect of the federal subsidy provided by the Act. It is effective for the first interim or annual period beginning after June 15, 2004. Adoption of SFAS No. 106-2 did not have a material impact on the Company's post-retirement benefit obligation. Chesapeake's post-retirement health benefits require that Medicare be the primary insurance for all participants that qualify for Medicare coverage; therefore, there is no federal subsidy for Chesapeake's plan.

The Emerging Issues Task Force ("EITF") of the FASB issued EITF No. 03-6 on February 9, 2004. It requires that earnings used to calculate earnings per share be allocated between common shareholders and other securities holders based on their respective rights to receive dividends. This requirement was effective for the second quarter of 2004. It had no impact on the Company's calculation of earnings per share.

In December 2004, the FASB released a revision ("Share-Based Payment") to SFAS No. 123 "Accounting for Stock-Based Compensation." It is effective for the first interim or annual period beginning after June 15, 2005. This Statement establishes financial accounting and reporting standards for stock-based employee compensation plans. Those plans include all arrangements by which employees receive shares of stock or other equity instruments of the employer or the employer incurs liabilities to employees in amounts based on the price of the employer's stock. Examples are stock purchase plans, stock options, restricted stock and stock appreciation rights. The Company does not expect the adoption of SFAS No. 123 to have a material impact on the financial statements.

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 gross margin, capital expenditures, environmental remediation costs, regulatory approvals, market risks associated with the Company's propane wholesale marketing operation, competition, inflation 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 effect of spot, forward and futures market prices on the Company's distribution, wholesale marketing and energy trading businesses;
- the effects of competition on the Company's unregulated and regulated businesses;
- the effect of changes in federal, state or local regulatory and tax requirements, including deregulation;
- the effect of accounting changes;
- the effect of changes in benefit plan assumptions;
- the effect of compliance with environmental regulations or the remediation of environmental damage;
- the effects of general economic conditions on the Company and its customers;
- 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

Management's Report on Internal Controls Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal controls over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f). A system of internal controls is designed to provide reasonable assurance as to the fair and reliable preparation and presentation of the consolidated financial statements, as well as to safeguard assets from unauthorized use or disposition.

Under the supervision and with the participation of management, including the principal executive officer and principal financial officer, Chesapeake's management conducted an evaluation of the effectiveness of its internal controls over financial reporting based on the criteria established in a report entitled "Internal Control — Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Although there are inherent limitations on internal controls over financial reporting, Chesapeake's management has evaluated and concluded that Chesapeake's internal controls over financial reporting were effective as of December 31, 2004.

Management's assessment of the effectiveness of Chesapeake's internal controls over financial reporting as of December 31, 2004 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm and auditor of Chesapeake's consolidated financial statements.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
of Chesapeake Utilities Corporation

We have completed an integrated audit of Chesapeake Utilities Corporation's 2004 consolidated financial statements and of its internal control over financial reporting as of December 31, 2004 and audits of its 2003 and 2002 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated financial statements and financial statement schedule

In our opinion, the consolidated financial statements listed in the index appearing under Item 15(a)(1) present fairly, in all material respects, the financial position of Chesapeake Utilities Corporation and its subsidiaries at December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2004 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 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and 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 the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements 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.

As discussed in Note G to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," in 2002. In addition, as discussed in Note B to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations," in 2003.

Internal control over financial reporting

Also, in our opinion, management's assessment, included in Management's Report on Internal Control Over Financial Reporting under Item 8, that the Company maintained effective internal control over financial reporting as of December 31, 2004 based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004, based on criteria established in *Internal Control – Integrated Framework* issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PricewaterhouseCoopers LLP

PRICEWATERHOUSECOOPERS LLP
Boston, MA
March 16, 2005

Consolidated Statements of Income

For the Years Ended December 31,	2004	2003	2002
Operating Revenues	**$177,955,441**	$163,567,592	$135,256,498
Operating Expenses			
Cost of sales, excluding costs below	**109,626,377**	95,246,819	73,648,958
Operations	**35,146,595**	33,526,804	31,833,198
Maintenance	**1,518,774**	1,737,855	1,924,210
Depreciation and amortization	**7,257,538**	7,089,836	7,089,190
Other taxes	**4,436,411**	4,386,878	4,156,263
Total operating expenses	**157,985,695**	141,988,192	118,651,819
Operating Income	**19,969,746**	21,579,400	16,604,679
Other income net of other expenses	**549,156**	238,439	494,904
Interest charges	**5,268,145**	5,705,911	4,955,022
Income Before Income Taxes	**15,250,757**	16,111,928	12,144,561
Income taxes	**5,701,090**	6,032,445	4,609,552
Net Income from Continuing Operations	**9,549,667**	10,079,483	7,535,009
Loss from discontinued operations, net of tax benefit of $59,751, $74,997 and $964,869	**(120,900)**	(787,607)	(1,897,837)
Cumulative effect of change in accounting principle, net of tax benefit of $1,284,000	**-**	-	(1,916,000)
Net Income	**$9,428,767**	$9,291,876	$3,721,172
Earnings Per Share of Common Stock:			
Basic			
From continuing operations	**$1.66**	$1.80	$1.37
From discontinued operations	**(0.02)**	(0.14)	(0.34)
Effect of change in accounting principle	**-**	-	(0.35)
Net Income	**$1.64**	$1.66	$0.68
Diluted			
From continuing operations	**$1.64**	$1.76	$1.37
From discontinued operations	**(0.02)**	(0.13)	(0.34)
Effect of change in accounting principle	**-**	-	(0.35)
Net Income	**$1.62**	$1.63	$0.68

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

Consolidated Statements of Cash Flows

For the Years Ended December 31,	2004	2003	2002
Operating Activities			
Net Income	**$9,428,767**	$9,291,876	$3,721,172
Adjustments to reconcile net income to net operating cash:			
Depreciation and amortization	**7,272,768**	8,030,398	7,932,345
Depreciation and accretion included in other costs	**2,619,069**	2,467,582	2,490,799
Goodwill impairment	**-**	-	4,674,000
Deferred income taxes, net	**4,211,481**	2,397,594	263,826
Mark-to-market adjustments	**353,183**	457,901	(704,908)
Employee benefits and compensation	**1,729,238**	2,042,093	1,200,131
Other, net	**33,184**	15,874	34,571
Changes in assets and liabilities:			
Accounts receivable, net	**(11,723,505)**	(3,565,363)	(2,821,343)
Inventories, storage gas and materials	**(1,741,941)**	(466,411)	311,668
Prepaid expenses and other current assets	**(402,702)**	(316,425)	(135,943)
Other deferred charges	**851,704**	239,862	(347,669)
Accounts payable, net	**11,648,832**	929,428	6,098,044
Income taxes receivable	**118,489**	25,090	182,591
Accrued interest	**(51,272)**	(47,464)	(1,058,570)
Accrued compensation	**(794,194)**	762,629	(261,114)
Regulatory assets	**(479,562)**	273,646	2,925,107
Other current liabilities	**277,944**	(112,356)	262,220
Other long-term liabilities	**109,533**	521,870	141,358
Net cash provided by operating activities	**23,461,016**	22,947,824	24,908,285
Investing Activities			
Property, plant and equipment expenditures, net	**(17,806,950)**	(11,790,364)	(14,705,244)
Change in intangibles	**-**	-	12,426
Sale of discontinued operations	**415,707**	3,732,649	-
Sale of investments	**178,812**	-	-
Environmental recoveries, net of expenditures	**364,088**	2,193,318	631,750
Net cash used by investing activities	**(16,848,343)**	(5,864,397)	(14,061,068)
Financing Activities			
Common stock dividends	**(5,560,535)**	(5,403,536)	(5,322,194)
Issuance of stock:			
Dividend Reinvestment Plan optional cash net of issuance cos	**268,341**	347,546	266,638
Purchase of treasury stock	**(192,652)**	-	-
Change in cash overdrafts due to outstanding checks	**(143,720)**	(46,853)	492,331
Net borrowing (repayment) under line of credit agreements	**1,184,742**	(7,384,742)	(31,200,000)
Proceeds from issuance of long-term debt, net	**-**	-	29,918,850
Repayment of long-term debt	**(3,665,589)**	(3,945,617)	(3,732,901)
Net cash used by financing activities	**(8,109,413)**	(16,433,202)	(9,577,276)
Net (Decrease) Increase in Cash and Cash Equivalents	**(1,496,740)**	650,225	1,269,941
Cash and Cash Equivalents — Beginning of Period	**3,108,501**	2,458,276	1,188,335
Cash and Cash Equivalents — End of Period	**$1,611,761**	$3,108,501	$2,458,276
Supplemental Disclosure of Cash Flow Information			
Cash paid for interest	**$5,280,299**	$5,648,332	$6,255,193
Cash paid for income taxes	**$1,977,223**	$3,767,816	$2,160,750

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

Consolidated Balance Sheets

Assets

At December 31,	2004	2003
Property, Plant and Equipment		
Natural gas distribution and transmission	**$198,306,668**	$186,661,469
Propane	**38,344,983**	35,577,104
Advanced information services	**1,480,779**	1,396,595
Water services	**332,313**	762,383
Other plant	**9,035,840**	8,796,305
Total property, plant and equipment	**247,500,583**	233,193,856
Plus: Construction work in progress	**2,766,209**	1,724,721
Less: Accumulated depreciation and amortization	**(73,213,605)**	(67,046,318)
Net property, plant and equipment	**177,053,187**	167,872,259
Investments	**386,422**	386,710
Current Assets		
Cash and cash equivalents	**1,611,761**	3,108,501
Accounts receivable (less allowance for uncollectibles of $610,819 and $682,002, respectively)	**36,938,688**	26,191,845
Accrued revenue	**5,229,955**	4,497,752
Propane inventory	**4,654,119**	3,387,535
Other inventory	**1,056,530**	1,096,601
Regulatory assets	**2,435,284**	2,211,599
Storage gas prepayments	**5,085,382**	4,622,601
Income taxes receivable	**719,078**	489,841
Prepaid expenses	**1,759,643**	1,696,333
Other current assets	**459,908**	484,468
Total current assets	**59,950,348**	47,787,076
Deferred Charges and Other Assets		
Goodwill	**674,451**	674,451
Other intangible assets, net	**219,964**	305,213
Long-term receivables	**1,209,034**	1,637,998
Other regulatory assets	**1,542,741**	2,632,900
Other deferred charges	**902,281**	760,911
Total deferred charges and other assets	**4,548,471**	6,011,473
Total Assets	**$241,938,428**	$222,057,518

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

Capitalization and Liabilities

At December 31,	2004	2003
Capitalization		
Stockholders' equity		
Common Stock, par value $.4867 per share;		
(authorized 12,000,000 shares) [(1)]	**$2,812,538**	$2,754,748
Additional paid-in capital	**36,854,717**	34,176,361
Retained earnings	**39,015,087**	36,008,246
Accumulated other comprehensive income	**(527,246)**	-
Deferred compensation obligation	**816,044**	913,689
Treasury stock, at cost	**(1,008,696)**	(913,689)
Total stockholders' equity	**77,962,444**	72,939,355
Long-term debt, net of current maturities	**66,189,454**	69,415,545
Total capitalization	**144,151,898**	142,354,900
Current Liabilities		
Current portion of long-term debt	**2,909,091**	3,665,091
Short-term borrowing	**4,700,000**	3,515,258
Accounts payable	**33,502,526**	21,997,413
Customer deposits and refunds	**2,415,721**	2,214,961
Accrued interest	**601,095**	652,367
Dividends payable	**1,617,245**	1,556,631
Deferred income taxes payable	**571,876**	119,814
Accrued compensation	**2,680,370**	3,266,072
Regulatory liabilities	**571,111**	826,988
Other accrued liabilities	**1,800,541**	1,723,389
Total current liabilities	**51,369,576**	39,537,984
Deferred Credits and Other Liabilities		
Deferred income taxes payable	**23,350,414**	19,590,995
Deferred investment tax credits	**437,909**	492,725
Other regulatory liabilities	**1,578,374**	1,481,464
Environmental liabilities	**461,656**	562,194
Accrued pension costs	**3,007,949**	2,015,128
Accrued asset removal cost	**15,024,849**	13,536,209
Other liabilities	**2,555,803**	2,485,919
Total deferred credits and other liabilities	**46,416,954**	40,164,634
Commitments and Contingencies (Notes N and O)		
Total Capitalization and Liabilities	**$241,938,428**	$222,057,518

[(1)] Shares issued were 5,778,976 and 5,660,594 for 2004 and 2003, respectively. Shares outstanding were 5,730,913 and 5,612,935 for 2004 and 2003, respectively. 2004 included 9,306 purchased treasury stock shares.

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

Consolidated Statements of Stockholders' Equity

For the Years Ended December 31,	2004	2003	2002
Common Stock			
Balance — beginning of year	**$2,754,748**	$2,694,935	$2,640,060
Dividend Reinvestment Plan	**20,125**	24,888	24,229
Retirement Savings Plan	**19,058**	21,047	25,669
Conversion of debentures	**9,060**	9,144	2,199
Performance shares and options exercised	**9,547**	4,734	2,778
Balance — end of year	**2,812,538**	2,754,748	2,694,935
Additional Paid-in Capital			
Balance — beginning of year	**34,176,361**	31,756,983	29,653,992
Dividend Reinvestment Plan	**996,715**	1,066,386	936,268
Retirement Savings Plan	**946,319**	899,475	985,846
Conversion of debentures	**307,940**	310,293	74,632
Performance shares and options exercised	**427,382**	143,224	106,245
Balance — end of year	**36,854,717**	34,176,361	31,756,983
Retained Earnings			
Balance — beginning of year	**36,008,246**	32,898,283	35,223,313
Net income	**9,428,767**	9,291,876	3,721,172
Cash dividends [(1)]	**(6,403,450)**	(6,181,913)	(6,046,202)
Loss on issuance of treasury stock	**(18,476)**	-	-
Balance — end of year	**39,015,087**	36,008,246	32,898,283
Accumulated Other Comprehensive Income			
Balance — beginning of year	**-**	-	-
Minimum pension liability adjustment, net of tax	**(527,246)**	-	-
Balance — end of year	**(527,246)**	0	0
Deferred Compensation Obligation			
Balance — beginning of year	**913,689**	711,109	576,342
New deferrals	**296,790**	202,580	134,767
Payout of deferred compensation	**(394,435)**	-	-
Balance — end of year	**816,044**	913,689	711,109
Treasury Stock, at cost			
Balance — beginning of year	**(913,689)**	(711,109)	(576,342)
New deferrals related to corporate obligation	**(296,790)**	(202,580)	(134,767)
Purchase of treasury stock	**(344,753)**	-	-
Sale and distribution of treasury stock	**546,536**	-	-
Balance — end of year	**(1,008,696)**	(913,689)	(711,109)
Total Stockholders' Equity	**$77,962,444**	$72,939,355	$67,350,201

(1) Cash dividends declared per share for 2004, 2003 and 2002 were $1.12, $1.10 and $1.10, respectively.

Consolidated Statements of Comprehensive Income

	2004	2003	2002
Net income	**$9,428,767**	$9,291,876	$3,721,172
Minimum pension liability adjustment, net of tax of $347,726	**(527,246)**	-	-
Comprehensive Income	**$8,901,521**	$9,291,876	$3,721,172

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

Consolidated Statements of Income Taxes

For the Years Ended December 31,	2004	2003	2002
Current Income Tax Expense			
Federal	$990,369	$2,732,101	$1,624,698
State	617,848	943,993	571,540
Investment tax credit adjustments, net	(54,816)	(54,816)	(54,816)
Total current income tax expense	1,553,401	3,621,278	2,141,422
Deferred Income Tax Expense [1]			
Property, plant and equipment	4,279,752	1,855,131	3,742,415
Deferred gas costs	283,547	105,846	(1,701,273)
Pensions and other employee benefits	(49,620)	(203,229)	(139,861)
Impairment of intangibles	125,165	1,463,995	(1,785,160)
Environmental expenditures	(150,864)	(866,206)	(404,659)
Other	(399,862)	(19,367)	507,799
Total deferred income tax expense	4,088,118	2,336,170	219,261
Total Income Tax Expense	$5,641,519	$5,957,448	$2,360,683
Reconciliation of Effective Income Tax Rates			
Continuing operations			
Federal income tax expense [2]	$5,185,257	$5,478,056	$4,129,150
State income taxes, net of federal benefit	736,176	737,367	582,681
Other	(220,343)	(182,978)	(102,279)
Total continuing operations	5,701,090	6,032,445	4,609,552
Discontinued operations	(59,571)	(74,997)	(2,248,869)
Total Income Tax Expense	$5,641,519	$5,957,448	$2,360,683
Effective income tax rate	37.4%	39.1%	38.8%

At December 31,	2004	2003
Deferred Income Taxes		
Deferred income tax liabilities:		
Property, plant and equipment	$25,736,718	$21,186,978
Environmental costs	-	67,354
Deferred gas costs	599,945	277,438
Other	749,259	910,705
Total deferred income tax liabilities	27,085,922	22,442,475
Deferred income tax assets:		
Pension and other employee benefits	2,158,424	1,500,539
Impairment of intangibles	-	125,165
Self insurance	535,755	585,524
Environmental costs	83,510	-
Other	385,944	520,438
Total deferred income tax assets	3,163,633	2,731,666
Deferred Income Taxes Per Consolidated Balance Sheet	$23,922,289	$19,710,809

[1] Includes $386,000, $113,000 and $131,000 of deferred state income taxes for the years 2004, 2003 and 2002, respectively.
[2] Federal income taxes for all years were recorded at 34%.

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

A. Summary of Accounting Policies

Nature of Business

Chesapeake Utilities Corporation ("Chesapeake" or "the Company") is engaged in natural gas distribution to approximately 50,900 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 Pennsylvania, Delaware and the Eastern Shore of Maryland. The Company's propane distribution and wholesale marketing segment provides distribution service to approximately 34,900 customers in central and southern Delaware, the Eastern Shore of Maryland, southeastern Pennsylvania, central Florida and the Eastern Shore of Virginia, and markets propane to wholesale customers including large independent oil and petrochemical companies, resellers and propane distribution companies in the southeastern United States. The advanced information services segment provides domestic and international clients with information technology related business services and solutions for both enterprise and e-business applications.

Principles of Consolidation

The Consolidated Financial Statements include the accounts of the Company and its wholly owned subsidiaries. The Company does not have any ownership interests in investments accounted for using the equity method or any variable interests in a variable interest entity. 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 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, advanced information services and other business 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 against income as incurred and the costs of major renewals and betterments are capitalized. As of January 1, 2003, Chesapeake adopted Statement of Financial Accounting Standards ("SFAS") No. 143, "Accounting for Asset Retirement Obligations." See Note B for a summary of the impact on the financial statements. Prior to the adoption of SFAS No. 143, upon retirement or disposition of utility property, the recorded cost of removal, net of salvage value, was charged to accumulated depreciation. After adoption of SFAS No. 143, the costs are being charged against accrued asset removal cost. 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 remaining 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 3 percent for natural gas distribution and transmission, 5 percent for propane, 12 percent for advanced information services and 7 percent for general plant.

At December 31,	2004	2003	Useful Life [1]
Plant in service			
Mains	**$99,154,938**	$93,015,109	24-37 years
Services — utility	**25,733,797**	22,982,547	14-28 years
Compressor station equipment	**23,766,105**	22,700,233	28 years
Liquefied petroleum gas equipment	**21,483,969**	21,005,616	30-39 years
Meters and meter installations	**13,656,918**	12,634,487	Propane 10-15 years,N atural gas 17-49 years
Measuring and regulating station equipment	**10,142,531**	9,948,881	17-37 years
Office furniture and equipment	**10,171,180**	9,719,520	Non-regulated 3-10 years, Regulated 3-20 years
Transportation equipment	**9,425,605**	9,266,324	2-11 years
Structures and improvements	**9,177,011**	9,046,759	5-44 years [2]
Land and land rights	**4,703,683**	4,489,721	Not depreciable, except certain regulated assets
Propane bulk plants and tanks	**5,024,462**	4,206,094	15 - 40 years
Various	**15,060,384**	14,178,565	Various
Total plant in service	**247,500,583**	233,193,856	
Plus construction work in progress	**2,766,209**	1,724,721	
Less accumulated depreciation	**(73,213,605)**	(67,046,318)	
Net property, plant and equipment	**$177,053,187**	$167,872,259	

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

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

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

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

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 when purchased are considered cash equivalents.

Inventories

The Company uses the average cost method to value propane and materials and supplies inventory. The appliance inventory is valued at first-in first-out ("FIFO"). If the market prices drop below cost, inventory balances that are subject to price risk are adjusted to market values.

Regulatory Assets, Liabilities and Expenditures

The Company accounts for its regulated operations in accordance with SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation." This standard includes accounting principles for companies whose rates are determined by independent third-party regulators. When setting rates, regulators often make decisions, the economics of which require companies to record costs as expense (or defer costs or revenues) in different periods than may be appropriate for unregulated enterprises. When this situation occurs, the regulated utility defers the associated costs as assets (regulatory assets) on the balance sheet, and records them as expense on the income statement as it collects revenues. Further, regulators can also impose liabilities upon a company for amounts previously collected from customers, and for recovery of costs that are expected to be incurred in the future (regulatory liabilities).

At December 31, 2004 and 2003, the regulated utility operations had recorded the following regulatory assets and liabilities on the Balance Sheets. These assets and liabilities will be recognized as revenues and expenses in future periods as they are reflected in customers' rates.

At December 31,	2004	2003
Regulatory Assets		
Current		
Underrecovered purchased gas costs	$1,479,358	$1,180,010
Cash-in/cash-out and gas required for operations	32,707	262,631
Conservation cost recovery	186,234	-
Flex rate asset	736,985	768,958
Total current regulatory assets	2,435,284	2,211,599
Non-Current		
Income tax related amounts due from customers	711,961	728,473
Deferred regulatory and other expenses	200,746	383,857
Deferred gas supply	15,201	7
Deferred gas required for operations	141,082	581,064
Deferred post retirement benefits	194,529	222,319
Environmental regulatory assets and expenditures	279,222	717,180
Total other regulatory assets	1,542,741	2,632,900
Total Regulatory Assets	$3,978,025	$4,844,499
Regulatory Liabilities		
Current		
Self insurance — current	$127,000	$111,923
Overrecovered purchased gas costs	-	519,409
Shared interruptible margins	135,098	84,843
Operational flow order penalties	130,338	-
Swing transportation imbalances	178,675	110,813
Total current regulatory liabilities	571,111	826,988
Non-Current		
Self insurance — long-term	1,221,101	1,138,966
Conservation cost recovery	-	1,017
Income tax related amounts due to customers	324,974	341,481
Environmental overcollections	32,299	-
Total other regulatory liabilities	1,578,374	1,481,464
Accrued asset removal cost	15,024,849	13,536,209
Total Regulatory Liabilities	$17,174,334	$15,844,661

Included in the regulatory assets listed above are $2.4 million of which are accruing interest. Of the remaining regulatory assets, $275,000 will be collected in approximately one to two years, $661,000 will be collected within approximately 5 years, $469,000 will be collected within approximately 10 to 15 years and $206,000 are awaiting regulatory approval for recovery, but once approved are expected to be collected within 12 months.

As required by SFAS No. 71, the Company monitors its regulatory and competitive environment to determine whether the recovery of its regulatory assets continues to be probable. If the Company were to determine that recovery of these assets is no longer probable, it would write off the assets against earnings. The Company believes that SFAS No. 71 continues to apply to its regulated operations, and the recovery of its regulatory assets is probable.

Goodwill and Other Intangible Assets

Goodwill and other intangible assets are associated with the acquisition of non-utility companies. In accordance with SFAS No. 142, goodwill is not amortized, but is tested for impairment on an annual basis and when events change. Other intangible assets are amortized on a straight-line basis over their estimated economic useful lives.

Other Deferred Charges
Other deferred charges include discount, premium and issuance costs associated with long-term debt. Debt costs are deferred, then amortized over the original lives of the respective debt issuances. State income tax loss carryforwards are reduced to the extent taxable income is available. Deferred post employment benefits are adjusted based on current age, the present value of the projected annual benefit received and estimated life expectancy.

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 bases 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, Inc. ("Xeron"), the Company's propane wholesale marketing operation, engages in trading activities using forward and futures contracts which have been accounted for using the mark-to-market method of accounting. Under mark-to-market accounting, 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 revenues on the income statement in the period of change. The resulting unrealized gains and losses are recorded as assets or liabilities, respectively. There were unrealized losses of $182,000 and unrealized gains of $172,000 at December 31, 2004 and 2003, respectively. Trading liabilities are recorded in other accrued liabilities. Trading assets are recorded in prepaid expenses and other current assets.

The Company's natural gas and propane distribution operations have entered into agreements with natural gas and propane suppliers to purchase gas for resale to their customers. Purchases under these contracts either do not meet the definition of derivatives in SFAS No. 133 or are considered "normal purchases and sales" under SFAS No. 138 and are accounted for on an accrual basis.

The propane distribution operation has entered into fair value hedges of its inventory, in order to mitigate the impact of wholesale price fluctuations. At December 31, 2004, propane distribution had entered into a put contract to protect 1.1 million gallons of propane inventory from a drop in value below the strike price of the put. The put expired in January 2005.

Earnings Per Share

The calculations of both basic and diluted earnings per share from continuing operations are presented in the following chart. In 2002, the impact of converting the debentures and the effect of exercising the outstanding stock options would have been anti-dilutive; therefore, they were not included in the calculations.

For the Years Ended December 31,	2004	2003	2002
Calculation of Basic Earnings Per Share from Continuing Operations:			
Net income from continuing operations	**$9,549,667**	$10,079,483	$7,535,009
Weighted average shares outstanding	**5,735,405**	5,610,592	5,489,424
Basic Earnings Per Share from Continuing Operations	**$1.66**	$1.80	$1.37
Calculation of Diluted Earnings Per Share from Continuing Operations:			
Reconciliation of Numerator:			
Net income from continuing operations — Basic	**$9,549,667**	$10,079,483	$7,535,009
Effect of 8.25% Convertible debentures	**139,097**	157,557	-
Adjusted numerator — Diluted	**$9,688,764**	$10,237,040	$7,535,009
Reconciliation of Denominator:			
Weighted shares outstanding — Basic	**5,735,405**	5,610,592	5,489,424
Effect of dilutive securities			
Stock options	**1,784**	1,361	-
Warrants	**7,900**	5,481	1,649
8.25% Convertible debentures	**162,466**	184,532	-
Adjusted denominator — Diluted	**5,907,555**	5,801,966	5,491,073
Diluted Earnings Per Share from Continuing Operations	**$1.64**	$1.76	$1.37

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's revenues are based on rates approved by the FERC. Customers' base rates may not be changed without formal approval by these commissions; however, the regulatory authorities have granted the Company's regulated natural gas distribution operations the ability to negotiate rates with customers that have competitive alternatives using approved methodologies. In addition, the natural gas transmission operation can negotiate rates above or below the FERC-approved tariff rates.

Chesapeake's Maryland and Delaware 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 compete with alternative types of fuel. Based on pricing, these customers can choose natural gas or alternative types of supply. Neither the Company nor the interruptible customer is contractually obligated to deliver or receive natural gas.

The propane wholesale marketing operation records trading activity net, on a mark-to-market basis, for open contracts. The propane distribution, advanced information services and other segments record revenue in the period the products are delivered and/or services are rendered.

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 N and O 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 SFAS No. 71. If the Company were required to terminate application of SFAS No. 71 for its regulated operations, all such deferred amounts would be recognized in the income statement at that time. This could result in a charge to earnings, net of applicable income taxes, which could be material.

FASB Statements and Other Authoritative Pronouncements

On January 12, 2004, the Financial Accounting Standards Board ("FASB") released FASB Staff Position No. SFAS 106-1, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003," ("the Act"). On May 19, 2004, the FASB released FASB Staff Position No. SFAS 106-2, which superseded SFAS 106-1. SFAS No. 106-2 provides guidance on the accounting for the effects of the Act and requires certain disclosures regarding the effect of the federal subsidy provided by the Act. It is effective for the first interim or annual period beginning after June 15, 2004. Adoption of SFAS No. 106-2 did not have a material impact on the Company's post-retirement benefit obligation. Chesapeake's post-retirement health benefits require that Medicare be the primary insurance for all participants that qualify for Medicare coverage; therefore, there is no federal subsidy for Chesapeake's plan.

The Emerging Issues Task Force ("EITF") of the FASB issued EITF No. 03-6 on February 9, 2004. It requires that earnings used to calculate earnings per share be allocated between common shareholders and other securities holders based on their respective rights to receive dividends. This requirement was effective for the second quarter of 2004. It had no impact on the Company's calculation of earnings per share.

In December 2004, the FASB released a revision ("Share-Based Payment") to SFAS No. 123 "Accounting for Stock-Based Compensation." It is effective for the first interim or annual period beginning after June 15, 2005. This Statement establishes financial accounting and reporting standards for stock-based employee compensation plans. Those plans include all arrangements by which employees receive shares of stock or other equity instruments of the employer or the employer incurs liabilities to employees in amounts based on the price of the employer's stock. Examples are stock purchase plans, stock options, restricted stock and stock appreciation rights. The Company does not expect the adoption of SFAS No. 123 to have a material impact on the financial statements.

Reclassification of Prior Years' Amounts

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

B. Adoption of Accounting Principles

Chesapeake adopted SFAS No. 143, "Accounting for Asset Retirement Obligations," during 2003. The Company's regulated operations are allowed by the regulatory bodies to recover the costs of retiring their long-lived assets through approved depreciation rates. Under the pronouncement, the Company was required to record the portion of depreciation that represents asset removal cost as a regulatory liability on its financial statements. Previously, asset removal costs were included in accumulated depreciation. Additionally, the portion of the depreciation rates approved by the regulators that represents asset removal costs are now recorded in operations expense. In the past, they were recorded in depreciation expense. These changes had no impact on the net earnings of the Company. All periods presented have been reclassified in order to make the statements comparable. Accrued asset removal cost was $15.0 million and $13.5 million at December 31, 2004 and 2003, respectively.

Please refer to Note G for information on the adoption of SFAS No. 142, "Goodwill and Other Intangible Assets."

C. Business Dispositions and Discontinued Operations

During 2003, Chesapeake decided to exit the water services business and sold six of its seven operations. The remaining operation was disposed of in October 2004. At December 31, 2004, Chesapeake owned one piece of property that was formerly used by a water subsidiary. That property is listed for sale. The results of operations for all water service businesses have been reclassified to discontinued operations for all periods presented. A loss of $52,000 and a gain of $12,000, net of tax, was recorded for 2004 and 2003, respectively, on the sale of the water operations.

Operating revenues for discontinued operations were $1.1 million, $9.8 million and $11.7 million for 2004, 2003 and 2002, respectively. Operating losses for discontinued operations were $94,000, $917,000 and $2.8 million for 2004, 2003 and 2002, respectively. The following table represents amounts for discontinued operations that are included in the balance sheets at December 31, 2004 and 2003.

Chesapeake Utilities Corporation — Discontinued Operations

Balance Sheets

Assets

At December 31,	2004	2003
Net Property, Plant and Equipment	$183,765	$435,591
Current Assets		
Cash	4,830	1,437,821
Other current assets	62,719	504,539
Total current assets	67,549	1,942,360
Deferred Charges and Other Assets	-	220,865
Total Assets	$251,314	$2,598,816

Stockholders' Equity and Liabilities

Stockholders' Equity		
Common Stock	$51,010	$51,010
Additional paid-in capital	3,914,783	3,914,783
Retained deficits	(6,492,065)	(5,271,164)
Total stockholders' equity	(2,526,272)	(1,305,371)
Current Liabilities		
Due to affiliated companies	2,733,072	3,558,434
Other current liabilities	44,514	345,753
Total current liabilities	2,777,586	3,904,187
Total Capitalization and Liabilities	$251,314	$2,598,816

D. SEGMENT INFORMATION

The following table presents information about the Company's reportable segments. The table excludes discontinued operations. The identifiable assets for discontinued operations are shown in Note C to the Consolidated Financial Statements.

For the Years Ended December 31,	2004	2003	2002
Operating Revenues, Unaffiliated Customers			
Natural gas distribution and transmission	**$124,073,939**	$110,071,054	$93,497,345
Propane	**41,499,687**	41,029,121	29,238,061
Advanced information services	**12,381,815**	12,476,746	12,523,856
Other	**0**	(9,329)	(2,764)
Total operating revenues, unaffiliated customers	**$177,955,441**	$163,567,592	$135,256,498
Intersegment Revenues [1]			
Natural gas distribution and transmission	**$172,427**	$175,757	$90,730
Advanced information services	**45,266**	100,804	239,767
Other	**647,378**	711,159	720,221
Total intersegment revenues	**$865,071**	$987,720	$1,050,718
Operating Income			
Natural gas distribution and transmission	**$17,091,360**	$16,653,111	$14,973,405
Propane	**2,363,884**	3,875,351	1,051,888
Advanced information services	**387,193**	691,909	343,296
Other and eliminations	**127,309**	359,029	236,090
Total operating income	**$19,969,746**	$21,579,400	$16,604,679
Depreciation and Amortization			
Natural gas distribution and transmission	**$5,418,007**	$5,188,273	$5,049,546
Propane	**1,524,016**	1,506,201	1,602,655
Advanced information services	**138,007**	190,548	208,430
Other and eliminations	**177,508**	204,814	228,559
Total depreciation and amortization	**$7,257,538**	$7,089,836	$7,089,190
Capital Expenditures			
Natural gas distribution and transmission	**$13,945,214**	$9,078,043	$12,116,993
Propane	**3,417,900**	2,244,583	1,231,199
Advanced information services	**84,185**	76,924	99,290
Other	**404,941**	422,789	388,051
Total capital expenditures	**$17,852,240**	$11,822,339	$13,835,533

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

At December 31,	2004	2003	2002
Identifiable Assets			
Natural gas distribution and transmission	**$184,412,301**	$170,758,784	$166,478,223
Propane	**47,531,106**	38,359,251	37,939,683
Advanced information services	**2,387,440**	2,912,733	2,680,304
Other	**7,379,794**	7,791,796	9,460,267
Total identifiable assets	**$241,710,641**	$219,822,564	$216,558,477

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 segments are evaluated based on their pre-tax operating income.

The Company's operations are all domestic. The advanced information services segment has infrequent transactions with foreign companies, located primarily in Canada, which are denominated and paid in U.S. dollars. These transactions are immaterial to the consolidated revenues.

E. 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 F to the Consolidated Financial Statements for disclosure of fair value of investments). The Company's open forward and futures contracts at December 31, 2004 had a loss in fair value of $182,000 and at December 31, 2003 had a gain in fair value of $172,000 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, 2004, including current maturities, had an estimated fair value of $74.8 million as compared to a carrying value of $69.1 million. At December 31, 2003, the estimated fair value was approximately $80.9 million as compared to a carrying value of $73.1 million. These estimates are based on published corporate borrowing rates for debt instruments with similar terms and average maturities.

F. INVESTMENTS

The investment balances at December 31, 2004 and 2003, represent 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 other 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 other expense, for the gains and losses incurred by the trust.

G. GOODWILL AND OTHER INTANGIBLE ASSETS

The Company adopted SFAS No. 142 in the first quarter of 2002. The Company performed a test as of January 1, 2002, for goodwill impairment using the two-step process prescribed in SFAS No. 142. The first step was a screen for potential impairment, using January 1, 2002 as the measurement date. The second step was a measurement of the amount of the goodwill determined to be impaired. The results of the tests indicated that the goodwill associated with the Company's water business was impaired and that the amount of the impairment was $3.2 million. This was recorded as the cumulative effect of a change in accounting principle. The fair value of the water business was determined using several methods, including discounted cash flow projections and market valuations for recent purchases and sales of similar businesses. These were weighted based on their expected probability. The determination that the goodwill associated with the Company's water business was impaired was the result of the more stringent tests required by the new pronouncement. SFAS No. 142 requires that impairment tests be performed annually. At December 31, 2002, the test indicated an additional impairment charge of $1.5 million was necessary. The unprofitable performance of the Company's water services business was the primary cause of the impairment.

The change in the carrying value of goodwill for the two years ended December 31, 2004, is as follows:

	Water Businesses	Propane	Total
Balance at January 1, 2003	$195,068	$674,451	$869,519
Sale of discontinued operations	(195,068)	-	(195,068)
Balance at December 31,200 3	-	674,451	674,451
No change	-	-	-
Balance at December 31,20 04	$0	$674,451	$674,451

Intangible assets subject to amortization are as follows:

	December 31, 2004		December 31, 2003	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Customer lists	$115,333	$60,155	$276,616	$142,780
Acquisition costs	263,659	98,873	263,659	92,282
Total	$378,992	$159,028	$540,275	$235,062

The decrease from 2003 to 2004 in the customer list balance reflects the sale of the assets of a water services operation. Amortization of intangible assets was $15,000 and $168,000 for the years ended December 31, 2004 and 2003, respectively. The estimated annual amortization of intangibles for the next five years is: $14,000 for 2005; $14,000 for 2006; $14,000 for 2007; $14,000 for 2008, and $14,000 for 2009.

H. STOCKHOLDERS' EQUITY

The changes in the common stock shares issued and outstanding are shown in the table below:

For the Years Ended December 31,	2004	2003	2002
Common Stock shares issued and outstanding (1)			
Shares issued — beginning of year balance	**5,660,594**	5,537,710	5,424,962
Dividend Reinvestment Plan (2)	**40,993**	51,125	49,782
Sale of stock to the Company's Retirement Savings Plan	**39,157**	43,245	52,740
Conversion of debentures	**18,616**	18,788	4,518
Performance shares and options exercised	**19,616**	9,726	5,708
Shares issued — end of year balance (3)	**5,778,976**	5,660,594	5,537,710
Treasury Stock	**(48,063)**	(47,659)	(37,353)
Total Shares Outstanding	**5,730,913**	**5,612,935**	**5,500,357**

(1) 12,000,000 shares are authorized at a par value of $0.4867 per share.
(2) Includes dividends reinvested and optional cash payments.
(3) The Company had 48,063, 47,659, and 37,353 shares held in Rabbi Trusts at December 31, 2004, 2003 and 2002, respectively

The Company had outstanding warrants for 30,000 shares of stock at an average exercise price of $18.25 per share. The warrants expire in 2008.

I. LONG-TERM DEBT

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

At December 31,	2004	2003
Uncollateralized senior notes:		
7.97% note, due February 1, 2008	**$3,000,000**	$4,000,000
6.91% note, due October 1, 2010	**4,545,454**	5,454,545
6.85% note, due January 1, 2012	**6,000,000**	7,000,000
7.83% note, due January 1, 2015	**20,000,000**	20,000,000
6.64% note, due October 31, 2017	**30,000,000**	30,000,000
Convertible debentures:		
8.25% due March 1, 2014	**2,644,000**	2,961,000
Total Long-Term Debt	**$66,189,454**	$69,415,545

Annual maturities of consolidated long-term debt for the next five years are as follows: $2,909,091 for 2005; $4,909,091 for 2006; $7,636,364 for 2007; $7,636,364 for 2008; and $6,636,364 for 2009.

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 2004 and 2003, debentures totaling $317,000 and $320,000, respectively, were converted to stock. The debentures are also redeemable for cash at the option of the holder, subject to an annual non-cumulative maximum limitation of $200,000. During 2004 and 2003, no debentures were redeemed for cash. At the Company's option, the debentures may be redeemed at stated amounts.

Indentures to the long-term debt of the Company and its subsidiaries contain various restrictions. The most stringent restrictions state that the Company must maintain equity of at least 40 percent of total capitalization and the times interest earned ratio must be at least 2.5. In addition, under the terms of the Company's Note Agreement for the 6.64 percent Senior Notes, the Company cannot, until the retirement of the Senior Note, pay any dividends after October 31, 2002 which exceed the sum of $10 million plus consolidated net income recognized after January 1, 2003. As of December 31, 2004, the amount available for future dividends under this covenant is $14.6 million. The Company's Series I First Mortgage Sinking Fund Bonds were secured by a lien against substantially all the natural gas distribution real, personal and mixed property. The Bonds were fully repaid at December 31, 2004. The outstanding balance at December 31, 2003 was $756,000. The Company is in compliance with all of its debt covenants.

J. SHORT-TERM BORROWING

As of December 31, 2004, the Board of Directors ("Board") had authorized the Company to borrow up to $35.0 million from various banks and trust companies under short-term lines of credit. As of December 31, 2004, the Company had three uncommitted and two committed, short-term bank lines of credit totaling $65.0 million, none of which required compensating balances. Under these lines of credit, the Company had short-term debt outstanding of approximately $4.7 million and $3.5 million at December 31, 2004 and 2003, respectively. The annual weighted average interest rates were 3.72 percent for 2004 and 2.40 percent for 2003. The Company also had a letter of credit outstanding in the amount of $694,000 that reduced the amounts available under the lines of credit.

K. LEASE OBLIGATIONS

The Company has entered into several operating lease arrangements for office space at various locations, equipment and pipeline facilities. Rent expense related to these leases was $928,000, $1.1 million and $1.2 million for 2004, 2003 and 2002, respectively. Future minimum payments under the Company's current lease agreements are $762,000, $363,000, $267,000, $156,000 and $114,000 for the years of 2005 through 2009, respectively; and $225,000 thereafter, totaling $1.9 million.

L. Employee Benefit Plans

Retirement Plans

Before 1999, Company employees generally participated in both a defined benefit Pension Plan and a Retirement Savings Plan. Effective January 1, 1999, the Company restructured its retirement program to compete more effectively with similar businesses. As part of this restructuring, the Company closed the defined benefit Pension Plan to new participants. Employees who participated in the defined benefit Pension Plan at that time were given the option of remaining in (and continuing to accrue benefits under) the Pension Plan or receiving an enhanced matching contribution in the Retirement Savings Plan.

Because the defined benefit Pension Plan was not open to new participants, the number of active participants in that plan decreased and is approaching the minimum number needed for the Pension Plan to maintain its tax-qualified status. To avoid jeopardizing the tax-qualified status of the Pension Plan, the Company's Board of Directors amended the defined benefit Pension Plan on September 24, 2004. To ensure that the Company continues to provide appropriate levels of benefits to the Company's employees, the Board amended the defined benefit Pension Plan and the Retirement Savings Plan, effective January 1, 2005, so that Pension Plan participants who are actively employed by the Company on that date (1) receive two additional years of benefit service credit to be used in calculating their Pension Plan benefit (subject to the Pension Plan's limit of 35 years of benefit service credit), (2) have the option to receive their Pension Plan benefit in the form of a lump sum at the time they retire, and (3) are eligible to receive the enhanced matching contribution in the Retirement Savings Plan. In addition, effective January 1, 2005, the Board amended the defined benefit Pension Plan so that participants will not accrue any additional benefits under that plan. These changes were communicated to the Company's employees during the first week of November 2004. As a result of the amendments to the Pension Plan, a gain of approximately $172,000 (after tax) was recorded during 2004.

Defined Benefit Pension Plan

As described above, effective January 1, 2005, the defined benefit Pension Plan was frozen with respect to additional years of service or additional compensation. Benefits under the plan were based on each participant's years of service and highest average compensation, prior to the freeze. 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 Company does not expect to be required to make any funding payments in 2005. The measurement dates for the Pension Plan were December 31, 2004 and 2003, respectively.

The following schedule summarizes the assets of the Pension Plan, by investment type, at December 31, 2004 and 2003:

At December 31,	2004	2003
Asset Category		
Equity securities	**72.64%**	73.69%
Debt securities	**12.91%**	14.95%
U.S. Treasury Bills	**11.45%**	8.29%
Money market and other	**3.00%**	3.07%
Total	**100.00%**	100.00%

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

The following schedule sets forth the funded status of the Pension Plan at December 31, 2004 and 2003:

At December 31,	2004	2003
Change in benefit obligation:		
Benefit obligation — beginning of year	**$11,948,755**	$10,781,990
Service cost	**338,352**	325,366
Interest cost	**690,620**	684,239
Change in discount rate	**573,639**	772,254
Actuarial loss (gain)	**220,842**	(212,528)
Amendments	**883,753**	-
Effect of curtailment/settlement	**(2,171,289)**	-
Benefits paid	**(431,609)**	(402,566)
Benefit obligation — end of year	**12,053,063**	11,948,755
Change in plan assets:		
Fair value of plan assets — beginning of year	**11,301,548**	9,438,725
Actual return on plan assets	**1,227,309**	2,265,389
Benefits paid	**(431,609)**	(402,566)
Fair value of plan assets — end of year	**12,097,248**	11,301,548
Funded status	**44,185**	(647,207)
Unrecognized transition obligation	**-**	(35,851)
Unrecognized prior service cost	**(38,958)**	(43,657)
Unrecognized net gain	**(850,224)**	(261,665)
Accrued pension cost	**($844,997)**	($988,380)
Assumptions:		
Discount rate	**5.50%**	6.00%
Rate of compensation increase	**4.00%**	4.00%
Expected return on plan assets	**7.88%**	8.50%

The assumptions used for the discount rate of the plan was reviewed by the Company and lowered from 6 percent to 5.5 percent, reflecting a reduction in the interest rates of high quality bonds and a reduction in the expected life of the plan, due to the lump sum payment option. Additionally, the expected return on plan assets for the qualified plan was lowered from 8.5 percent to 6 percent, due to the adoption of a change in the investment policy, made on September 30, 2004, that allows for a higher level of investment in bonds and a lower level of equity investments. The average return on plan assets for the year was 7.88 percent. There was no change in the assumed pay rate increases. The accumulated benefit obligation was $12.1 million and $9.8 million at December 31, 2004 and 2003, respectively.

Net periodic pension costs for the defined benefit Pension Plan for 2004, 2003 and 2002 include the components as shown below:

For the Years Ended December 31,	2004	2003	2002
Components of net periodic pension cost:			
Service cost	**$338,352**	$325,366	$319,230
Interest cost	**690,620**	684,239	672,392
Expected return on assets	**(869,336)**	(784,476)	(980,915)
Amortization of:			
Transition assets	**(11,328)**	(15,104)	(15,104)
Prior service cost	**(4,699)**	(4,699)	(4,699)
Actuarial gain	**-**	-	(115,570)
Net periodic pension cost (benefit)	**$143,609**	$205,326	($124,666)

Executive Excess Defined Benefit Pension Plan

The Company also sponsors an unfunded executive excess defined benefit pension plan. As noted above, this plan was frozen with respect to additional years of service and additional compensation as of December 31, 2004. Benefits under the plan were based on each participant's years of service and highest average compensation, prior to the freeze. The accumulated benefit obligation was $2.2 million and $1.3 million at December 31, 2004 and 2003, respectively. Accrued pension costs at December 31, 2004 include $875,000 related to a minimum pension liability. The minimum pension liability is a component of other comprehensive income.

Net periodic pension costs for the executive excess benefit pension plan for 2004, 2003 and 2002 include the components as shown below:

For the Years Ended December 31,	2004	2003	2002
Components of net periodic pension cost:			
Service cost	**$105,913**	$107,877	$90,419
Interest cost	**87,568**	80,039	70,510
Amortization of:			
Prior service cost	**2,090**	2,787	2,787
Actuarial loss	**21,699**	18,677	14,039
Net periodic pension cost	**$217,270**	$209,380	$177,755

The following schedule sets forth the status of the executive excess benefit plan:

At December 31,	2004	2003
Change in benefit obligation:		
Benefit obligation — beginning of year	**$1,406,190**	$1,189,155
Service cost	**105,913**	107,877
Interest cost	**87,568**	80,039
Actuarial loss	**713,225**	52,127
Amendments	**60,000**	-
Effect of curtailment/settlement	**(184,844)**	-
Benefits paid	**(25,100)**	(23,008)
Benefit obligation — end of year	**2,162,952**	1,406,190
Change in plan assets:		
Fair value of plan assets — beginning of year	**-**	-
Employer contributions	**25,100**	23,008
Benefits paid	**(25,100)**	(23,008)
Fair value of plan assets — end of year	**-**	-
Funded status	**(2,162,952)**	(1,406,190)
Unrecognized prior service cost	**-**	11,152
Unrecognized net loss	**874,972**	368,290
Accrued pension cost	**($1,287,980)**	($1,026,748)
Assumptions:		
Discount rate	**5.50%**	6.00%
Rate of compensation increase	**4.00%**	4.00%

The assumptions used for the discount rate of the plan was reviewed by the Company and lowered from 6 percent to 5.5 percent, reflecting a reduction in the interest rates of high quality bonds and a reduction in the expected life of the plan. There was no change in the assumed pay rate increases. The measurement dates for the executive excess benefit plan were December 31, 2004 and 2003, respectively.

Other Post-Retirement Benefits

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

Net periodic post-retirement costs for 2004, 2003 and 2002 include the following components:

For the Years Ended December 31,	2004	2003	2002
Components of net periodic post-retirement cost:			
Service cost	**$5,354**	$5,138	$2,739
Interest cost	**86,883**	85,319	68,437
Amortization of:			
Transition obligation	**27,859**	27,859	27,859
Actuarial loss	**78,900**	66,271	12,109
Total post-retirement cost	**$198,996**	$184,587	$111,144

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

At December 31,	2004	2003
Change in benefit obligation:		
Benefit obligation — beginning of year	**$1,471,664**	$1,053,950
Retirees	**91,747**	(24,779)
Fully-eligible active employees	**22,071**	356,027
Other active	**13,798**	86,466
Benefit obligation — end of year	**$1,599,280**	$1,471,664
Funded status	**($1,599,280)**	($1,471,664)
Unrecognized transition obligation	**50,141**	78,000
Unrecognized net loss	**899,228**	655,585
Accrued post-retirement cost	**($649,911)**	($738,079)
Assumptions:		
Discount rate	**5.50%**	6.00%

The health care inflation rate for 2004 is assumed to be 9 percent for medical and 12 percent for prescription drugs. These rates are projected to gradually decrease to ultimate rates of 5 and 6 percent, respectively, by the year 2009. 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 $198,000 as of January 1, 2005, and would increase the aggregate of the service cost and interest cost components of the net periodic post-retirement benefit cost for 2005 by approximately $13,000. A one percentage point decrease in the health care inflation rate from the assumed rate would decrease the accumulated post-retirement benefit obligation by approximately $164,000 as of January 1, 2005, and would decrease the aggregate of the service cost and interest cost components of the net periodic post-retirement benefit cost for 2005 by approximately $11,000. The measurement dates were December 31, 2004 and 2003, respectively.

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 was signed into law on December 8, 2003. The Company's post-retirement health benefit requires that Medicare be the primary insurance for all participants that are eligible for Medicare. Therefore, the prescription drug benefit offered by the Company's plan is not "actuarially equivalent" to the prescription drug benefits provided under Medicare and the Company does not expect to receive subsidy payments from the government. The actuarial evaluation of the post-retirement health benefit did factor in a reduction of 20 percent for prescription costs for retirees on Medicare beginning in 2006, due to the coverage expected to be provided by Medicare.

Estimated Future Benefit Payments

The schedule below shows the estimated future benefit payments for each of the years 2005 through 2009 and the aggregate of the next five years for each of the plans previously described.

	Defined Benefit Pension Plan (1)	Executive Excess Pension Plan (2)	Other Post-Retirement Benefits (2)
2005	$620,073	$89,204	$128,451
2006	418,294	88,490	123,435
2007	759,686	87,782	135,317
2008	814,588	87,080	151,091
2009	377,974	86,384	154,772
Years 2010 through 2014	3,968,275	597,496	905,606

(1) The pension plan is funded; therefore, benefit payments are expected to be paid out of the plan assets.

(2) Benefit payments are expected to be paid out of the general funds of the Company.

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 Internal Revenue Service 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 six percent of the participant's eligible compensation for the plan year. These participants will be eligible for the enhanced matching described below effective January 1, 2005.

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 six percent of each employee's pre-tax compensation for the year. The match is between 100 percent and 200 percent, based on a combination of the employee's age and years of service. The first 100 percent of the funds are matched with Chesapeake common stock. The remaining match is invested in the Company's 401(k) plan according to each employee's election options.

On December 1, 2001, the Company converted the 401(k) fund holding Chesapeake stock to an Employee Stock Ownership Plan ("ESOP").

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 $1,497,000, $1,444,000 and $1,488,000 for the years ended December 31, 2004, 2003 and 2002, respectively. As of December 31, 2004, there are 141,992 shares reserved to fund future contributions to the Retirement Savings Plan.

M. Executive Incentive Plans

A Performance Incentive Plan ("the Plan") adopted in 1992 and amended in April 1998 allows for the granting of performance shares, stock options and stock appreciation rights to certain officers of the Company. The Company now uses performance shares exclusively; however, stock options granted in prior years remained outstanding at December 31, 2004. Additionally, stock appreciation rights ("SARs") were granted previously. All SARs were exercised prior to December 31, 2003.

The Plan enables participants the right to earn performance shares upon the Company's achievement of certain performance goals, as set forth in the specific agreements, and the individual's achievement of goals set annually for each executive. The Company recorded compensation expense of $490,000, $726,000 and $165,000 associated with these performance shares in 2004, 2003 and 2002, respectively.

In 1997, 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 became exercisable over time and the other half became exercisable if certain performance targets were achieved. SFAS No. 123 requires the disclosure of pro forma net income and earnings per share as if fair value based accounting had been used to account for the stock-based compensation costs. The assumptions used in calculating the pro forma information were: dividend yield, 4.73 percent; expected volatility, 15.53 percent; risk-free interest rate, 5.89 percent; and an expected life of four years. No options have been granted since 1997; therefore, there is no pro forma impact for 2004, 2003 or 2002. The weighted average exercise price of outstanding options was $20.50 for all years presented. The options outstanding at December 31, 2004, expire on December 31, 2005.

Changes in outstanding options are shown on the chart below:

	2004		**2003**		**2002**	
	Number of shares	**Option Price**	**Number of shares**	**Option Price**	**Number of shares**	**Option Price**
Balance — beginning of year	**29,490**	**$20.50**	41,948	$20.50	41,948	$20.50
Options exercised	**(11,834)**	**$20.50**	(12,458)	$20.50		
Options forfeited	**(119)**	**$20.50**				
Balance — end of year	**17,537**	**$20.50**	29,490	$20.50	41,948	$20.50
Exercisable	**17,537**	**$20.50**	29,490	$20.50	41,948	$20.50

In 2000, the Company replaced the third year of this Stock Option Agreement with Stock Appreciation Rights. The SARs were awarded based on performance with a minimum number of SARs established for each participant. During 2001 and 2000, the Company granted 10,650 and 13,150 SARs, respectively, in conjunction with the agreement. During 2003, all SARs were exercised.

As of December 31, 2004, there were 306,899 shares reserved for issuance under the terms of the Company's Performance Incentive Plan.

N. ENVIRONMENTAL COMMITMENTS AND CONTINGENCIES

In 2004, Chesapeake received a Certificate of Completion for remedial work at one former gas manufacturing plant site and is currently participating in the investigation, assessment or remediation of two other former gas manufacturing plant sites. These sites are located in three different jurisdictions. The Company has accrued liabilities for three sites referred to respectively as the Dover Gas Light, Salisbury Town Gas Light and the Winter Haven Coal Gas sites. The Company is currently in discussions with the Maryland Department of the Environment ("MDE") regarding the possible responsibilities of the Company with respect to a former gas manufacturing plant site in Cambridge, Maryland.

Dover Gas Light Site

The Dover Gas Light site is a former manufactured gas plant site located in Dover, Delaware. On January 15, 2004, the Company received a Certificate of Completion of Work from the United States Environmental Protection Agency ("EPA") regarding this site. This concluded Chesapeake's remedial action obligation related to this site and relieves Chesapeake from liability for future remediation at the site, unless previously unknown conditions are discovered at the site, or information previously unknown to the EPA is received that indicates the remedial action that has been taken is not sufficiently protective. These contingencies are standard and are required by the United States in all liability settlements.

At December 31, 2004, the Company had accrued $10,000 for costs associated with the Dover Gas Light site and had recorded an associated regulatory asset for the same amount. Through December 31, 2004, the Company has incurred approximately $9.7 million in costs relating to environmental testing and remedial action studies at the site. Approximately $9.7 million has been recovered through December 2004 from other parties or through rates.

Salisbury Town Gas Light Site

In cooperation with the MDE, the Company has completed remediation of the Salisbury Town Gas Light site, located in Salisbury, Maryland, where it was determined that a former manufactured gas plant had caused localized ground-water contamination. During 1996, the Company completed construction and began Air Sparging and Soil-Vapor Extraction ("AS/SVE") remediation procedures. Chesapeake has been reporting the remediation and monitoring results to the MDE on an ongoing basis since 1996. In February 2002, the MDE granted permission to permanently decommission the AS/SVE system and to discontinue all on-site and off-site well monitoring, except for one well that is being maintained for continued product monitoring and recovery. In November 2002, Chesapeake submitted a letter to the MDE requesting No Further Action ("NFA") determination. The Company has been in discussions with the MDE regarding such request and is waiting on a determination from the MDE.

The Company has adjusted the liability with respect to the Salisbury Town Gas Light site to $5,000 at December 31, 2004. This amount is based on the estimated costs to perform limited product monitoring and recovery efforts and fulfill ongoing reporting requirements. A corresponding regulatory asset has been recorded, reflecting the Company's belief that costs incurred will be recoverable in base rates.

Through December 31, 2004, the Company has incurred approximately $2.9 million for remedial actions and environmental studies at the Salisbury Town Gas Light site. Of this amount, approximately $1.8 million has been recovered through insurance proceeds or in rates. The Company expects to recover the remaining costs through rates.

Winter Haven Coal Gas Site

The Winter Haven Coal Gas site is located in Winter Haven, Florida. Chesapeake has been working with the Florida Department of Environmental Protection ("FDEP") in assessing this coal gas site. In May 1996, the Company filed an Air Sparging and Soil Vapor Extraction Pilot Study Work Plan (the "Work Plan") for the Winter Haven site with the FDEP. The Work Plan described the Company's proposal to undertake an 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. In February 2001, the Company filed a Remedial Action Plan ("RAP") with the FDEP to address the contamination of the subsurface soil and ground-water in a portion of the site. The FDEP approved the RAP on May 4, 2001. Construction of the AS/SVE system was completed in the fourth quarter of 2002 and the system is now fully operational.

The FDEP has indicated that the Company may be required to remediate sediments along the shoreline of Lake Shipp, immediately west of the Winter Haven site. Based on studies performed to date, the Company objects to the

FDEP's suggestion that the sediments have been contaminated and require remediation. Early estimates by the Company's environmental consultant indicate that some of the corrective measures discussed by the FDEP may cost as much as $1 million. Given the Company's view as to the absence of ecological effects, the Company believes that cost expenditures of this magnitude are unwarranted and plans to vigorously oppose any requirements that it undertake corrective measures in the offshore sediments. Chesapeake anticipates that it will be several years before this issue is resolved. At this time, the Company has not recorded a liability for sediment remediation. The outcome of this matter cannot be predicted at this time.

The Company has accrued a liability of $446,000 as of December 31, 2004 for the Winter Haven site. Through December 31, 2004, the Company has incurred approximately $1.3 million of environmental costs associated with the Winter Haven site. At December 31, 2004 the Company had collected through rates $182,000 in excess of costs incurred. A regulatory asset of approximately $264,000, representing the uncollected portion of the estimated clean-up costs, has also been recorded. The Company expects to recover the remaining costs through rates.

Other

The Company is in discussions with the MDE regarding the possible responsibilities of the Company for remediation of a gas manufacturing plant site located in Cambridge, Maryland. The outcome of this matter cannot be determined at this time.

O. OTHER COMMITMENTS AND CONTINGENCIES

Possible Application of Florida Gross Receipts Tax

The Company has an unregulated natural gas supply and management services operation that sells natural gas to commercial and industrial customers located in Florida. Under Florida law, the Company is required to collect and remit to the Florida Department of Revenue a gross receipts tax on its sales of natural gas when title to the gas passes to customers in Florida. Substantially all of the natural gas purchased by the customers of the Company's unregulated operation is sold to the customers at a delivery point located outside the State of Florida. Because title passes outside Florida, the Company has not been collecting gross receipts taxes from its customers on such sales. The Company understands that the Florida Department of Revenue has questioned the failure of other companies in the natural gas marketing industry to collect the gross receipts tax under similar circumstances. Due to the current uncertainty as to application of the tax, legislation currently is pending in Florida that would specifically provide amnesty from collection of gross receipts taxes for companies whose gross receipts are derived from sales where a written sales agreement provides for transfer of title outside of Florida. However, the Company cannot predict whether the proposed legislation will pass.

The Company has not been contacted by the Florida Department of Revenue regarding this matter. The Company believes that it has acted in good faith in not collecting Florida gross receipts tax when the title passes outside the State of Florida and should not be held responsible for the collection of the tax. However, if it were to be determined that the Company was required to collect the gross receipts tax on prior sales, the Company could be held responsible to the State of Florida for the taxes not collected. In these circumstances, the Company would incur additional expenses to the extent the Company could not collect the tax from the purchasers of the gas. The amount of such expense would depend on the Company's revenues from those sales to which the tax is deemed to apply and on the willingness or ability to pay of the Company's customers against which recovery could be sought. At this time, the Company does not believe that it is probable that it will be held responsible for collection of the gross receipts tax on past sales where title passed outside the State of Florida.

Natural Gas and Propane Supply

The Company's natural gas and propane distribution operations have entered into contractual commitments for gas from various suppliers. The contracts have various expiration dates. In November 2004, the Company renewed its contract with an energy marketing and risk management company to manage a portion of the Company's natural gas transportation and storage capacity. The contract expires March 31, 2007.

Corporate Guarantees

The Company has issued corporate guarantees to certain vendors of its propane wholesale marketing subsidiary. The corporate guarantees provide for the payment of propane purchases by the subsidiary, in the event of the subsidiary's default. The aggregate amount guaranteed at December 31, 2004 totaled $3.8 million, with the guarantees expiring on various dates in 2005. All payables of the subsidiary are recorded in the Consolidated Financial Statements.

The Company has issued a letter of credit to its primary insurance company for $694,000, which expires June 1, 2005. The letter of credit was provided as security for claims amounts below the deductibles on the Company's policies.

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, results of operations or cash flows of the Company.

P. 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
2004				
Operating Revenue	$63,762,360	$34,292,972	$26,614,699	$53,285,410
Operating Income	10,699,307	2,162,794	282,738	6,824,907
Net Income (Loss)				
From continuing operations	$5,773,534	$611,518	($584,171)	$3,748,786
From discontinued operations	(34,335)	19,148	(72,041)	(33,672)
Net Income (Loss)	$5,739,199	$630,666	($656,212)	$3,715,114
Earnings per share:				
Basic				
From continuing operations	$1.01	$0.11	($0.10)	$0.65
From discontinued operations	-	-	(0.01)	(0.01)
Net Income (Loss)	$1.01	$0.11	($0.11)	$0.64
Diluted				
From continuing operations	$0.99	$0.11	($0.10)	$0.64
From discontinued operations	(0.01)	-	(0.01)	(0.01)
Net Income (Loss)	$0.98	$0.11	($0.11)	$0.63
2003				
Operating Revenue	$63,294,950	$31,003,302	$23,671,955	$45,597,385
Operating Income	12,311,179	2,861,517	152,635	6,254,069
Net Income (Loss)				
From continuing operations	$6,637,104	$934,536	($709,793)	$3,217,636
From discontinued operations	(162,329)	(387)	(150,131)	(474,760)
Net Income (Loss)	$6,474,775	$934,149	($859,924)	$2,742,876
Earnings per share:				
Basic				
From continuing operations	$1.19	$0.17	($0.13)	$0.57
From discontinued operations	(0.03)	-	(0.02)	(0.08)
Net Income (Loss)	$1.16	$0.17	($0.15)	$0.49
Diluted				
From continuing operations	$1.16	$0.17	($0.13)	$0.56
From discontinued operations	(0.03)	-	(0.02)	(0.08)
Net Income (Loss)	$1.13	$0.17	($0.15)	$0.48

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

None

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Chief Executive Officer and Chief Financial Officer of the Company, with the participation of other Company officials, have evaluated the Company's "disclosure controls and procedures" (as such term is defined under Rule 13a-15(e) and 15d – 15(e) promulgated under the Securities Exchange Act of 1934, as amended) as of December 31, 2004. Based upon their evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of December 31, 2004.

Changes in Internal Controls

During the fiscal quarter of the Company ended December 31, 2004, there was no change in the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

Management's Report on Internal Controls Over Financial Reporting

See Management's Report on Internal Controls Over Financial Reporting in Item 8, "Financial Statements and Supplemental Data."

ITEM 9B. OTHER INFORMATION

The Company filed a Current Report on Form 8-K, dated January 19, 2005, discussing the Compensation Committee's (the "Committee") actions on November 9, 2004, including their approval of the compensation arrangements relating to the executive officers for 2005. The filing of the Current Report on Form 8-K on January 19, 2005 with the Securities and Exchange Commission was not made within the prescribed reporting timeframe and was, therefore, late.

On November 9, 2004, the Committee approved awards under the Company's Performance Incentive Plan to John R. Schimkaitis, President and Chief Executive Officer; Paul M. Barbas, Executive Vice President; and Michael P. McMasters, Senior Vice President and Chief Financial Officer. According to the terms of the awards, each executive officer is entitled to earn up to a specified number of shares of the Company's common stock depending on the extent to which pre-established performance goals are achieved during the year ended December 31, 2005. The Compensation Committee also reaffirmed the 2005 awards under the Performance Incentive Plan made to (i) Stephen C. Thompson, Senior Vice President, and (ii) S. Robert Zola, President of Sharp Energy, Inc., a Company subsidiary, for the three-year period ending December 31, 2005. Under the Company's Cash Bonus Incentive Plan, the Committee approved target cash bonus awards, measured as a percentage of base salary, and the performance targets, for each of Messrs. Schimkaitis, Barbas, McMasters, Thompson and Zola, also for 2005.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this Item is incorporated herein by reference to the portions of the Proxy Statement, captioned "Information Regarding the Board of Directors and Nominees," "Corporate Governance Practices and Stockholder Communications – Nomination of Directors," "Committees of the Board – Audit Committee" and "Section 16(a) Beneficial Ownership Reporting Compliance" to be filed not later than April 29, 2005 in connection with the Company's Annual Meeting to be held on May 5, 2005.

The information required by this Item with respect to executive officers is, pursuant to instruction 3 of paragraph (b) of Item 401 of Regulation S-K, set forth in Part I of this Form 10-K under "Executive Officers of the Registrant."

The Company has adopted a Code of Ethics for Financial Officers, which applies to its principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. The information set forth under Item 1 hereof concerning the Code of Ethics for Financial Officers is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated herein by reference to the portion of the Proxy Statement captioned "Director Compensation" and "Management Compensation" in the Proxy Statement to be filed not later than April 29, 2005, in connection with the Company's Annual Meeting to be held on May 5, 2005.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this Item is incorporated herein by reference to the portion of the Proxy Statement captioned "Beneficial Ownership of Chesapeake's Securities" to be filed not later than April 29, 2005 in connection with the Company's Annual Meeting to be held on May 5, 2005.

The following table sets forth information as of December 31, 2004, with respect to compensation plans of Chesapeake and its subsidiaries under which shares of Ches apeake common stock are authorized for issuance:

	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	17,537 (1)	$20.500	306,899 (2)
Equity compensation plans not approved by security holders	30,000 (3)	$18.125	0
Total	47,537	$19.001	306,899

(1) Consists of options to purchase 17,537 shares under the 1992 Performance Incentive Plan, as amended.

(2) Includes 306,899 shares under the 1992 Performance Incentive Plan.

(3) In 2000 and 2001, the Company entered into agreements with an investment banker to assist in identifying acquisition candidates. Under the agreements, the Company issued warrants to the investment banker to purchase 15,000 shares of Chesapeake stock in 2001 at a price of $18.25 per share and 15,000 shares in 2000 at a price of $18.00. The warrants are exercisable during a seven-year period after the date granted.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

None

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this Item is incorporated herein by reference to the portion of the Proxy Statement captioned "Fees and Services of PricewaterhouseCoopers LLP" to be filed not later than April 29, 2005, in connection with the Company's Annual Meeting to be held on May 5, 2005.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

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

1. Financial Statements:
    - Auditors' Report dated March 16, 2005 of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm
    - Consolidated Statements of Income for each of the three years ended December 31, 2004, 2003 and 2002
    - Consolidated Balance Sheets at December 31, 2004 and December 31, 2003
    - Consolidated Statements of Cash Flows for each of the three years ended December 31, 2004, 2003 and 2002
    - Consolidated Statements of Common Stockholders' Equity for each of the three years ended December 31, 2004, 2003 and 2002
    - Consolidated Statements of Income Taxes for each of the three years ended December 31, 2004, 2003 and 2002
    - 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:

Earnings press release dated November 5, 2004 (Items 2.02 and 9.01)

(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 February 24, 2005, is filed herewith.
Exhibit 4(a)	Form of Indenture between the Company and Boatmen's Trust Company, Trustee, with respect to the 8 1/4% Convertible Debentures is incorporated herein by reference to Exhibit 4.2 of the Company's Registration Statement on Form S-2, Reg. No. 33-26582, filed on January 13, 1989.
Exhibit 4(b)	Note Agreement dated February 9, 1993, by and between the Company and Massachusetts Mutual Life Insurance Company and MML Pension Insurance Company, with respect to $10 million of 7.97% Unsecured Senior Notes due February 1, 2008, is incorporated herein by reference to Exhibit 4 to the Company's Annual Report on Form 10-K for the year ended December 31, 1992, File No. 0-593.
Exhibit 4(c)	Note Purchase Agreement entered into by the Company on October 2, 1995, pursuant to which the Company privately placed $10 million of its 6.91% Senior Notes due in 2010, is not being filed herewith, in accordance with Item 601(b)(4)(iii) of Regulation S-K. The Company hereby agrees to furnish a copy of that agreement to the SEC 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 SEC upon request.

Exhibit 4(e) Note Purchase Agreement entered into by the Company on December 27, 2000, pursuant to which the Company privately placed $20 million of its 7.83% Senior Notes due 2015, is not being filed herewith, in accordance with Item 601(b)(4)(iii) of Regulation S-K. The Company hereby agrees to furnish a copy of that agreement to the SEC upon request.

Exhibit 4(f) Note Agreement entered into by the Company on October 31, 2002, pursuant to which the Company privately placed $30 million of its 6.64% Senior Notes due 2017, is incorporated herein by reference to Exhibit 2 of the Company's Current Report on Form 8-K, filed November 6, 2002, File No. 001-11590.

*Exhibit 10(a) Executive Employment Agreement dated March 26, 2002, by and between Chesapeake Utilities Corporation and John R. Schimkaitis is incorporated herein by reference to Exhibit 10 of the Company's Annual Report on Form 10-K for the year ended December 31, 2003.

*Exhibit 10(b) Form of Executive Employment Agreement dated March 26, 2003, by and between Chesapeake Utilities Corporation and each of Michael P. McMasters, William C. Boyles and Stephen C. Thompson, is incorporated herein by reference to Exhibit 10 of the Company's Annual Report on Form 10-K for the year ended December 31, 2003, File No. 001-11590.

*Exhibit 10(c) Form of Executive Employment Agreement dated August 1, 2002, by and between Sharp Energy, Inc. and S. Robert Zola, is incorporated herein by reference to Exhibit 10 of the Company's Annual Report on Form 10-K for the year ended December 31, 2003, File No. 001-11590.

*Exhibit 10(d) Executive Employment Agreement dated January 1, 2003, by and between Chesapeake Utilities Corporation and Ralph J. Adkins is incorporated herein by reference to Exhibit 10 of the Company's Annual Report on Form 10-K for the year ended December 31, 2002, File No. 001-11590.

*Exhibit 10(e) Form of Performance Share Agreement dated January 1, 2003, pursuant to Chesapeake Utilities Corporation Performance Incentive Plan by and between Chesapeake Utilities Corporation and each of John R. Schimkaitis, Michael P. McMasters, Stephen C. Thompson and William C. Boyles is incorporated herein by reference to Exhibit 10 of the Company's Annual Report on Form 10-K for the year ended December 31, 2002, File No. 001-11590.

*Exhibit 10(f) Form of Performance Share Agreement dated January 1, 2003, pursuant to Chesapeake Utilities Corporation Performance Incentive Plan by and between Chesapeake Utilities Corporation and S. Robert Zola, is incorporated herein by reference to Exhibit 10 of the Company's Annual Report on Form 10-K for the year ended December 31, 2003, File No. 001-11590.

*Exhibit 10(g) Form of Performance Share Agreement dated December 4, 2003, pursuant to Chesapeake Utilities Corporation Performance Incentive Plan by and between Chesapeake Utilities Corporation and each of John R. Schimkaitis and Michael P. McMasters, is incorporated herein by reference to Exhibit 10 of the Company's Annual Report on Form 10-K for the year ended December 31, 2003, File No. 001-11590.

*Exhibit 10(h) Form of Performance Share Agreement dated November 9, 2004, pursuant to Chesapeake Utilities Corporation Performance Incentive Plan by and between Chesapeake Utilities Corporation and each of John R. Schimkaitis, Michael P. McMasters and Paul Barbas, is filed herewith.

*Exhibit 10(i) Executive Employment Agreement dated August 4, 2003, by and between Chesapeake Utilities Corporation and Paul Barbas is filed herewith.

*Exhibit 10(j) Chesapeake Utilities Corporation Cash Bonus Incentive Plan dated January 1, 2005, is filed herewith.

*Exhibit 10(k) 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, File No. 001-11590.

*Exhibit 10(l)	Amendments to Chesapeake Utilities Corporation Performance Incentive Plan are incorporated herein by reference to the Company's Proxy Statement dated April 1, 1998, in connection with the Company's Annual Meeting held on May 19, 1998, File No. 001-11590.
*Exhibit 10(m)	Executive Officer Compensation Arrangements, filed herewith.
*Exhibit 10(n)	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, File No. 001-11590.
*Exhibit 10(o)	Non-Employee Director Compensation Arrangements, filed herewith.
*Exhibit 10(p)	United Systems, Inc. Executive Appreciation Rights Plan dated December 31, 2000 is incorporated herein by reference to Exhibit 10 of the Company's Annual Report on Form 10-K for the year ended December 31, 2000, File No. 001-11590.
Exhibit 12	Computation of Ratio of Earning to Fixed Charges, filed herewith.
Exhibit 21	Subsidiaries of the Registrant, filed herewith.
Exhibit 23	Consent of Independent Registered Public Accounting Firm, filed herewith.
Exhibit 31.1	Certificate of Chief Executive Office of Chesapeake Utilities Corporation pursuant to Exchange Act Rule 13a-14(a), dated March 16, 2005, filed herewith.
Exhibit 31.2	Certificate of Chief Financial Officer of Chesapeake Utilities Corporation pursuant to Exchange Act Rule 13a-14(a), dated March 16, 2005, filed herewith.
Exhibit 32.1	Certificate of Chief Executive Office of Chesapeake Utilities Corporation pursuant to 18 U.S.C. Section 1350, dated March 16, 2005, filed herewith.
Exhibit 32.2	Certificate of Chief Financial Officer of Chesapeake Utilities Corporation pursuant to 18 U.S.C. Section 1350, dated March 16, 2005, filed herewith.

* Management contract or compensatory plan or agreement.

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SIGNATURES

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

CHESAPEAKE UTILITIES CORPORATION

By: /S/ JOHN R. SCHIMKAITIS
John R. Schimkaitis
President and Chief Executive Officer
Date: March 16, 2005

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

/S/ RALPH J. ADKINS
Ralph J. Adkins, Chairman of the Board and Director
Date: March 16, 2005

/S/ JOHN R. SCHIMKAITIS
John R. Schimkaitis, President, Chief Executive Officer and Director
Date: March 16, 2005

/S/ MICHAEL P. MCMASTERS
Michael P. McMasters, Senior Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)
Date: March 16, 2005

/S/ RICHARD BERNSTEIN
Richard Bernstein, Director
Date: March 16, 2005

/S/ THOMAS J. BRESNAN
Thomas J. Bresnan, Director
Date: March 16, 2005

/S/ WALTER J. COLEMAN
Walter J. Coleman, Director
Date: March 16, 2005

/S/ J. PETER MARTIN
J. Peter Martin, Director
Date: March 16, 2005

/S/ JOSEPH E. MOORE, ESQ.
Joseph E. Moore, Esq., Director
Date: March 16, 2005

/S/ CALVERT A. MORGAN, JR.
Calvert A. Morgan, Jr., Director
Date: March 16, 2005

/S/ RUDOLPH M. PEINS, JR.
Rudolph M. Peins, Jr., Director
Date: March 16, 2005

/S/ ROBERT F. RIDER
Robert F. Rider, Director
Date: March 16, 2005

Chesapeake Utilities Corporation and Subsidiaries
Schedule II
Valuation and Qualifying Accounts

For the Year Ended December 31,	Balance at Beginning of Year	Additions: Charged to Income	Additions: Other Accounts [1]	Deductions [2]	Balance at End of Year
Reserve Deducted From Related Assets					
Reserve for Uncollectible Accounts					
2004	**$ 682,002**	**$ 505,595**	**$ 103,020**	**$ (679,798)**	**$ 610,819**
2003	$ 659,628	$ 660,390	$ 10,093	$ (648,109)	$ 682,002
2002	$ 621,516	$ 677,461	$ 210,735	$ (850,084)	$ 659,628

[1] Recoveries.

[2] Uncollectible accounts charged off.

EXHIBIT 12

Chesapeake Utilities Corporation
Ratio of Earnings to Fixed Charges

For the Years Ended December 31,		2004		2003		2002
Income from continuing operations	**$**	**9,549,667**	$	10,079,483	$	7,535,009
Add:						
Income taxes		**5,701,090**		6,032,445		4,609,552
Portion of rents representative of interest factor		**309,446**		351,445		411,461
Interest on indebtedness		**5,206,723**		5,616,756		4,867,520
Amortization of debt discount and expense		**61,422**		89,155		87,502
Earnings as adjusted	**$**	**20,828,348**	$	22,169,284	$	17,511,044
Fixed Charges						
Portion of rents representative of interest factor	**$**	**309,446**	$	351,445	$	411,461
Interest on indebtedness		**5,206,723**		5,616,756		4,867,520
Amortization of debt discount and expense		**61,422**		89,155		87,502
Fixed Charges	**$**	**5,577,591**	$	6,057,356	$	5,366,483
Ratio of Earnings to Fixed Charges		**3.73**		3.66		3.26

EXHIBIT 21

Chesapeake Utilities Corporation
Subsidiaries of the Registrant

Subsidiaries	State Incorporated
aQuality Company, Inc	Delaware
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
OnSight Energy, LLC	Delaware
Peninsula Energy Services Company, Inc.	Delaware

Subsidiaries of Sharp Energy, Inc.	State Incorporated
Sharpgas, Inc.	Delaware
Sharp Living, Inc.	Delaware
Tri-County Gas Co., Incorporated	Maryland

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

Subsidiaries of Sharp Water, Inc.	State Incorporated
aquality Solution, of Maryland, Inc.	Maryland
Absolute Water Care, Inc.	Florida
Sharp Water of Florida, Inc.	Delaware
Sharp Water of Idaho, Inc.	Delaware
Sharp Water of Minnesota, Inc.	Delaware

CERTIFICATE PURSUANT TO RULE 13A-14(A) UNDER THE SECURITIES EXCHANGE ACT OF 1934

I, John R. Schimkaitis, certify that:

I have reviewed this annual report on Form 10-K of Chesapeake Utilities Corporation;

Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a–15(e) and 15d–15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluations; and

d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant 's internal control over financial reporting; and

The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 16, 2005

/S/ JOHN R. SCHIMKAITIS
John R. Schimkaitis
President and Chief Executive Officer

EXHIBIT 31.2

CERTIFICATE PURSUANT TO RULE 13A-14(A) UNDER THE SECURITIES EXCHANGE ACT OF 1934

I, Michael P. McMasters, certify that:

I have reviewed this annual report on Form 10-K of Chesapeake Utilities Corporation;

Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a–15(e) and 15d–15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluations; and

d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant 's internal control over financial reporting; and

The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 16, 2005

/S/ MICHAEL P. MCMASTERS
Michael P. McMasters
Senior Vice President and Chief Financial Officer

EXHIBIT 32.1

Certificate of Chief Executive Officer

of

Chesapeake Utilities Corporation

(pursuant to 18 U.S.C. Section 1350)

I, John R. Schimkaitis, President and Chief Executive Officer of Chesapeake Utilities Corporation, certify that, to the best of my knowledge, the Annual Report on Form 10-K of Chesapeake Utilities Corporation ("Chesapeake") for the year ended December 31, 2004, filed with the Securities and Exchange Commission on the date hereof (i) fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and (ii) the information contained therein fairly presents, in all material respects, the financial condition and results of operations of Chesapeake.

/S/ JOHN R. SCHIMKAITIS
John R. Schimkaitis
March 16, 2005

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Chesapeake Utilities Corporation and will be retained by Chesapeake Utilities Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

EXHIBIT 32.2

Certificate of Chief Financial Officer

of

Chesapeake Utilities Corporation

(pursuant to 18 U.S.C. Section 1350)

I, Michael P. McMasters, Senior Vice President and Chief Financial Officer of Chesapeake Utilities Corporation, certify that, to the best of my knowledge, the Annual Report on Form 10-K of Chesapeake Utilities Corporation ("Chesapeake") for the year ended December 31, 2004, filed with the Securities and Exchange Commission on the date hereof (i) fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and (ii) the information contained therein fairly presents, in all material respects, the financial condition and results of operations of Chesapeake.

/S/ MICHAEL P. MCMASTERS
Michael P. McMasters
March 16, 2005

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Chesapeake Utilities Corporation and will be retained by Chesapeake Utilities Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement on Form S-3 (Nos. 33-28391, 33-64671, 333-63381 and 333-121524) and Form S-8 (Nos. 333-01175 and 333-94159) of Chesapeake Utilities Corporation of our report dated March 16, 2005 relating to the financial statements, financial statement schedule, management's assessment of the effectiveness of internal control over financial reporting and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

PricewaterhouseCoopers LLP

PRICEWATERHOUSECOOPERS LLP
Boston, Massachusetts
March 16, 2005

Upon written request, Chesapeake will provide, free of charge, a copy of any exhibit to the 2004 Annual Report on Form 10-K not included in this document.

Exhibit A(2)

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended: June 30, 2005

OR

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

For the transition period from ______ to ______

Commission File Number: 001-11590

CHESAPEAKE UTILITIES CORPORATION

(Exact name of registrant as specified in its charter)

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

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

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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes [X] No [ ]

Common Stock, par value $.4867 — 5,835,240 shares outstanding as of June 30, 2005.

TABLE OF CONTENTS

PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

Chesapeake Utilities Corporation and Subsidiaries

Condensed Consolidated Statements of Income (Unaudited)

For the Three Months Ended June 30,	2005	2004
Operating Revenues	**$42,220,377**	$34,292,972
Operating Expenses		
Cost of sales, excluding costs below	**26,910,961**	20,245,908
Operations	**9,433,560**	8,622,832
Maintenance	**488,659**	415,567
Depreciation and amortization	**1,911,120**	1,811,171
Other taxes	**1,151,132**	1,034,700
Total operating expenses	**39,895,432**	32,130,178
Operating Income	**2,324,945**	2,162,794
Other income net of other expenses	**228,481**	74,217
Interest charges	**1,273,166**	1,328,231
Income Before Income Taxes	**1,280,260**	908,780
Income taxes	**484,336**	297,262
Income from Continuing Operations	**795,924**	611,518
Income from discontinued operations, net of tax expense of $11,234	**-**	19,148
Net Income	**$795,924**	$630,666
Earnings Per Share of Common Stock:		
Basic		
From continuing operations	**$0.14**	$0.11
From discontinued operations	**-**	-
Net Income	**$0.14**	$0.11
Diluted		
From continuing operations	**$0.14**	$0.11
From discontinued operations	**-**	-
Net Income	**$0.14**	$0.11
Cash Dividends Declared Per Share of Common Stock:	**$0.285**	$0.280

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

Chesapeake Utilities Corporation and Subsidiaries

Condensed Consolidated Statements of Income (Unaudited)

For the Six Months Ended June 30,	2005	2004
Operating Revenues	**$120,065,625**	$98,055,332
Operating Expenses		
Cost of sales, excluding costs below	**79,463,890**	60,642,920
Operations	**19,541,075**	17,790,486
Maintenance	**818,234**	796,137
Depreciation and amortization	**3,812,091**	3,621,795
Other taxes	**2,601,047**	2,341,893
Total operating expenses	**106,236,337**	85,193,231
Operating Income	**13,829,288**	12,862,101
Other income net of other expenses	**310,861**	176,693
Interest charges	**2,550,944**	2,654,997
Income Before Income Taxes	**11,589,205**	10,383,797
Income taxes	**4,560,485**	3,998,745
Income from Continuing Operations	**7,028,720**	6,385,052
Loss from discontinued operations, net of tax benefit of $7,257	**-**	(15,187)
Net Income	**$7,028,720**	$6,369,865
Earnings Per Share of Common Stock:		
Basic		
From continuing operations	**$1.21**	$1.12
From discontinued operations	**-**	-
Net Income	**$1.21**	$1.12
Diluted		
From continuing operations	**$1.19**	$1.10
From discontinued operations	**-**	(0.01)
Net Income	**$1.19**	$1.09
Cash Dividends Declared Per Share of Common Stock:	**$0.565**	$0.555

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

Chesapeake Utilities Corporation and Subsidiaries

Condensed Consolidated Statements of Cash Flows (Unaudited)

For the Six Months Ended June 30,	2005	2004
Operating Activities		
Net Income	**$7,028,720**	$6,369,865
Adjustments to reconcile net income to net operating cash:		
Depreciation and amortization	**3,812,091**	3,621,795
Depreciation and accretion included in other costs	**1,327,611**	1,260,875
Deferred income taxes, net	**(1,468,723)**	822,082
Unrealized (loss) gain on commodity contracts	**(205,891)**	140,089
Employee benefits and compensation	**871,596**	1,029,198
Other, net	**841**	(14,620)
Changes in assets and liabilities:		
Accounts receivable and accrued revenue	**14,640,803**	10,773,033
Propane inventory, storage gas and other inventory	**1,341,441**	(648,887)
Regulatory assets	**1,403,047**	2,119,623
Prepaid expenses and other current assets	**(440,293)**	38,459
Other deferred charges	**(45,602)**	(72,961)
Long-term receivables	**111,682**	94,187
Accounts payable and other accrued liabilities	**(10,904,953)**	(5,060,893)
Income taxes receivable	**2,999,588**	2,609,586
Accrued interest	**1,111,849**	1,144,624
Customer deposits and refunds	**(1,161,802)**	(662,946)
Accrued compensation	**51,480**	(1,139,897)
Regulatory liabilities	**2,217,929**	(785,495)
Environmental and other liabilities	**183,387**	(82,127)
Net cash provided by operating activities	**22,874,801**	21,555,590
Investing Activities		
Property, plant and equipment expenditures	**(10,778,478)**	(6,556,749)
Purchase of investments	**(1,201,290)**	43,354
Environmental recoveries and other	**168,984**	312,338
Net cash used by investing activities	**(11,810,784)**	(6,201,057)
Financing Activities		
Common stock dividends	**(2,887,983)**	(2,740,629)
Issuance of stock for Dividend Reinvestment Plan	**138,592**	102,483
Purchase of treasury stock	**-**	(193,625)
Change in cash overdrafts due to outstanding checks	**(301,758)**	(445,478)
Net repayment under line of credit agreements	**(4,700,000)**	(3,515,257)
Repayment of long-term debt	**(1,005,197)**	(1,378,337)
Net cash used by financing activities	**(8,756,346)**	(8,170,843)
Net Increase in Cash and Cash Equivalents	**2,307,671**	7,183,690
Cash and Cash Equivalents — Beginning of Period	**1,611,761**	3,108,501
Cash and Cash Equivalents — End of Period	**$3,919,432**	$10,292,191

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

Chesapeake Utilities Corporation and Subsidiaries

Condensed Consolidated Balance Sheets (Unaudited)

Assets	June 30, 2005	December 31, 2004
Property, Plant and Equipment		
Natural gas distribution and transmission	**$201,742,745**	$198,306,668
Propane	**39,121,403**	38,344,983
Advanced information services	**1,490,091**	1,480,779
Other plant	**8,726,796**	9,368,153
Total property, plant and equipment	**251,081,035**	247,500,583
Less: Accumulated depreciation and amortization	**(75,939,951)**	(73,213,605)
Plus: Construction work in progress	**8,394,515**	2,766,209
Net property, plant and equipment	**183,535,599**	177,053,187
Investments	**1,581,477**	386,422
Current Assets		
Cash and cash equivalents	**3,919,432**	1,611,761
Accounts receivable (less allowance for uncollectible accounts of $806,107 and $610,819, respectively)	**26,003,772**	36,938,688
Accrued revenue	**1,524,067**	5,229,955
Propane inventory, at average cost	**4,119,594**	4,654,119
Other inventory, at average cost	**1,550,961**	1,056,530
Regulatory assets	**1,242,957**	2,435,284
Storage gas prepayments	**3,784,036**	5,085,382
Income taxes receivable	**-**	719,078
Deferred income taxes receivable	**609,839**	-
Prepaid expenses	**2,180,361**	1,759,643
Other current assets	**503,810**	459,908
Total current assets	**45,438,829**	59,950,348
Deferred Charges and Other Assets		
Goodwill	**674,451**	674,451
Other intangible assets, net	**212,586**	219,964
Long-term receivables	**1,097,351**	1,209,034
Other regulatory assets	**1,286,514**	1,542,741
Other deferred charges	**918,080**	902,281
Total deferred charges and other assets	**4,188,982**	4,548,471
Total Assets	**$234,744,887**	$241,938,428

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

Capitalization and Liabilities	June 30, 2005	December 31, 2004
Capitalization		
Stockholders' equity		
Common Stock, par value $.4867 per share; (authorized 12,000,000 shares) [1]	**$2,840,014**	$2,812,538
Additional paid-in capital	**38,232,026**	36,854,717
Retained earnings	**42,762,187**	39,015,087
Accumulated other comprehensive income	**(527,246)**	(527,246)
Deferred compensation obligation	**923,542**	816,044
Treasury stock	**(925,195)**	(1,008,696)
Total stockholders' equity	**83,305,328**	77,962,444
Long-term debt, net of current maturities	**63,008,468**	66,189,454
Total capitalization	**146,313,796**	144,151,898
Current Liabilities		
Current portion of long-term debt	**4,909,091**	2,909,091
Short-term borrowing	**-**	5,001,758
Accounts payable	**20,104,428**	30,938,272
Customer deposits and refunds	**3,516,416**	4,678,218
Accrued interest	**1,712,942**	601,095
Dividends payable	**1,662,948**	1,617,245
Income taxes payable	**2,280,510**	-
Deferred income taxes payable	**-**	571,876
Accrued compensation	**2,672,667**	2,680,370
Regulatory liabilities	**2,800,702**	571,111
Other accrued liabilities	**1,547,869**	1,800,540
Total current liabilities	**41,207,573**	51,369,576
Deferred Credits and Other Liabilities		
Deferred income taxes payable	**23,068,837**	23,350,414
Deferred investment tax credits	**410,501**	437,909
Other regulatory liabilities	**1,745,676**	1,578,374
Environmental liabilities	**406,170**	461,656
Accrued pension costs	**2,998,271**	3,007,949
Accrued asset removal cost	**15,861,108**	15,024,849
Other liabilities	**2,732,955**	2,555,803
Total deferred credits and other liabilities	**47,223,518**	46,416,954
Commitments and Contingencies (Note 3)		
Total Capitalization and Liabilities	**$234,744,887**	$241,938,428

[1] Shares issued were 5,835,431 and 5,778,976 for 2005 and 2004, respectively.
Shares outstanding were 5,835,240 and 5,769,558 for 2005 and 2004, respectively.

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

Chesapeake Utilities Corporation and Subsidiaries

Condensed Consolidated Statements of Stockholders' Equity (Unaudited)

	For the Six Months Ended June 30, 2005	For the Twelve Months Ended December 31, 2004
Common Stock		
Balance — beginning of period	**$2,812,538**	$2,754,748
Dividend Reinvestment Plan	**8,945**	20,125
Retirement Savings Plan	**4,350**	19,058
Conversion of debentures	**5,032**	9,060
Performance shares and options exercised	**9,149**	9,547
Balance — end of period	**$2,840,014**	$2,812,538
Additional Paid-in Capital		
Balance — beginning of period	**$36,854,717**	$34,176,361
Dividend Reinvestment Plan	**484,262**	996,715
Retirement Savings Plan	**309,998**	946,319
Conversion of debentures	**170,757**	307,940
Performance shares and options exercised	**412,292**	427,382
Balance — end of period	**$38,232,026**	$36,854,717
Retained Earnings		
Balance — beginning of period	**$39,015,087**	$36,008,246
Net income	**7,028,720**	9,428,767
Cash dividends declared	**(3,281,620)**	(6,403,450)
Loss on issuance of treasury stock	**-**	(18,476)
Balance — end of period	**$42,762,187**	$39,015,087
Accumulated Other Comprehensive Income		
Balance — beginning of period	**($527,246)**	-
Minimum pension liability adjustment, net of tax	**-**	(527,246)
Balance — end of period	**($527,246)**	($527,246)
Deferred Compensation Obligation		
Balance — beginning of period	**$816,044**	$913,689
New deferrals	**107,498**	296,790
Payout of deferred compensation	**-**	(394,435)
Balance — end of period	**$923,542**	$816,044
Treasury Stock		
Balance — beginning of period	**($1,008,696)**	($913,689)
New deferrals related to compensation obligation	**(107,498)**	(296,790)
Purchase of treasury stock [1]	**(80,806)**	(355,424)
Sale and distribution of treasury stock [2]	**271,805**	557,207
Balance — end of period	**($925,195)**	($1,008,696)
Total Stockholders' Equity	**$83,305,328**	$77,962,444

[1] Amount includes shares purchased in the open market for the Company's Rabbi Trust to secure its obligations under the Company's Supplemental Executive Retirement Savings Plan ("SERP plan").
[2] Amount includes shares issued to the Company's Rabbi Trust as obligation under the SERP plan.

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Quarterly Financial Data

The financial information for Chesapeake Utilities Corporation (the "Company" or "Chesapeake") included herein is unaudited and should be read in conjunction with the Company's Annual Report on Form 10-K; however, the year-end balance sheet data has been derived from audited financial statements. In the opinion of management, this financial information reflects normal recurring adjustments that are necessary for a fair presentation of the Company's interim results. In accordance with United States Generally Accepted Accounting Principles, the Company's management makes certain estimates and assumptions regarding: 1) reported amounts of assets and liabilities, 2) disclosure of contingent assets and liabilities at the date of the financial statements and 3) reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. 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.

Chesapeake did not have any changes in the components of comprehensive income that are required to be reported by Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards ("SFAS") No. 130, "Reporting Comprehensive Income," for the quarters ended June 30, 2005 or 2004.

2. Calculation of Earnings Per Share

	Three Months Ended		Six Months Ended	
For the Period Ended June 30,	**2005**	**2004**	**2005**	**2004**
Calculation of Basic Earnings Per Share from Continuing Operations:				
Income from continuing operations	**$795,924**	$611,518	**$7,028,720**	$6,385,052
Weighted average shares outstanding	**5,823,041**	5,728,158	**5,808,514**	5,708,294
Basic Earnings Per Share from Continuing Operations	**$0.14**	$0.11	**$1.21**	$1.12
Calculation of Diluted Earnings Per Share from Continuing Operations:				
Reconciliation of Numerator:				
Income from continuing operations — Basic	**$795,924**	$611,518	**$7,028,720**	$6,385,052
Effect of 8.25% Convertible debentures *	**-**	-	**64,043**	70,421
Adjusted numerator — Diluted	**$795,924**	$611,518	**$7,092,763**	$6,455,473
Reconciliation of Denominator:				
Weighted shares outstanding — Basic	**5,823,041**	5,728,158	**5,808,514**	5,708,294
Effect of dilutive securities *				
Stock options	**581**	2,293	**533**	3,199
Warrants	**10,924**	6,492	**10,306**	7,682
8.25% Convertible debentures	**-**	-	**150,869**	165,867
Adjusted denominator — Diluted	**5,834,546**	5,736,943	**5,970,222**	5,885,042
Diluted Earnings Per Share from Continuing Operations	**$0.14**	$0.11	**$1.19**	$1.10

* Amounts associated with securities resulting in an anti-dilutive effect on earnings per share are not included in this calculation.

3. Commitments and Contingencies

Environmental Matters

In 2004, Chesapeake received a Certificate of Completion for remedial work at one former gas manufacturing plant site and is currently participating in the investigation, assessment or remediation of two other former gas manufacturing plant sites. These sites are located in three different jurisdictions. The Company has accrued liabilities for three sites referred to respectively as the Dover Gas Light, Salisbury Town Gas Light and the Winter Haven Coal Gas sites. The Company is currently in discussions with the

Maryland Department of the Environment ("MDE") regarding the possible responsibilities of the Company with respect to a fourth former gas manufacturing plant site in Cambridge, Maryland.

Dover Gas Light Site

The Dover Gas Light site is a former manufactured gas plant site located in Dover, Delaware. On January 15, 2004, the Company received a Certificate of Completion of Work from the United States Environmental Protection Agency ("EPA") regarding this site. This concluded Chesapeake's remedial action obligation related to this site and relieves Chesapeake from liability for future remediation at the site, unless previously unknown conditions are discovered at the site or information previously unknown to the EPA is received that indicates the remedial action that has been taken is not sufficiently protective. These contingencies are standard and are required by the United States in all liability settlements.

The Company has reviewed its remediation costs incurred to date for the Dover Gas Light site and has concluded that all costs incurred have been paid. The Company does not expect any future environmental expenditures for this site. Through June 30, 2005, the Company has incurred approximately $9.7 million in costs relating to environmental testing and remedial action studies at the site. Approximately $9.9 million has been recovered through June 2005 from other parties or through rates. As of June 30, 2005, a regulatory liability of approximately $211,000, representing the over recovery portion of the clean-up costs, has also been recorded. The over-recovery is temporary and will be refunded by the Company to customers in future rates.

Salisbury Town Gas Light Site

In cooperation with the MDE, the Company has completed remediation of the Salisbury Town Gas Light site, located in Salisbury, Maryland, where it was determined that a former manufactured gas plant had caused localized ground-water contamination. During 1996, the Company completed construction and began Air Sparging and Soil-Vapor Extraction ("AS/SVE") remediation procedures. Chesapeake has been reporting the remediation and monitoring results to the MDE on an ongoing basis since 1996. In February 2002, the MDE granted permission to permanently decommission the AS/SVE system and to discontinue all on-site and off-site well monitoring, except for one well that is being maintained for continued product monitoring and recovery. In November 2002, Chesapeake submitted a letter to the MDE requesting a No Further Action determination. The Company has been in discussions with the MDE regarding its request and is awaiting an answer from the MDE.

At June 30, 2005, the Company continues to maintain a liability of $5,000 with respect to the Salisbury Town Gas Light site. This amount is based on the estimated costs to perform limited product monitoring and recovery efforts and fulfill ongoing reporting requirements. A corresponding regulatory asset has been recorded, reflecting the Company's belief that costs incurred will be recoverable in base rates.

Through June 30, 2005, the Company has incurred approximately $2.9 million for remedial actions and environmental studies at the Salisbury Town Gas Light site. Of this amount, approximately $1.8 million has been recovered through insurance proceeds or in rates. As of June 30, 2005, a regulatory asset of approximately $1.1 million, representing the under recovery portion of the clean-up costs, has also been recorded. The Company expects to recover the remaining costs through rates.

Winter Haven Coal Gas Site

The Winter Haven Coal Gas site is located in Winter Haven, Florida. Chesapeake has been working with the Florida Department of Environmental Protection ("FDEP") in assessing this former manufactured gas site. In May 1996, the Company filed an Air Sparging and Soil Vapor Extraction Pilot Study Work Plan (the "Work Plan") for the Winter Haven site with the FDEP. The Work Plan described the Company's proposal to undertake an 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. In February 2001, the Company filed a Remedial Action Plan ("RAP") with the FDEP to address the contamination of the subsurface soil and ground-water in a portion of the site. The FDEP approved the RAP on May 4, 2001. Construction of the AS/SVE system was completed in the fourth quarter of 2002 and the system is now fully operational.

The FDEP has indicated that the Company may be required to remediate sediments along the shoreline of Lake Shipp, immediately west of the Winter Haven site. Based on studies performed to date, the Company objects to the FDEP's suggestion that the sediments have been contaminated and require remediation. Early estimates by the Company's environmental consultant indicate that some of the corrective measures discussed by the FDEP may cost as much as $1 million. Given the Company's view as to the absence of ecological effects, the Company believes that cost expenditures of this magnitude are unwarranted and plans to vigorously oppose any requirements that it undertake corrective measures in the offshore sediments. Chesapeake anticipates that it will be several years before this issue is resolved. At this time, the Company has not recorded a liability for sediment remediation. The outcome of this matter cannot be predicted at this time.

The Company has accrued a liability of $401,000 as of June 30, 2005 for the Winter Haven site. Through June 30, 2005, the Company has incurred approximately $1.4 million of environmental costs associated with this site and had collected, through rates, $172,000 in excess of costs incurred. A regulatory asset of approximately $228,000, representing the uncollected portion of the estimated clean-up costs, has also been recorded. The Company expects to recover the remaining costs through rates.

Other
The Company is in discussions with the MDE regarding the possible responsibilities of the Company for remediation of a gas manufacturing plant site located in Cambridge, Maryland. The outcome of this matter cannot be determined at this time.

Other Commitments and Contingencies

Collection of Florida Gross Receipts Tax
The Company provides natural gas supply and management services through its affiliate, Peninsula Energy Services Company ("PESCO"), to commercial and industrial customers located in Florida. Substantially all of the natural gas purchased by PESCO's customers is sold to the customers at delivery points located outside the State of Florida and because title to the gas typically passes outside Florida, PESCO does not collect gross receipts taxes from its customers. The Company understands that the Florida Department of Revenue has alleged that other companies in the natural gas marketing industry should have collected the gross receipts tax from the purchasers of the gas under similar circumstances. On June 8, 2005, new legislation was enacted that establishes the responsibilities of unregulated natural gas marketers, such as PESCO, for the collection of the gross receipts tax. The law also contains amnesty provisions relating to the failure to collect gross receipts taxes on sales made prior to January 1, 2006. The Company is in the process of reviewing the new law and is developing compliance procedures. The Company does not believe that any liability it may have for unpaid gross receipts tax would have a material effect on the consolidated position, results of operations or cash flows of the Company.

Natural Gas and Propane Supply

The Company's natural gas and propane distribution operations have entered into contractual commitments to purchase gas from various suppliers. The contracts have various expiration dates. In November 2004, the Company renewed its contract with an energy marketing and risk management company to manage a portion of the Company's natural gas transportation and storage capacity. The contract expires March 31, 2007.

Corporate Guarantees

The Company has issued corporate guarantees to certain vendors of its propane wholesale marketing subsidiary, advanced information services subsidiary, and its Florida natural gas supply and management services subsidiary. These corporate guarantees provide for the payment of propane and natural gas purchases and office rent in the event of the subsidiaries' default. The aggregate amount of the obligations guaranteed at June 30, 2005 totaled $9.7 million, with the guarantees expiring on various dates in 2006. All payables of the subsidiaries are recorded in the Consolidated Financial Statements.

The Company has issued a letter of credit to its primary insurance company in the amount of $694,000, which expires June 1, 2006. The letter of credit was provided as security for claims amounts to satisfy the deductibles on the Company's policies.

Application of SFAS No. 71

Certain assets and liabilities of the Company are accounted for in accordance with SFAS No. 71 — "Accounting for the Effects of Certain Types of Regulation." SFAS No. 71 provides guidance for public utilities and other regulated operations where the rates (prices) charged to customers are subject to regulatory review and approval. Regulators sometimes include costs in allowable costs in a period other than the period in which the costs would be charged to expense by an unregulated enterprise. That procedure can create assets, reduce assets, or create liabilities for the regulated enterprise. For financial reporting, an incurred cost for which a regulator permits recovery in a future period is accounted for like an incurred cost that is reimbursable under a cost-reimbursement-type contract. The Company believes that all regulatory assets as of June 30, 2005 are probable of recovery through rates. If the Company were required to terminate the application of SFAS No. 71 to its regulated operations, all such deferred amounts would be recognized in the income statement at that time. This could result in a charge to earnings, net of applicable income taxes, that could be material.

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, results of operations or cash flows of the Company.

4. Recent Authoritative Pronouncements on Financial Reporting and Accounting

In December 2004, the FASB released a revision ("Share-Based Payment") to SFAS No. 123 "Accounting for Stock-Based Compensation," referred to as SFAS No. 123R. In April 2005, the Securities and Exchange Commission ("SEC") approved a new rule that delayed the effective date for SFAS No. 123R until the first annual period beginning after June 15, 2005. This Statement establishes financial accounting and reporting standards for stock-based employee compensation plans. Those plans include all arrangements by which employees receive shares of stock or other equity instruments of the employer or the employer incurs liabilities to employees in amounts based on the price of the employer's stock. Examples are stock purchase plans, stock options, restricted stock and stock appreciation rights. The

Company does not expect the adoption of SFAS No. 123R to have a material impact on its financial statements.

In March 2005, the FASB issued Interpretation No. 47 ("FIN No. 47"), "Accounting for Conditional Asset Retirement Obligations" an interpretation of SFAS No. 143. FIN No. 47 clarifies that the term conditional asset retirement obligation refers to a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. The obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and (or) method of settlement. Thus, the timing and (or) method of settlement may be conditional on a future event. FIN No. 47 also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. FIN No. 47 is effective for the Company no later than the fourth quarter of 2005. It is not expected to have a material impact on the Company's financial statements.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections – a replacement of APB Opinion No. 20 and FASB Statement No. 3". SFAS No. 154 primarily requires retrospective application to prior periods' financial statements for the direct effects of changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. This statement applies to all voluntary changes in accounting principle and also applies to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. The statement is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The Company is required to adopt the provision of SFAS No. 154, as applicable, beginning in fiscal year 2006.

5. 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. Results exclude discontinued operations.

	Three Months Ended		Six Months Ended	
For the Period Ended June 30,	**2005**	**2004**	**2005**	**2004**
Operating Revenues, Unaffiliated Customers				
Natural gas distribution and transmission	**$31,795,714**	$25,101,243	**$86,250,524**	$67,402,227
Propane	**7,294,710**	5,754,405	**27,485,820**	24,214,662
Advanced information services	**3,028,527**	3,437,324	**6,189,885**	6,438,443
Other	**101,426**	-	**139,396**	-
Total operating revenues, unaffiliated customers	**$42,220,377**	$34,292,972	**$120,065,625**	$98,055,332
Intersegment Revenues [1]				
Natural gas distribution and transmission	**$39,140**	$35,003	**$84,017**	$95,990
Propane distribution and marketing	**33**	-	**668**	-
Advanced information services	**1,881**	13,570	**10,809**	22,587
Other	**154,623**	168,686	**309,246**	338,132
Total intersegment revenues	**$195,677**	$217,259	**$404,740**	$456,709
Operating Income				
Natural gas distribution and transmission	**$3,193,851**	$2,696,914	**$10,986,237**	$9,914,667
Propane	**(762,685)**	(881,576)	**3,239,163**	2,440,082
Advanced information services	**(30,729)**	259,750	**(263,590)**	331,835
Other and eliminations	**(75,492)**	87,706	**(132,522)**	175,517
Total operating income	**$2,324,945**	$2,162,794	**$13,829,288**	$12,862,101

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

	June 30, 2005	December 31, 2004
Identifiable Assets		
Natural gas distribution and transmission	**$178,742,412**	$184,412,301
Propane	**41,698,136**	47,531,106
Advanced information services	**2,753,804**	2,387,440
Other	**11,550,535**	7,379,794
Total identifiable assets	**$234,744,887**	$241,710,641

The Company's operations are all domestic. The advanced information services segment has infrequent transactions with foreign companies, located primarily in Canada, that are denominated and paid in U.S. dollars. These transactions are immaterial to the consolidated revenues.

6. Employee Benefit Plans

Net periodic benefit costs for the defined benefit pension plan, the executive excess benefit plan and other post-retirement benefits are shown below:

	Defined Benefit Pension Plan		Executive Excess Retirement Benefit Plan		Other Post-Retirement Benefits	
For the Three Months Ended June 30,	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**
Service Cost	$0	$84,690	$0	$23,851	$1,565	$1,315
Interest Cost	161,435	176,727	29,914	20,597	19,468	22,042
Expected return on plan assets	(175,822)	(235,889)	-	-	-	-
Amortization of transition amount	-	(3,776)	-	-	6,965	6,965
Amortization of prior service cost	(1,175)	(1,175)	-	697	-	-
Amortization of net loss (gain)	-	-	12,330	4,479	22,073	(3,752)
Net periodic benefit cost	($15,562)	$20,577	$42,244	$49,624	$50,071	$26,570

	Defined Benefit Pension Plan		Executive Excess Retirement Benefit Plan		Other Post-Retirement Benefits	
For the Six Months Ended June 30,	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**
Service Cost	$0	$169,379	$0	$52,438	$3,129	$2,677
Interest Cost	322,870	353,454	59,829	41,502	38,936	43,442
Expected return on plan assets	(351,643)	(471,778)	-	-	-	-
Amortization of transition amount	-	(7,552)	-	-	13,930	13,930
Amortization of prior service cost	(2,350)	(2,350)	-	1,394	-	-
Amortization of net loss (gain)	-	-	24,660	8,274	44,146	39,450
Net periodic benefit cost	($31,123)	$41,153	$84,489	$103,608	$100,141	$99,499

As disclosed in the December 31, 2004 financial statements, no contributions are expected to be required in 2005 for the defined benefit pension plan. The executive excess retirement benefit plan and other post-retirement benefit plans are unfunded. Cash benefits paid under the executive excess retirement benefit plan for the first six months of 2005 were $51,000. For the year 2005, benefits paid are expected to be $100,000. Net benefits paid under other post-retirement benefits are primarily for medical claims and were $71,000 for the first six months of 2005. For the year 2005, the Company's actuary has estimated benefits paid will be $150,000.

7. Investments

In June 2005, the Company purchased $1.2 million of investments to fund Rabbi Trusts to cover the cost of the Company's Supplemental Executive Retirement Savings Plan. In accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," and based on the Company's intentions regarding these instruments, the Company classifies all investments in equity securities as trading securities. As a result of classifying them as trading securities, the Company is required to report the securities at their fair value, with any unrealized gains and losses included in earnings.

8. Stockholders' Equity

The changes in common stock shares issued and outstanding are shown below:

	For the Six Months Ended June 30, 2005	For the Twelve Months Ended December 31, 2004
Common Stock shares issued and outstanding [1]		
Shares issued — beginning of period balance	**5,778,976**	5,660,594
Dividend Reinvestment Plan [2]	**18,380**	40,993
Retirement Savings Plan	**8,937**	39,157
Conversion of debentures	**10,339**	18,616
Performance shares and options exercised	**18,799**	19,616
Shares issued — end of period balance [3]	**5,835,431**	5,778,976
Treasury shares — beginning of period balance	**(9,418)**	-
Purchases	**(2,142)**	(15,316)
Dividend Reinvestment Plan	**2,142**	-
Retirement Savings Plan	**9,227**	-
Other issuances	**-**	5,898
Treasury Shares — end of period balance	**(191)**	(9,418)
Total Shares Outstanding	**5,835,240**	**5,769,558**

[1] 12,000,000 shares are authorized at a par value of $0.4867 per share.

[2] Includes shares purchased with reinvested dividends and optional cash payments.

[3] Includes 43,407 and 48,175 shares at June 30, 2005 and December 31, 2004, respectively, held by Rabbi Trusts established by the Company relating to the Supplemental Executive Retirement Savings Plan.

9. Long-Term Debt

On June 29, 2005, the Company entered into an agreement in principle with Prudential Investment Management Inc. pursuant to which Prudential has agreed, subject to certain conditions, to purchase from the Company $20 million in principal amount of Senior Notes issued by the Company provided that the Company elects to effect the sale of the Notes to Prudential at any time prior to January 15, 2007. The interest rate on the Notes would be fixed at 5.5 percent. The terms of the Notes would require principal repayments in the amount of $2 million annually beginning in 2011.

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

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is designed to provide a reader of the financial statements with a narrative on the Company's financial condition, results of operations, liquidity, critical accounting policies and the future impact of accounting standards that have been issued, but not yet effective. The Company's MD&A is presented in nine sections: Overview, Results of Operations, Liquidity and Capital Resources, Off-Balance Sheet Arrangements, Contractual Obligations, Environmental Matters, Other Matters, Competition, and Recent Accounting Pronouncements. This discussion and analysis should be read in conjunction with the attached unaudited consolidated financial statements and notes thereto and Chesapeake's Annual Report on Form 10-K for the year ended December 31, 2004 (the "10-K"), including the audited consolidated financial statements and notes contained in the 10-K.

Overview

Chesapeake Utilities Corporation (the "Company" or "Chesapeake") is a diversified utility company engaged in natural gas distribution and transmission, propane distribution and wholesale marketing, advanced information services and other related businesses. For additional information regarding segments, refer to Note 5, Segments, of the Notes to Consolidated Condensed Financial Statements in this Quarterly Report on Form 10-Q.

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 wholesale marketing, advanced information services and other related businesses.

Due to the seasonality of the Company's business, results for interim periods are not necessarily indicative of results for the entire fiscal year. Revenue and earnings are typically greater during the Company's first and fourth quarters, which includes a majority of the colder temperatures on the Delmarva Peninsula.

The principal business, economic and other factors that affect the operations and/or financial performance of the Company include:

- weather conditions and weather patterns;
- regulatory environment and regulatory decisions;
- availability of natural gas and propane supplies;
- interstate pipeline transportation and storage capacity;
- natural gas and propane prices and the prices of competing fuels, such as oil and electricity;
- changes in natural gas and propane usage resulting from improved appliance efficiencies and the effect of changing natural gas and propane prices;
- the level of capital expenditures for adding new customers and replacing facilities worn beyond economic repair;
- competitive environment;
- environmental matters;
- economic conditions and interest rates;
- inflation / deflation;
- changes in technology; and
- changes in accounting principles.

Chesapeake sold the assets and operations of its seven water dealerships during 2003 and 2004.

Results of Operations for the Quarter Ended June 30, 2005

Consolidated Overview

Net income from continuing operations for the quarter ended June 30, 2005 increased $184,000, or 30 percent, compared to the same period in 2004. Second quarter net income was $796,000, or $0.14 per share (diluted), an increase of $0.03 per share compared to 2004.

Net Income & Diluted Earnings Per Share Summary

For the Three Months Ended June 30,	2005	2004	Change
Net Income			
Continuing operations	**$795,924**	$611,518	$184,406
Discontinued operations	**-**	19,148	(19,148)
Total Net Income	**$795,924**	$630,666	$165,258
Diluted Earnings Per Share			
Continuing operations	**$0.14**	$0.11	$0.03
Discontinued operations	**-**	-	-
Total Earnings Per Share	**$0.14**	$0.11	$0.03

For the Three Months Ended June 30,	2005	2004	Change
Operating Income			
Natural Gas Distribution & Transmission	**$3,193,851**	$2,696,914	$496,937
Propane	**(762,685)**	(881,576)	118,891
Advanced Information Services	**(30,729)**	259,750	(290,479)
Other & eliminations	**(75,492)**	87,706	(163,198)
Operating Income	**2,324,945**	2,162,794	162,151
Other Income	**228,481**	74,217	154,264
Interest Charges	**1,273,166**	1,328,231	(55,065)
Income Taxes	**484,336**	297,262	187,074
Net Income from Continuing Operations	**$795,924**	611,518	$184,406

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

Natural Gas Distribution and Transmission

The natural gas distribution and transmission segment earned operating income of $3.2 million for the second quarter of 2005 compared to $2.7 million for the corresponding period in 2004, an increase of $497,000, or 18 percent.

For the Three Months Ended June 30,	2005	2004	Change
Revenue	**$31,834,854**	$25,136,246	$6,698,608
Cost of gas	**20,524,686**	15,111,043	5,413,643
Gross margin	**11,310,168**	10,025,203	1,284,965
Operations & maintenance	**5,842,071**	5,216,149	625,922
Depreciation & amortization	**1,431,179**	1,359,816	71,363
Other taxes	**843,067**	752,324	90,743
Other operating expenses	**8,116,317**	7,328,289	788,028
Total Operating Income	**$3,193,851**	$2,696,914	$496,937
Statistical Data — Delmarva Peninsula			
Heating degree-days			
Actual	**581**	410	171
10-year average (normal)	**506**	500	6
Estimated gross margin per HDD	**$1,800**	$1,800	$0
Per residential customer added:			
Estimated gross margin	**$372**	$372	$0
Estimated other operating expenses	**$104**	$104	$0
Residential Customer Information			
Average number of customers			
Delmarva	**37,130**	34,002	3,128
Florida	**11,661**	10,849	812
Total	**48,791**	44,851	3,940

Revenue and cost of gas increased in 2005 compared to 2004, primarily due to changes in natural gas commodity prices, customer growth and colder weather on the Delmarva Peninsula. Commodity cost changes are passed on to the ratepayers through a gas cost recovery or purchased gas cost adjustment in all jurisdictions; therefore, they have limited impact on the Company's profitability. However, higher commodity prices may cause customers to reduce their energy consumption through conservation efforts and may cause the Company to have higher bad debt expense.

Gross margin grew by $1.3 million in 2005 compared to 2004. The Company added an average of 3,128 residential customers in Delmarva, an increase of 9 percent, over 2004. The Company estimates that these customers added $291,000 to gross margin. In the second quarter of 2005, temperatures were 42 percent colder than the prior year. Management estimates that the colder weather on the Delmarva Peninsula positively impacted gross margin by $310,000 when compared to 2004. The Florida distribution operations also experienced strong residential customer growth of 812 customers, or 7 percent, and industrial customer growth that combined to improve Florida gross margin by $322,000. The natural gas transmission operation also achieved gross margin growth of $226,000, due to additional contracts for transportation capacity provided to its firm customers.

Higher other operating expenses of $788,000 partially offset the gross margin increase. The higher expenses reflect the costs to support customer growth and costs associated with increased earnings, such as payroll, benefits, incentive compensation and other taxes.

In July 2005, the natural gas transmission operation received approval from the Federal Energy Regulatory Commission ("FERC") to construct and operate additional pipeline facilities representing Phase III of a previously authorized three-phase expansion project. The first two phases of the expansion project were constructed in 2003 and 2004. Phase III facilities are expected to be completed and in service in November 2005. Management currently anticipates that this expansion will contribute approximately $1.4 million annually to gross margin.

Propane

During the second quarter of 2005, the propane segment incurred an operating loss of $763,000, which represents an improvement of $119,000 compared to the second quarter of 2004. Gross margin increased $356,000, or 14 percent, while other operating expenses increased $237,000, or 7 percent.

For the Three Months Ended June 30,	2005	2004	Change
Revenue	**$7,294,743**	$5,754,405	$1,540,338
Cost of sales	**4,454,279**	3,270,155	1,184,124
Gross margin	**2,840,464**	2,484,250	356,214
Operations & maintenance	**3,054,185**	2,842,743	211,442
Depreciation & amortization	**388,768**	370,935	17,833
Other taxes	**160,196**	152,148	8,048
Other operating expenses	**3,603,149**	3,365,826	237,323
Total Operating Loss	**($762,685)**	($881,576)	$118,891
Statistical Data — Delmarva Peninsula			
Heating degree-days			
Actual	**581**	410	171
10-year average (normal)	**506**	500	6
Estimated gross margin per HDD	**$1,691**	$1,691	$0

Increases in revenues and cost of sales in 2005 were caused by an increase in the commodity prices of propane. Commodity price changes are generally passed on to the customer, subject to competitive market conditions. High commodity prices may cause customers to reduce their energy consumption through conservation efforts and may cause higher bad debt expense.

Propane distribution gross margin increased $400,000 and propane wholesale marketing gross margin decreased $44,000. The Delmarva distribution operations' gross margin was $2.3 million, an increase of $320,000 compared to 2004. Colder weather on the Delmarva Peninsula contributed approximately $290,000 to the increase. The increase in gross margin was partially offset by higher operating costs associated with the Pennsylvania start-up and costs relating to health insurance benefit claims. The Pennsylvania start-up resulted from acquiring the assets of J.O. Fenstermacher & Son, LLC in November 2004.

The Florida propane distribution operations improved operating income by $34,000 compared to 2004. The number of customers in Florida increased by 28 percent, resulting in an improvement of $80,000 in gross margin. An increase in other operating expenses of $46,000, attributable to payroll, benefits and depreciation, partially offset the increase in gross margin.

Gross margin for the Company's propane wholesale marketing operation decreased by $44,000 in the second quarter of 2005, compared to the same period of 2004. The wholesale marketing operation continues to follow conservative marketing strategies, which lowers risk and earnings, in light of continued high wholesale price levels.

Advanced Information Services

The advanced information services business experienced an operating loss of $31,000 for the second quarter of 2005, a decline of $290,000 compared to the second quarter of last year.

For the Three Months Ended June 30,	2005	2004	Change
Revenue	**$3,030,408**	$3,450,894	($420,486)
Cost of sales	**1,849,279**	1,864,709	(15,430)
Gross margin	**1,181,129**	1,586,185	(405,056)
Operations & maintenance	**1,059,584**	1,176,368	(116,784)
Depreciation & amortization	**28,834**	34,530	(5,696)
Other taxes	**123,440**	115,537	7,903
Other operating expenses	**1,211,858**	1,326,435	(114,577)
Total Operating (Loss) Income	**($30,729)**	$259,750	($290,479)

Revenue for the advanced information services segment decreased $420,000 while cost of sales remained constant. Decreases in consulting revenues for the eBusiness and Enterprise Solutions groups of $262,000 and lower sales of Progress software licenses of $155,000 account for the decrease in revenue when compared to 2004. Other operating expenses in 2005 were lower by $115,000 primarily due to cost containment measures implemented during the second quarter and lower incentive compensation due to lower revenues and earnings. The Company estimates that the cost containment measures will reduce expenses by $32,000 monthly beginning June 1, 2005 or $384,000 annually.

Other Business Operations and Eliminations

Other operations and eliminating entries resulted in operating losses of $75,000 for the second quarter of 2005 compared to operating income of $88,000 for the second quarter of 2004. Other operations consist primarily of subsidiaries that own real estate leased to other Company subsidiaries. In addition, in 2004 the Company formed OnSight Energy, LLC ("OnSight") to provide distributed energy services. Distributed energy refers to a variety of small, modular power generating technologies that may be combined with heating and/or cooling systems. OnSight completed its first contract in the second quarter of 2005. OnSight's operating loss for the quarter was $122,000 and as a result of the start-up, other operating expenses increased by $140,000 over 2004 levels. Eliminations are entries required to eliminate activities between business segments from the consolidated results.

For the Three Months Ended June 30,	2005	2004	Change
Revenue	**$256,049**	$168,686	$87,363
Cost of sales	**82,716**	-	82,716
Gross margin	**173,333**	168,686	4,647
Operations & maintenance	**162,058**	20,398	141,660
Depreciation & amortization	**70,378**	53,929	16,449
Other taxes	**24,429**	14,691	9,738
Other operating expenses	**256,865**	89,018	167,847
Operating (Loss) Income - Other	**(83,532)**	79,668	(163,200)
Operating Income - Eliminations	**8,040**	8,038	2
Total Operating (Loss) Income	**($75,492)**	$87,706	($163,198)

Discontinued Operations

In 2003, Chesapeake decided to exit the water services business. Six of seven water dealerships were sold during 2003 and the remaining operation was sold in October 2004. For the second quarter 2004, $19,000 was earned by discontinued operations, net of income taxes. As a result of the dispositions, there was no activity in 2005.

Income Taxes

Income tax expense for the three months ended June 30, 2005 is $484,000 compared to an income tax expense of $297,000 for the three months ended June 30, 2004. The increase in income tax expense is attributed to higher income. The effective tax rate for the second quarter of 2005 is 37.8% compared to an effective tax rate of 32.7% for the same period of 2004. Permanent tax differences remain constant from period to period. The seasonality of the Company's business segments will have an impact on the effective tax rate on interim reporting periods.

Interest Expense

Interest expense for the second quarter of 2005 decreased approximately $55,000, or 4 percent, versus the same period in 2004. Interest on long-term debt decreased $75,000. The average long-term debt balance declined from $72.0 million in the second quarter of 2004 to $68.1 million for the first three months of 2005, as a result of scheduled principal repayments. Interest on short-term debt increased $2,000 for the second quarter of 2005, compared to the same period during 2004 as a result of an increase in the average balance of short-term debt outstanding.

Results of Operations for the Six Months Ended June 30, 2005

Consolidated Overview

The Company earned income from continuing operations of $7.0 million or $1.19 per share (diluted), for the first six months of 2005, an increase of $644,000, compared to income from continuing operations of $6.4 million, or $1.10 per share, for the corresponding period in 2004.

Net Income & Diluted Earnings Per Share Summary

For the Six Months Ended June 30,	2005	2004	Change
Net Income			
Continuing operations	**$7,028,720**	$6,385,052	$643,668
Discontinued operations	-	(15,187)	15,187
Total Net Income	**$7,028,720**	$6,369,865	$658,855
Diluted Earnings Per Share			
Continuing operations	**$1.19**	$1.10	$0.09
Discontinued operations	-	(0.01)	0.01
Total Earnings Per Share	**$1.19**	$1.09	$0.10

For the Six Months Ended June 30,	2005	2004	Change
Operating Income			
Natural Gas Distribution & Transmission	**$10,986,237**	$9,914,667	$1,071,570
Propane	**3,239,163**	2,440,082	799,081
Advanced Information Services	**(263,590)**	331,835	(595,425)
Other & eliminations	**(132,522)**	175,517	(308,039)
Operating Income	**13,829,288**	12,862,101	967,187
Other Income	**310,861**	176,693	134,168
Interest Charges	**2,550,944**	2,654,997	(104,053)
Income Taxes	**4,560,485**	3,998,745	561,740
Net Income from Continuing Operations	**$7,028,720**	$6,385,052	$643,668

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

Natural Gas Distribution and Transmission

The natural gas distribution and transmission segment earned operating income of $11.0 million for the first six months of 2005 compared to $9.9 million for the corresponding period in 2004, an increase of $1.1 million, or 11 percent.

For the Six Months Ended June 30,	2005	2004	Change
Revenue	**$86,334,541**	$67,498,217	$18,836,324
Cost of gas	**58,982,954**	42,529,941	16,453,013
Gross margin	**27,351,587**	24,968,276	2,383,311
Operations & maintenance	**11,697,256**	10,739,003	958,253
Depreciation & amortization	**2,846,073**	2,703,096	142,977
Other taxes	**1,822,021**	1,611,510	210,511
Other operating expenses	**16,365,350**	15,053,609	1,311,741
Total Operating Income	**$10,986,237**	$9,914,667	$1,071,570
Statistical Data — Delmarva Peninsula			
Heating degree-days			
Actual	**3,172**	3,004	168
10-year average (normal)	**2,762**	2,771	(9)
Estimated gross margin per HDD	**$1,800**	$1,800	$0
Per residential customer added:			
Estimated gross margin	**$372**	$372	$0
Estimated other operating expenses	**$104**	$104	$0
Residential Customer Information			
Average number of customers			
Delmarva	**37,133**	34,052	3,081
Florida	**11,665**	10,829	836
Total	**48,798**	44,881	3,917

Revenue and cost of gas increased in 2005 compared to 2004, primarily due to changes in natural gas commodity prices, customer growth and colder weather on the Delmarva Peninsula. Commodity cost changes are passed on to the ratepayers through a gas cost recovery or purchased gas cost adjustment in all jurisdictions; therefore, they have limited impact on the Company's profitability. However, higher commodity prices may cause customers to reduce their energy consumption through conservation efforts and may cause the Company to have higher bad debt expense.

Gross margin grew by $2.4 million in 2005 compared to 2004. The average number of residential customers in Delmarva increased by 3,081, or 9 percent, over 2004. The Company estimates that these customers added $573,000 to gross margin. This growth was partially offset by lower consumption per customer that reflects more energy-efficient housing and customer conservation efforts in light of higher energy costs. For the first half of 2005, temperatures were 6 percent colder than 2004. Management estimates that the colder weather on the Delmarva Peninsula positively impacted gross margin in the first half of 2005 by $305,000 as compared to 2004.

The Florida distribution operations also experienced strong residential customer growth of 836 customers, or 8 percent, along with industrial and commercial customer growth that combined to improve Florida gross margin by $623,000. The natural gas transmission operation also achieved gross margin growth of $586,000, due to additional contracts for transportation capacity provided to its firm customers. These contracts, which commenced November 1, 2004, contributed $687,000 for the first half of 2005.

Other operating expenses increased $1.3 million for the first six months of 2005 compared to the same period in 2004, which partially offset the gross margin increase. The higher expenses reflect the costs to support customer growth and costs associated with increased earnings, such as payroll, benefits, incentive compensation and other taxes.

Propane

The propane segment contributed $3.2 million of operating income for the first six months of 2005, which represents an improvement of $799,000 or 33 percent compared to the corresponding period in 2004. Gross margin increased $1.3 million, or 13 percent, while other operating expenses increased $502,000, or 7 percent.

For the Six Months Ended June 30,	2005	2004	Change
Revenue	**$27,486,488**	$24,214,662	$3,271,826
Cost of sales	**16,540,553**	14,569,491	1,971,062
Gross margin	**10,945,935**	9,645,171	1,300,764
Operations & maintenance	**6,480,877**	6,032,487	448,390
Depreciation & amortization	**800,327**	753,963	46,364
Other taxes	**425,568**	418,639	6,929
Other operating expenses	**7,706,772**	7,205,089	501,683
Total Operating Income	**$3,239,163**	$2,440,082	$799,081
Statistical Data — Delmarva Peninsula			
Heating degree-days			
Actual	**3,172**	3,004	168
10-year average (normal)	**2,762**	2,771	(9)
Estimated gross margin per HDD	**$1,691**	$1,691	$0

Increases in revenues and cost of sales in 2005 were the result of an increase in the commodity prices of propane. Commodity price changes are generally passed on to the customer, subject to competitive market conditions. High commodity prices may cause customers to reduce their energy consumption through conservation efforts and may cause higher bad debt expense.

Propane distribution gross margin increased $1.3 million and propane wholesale marketing gross margin increased $30,000. The Delmarva distribution operations' gross margin was $9.5 million for the first six months of 2005, an increase of $1.0 million, or 12 percent, compared to 2004. The gross margin increased primarily due to changes in purchasing and hedging strategies, colder weather and gross margins from the Company's start-up location in southeastern Pennsylvania. The Company estimates that the changes in purchasing and hedging strategies increased gross margins by $420,000 in the first six months of 2005 compared to the same period in 2004. The colder weather on the Delmarva Peninsula contributed approximately $284,000 to gross margin. The Pennsylvania start-up contributed $191,000 to gross margin in the first six months of 2005. Other operating expenses increase $502,000 in the first half of 2005 compared to the same period in 2004 primarily due to payroll, benefits, insurance and costs incurred by the Pennsylvania start-up.

The Florida propane distribution operations increased the number of customers by 32 percent, resulting in an improvement of $241,000 in gross margin. An increase in other operating expenses of $86,000 partially offset the increase. Operating income improved $155,000.

The Company's propane wholesale marketing operation contributed $156,000 to operating income, an increase of $22,000 compared to 2004. The wholesale marketing operation continues to follow conservative marketing strategies, which lower risk and earnings, in light of continued high wholesale price levels.

Advanced Information Services

The advanced information services business experienced an operating loss of $264,000 for the first six months of 2005, a decline of $595,000 compared to last year.

For the Six Months Ended June 30,	2005	2004	Change
Revenue	**$6,200,694**	$6,461,030	($260,336)
Cost of sales	**3,827,754**	3,543,487	284,267
Gross margin	**2,372,940**	2,917,543	(544,603)
Operations & maintenance	**2,277,882**	2,230,196	47,686
Depreciation & amortization	**60,129**	73,675	(13,546)
Other taxes	**298,519**	281,837	16,682
Other operating expenses	**2,636,530**	2,585,708	50,822
Total Operating (Loss) Income	**($263,590)**	$331,835	($595,425)

Revenue for the advanced information services decreased $260,000 in the first six months of 2005 compared to last year. This decrease is the result of consulting revenues for the eBusiness group being $538,000 lower in the first six months of 2005 compared to the same period in 2004. This decrease is partially offset by an increase of $312,000 for consulting revenue by the Enterprise Solutions group. Cost of sales increased due to modifications to the LAMPS™ software product, in order to market it to additional prospective customers and non-billable hours accumulated for employees within the consulting group resulting from lower consulting revenue. Other operating expenses in 2005 were increased $51,000 primarily due to consulting charges incurred for continued investment in enhancements to LAMPS™ and benefits claims, which were offset by cost containment measures implemented to lower operating expenses.

Other Business Operations and Eliminations

Other operations and eliminating entries resulted in operating losses of $133,000 for the first six months of 2005 compared to an operating income of $176,000 for the first six months of last year. OnSight, Chesapeake's provider of distributed energy services, operating loss for the first half of 2004 was $254,000 and as a result of the start-up, other operating expenses increased by $281,000 over 2004 levels. Eliminations are entries required to eliminate activities between business segments from the consolidated results.

For the Six Months Ended June 30,	2005	2004	Change
Revenue	**$448,642**	$338,132	$110,510
Cost of sales	**112,629**	-	112,629
Gross margin	**336,013**	338,132	(2,119)
Operations & maintenance	**308,034**	41,648	266,386
Depreciation & amortization	**121,640**	107,139	14,501
Other taxes	**54,939**	29,906	25,033
Other operating expenses	**484,613**	178,693	305,920
Operating (Loss) Income - Other	**(148,600)**	159,439	(308,039)
Operating Income - Eliminations	**16,078**	16,078	0
Total Operating (Loss) Income	**($132,522)**	$175,517	($308,039)

Discontinued Operations

In 2003, Chesapeake decided to exit the water services business. Six of seven water dealerships were sold during 2003 and the remaining operation was sold in October 2004. A loss of $15,000, net of tax, was incurred by discontinued operations for the six months of 2004. As a result of the dispositions, there was no activity in 2005.

Income Taxes

Income tax expense for the six months ended June 30, 2005 is $4.6 million compared to an income tax expense of $4.0 million for the six months ended June 30, 2004. The effective tax rate for the first six months was constant from year to year.

Interest Expense

Interest expense for the first half of 2005 decreased approximately $104,000, or 4 percent, versus the same period in 2004. Interest on long-term debt decreased $136,000. The average long-term debt balance declined from $71.9 million in the first half of 2004 to $68.0 million for the first half of 2005, as a result of scheduled principal repayments. Interest on short-term debt increased $13,000 during the first six months of 2005, compared to the same period during 2004 as a result of an increase in the average balance of short-term debt outstanding.

FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

The Company's capital requirements reflect the capital-intensive nature of its business and are principally attributable to its construction program (described below) and the retirement of outstanding debt. The Company relies on cash generated by operations and short-term borrowing to meet normal working capital requirements and to temporarily finance capital expenditures. During the first six months of 2005, net cash provided by operating activities, net cash used by investing activities and net cash used by financing activities were approximately $22.9 million, $11.8 million and $8.8 million, respectively.

Cash flows from operating activities for the six months ended June 30, 2005 and 2004 are summarized below:

For the Six Months Ended June 30,	2005	2004	Change
Net Income	**$7,028,720**	$6,369,865	$658,855
Non-cash adjustment to net income	**4,337,525**	6,859,419	(2,521,894)
Changes in working capital	**11,508,556**	8,326,306	3,182,250
Net cash from operating activties	**$22,874,801**	$21,555,590	$1,319,211

Net cash provided by operating activities increased $1.3 million for the six months ended June 30, 2005 compared to the same period in 2004, primarily due to increases in earnings from continued operations, decrease in accounts receivable and propane inventory, which were offset by a decrease in accounts payable and a decrease in non-cash adjustment to net income for lower deferred income taxes.

Cash used in investing activities from continuing operations for the first six months of 2005 was $11.8 million, compared with $6.2 million for the same period in 2004. The change was primarily due to purchase of investments for the Company's Rabbi Trusts and an increase in capital spending.

During the six-month periods ended June 30, 2005 and 2004, capital expenditures (net of retirements) were approximately $10.8 million and $6.6 million, respectively. Chesapeake has budgeted $38.6 million for capital expenditures during 2005. The capital budget includes a total of $15.4 million for natural gas distribution, $16.9 million for natural gas transmission, $5.1 million for propane distribution and wholesale marketing, $504,000 for advanced information services and $695,000 for other operations. The natural gas distribution and transmission expenditures are for expansion and improvement of facilities, primarily the transmission operation's new pipeline facilities described herein and extending distribution mains to serve customers in Sussex County Delaware. The transmission operation's budget includes approximately $15.9 million of investment in mains to serve growth. The FERC has approved the construction and operation of new pipeline facilities that would extend service to Milton, Delaware. The new facilities are expected to provide an additional $1.4 million of gross margin annually and are expected to be in service in November 2005. 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. The projected capital expenditures for other related businesses consist of expenditures for general plant and computer hardware and software. Chesapeake expects to incur approximately $245,000 in 2005 and $137,000 in 2006 for environmental-related expenditures. Additional expenditures may be required in future years. Management does not expect financing of future environmental-related expenditures to have a material adverse effect on the financial position or capital resources of the Company (see Note 3 to the Condensed Consolidated Financial Statements).

Cash used in financing activities from continuing operations was $8.8 million for the first six months of 2005, compared to $8.2 million for the same period in 2004. The change was primarily from the result of an increase in repayment of line of credit agreements of $1.2 million, which was partially offset be a decrease of $373,000 for the repayment of long-term debt.

The Board of Directors has authorized the Company to borrow up to $35.0 million of short-term debt from various banks and trust companies. As of June 30, 2005, Chesapeake had five unsecured bank lines of credit with three financial institutions, totaling $65.0 million, for short-term cash needs to meet seasonal working capital requirements and to fund, temporarily, portions of its capital expenditures. Two of the bank lines, totaling $15.0 million, are committed. The remaining three lines are subject to the banks' availability of funds. In the six-month period ended June 30, 2005, cash provided by operations was adequate to fund capital expenditures and repay $4.7 million of short-term debt that was outstanding at December 31, 2004. At June 30, 2005, the Company had outstanding an irrevocable letter of credit in the amount of $694,000 issued to one of the Company's insurance providers. The letter of credit reduced the available borrowing under the short-term lines.

Financing for the 2005 capital expenditure program is expected to be provided from short-term borrowing and cash provided by operating activities. The capital expenditure program is subject to continuous review and modification. Actual capital requirements may vary from the above estimates due to a number of factors, including acquisition opportunities, changing economic conditions, customer growth in existing areas, regulation, new growth opportunities and availability of capital.

As of June 30, 2005 common equity represented 56.9 percent of total capitalization, compared to 54.1 percent as of December 31, 2004. Combining short-term financing with total capitalization, the equity component would have been 55.1 percent and 51.3 percent at June 30, 2005 and December 31, 2004, 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.

On June 29, 2005, the Company entered into an agreement in principle with Prudential Investment Management Inc. pursuant to which Prudential has agreed, subject to certain conditions, to purchase from the Company $20 million in principal amount of Senior Notes issued by the Company provided that the Company elects to effect the sale of the Notes to Prudential prior to January 15, 2007. The interest rate on the Notes would be fixed at 5.5 percent. The terms of the Notes would require principal repayments in the amount of $2 million annually beginning in 2011. The primary purpose of the proceeds from the sale of the Notes is to provide funding for capital projects. Chesapeake does not expect to effect the sale of the Senior Notes until December 2006.

Off-Balance Sheet Arrangements

As noted in the Company's 2004 Annual Report on Form 10-K, the only off-balance sheet arrangements are corporate guarantees to certain vendors of its propane wholesale marketing subsidiary and Florida natural gas supply and management services subsidiary and a letter of credit issued to its main insurance carrier. All payables of the propane wholesale marketing subsidiary and the Florida natural gas supply and management services subsidiary and all the Company's liabilities related to insurance matters are recorded in the Company's financial statements. See Note 3 to the Condensed Consolidated Financial Statements for further information. The guarantees at June 30, 2005 totaled $9.7 million and expire at various dates in 2005 and 2006.

Contractual Obligations

There have been no material changes in the contractual obligations presented in the Company's 2004 Annual Report on Form 10-K, except for commodity purchase obligations and forward contracts entered into in the ordinary course of the Company's business. Below is a summary of the commodity and forward contract obligations at June 30, 2005. None of the commodity or forward contracts extend beyond 2006.

	Payments Due by Period				
Purchase Obligations	**Less than 1 year**	**1 - 3 years**	**3 - 5 years**	**More than 5 years**	**Total**
Commodities (1)	$2,911,572	$0	$0	$0	**$2,911,572**
Propane (2)	3,422,042	-	-	-	**3,422,042**
Total Purchase Obligations	$6,333,614	$0	$0	$0	**$6,333,614**

(1) In addition to the obligations noted above, the natural gas distribution and propane distribution operations have agreements with commodity suppliers that have provisions that allow the Company to reduce or eliminate the quantities purchased. There are no monetary penalties for reducing the amounts purchased; however, the propane contracts allow the suppliers to reduce the amounts available in the winter season if the Company does not purchase specified amounts during the summer season. Under these contracts, the commodity prices will fluctuate as market prices fluctuate.

(2) The Company has also entered into forward sale contracts in the aggregate amount of $4.9 million. See Part I, Item 3, "Quantitative and Qualitative Disclosures about Market Risk," below for further information.

Environmental Matters

As more fully described in Note 3 to the Condensed Consolidated Financial Statements, Chesapeake has completed its responsibilities related to two former gas manufacturing plant sites. The Company received a Certificate of Completion of Work from the EPA and is waiting for a reply from the MDE regarding a No Further Action request submitted in November 2002. Chesapeake is currently participating in the investigation, assessment or remediation of one other former gas manufacturing plant site. The Company continues to work with federal and state environmental agencies to assess the environmental impact and explore options for corrective action at these sites. 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. The Company is in discussions with the Maryland Department of the Environment regarding a fourth former gas manufacturing plant site located in Cambridge, Maryland. The outcome of this matter cannot be determined at this time.

OTHER MATTERS

Regulatory Matters

The Company's natural gas distribution operations are subject to regulation by the Delaware, Maryland and Florida Public Service Commissions. Eastern Shore Natural Gas Company ("Eastern Shore"), the Company's natural gas transmission operation, is subject to regulation by the Federal Energy Regulatory Commission ("FERC").

Eastern Shore. During October 2002, Eastern Shore filed for recovery of gas supply realignment costs totaling $196,000 (including interest) associated with the implementation of FERC Order No. 636. At that time, the FERC would not review Eastern Shore's filing, because the FERC wished to settle a related matter with another transmission company first. The FERC has acted favorably on the other transmission company's filing and Eastern Shore intends to resubmit its transition cost recovery filing during 2005.

On April 1, 2003, Eastern Shore filed an application for a Certificate of Public Convenience and Necessity ("Application") before the FERC requesting authorization to construct the necessary facilities to enable Eastern Shore to provide additional daily firm transportation capacity of 15,100 dekatherms over a three-year period commencing November 1, 2003. Phases I and II were completed in 2003 and 2004. Phase II service levels began November 1, 2004. Phase III is currently under construction and is expected to be completed and in service in November 2005.

On December 22, 2004, Eastern Shore filed to amend the Application to seek FERC authorization to construct and operate new pipeline facilities necessary to provide an additional 7,450 dekatherms of daily firm transportation service requested by its customers to be available November 1, 2005. In July 2005, the Federal Energy Regulatory Commission ("FERC") granted approval to Eastern Shore to construct and operate additional pipeline facilities representing Phase III of a previously authorized three-phase expansion project. The first two phases of the expansion project were constructed in 2003 and 2004. Phase III facilities are expected to be completed and in service in November 2005.

Eastern Shore is also following the FERC's recent rulemaking pertaining to creditworthiness standards for customers of interstate natural gas pipelines. FERC has not yet issued its final rule in this proceeding. Upon such issuance, Eastern Shore will evaluate its currently effective tariff creditworthiness provisions and make any necessary revisions to conform to the FERC's final rule relating to such standards.

Delaware. On September 1, 2004, the Delaware division filed its annual Gas Sales Service Rates ("GSR") application with the Delaware Public Service Commission ("DPSC") to become effective for service rendered on and after November 1. On September 14, 2004, the DPSC approved the GSR charges, subject to full evidentiary hearings and a final decision. Due to the most recent rise in natural gas market prices, the Delaware division's under collection balance was expected to exceed the six percent (6%) tolerance as defined in its tariff; therefore, on December 1, 2004, the Delaware division filed an "out-of-cycle" rate application proposing to place revised GSR charges into effect on January 1, 2005, pending DPSC approval. On December 21, 2004, the DPSC granted approval of these supplemental GSR charges, subject to full evidentiary hearings and a final decision. An evidentiary hearing was held in this matter on May 26, 2005. The DPSC issued a final decision on June 21, 2005 in which the proposed GSR changes that became effective November 1, 2004 and January 1, 2005 were granted final approval.

On November 1, 2004, the Delaware division filed its annual Environmental Rider Rate ("ER") application that was effective for service rendered on and after December 1, 2004. The DPSC granted approval of the ER rate at its regularly scheduled meeting on November 9, 2004, subject to full evidentiary hearings and a final decision. An evidentiary hearing was held on June 2, 2005. A final decision by the DPSC is expected during the third quarter of 2005.

Florida. On May 16, 2005, the Florida division filed for approval of a Special Contract with the Department of Management Services and Agency of the State of Florida for service to the Washington Correction Institution ("WCI"). WCI is located in Washington County in the Florida panhandle and would become the thirteenth county served by the Company's Florida division. The Florida Public Service Commission approved the Company's request on July 19, 2005. If the petition is approved, service to the existing WCI facility is expected to begin during the third quarter of 2005.

Competition

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

The Company's natural gas distribution operations located in Delaware, Maryland and Florida offer transportation services to certain industrial customers. The Florida operation extended transportation service to commercial customers in 2001 and to residential customers in 2002. With transportation service now available on the Company's distribution systems, the Company is competing with third party suppliers to sell gas to certain customers. As it relates to transportation services, the Company's competitors include interstate transmission companies that are in close proximity to the Company's pipeline. The customers at risk are usually large volume commercial and industrial customers with the financial resources and capability to bypass the distribution operations in this manner. In certain situations, the distribution operations may adjust services and rates for these customers to retain their business. The Company expects to continue to expand the availability of transportation service to additional classes of distribution customers in the future. The Company operates a natural gas supply and management services operation in Florida to compete for customers eligible for transportation services.

The Company's propane distribution operations compete with several other propane distributors in their service territories, primarily on the basis of service and price, emphasizing reliability of service and responsiveness. Competition is generally from local outlets of national distribution companies and local businesses, because distributors located in close proximity to customers incur lower costs of providing service. Propane competes primarily with electricity and heating oil as energy sources. 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.

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

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

Recent Pronouncements

In December 2004, the FASB released a revision ("Share-Based Payment") to SFAS No. 123 "Accounting for Stock-Based Compensation," referred to as SFAS No. 123R. In April 2005, the SEC approved a new rule that delayed the effective date for SFAS No. 123R until the first annual period beginning after June 15, 2005. This Statement establishes financial accounting and reporting standards for stock-based employee compensation plans. Those plans include all arrangements by which employees receive shares of stock or other equity instruments of the employer or the employer incurs liabilities to employees in amounts based on the price of the employer's stock. Examples are stock purchase plans, stock options, restricted stock and stock appreciation rights. The Company does not expect the adoption of SFAS No. 123R to have a material impact on the financial statements.

In March 2005, the FASB issued Interpretation No. 47 ("FIN No. 47"), "Accounting for Conditional Asset Retirement Obligations" an interpretation of SFAS No. 143. FIN No. 47 clarifies that the term conditional asset retirement obligation refers to a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. The obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and (or) method of settlement. Thus, the timing and (or) method of settlement may be conditional on a future event. FIN No. 47 also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. FIN No. 47 is effective for the Company no later than the fourth quarter of 2005. It is not expected to have a material impact on the Company's financial statements.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections – a replacement of APB Opinion No. 20 and FASB Statement No. 3". SFAS 154 primarily requires retrospective application to prior periods' financial statements for the direct effects of changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. This statement applies to all voluntary changes in accounting principle and also applies to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. The statement is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The Company is required to adopt the provision of SFAS 154, as applicable, beginning in fiscal year 2006.

Inflation

Inflation affects the cost of labor, products and services required for operations, maintenance and capital improvements. While the impact of inflation has remained low in recent years, natural gas and propane prices are subject to rapid fluctuations. 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

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 gross margins, capital expenditures, environmental remediation costs, regulatory approvals, market risks associated with the Company's propane wholesale marketing operation, competition, inflation 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 effect of spot, forward and futures market prices on the Company's distribution, wholesale marketing and energy trading businesses;
- the effects of competition on the Company's unregulated and regulated businesses;
- the effect of changes in federal, state or local regulatory and tax requirements, including deregulation;
- the effect of accounting changes;
- the effect of compliance with environmental regulations or the remediation of environmental damage;
- the effects of general economic conditions on the Company and its customers;
- 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. Long-term debt is subject to potential losses based on the change in interest rates. The Company's long-term debt consists of fixed rate senior notes and convertible debentures, none of which was issued for trading purposes. The carrying value of long-term debt at June 30, 2005 was $67.9 million, with a fair value of $74.0 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 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 distribution business is exposed to market risk as a result of propane storage activities and entering into fixed price contracts for supply. The Company can store up to approximately 4 million gallons (including leased storage) of propane during the winter season to meet its customers' peak requirements and to serve metered customers. Decreases in the wholesale price of propane will cause the value of stored propane to decline. To mitigate the impact of price fluctuations, the Company has adopted a risk management policy that allows the propane distribution operation to enter into fair value hedges of its inventory. However, as of June 30, 2005 management reviewed the Company's storage position and several hedging strategies and elected not to hedge any of its inventory.

The Company's propane wholesale 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 wholesale 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 or booking out the transaction. (Booking out is a procedure for financially settling a contract in lieu of the physical delivery of energy.) The propane wholesale marketing operation also enters into futures contracts that are traded on the

New York Mercantile Exchange. In certain cases, the futures contracts are settled by the payment or receipt of a net amount equal to the difference between the current market price of the futures contract and the original contract price; however, they may also be settled for physical receipt or delivery of propane.

The forward and futures contracts are entered into for trading and wholesale marketing purposes. The propane wholesale marketing business is subject to commodity price risk on its open positions to the extent that market prices for 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 the credit risk of counter-parties, approves any exceptions to the Risk Management Policy (within limits established by the Board of Directors) and authorizes the use of any new types of contracts. Quantitative information on forward and futures contracts at June 30, 2005 is presented in the following table. All of the contracts mature within twelve months.

At June 30, 2005	Quantity in gallons	Estimated Market Prices	Weighted Average Contract Prices
Forward Contracts			
Sale	5,775,000	\$0.8225 — \$0.8638	\$0.8279
Purchase	4,116,000	\$0.8250 — \$0.8300	\$0.8314
Futures Contracts			
Sale	84,000	\$0.8500 — \$0.8500	\$0.8500

Estimated market prices and weighted average contract prices are in dollars per gallon.
All contracts expire in 2005.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Chief Executive Officer and Chief Financial Officer of the Company, with the participation of other Company officials, have evaluated the Company's "disclosure controls and procedures" (as such term is defined under Rule 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended) as of June 30, 2005. Based upon their evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective.

Changes in Internal Control Over Financial Reporting

During the quarter ended June 30, 2005, there was no change in the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

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 government agencies concerning rates. In the opinion of management, the ultimate disposition of these proceedings and claims will not have a material effect on the consolidated financial position, results of operations or cash flows of the Company.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(c) Purchases of Equity Securities by Issuer and Affiliated Purchasers

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (2)	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs (2)
April 1, 2005 through April 30, 2005 [1]	397	$27.53	0	0
May 1, 2005 through May 31, 2005 [1]	36	$27.53	0	0
June 1, 2005 through June 30, 2005	0	$0.00	0	0
Total	433	$27.53	0	0

(1) Chesapeake maintains a Rabbi Trust to secure its obligations under the Company's Supplemental Executive Retirement Savings Plan ("SERP plan"). The shares of Chesapeake common stock reported as purchased during each of the periods consist of shares purchased for the Rabbi Trust in the open market to match the shares held with Chesapeake's contractual obligations under the SERP plan.

(2) Chesapeake has no publicly announced plans or programs to repurchase its shares.

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 5, 2005 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 four Class III Directors for three-year terms ending in 2008, and until their successors are elected and qualified.

Name	Votes For	Votes Withheld	Shares not Voted
Thomas J. Bresnan	5,028,106	414,535	0
Walter J. Coleman	5,027,940	414,701	0
Joseph E. Moore	5,036,629	406,012	0
John R. Schimkaitis	5,039,110	403,531	0

ii. To consider and vote upon a proposal to adopt the Chesapeake Utilities Corporation Employee Stock Award Plan.

For	Against	Abstain	Shares not Voted
2,917,602	899,509	45,722	1,579,808

iii. To consider and vote upon a proposal to adopt the Chesapeake Utilities Corporation Performance Incentive Plan.

For	Against	Abstain	Shares not Voted
2,692,228	1,100,947	69,658	1,579,808

iv. To consider and vote upon a proposal to adopt the Chesapeake Utilities Corporation Directors Stock Compensation Plan.

For	Against	Abstain	Shares not Voted
2,701,112	1,089,764	71,957	1,579,808

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

- Exhibit 4.1 — Agreement in principle between Prudential Investment Management, Inc. and Chesapeake Utilities Corporation related to the prospective purchase by Prudential of $20 million of 5.5% Senior Notes dated June 29, 2005.
- Exhibit 10.1 — Chesapeake Utilities Corporation Employee Stock Award Plan incorporated herein by reference to the Company's definitive Proxy Statement for its Annual Meeting held May 5, 2005, as filed with the Securities and Exchange Commission on a Schedule 14A, dated April 5, 2005.
- Exhibit 10.2 — Chesapeake Utilities Corporation Performance Incentive Plan incorporated herein by reference to the Company's definitive Proxy Statement for its Annual Meeting held May 5, 2005, as filed with the Securities and Exchange Commission on a Schedule 14A, dated April 5, 2005.
- Exhibit 10.3 — Chesapeake Utilities Corporation Directors Stock Compensation Plan incorporated herein by reference to the Company's definitive Proxy Statement for its Annual Meeting held May 5, 2005, as filed with the Securities and Exchange Commission on a Schedule 14A, dated April 5, 2005.
- Exhibit 31.1 — Certificate of Chief Executive Officer of Chesapeake Utilities Corporation pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, dated August 9, 2005.
- Exhibit 31.2 — Certificate of Chief Financial Officer of Chesapeake Utilities Corporation pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, dated August 9, 2005.
- Exhibit 32.1 — Certificate of Chief Executive Officer of Chesapeake Utilities Corporation pursuant to 18 U.S.C. Section 1350, dated August 9, 2005

- Exhibit 32.2 — Certificate of Chief Financial Officer of Chesapeake Utilities Corporation pursuant to 18 U.S.C. Section 1350, dated August 9, 2005.

(b) Reports on Form 8-K:

- April 29, 2005, furnishing the Company's earnings press release for the periods ended March 31, 2005 (Items 2.02 and 9.01).
- May 6, 2005, notice of entry into a material definitive agreement (Item 1.01).
- July 1, 2005, notice of entry into a material definitive agreement (Item 1.01).

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
Senior Vice President and Chief Financial Officer

Date: August 9, 2005

EXHIBIT 31.1

CERTIFICATE PURSUANT TO RULE 13A-14(A)
UNDER THE SECURITIES EXCHANGE ACT OF 1934

I, John R. Schimkaitis, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarter ended June 30, 2005 of Chesapeake Utilities Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a–15(e) and 15d–15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a–15(f) and 15d–15(f)) for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;

   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weakness in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2005

/S/ JOHN R. SCHIMKAITIS
John R. Schimkaitis
President and Chief Executive Officer

EXHIBIT 31.2

CERTIFICATE PURSUANT TO RULE 13A-14(A)
UNDER THE SECURITIES EXCHANGE ACT OF 1934

I, Michael P. McMasters, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarter ended June 30, 2005 of Chesapeake Utilities Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a–15(e) and 15d–15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a–15(f) and 15d–15(f)) for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;

   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weakness in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2005

/S/ MICHAEL P. MCMASTERS
Michael P. McMasters
Senior Vice President and Chief Financial Officer

EXHIBIT 32.1

Certificate of Chief Executive Officer

of

Chesapeake Utilities Corporation

(pursuant to 18 U.S.C. Section 1350)

I, John R. Schimkaitis, President and Chief Executive Officer of Chesapeake Utilities Corporation, certify that, to the best of my knowledge, the Quarterly Report on Form 10-Q of Chesapeake Utilities Corporation ("Chesapeake") for the period ended June 30, 2005, filed with the Securities and Exchange Commission on the date hereof (i) fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and (ii) the information contained therein fairly presents, in all material respects, the financial condition and results of operations of Chesapeake.

/S/ JOHN R. SCHIMKAITIS
John R. Schimkaitis
August 9, 2005

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Chesapeake Utilities Corporation and will be retained by Chesapeake Utilities Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

EXHIBIT 32.2

Certificate of Chief Financial Officer

of

Chesapeake Utilities Corporation

(pursuant to 18 U.S.C. Section 1350)

I, Michael P. McMasters, Senior Vice President and Chief Financial Officer of Chesapeake Utilities Corporation, certify that, to the best of my knowledge, the Quarterly Report on Form 10-Q of Chesapeake Utilities Corporation ("Chesapeake") for the period ended June 30, 2005, filed with the Securities and Exchange Commission on the date hereof (i) fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and (ii) the information contained therein fairly presents, in all material respects, the financial condition and results of operations of Chesapeake.

/S/ MICHAEL P. MCMASTERS
Michael P. McMasters
August 9, 2005

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Chesapeake Utilities Corporation and will be retained by Chesapeake Utilities Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

CHESAPEAKE UTILITIES CORPORATION
2005 SUMMARY OF ESTIMATED CAPITAL EXPENDITURES
DISTRIBUTION UTILITY PLANT
UNAUDITED

EXHIBIT B

PLANT ACCOUNT NUMBER	DESCRIPTION	TOTAL 2005 CAPITAL ESTIMATED
301	ORGANIZATION	$0
302	FRANCHISE AND CONSENTS	$0
303	INTANGIBLE PLANT	$0
304	LAND AND LAND RIGHTS	$0
305	STRUCTURES AND IMPROVEMENTS	$0
311	PROPANE PLANT	$0
374	LAND AND LAND RIGHTS	$0
375	STRUCTURES AND IMPROVEMENTS	$0
376	MAINS	$2,369,000
378	M & R EQUIPMENT - GENERAL	$101,500
379	M & R EQUIPMENT - CITY GATE	$50,000
380	SERVICES	$696,000
381	METERS	$260,350
382	METER INSTALLATIONS	$116,600
383	HOUSE REGULATORS	$124,600
384	REGULATOR INSTALLATIONS	$0
385	INDUSTRIAL M & R STATION	$125,000
387	OTHER EQUIPMENT	$34,895
389	LAND AND LAND RIGHTS	$0
390	STRUCTURES AND IMPROVEMENTS	$0
391	OFFICE FURNITURE AND EQUIPMENT	$134,954
392	TRANSPORTATION	$244,338
393	STORES EQUIPMENT	$0
394	TOOLS, SHOP, AND GARAGE EQUIP	$11,000
395	LABORATORY EQUIPMENT	$0
396	POWER OPERATED EQUIPMENT	$0
397	COMMUNICATIONS EQUIPMENT	$60,000
398	MISCELLANEOUS EQUIPMENT	$7,500
399	OTHER TANGIBLE PROPERTY	$0
	TOTAL CAPITAL EXPENDITURES	$4,335,737

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, Directors Stock Compensation Plan, Employee Awards Stock Plan, Convertible Debentures, and to satisfy 30,000 outstanding stock warrants, 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.

Exhibit C

STATE OF DELAWARE

BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF THE APPLICATION OF CHESAPEAKE UTILITIES CORPORATION FOR APPROVAL OF THE ISSUANCE OF LONG-TERM DEBT (FILED AUGUST 10, 2005)	)))))	PSC DOCKET NO. 05-290

ORDER NO. 6708

This 6th day of September, 2005, the Commission finds, determines, and Orders the following:

1. On August 10, 2005, Chesapeake Utilities Corporation ("Chesapeake" or "the Company") filed an application seeking approval for the Company to issue up to $20 million of unsecured Senior Notes. The Notes will have maturities ranging up to 14 years, with an average life of 10 years. According to the application, Prudential Investment Management, Inc., has agreed to purchase the total amount of these Notes. The proceeds from the debt will be used in various capital projects, including financing the expansion of Chesapeake's transmission pipeline, financing the growth of its Delaware distribution system, and supporting other projects related to the Company's growth.

2. Staff filed a memorandum recommending that the Commission approve the request by Chesapeake to issue up to $20 million in long-term debt in the form of unsecured Senior Notes. In addition, the Commission heard presentations by the Company and Staff at the Commission's public meeting on September 6, 2005.

3. Historically, the Commission has been limited in its authority with respect to utility financing and stock issuance applications pursuant to 26 Del. C. § 215. See Diamond State Tel. Co. v. Public

Service Commission, Del. Supr., 367 A.2d 644 (1976) (holding that the future rate impact of the proposed financing transaction is not appropriate consideration in making a determination concerning such section 215 application). Here, based on the application and Staff's memorandum, the Commission determines that the Company's proposed issuance of up to $20 million in unsecured Senior Notes for the purposes set forth in the application is in accordance with law, for a proper purpose, and consistent with the public interest. Consequently, the application is granted and the debt issuance approved.

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

1. That, pursuant to 26 Del. C. § 215(a)(2), the application filed by Chesapeake Utilities Corporation in this matter on August 10, 2005, is hereby approved and Chesapeake Utilities Corporation is hereby authorized to issue up to $20 million in unsecured Senior Notes with maturity dates of up to 14 years. The proceeds from such debt shall be used for the purposes outlined in the application.

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

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

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

4. That Chesapeake Utilities Corporation shall, within thirty days of the consummation of any debt transactions approved herein, provide the Commission with copies of the loan agreements supporting the debt transactions. In addition, Chesapeake Utilities Corporation shall notify the Commission of any changes in the terms and conditions in the commitment letter made prior to the consummation of such debt instrument.

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

BY ORDER OF THE COMMISSION:

Arnetta McRae
Chair

Vice Chair

Joann T. Conaway
Commissioner

James B. Lester
Commissioner

Commissioner

ATTEST:

Karen J. Nickerson
Secretary

Exhibit C

Prudential Financial

Brian N. Thomas
Sr. Investment Vice President

Prudential Capital Group
2200 Ross Avenue, Suite 4200E, Dallas TX 75201
Tel 214 720-6216 Fax 214 720-6299
brian.thomas@prudential.com

June 29, 2005

Chesapeake Utilities Corporation
909 Silver Lake Blvd.
Dover, DE 19904

Attention: Beth Cooper
Assistant Vice President and Corporate Treasurer

Ladies and Gentlemen:

I am pleased to confirm the agreement in principle of Prudential Investment Management, Inc. and/or one or more accounts managed by it and/or its affiliates (collectively, "**Prudential**"), subject to the conditions set forth below, to purchase $20,000,000 principal amount of 5.50% Senior Notes due 2020 (the "**Notes**") of the Company. Prudential's agreement in principle to purchase the Notes will expire on the Cancellation Date. The principal terms to be contained in the Note Agreement (the "**Note Agreement**") and the Notes would be as outlined in the attached preliminary term sheet. Unless otherwise defined, capitalized terms used in this letter have the meanings described in Annex 1 which is attached hereto and incorporated herein by reference.

Prudential's purchase of the Notes would be subject to (a) authorization of such purchase by (or pursuant to authority delegated by) the Investment Committee of Prudential's Board of Directors, (b) Prudential and the Company reaching final agreement upon terms, conditions, covenants and other provisions satisfactory to Prudential to be included in the Note Agreement and the Notes and the other documents relating to the proposed financing, (c) satisfactory completion of Prudential's due diligence investigation (including investigation of the financial condition and prospects of the Company), (d) the absence of any material adverse change in the condition (financial or otherwise) or prospects of the Company, (e) payment to Prudential at closing of the structuring fee specified in the attached term sheet and (f) the satisfaction of Prudential Capital's Law Department with the documentation, proceedings, legal opinions and other matters in connection with the proposed financing.

On June 29, 2005, the interest rate was fixed on all of the Notes. If the Company does not issue the Notes:

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(a) on or before December 28, 2006, the Company will pay Prudential the Rate Lock Delayed Delivery Fee, and

(b) by the Cancellation Date for any reason, then on the Cancellation Date the Company will pay Prudential the Cancellation Payment described in the attached term sheet.

We intend to retain the law firm of Schiff Hardin LLP to act as our special counsel in connection with the proposed financing. In addition, we may determine that it is necessary to retain other consultants of our choice to advise us in connection with the proposed financing. We understand that the fees, charges and disbursements of our special counsel and other consultants will be paid by the Company whether or not the proposed financing closes. If the fees and expenses incurred exceed $25,000, the $15,000 Structuring Fee described in the term sheet will be reduced by 50% of the excess amount.

If the terms and conditions described above are acceptable to you, please so indicate by signing the enclosed copy of this letter in the place provided and returning the same to me.

Very truly yours,

PRUDENTIAL INVESTMENT MANAGEMENT, INC.

By: ______________________
Vice President

WHB

Accepted and agreed to:

CHESAPEAKE UTILITIES CORPORATION

By: Beth W. Cooper
Name: Beth W. Cooper
Title: Vice President and Treasurer

ANNEX 1

DEFINITIONS

"Cancellation Date" means the earlier of (i) the date Prudential receives the Company's notice that it does not intend to issue the Notes (or the next business day if Prudential receives that notice after 4:00 p.m. Eastern time) and (ii) January 15, 2007.

"Rate Lock Delayed Delivery Fee" means the amount calculated as follows:

(BEY - MMY) x DTS/360 x Full Price;

where:

BEY means the bond equivalent yield of the Notes;

DTS, or Days to Settlement, means the number of days (a) from December 28, 2006, (b) to the date on which the Rate Lock Delayed Delivery Fee is to be paid pursuant to the terms of the Letter to which this Annex is attached;

MMY, or Money Market Yield, means the yield of an alternative investment selected by Prudential on the date Prudential receives notice of a delay in the closing of the financing having a maturity date approximately equal to the rescheduled closing date (a new alternative investment will be selected each time the closing is delayed); and

Full Price means (i) if the Notes are to be purchased at par, the principal amount of the Notes for which the rate was fixed or (ii) if the Notes are to be purchased at a premium or discount, the purchase price, including any accrued interest.

The Rate Lock Delayed Delivery Fee will never be less than zero and will be recalculated for the period following each delay of the closing date.

CHESAPEAKE UTILITIES CORPORATION
Senior Notes
Term Sheet

Issuer: Chesapeake Utilities Corporation (the "**Company**").

Purchaser: Prudential Investment Management, Inc. or its affiliates or investment funds or managed accounts ("**Prudential**").

Principal Amount: $20 million (the "**Notes**").

Type of Securities: Private placement of senior unsecured notes.

Closing Date: Approximately eight weeks from execution of a commitment letter.

Use of Proceeds: The proceeds from the sale of the Notes will be used by the Company for capital expenditures and general corporate purposes.

Price: 100 (par)

Average Life: Up to 10 years from the Funding Date.

Maturity: Up to 14 years from the Funding Date.

Funding Date: December 28, 2006.

Required Prepayments: $2 million annually beginning December 28, 2011 through December 28, 2020.

Interest Rate: 149 basis points over the respective on-the-run or off-the-run U.S. Treasury Note or interpolated U.S. Treasury Note yield for the effective average life of the Notes, with interest payable quarterly in arrears. Indicative spreads at which Prudential would currently be interested in purchasing the Notes are as follows:

Average Life/Maturity From Funding	Credit Spread	Treasury Rate	Indicative Coupon
9.5 yrs / 14 yrs	149	4.01%	5.50%

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Interest Rate: Interest will be paid quarterly in arrears.

Funding: In the event the Company fixes the interest rate, but fails to issue any Notes on the Funding Date, and either the Company notifies Prudential of its intention not to issue any Notes, or Prudential determines that the Company will not issue any Notes, then the Company shall immediately pay to Prudential a cancellation payment (the "**Cancellation Payment**").

If the Company determines its will not issue any Notes before the Closing Date, the Company shall pay to Prudential a Cancellation Payment equal to the product of (a) the price increase determined by Prudential as the excess, if any, of the ask price of the Treasury Note(s) (the "**Hedge Treasury Note**") with the duration that most closely approximates the duration of the Notes proposed to be issued, on the date of cancellation, over the bid price of the Hedge Treasury Note on the date of the Acceptance, divided by such bid price, and (b) the principal amount of such Notes.

If the Company determines it will not issue any Notes after the Closing Date, the Company shall pay to Prudential a Cancellation Payment, for the Notes, equal to the greater of (i) $50,000 and (ii) the product of (a) the price increase determined by Prudential as the excess, if any, of the ask price of the Treasury Note(s) (the "**Hedge Treasury Note**") with the duration that most closely approximates the duration of the Notes proposed to be issued, on the date of cancellation, over the bid price of the Hedge Treasury Note on the date of the Acceptance, divided by such bid price, and (b) the principal amount of such Notes.

If after the Company fixes the interest rate, the funding fails to occur on or before the Funding Date, a Delayed Delivery Fee (the "**Delayed Delivery Fee**") shall be charged to the Company to offset Prudential's hedging costs and to preserve its anticipated yield. The Delayed

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Delivery Fee shall be determined by Prudential as the product of (i) the bond equivalent yield of the Notes proposed to be issued minus the bond equivalent yield of high grade commercial paper selected by Prudential with a maturity date approximately equal to the new funding date, (ii) the principal amount of the Notes proposed to be issued, and (iii) a fraction the numerator of which is equal to the number of days from the originally scheduled Funding Date to the day the fee is paid and the denominator of which is 360.

If Company satisfies all Conditions Precedent to the purchase of Notes and Prudential refuses to purchase Notes, no Cancellation Payment or Delayed Delivery Fee will be paid.

Structuring Fee: A structuring fee of $15,000 will be paid by the Company to Prudential on the Closing Date. The structuring fee will be subject to reduction by an amount equal to 50% of the fees and expenses of Prudential's special legal counsel in excess of $25,000.

Optional Prepayments: The Notes may be prepaid, at the option of the Company, in whole or in part (in a minimum amount of $1,000,000 and integral multiples of $100,000), on any interest payment date, at par plus accrued interest and a Yield-Maintenance Amount equal to the excess, if any, of (a) the net present value of the future debt service (principal plus interest) on the Notes being redeemed, discounted at a rate equal to the sum of 50 bps and the current yield on the U.S. Treasury Note(s) having a maturity comparable to the weighted average life remaining on such Notes over (b) the principal amount of the Notes being prepaid plus interest accrued thereon to the date of prepayment. The difference between such price and the par value being the "**Yield- Maintenance Amount**".

Conditions Precedent: The conditions precedent to funding would be typical for transactions of this type and will be the same as those contained in the Company's Note Purchase Agreement dated October 31, 2002 (the "**Existing Agreement**")

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	except to the extent additional conditions are required to take into account the delayed funding on the Funding Date.
Covenants:	Covenants of the Company will be the same as those contained in the Existing Agreement and include terrorism sanction covenants.
Events of Default:	Events of Default will be the same as those contained in the Existing Agreement.
Remedies Upon Default:	Remedies Upon Default will be the same as those contained in the Existing Agreement.
Representations and Warranties:	Customary for an agreement of this nature and will be the same as those contained in the Existing Agreement, including absence of material adverse change and such other representations and warranties required for terrorism sanctions regulations and the delayed issuance of Notes.
Expenses:	The Company shall pay all legal and other out-of-pocket expenses of the Purchasers, including the fees and expenses of special counsel and local counsel and travel and lodging expenses of the Purchasers.
Governing Law:	State of New York.

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Exhibit D

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF DELAWARE

IN THE MATTER OF THE APPLICATION OF CHESAPEAKE UTILITIES CORPORATION FOR APPROVAL OF THE ISSUANCE OF COMPANY STOCK	))))	**P.S.C. DOCKET NO. 05-**

Chesapeake Utilities Corporation (hereinafter sometimes called "Chesapeake" or "Applicant") pursuant to 26 Del. C. section 215, makes the following application for approval by the Delaware Public Service Commission ("Commission") of the issuance of up to 500,000 shares of Chesapeake common stock. In support of this Application, Chesapeake states the following:

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

2. Counsel for the Applicant is William A. Denman, Esquire, Parkowski, Guerke & Swayze P.A., 116 West Water Street, P.O. Box 598, Dover, Delaware 19903. Correspondence and other communications concerning this Application should be directed to counsel at the foregoing address, or at the following e-mail

address: wdenman@pgslegal.com. The respective telephone number and facsimile number are 302.678.3262 and 302.678.9415.

3. Chesapeake is a corporation incorporated under the laws of the State of Delaware. The voting stock of Chesapeake is publicly owned. Shares of common stock, 5,730,913 of which were outstanding as of December 31, 2004, are the only voting securities of Chesapeake. Each share is entitled to one vote.

4. Chesapeake's Board of Directors has approved the adoption of a Performance Incentive Plan ("PIP"), Directors Stock Compensation Plan ("DSCP"), and Employee Stock Award Plan ("ESAP") for which approval for the issuance of up to 500,000 shares of Chesapeake common stock is being sought. The Company will be seeking stockholder approval at its 2005 Annual Meeting. The exhibits attached to the 2005 Proxy describing each of the plans are attached hereto as Attachment A. As the stockholders have not yet approved the plans, the Company has not filed formal registration statements with the Securities and Exchange Commission. Net proceeds from the issuance will be added to Chesapeake's treasury and used for general corporate purposes.

5. The proposed PIP would replace, effective January 1, 2006, the prior PIP. The proposed PIP would allow for the issuance of restricted stock in the form of performance share awards to those key employees of the Company whom a designated committee, composed of independent directors chosen by the Board, determines are in positions to contribute significantly to the long-term growth, development, and financial success of the Company. The proposed PIP would encourage those employees to obtain proprietary interests in the Company and to

remain as employees of the Company as well as to assist the Company in recruiting able management personnel. No more than 25,000 shares can be awarded to an executive in any given year under the proposed PIP. By this Application, Chesapeake is seeking approval from the Commission to issue up to 400,000 shares of common stock for the purpose of administering the proposed PIP.

6. Chesapeake also requests approval from the Commission for the issuance of up to 75,000 shares of common stock for the DSCP. The DSCP would enhance the Company's ability to attract, motivate and retain as Non-Employee Directors persons of training, experience and ability, and to encourage the highest level of Non-Employee Director performance by providing such directors with a proprietary interest in the Company's growth and financial success. The Company acquired shares in the open market as compensation for Non-Employee Directors under the previous DSCP, which expired on December 31, 2004. Under the DSCP each Non-Employee Director who is elected as a director or whose service as a director will continue after the date of the respective Annual Meeting will receive, as compensation for services during the ensuing year, an award of no more than 1,200 shares of common stock on the date of the respective Annual Meeting. For 2005, the Board of Directors approved, subject to the approval of the DSCP by the shareholders at the 2005 Annual Meeting, (1) an award of 600 shares of common stock to each Non-Employee Director and (2) an award of 150 additional shares to each chairman of a committee of the Board of Directors.

7. Chesapeake also requests approval for the issuance of up to 25,000 shares of common stock for the ESAP. Historically, the Company has awarded

shares of Chesapeake common stock to the Company's top performing manager and employee of the year. When the New York Stock Exchange adopted new equity compensation rules in 2003, the Company was no longer able to issue shares, as it did not have a formal plan that had received stockholder approval. In order to continue to grant these awards, and to have the flexibility to make other awards of stock to employees for exemplary performance, the Company has developed the ESAP. The maximum number of shares that can be issued from the ESAP in any one year is 5,000 shares.

8. A copy of the opinion of counsel for Chesapeake with respect to the legality of the proposed issuance of common stock is attached hereto as Attachment B.

9. Attached hereto as Attachment C and incorporated herein by reference is a schedule setting forth Chesapeake's balance sheet and income statement for the twelve (12) months ended December 31, 2004, both before and after the issuance of the common stock.

10. Attached hereto as Attachment D is a copy of Chesapeake's annual report on Form 10-K for the calendar year ended December 31, 2004. This report has been filed with the Securities and Exchange Commission.

11. Pursuant to the Commission's Minimum Filing Requirements – Part (D), attached hereto and incorporated herein by reference are the following schedules:

a) Schedule No. 1 – Capitalization ratios, actual and pro forma as of December 31, 2004.

b) Schedule No. 2 – Rate of return, actual and pro forma for the twelve (12) months ended December 31, 2004.

c) Schedule No. 3 – Fixed charge coverage ratios for the twelve (12) months ended December 31, 2004.

12. Chesapeake represents that the proposed issuance of common stock is in accordance with law, for a proper purpose, and consistent with the public interest.

WHEREFORE, Chesapeake prays as follows:

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

B. That the Commission approves the proposed issuance of common stock as described herein.

CHESAPEAKE UTILITIES CORPORATION

By: Beth W. Cooper

Beth W. Cooper
Treasurer & Assistant Secretary

PARKOWSKI, GUERKE & SWAYZE, P.A.

By:

William A. Denman
116 West Water Street
Dover, DE 19903
Attorney for Applicant

DATED: March 28, 2005

DATED: **March 28, 2005**

STATE OF DELAWARE)
)
COUNTY OF KENT)

BE IT REMEMBERED that on this 28th day of March, 2005, personally appeared before me, a notary public for the State and County aforesaid, Beth W. Cooper, who being by me duly sworn, did depose and say that she is Treasurer and Assistant Secretary of Chesapeake Utilities Corporation, a Delaware corporation, and that insofar as the Application of Chesapeake Utilities Corporation states facts, and insofar as those facts are within her personal knowledge, they are true; and insofar as those facts are not within her personal knowledge, she believes them to be true; and that the attachments accompanying this application and attached hereto are true and correct copies of the originals of the aforesaid attachments, and that she has executed this Application on behalf of the Company and pursuant to the authorization of its Board of Directors.

Beth W. Cooper
Beth W. Cooper
Treasurer & Assistant Secretary

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

Heidi W. Watkins
Notary Public
My Commission Expires: 10/24/05

Exhibit D

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF DELAWARE

IN THE MATTER OF THE APPLICATION OF CHESAPEAKE UTILITIES CORPORATION FOR APPROVAL OF THE ISSUANCE OF UP TO 500,000 SHARES OF COMMON STOCK (FILED MARCH 28, 2005)	)))))	PSC DOCKET NO. 05-114

ORDER NO. 6607

AND NOW, on this 26th day of April, 2005;

WHEREAS, by application dated March 28, 2005, Chesapeake Utilities Corporation ("Chesapeake" or the "Company"), seeks Commission approval to issue up to 500,000 shares of new common stock to be used by the Company for administering the Company's revised Performance Incentive Plan, its revised Directors Stock Compensation Plan, and its Employee Stock Award Plan; with the net proceeds from the issuance to be used for general corporate purposes; and

WHEREAS, the Commission having examined the Company's application and having made such investigation in connection with said matters as the Commission deemed necessary, and having heard the presentation of the Company and the Commission Staff at the Commission's meeting on April 26, 2005; and

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

WHEREAS, the Commission having been advised by Staff, and having determined, that the proposed issuance of 500,000 shares of common stock by Chesapeake is in accordance with law, for a proper purpose, and consistent with the public interest; now, therefore,

IT IS ORDERED THAT:

1. The application filed by Chesapeake Utilities Corporation in this matter on or about March 28, 2005, is hereby approved and Chesapeake Utilities Corporation is hereby authorized to issue up to 500,000 new shares of its common stock. The proceeds from such new issuance of common stock shall be used for the purposes outlined in the application.

2. Approval of Chesapeake Utilities Corporation's application by the Commission shall not be construed as approving any capitalization ratios that result for any purposes or procedures involving ratemaking. Further, the approval here shall not be construed as approving any portions of the revised Performance Incentive Plan, the revised Directors Stock Compensation Plan, or the Employee Stock Award Plan for the purposes of any future rate-making proceeding. This approval shall not waive the Commission's rules regarding the burden of proving the merits of any related issue in a later proceeding. Rather, the Commission's approval of Chesapeake Utilities Corporation's application is limited to that which is necessary under 26 Del. C. § 215 and shall not be construed as having any ratemaking effect in any later rate proceeding.

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

4. Chesapeake Utilities Corporation shall, within thirty days of each issuance under the plan, provide the Commission notice, by letter, of the date and amount of such issuance.

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

BY ORDER OF THE COMMISSION:

Chair

Vice Chair

Commissioner

Commissioner

Commissioner

ATTEST:

Secretary

CHESAPEAKE UTILITIES CORPORATION
PERFORMANCE INCENTIVE PLAN

Effective January 1, 2006

SECTION 1. INTRODUCTION

1.01 Purposes of the Plan.

The purposes of the Chesapeake Utilities Corporation Performance Incentive Plan (the "Plan") are (a) to further the long-term growth and earnings of Chesapeake Utilities Corporation (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; (b) to encourage those employees to obtain proprietary interests in the Company and to remain as employees of the Company and its subsidiaries; and (c) to assist the Company and its subsidiaries in recruiting able management personnel. To accomplish these objectives, the Plan authorizes the grant of Awards, as further described herein.

1.02 Term of the Plan.

The Plan shall be effective as of January 1, 2006, subject to approval by the stockholders at the Company's 2005 Annual Meeting. Unless the Plan is terminated earlier in accordance with Section 8, the Plan shall remain in full force and effect until the close of business on December 31, 2014, at which time the Plan shall terminate and no further Awards shall be granted under the Plan. Any Award granted before the termination of the Plan shall continue to be governed thereafter by the terms of the Plan and the terms of the Award Agreements governing the Awards.

SECTION 2. DEFINITIONS

2.01 Definitions.

Except where otherwise indicated, the following terms shall have the definitions set forth below for purposes of the Plan:

(a) **"Award"** means a Performance Share Award granted under Section 5.

(b) **"Award Agreement"** means a written agreement entered into between the Company and a Participant, setting forth the terms and conditions applicable to the Award granted to the Participant.

(c) **"Beneficiary"** means the person or persons entitled, in accordance with Section 9.02, to receive any benefit payable because of the Participant's death.

(d) **"Board"** means the Board of Directors of the Company.

(e) **"Change in Control"** means the first of the following events occurs:

(1) Any one person, or group of owners of another corporation who acting together through a merger, consolidation, purchase, acquisition of stock or the like (a "group"), acquires ownership of stock of the Company (or a majority-controlled subsidiary of the Company) that, together with the stock held by such person or group, constitutes more than 50 percent of the total fair market value or total voting power of the stock of the Company. However, if such person or group is considered to own more than 50 percent of the total fair market value or total voting power of the stock of the corporation before this transfer of the Company's stock, the acquisition of additional stock by the same person or persons shall not be considered to cause a Change in Control of the Company; or

(2) Any one person or group (as described in subsection (e)(1), above) acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by such person or persons) ownership of stock of the Company (or a majority-owned subsidiary of the Company) possessing 35 percent or more of the total voting power of the stock of the Company where such person or group is not merely acquiring additional control of the Company; or

(3) A majority of members of the Company's Board (other than the Board of a majority-controlled subsidiary of the Company) is replaced during any 12-month period by directors whose appointment or election is not endorsed by a majority of the members of the Company's Board prior to the date of the appointment or election; or

(4) Any one person or group (as described in subsection (e)(1), above) acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by such person or group) assets from the Company (or a majority-controlled subsidiary of the Company) that have a total gross fair market value equal to or more than 40 percent of the total fair market value of all assets of the Company immediately prior to such acquisition or acquisitions. For this purpose, gross fair market value means the value of the assets of the Company, or the value of the assets being disposed of, determined without regard to any liabilities associated with such assets. A transfer of assets by the Company will not result in a Change in Control if the assets are transferred to:

(A) A stockholder of the Company (immediately before the asset transfer) in exchange for or with respect to its stock;

(B) An entity, 50 percent or more of the total value or voting power of which is owned, directly or indirectly, by the Company immediately after the transfer of assets;

(C) A person, or more than one person acting as a group (as described in subsection (e)(1), above), that owns, directly or indirectly, 50 percent or more of the total value or voting power of all the outstanding stock of the Company; or

(D) An entity, at least 50 percent of the total value or voting power of which is owned directly or indirectly, by a person described in subsection (e)(1), above.

However, no Change in Control shall be deemed to have occurred with respect to a Participant by reason of (i) any event involving a transaction in which the Participant or a group of persons or entities with which the Participant acts in concert, acquires, directly or indirectly, more than 30 percent of the Common Stock or the business or assets of the Company; (ii) any event involving or arising out of a proceeding under Title 11 of the United States Code (or the provisions of any future United States bankruptcy law), an assignment for the benefit of creditors or an insolvency proceeding under state or local law; or (iii) any event constituting approval by the Company's stockholders of a merger or consolidation if a majority of the group consisting of the president and vice presidents of the Company who are parties to agreements conferring rights upon a Change in Control shall have agreed in writing prior to the approval that the approval shall not be deemed to constitute a Change in Control.

(f) **"Code"** means the Internal Revenue Code of 1986, as amended from time to time.

(g) **"Committee"** means a committee of three or more persons appointed by the Board of Directors to administer the Plan, each member of whom shall be (1) an "independent director" as defined by the rules of the New York Stock Exchange, (2) a "Non-Employee Director" within the meaning of Rule 16b-3 and (3) an "outside director" within the meaning of Section 162(m) of the Code and the regulations thereunder.

(h) **"Common Stock"** means the Common Stock, $0.4867 par value, of the Company, including both treasury shares and authorized but unissued shares, or any security of the Company issued in substitution, exchange, or in lieu thereof.

(i) **"Company"** means Chesapeake Utilities Corporation or a Related Company.

(j) **"Disability"** means a medically determinable physical or mental impairment that can be expected to result in death or last for at least 12 months; and the impairment either (1) prevents the Participant from engaging in any substantial gainful activity, or (2) entitles the Participant to receive income replacement benefits for at least 3 months under an accident or health plan sponsored by the Company.

(k) **"Fair Market Value"** means the average of the high and low sales price of the Common Stock, as reported by the New York Stock Exchange (or any other reporting system as shall be selected by the

Committee) on the relevant date, or if no sale of Common Stock is reported for a date, on the date or dates that the Committee determines, in its sole discretion, to be appropriate for purposes of valuation.

(l) **"Participant"** means any person who has received an Award.

(m) **"Performance Goal"** means a criterion established by the Committee with respect to a Plan Year in accordance with Section 5.02.

(n) **"Person"** means any individual, firm, corporation, partnership, joint venture, association, trust, or other entity.

(o) **"Plan"** means the Chesapeake Utilities Corporation Performance Incentive Plan, as set forth herein and as amended from time to time.

(p) **"Plan Year"** means the calendar year.

(q) **"Related Company"** means a corporation, partnership, joint venture, or other entity in which the Company has a direct or indirect ownership or other proprietary interest of at least 50 percent.

(r) **"Rule 16b-3"** means Rule 16b-3 under the Securities Exchange Act of 1934, as amended from time to time, or any successor thereto.

SECTION 3. ADMINISTRATION

3.01 The Committee.

The Plan shall be administered by the Committee. The Committee shall periodically determine, in its sole discretion, the individuals who shall participate in the Plan and the amounts and other terms and conditions of Awards to be granted to such individuals under the Plan; provided that the Committee shall not have the discretion, after an Award is granted, to increase the amount of any Award intended to satisfy the requirements of Section 162(m) of the Code. The Committee shall administer the Plan in accordance with applicable legal requirements. All questions of interpretation and administration with respect to the Plan shall be determined by the Committee in its sole and absolute discretion. All determinations by the Committee shall be final and conclusive upon all parties. The Committee shall act by vote or written consent of a majority of its members and its actions (including its certification of the satisfaction of the Performance Goals and any other material terms of any Award intended to satisfy the requirements of Section 162(m) of the Code) shall be recorded in the minutes of the Committee.

3.02 Additional Powers of the Committee.

In addition to any implied powers and duties that are needed to carry out the provisions of the Plan, the Committee shall have the following specific powers and duties:

(a) to make and enforce any rules and regulations it shall deem necessary or proper for the efficient administration of the Plan;

(b) to designate one or more officers of the Company to execute on behalf of the Company all agreements and other documents approved by the Committee under the Plan;

(c) to appoint other persons to carry out any ministerial responsibilities under the Plan as it may determine consistent with applicable law; and

(d) to employ one or more persons to render advice with respect to any of its responsibilities under the Plan.

SECTION 4. PARTICIPATION

4.01 Participation.

Under the Plan, the Committee may select any key employees of the Company (including officers or employees who are members of the Board, but excluding directors who are not officers or employees) to receive awards whom the Committee determines are in positions from which they can contribute significantly to the achievement to the long-term growth, development and financial success of the Company or its subsidiaries. An individual who is not an employee of the Company shall not be eligible to participate in the Plan. Because all Awards are granted at the discretion of the Committee, no officer or employee of the Company shall have any right to receive an Award under the Plan.

SECTION 5. AWARDS

5.01 Grant of Performance Share Awards.

The Committee may, from time to time, grant to persons eligible to participate in the Plan, as the Committee shall determine in its sole discretion, an Award of shares of Common Stock the vesting of which is contingent on the achievement of established Performance Goals or the occurrence of another specified event as determined by the Committee in accordance with the terms of the Plan. In determining whether to grant an Award and the nature and amount of the Award, the Committee shall consider, among other factors, the eligible employee's responsibility level, performance, potential cash compensation level and the Fair Market Value of the Common Stock at the time of the Award.

5.02 Establishment of Performance Goals.

In selecting the Performance Goals for the vesting of an Award, the Committee may choose from among any one or more of the following, in any case as measured in absolute terms or relative to the performance of any group of companies or index selected by the Committee:

(a) earnings per share or earnings per share growth,

(b) operating income or operating income growth,

(c) operating margin or operating margin growth,

(d) net income or net income growth,

(e) revenue or revenue growth,

(f) return on equity,

(g) pre-tax return on investment,

(h) total stockholder return,

(i) cash flow,

(j) earnings before interest, taxes, depreciation and amortization,

(k) one or more strategic goals for the Company; any segment of its business; and/or any company or group of companies, or

(l) any other criteria or event selected by the Committee in the case of any Award that is not intended to satisfy the requirements of Section 162(m) of the Code.

To the extent consistent with the requirements of Section 162(m) of the Code, if during a Plan Year there are significant changes in economic conditions that the Committee did not foresee when it established the Performance Goals for that Plan Year and that, in the Committee's sole judgment, have or are expected to have a substantial effect on the performance of the Company during the Plan Year, the Committee may revise the Performance Goals in any manner that the Committee may deem appropriate.

5.04 Maximum Individual Award.

Subject to the adjustment provisions of Section 6.02, no individual Participant may be granted in any calendar year Awards that in the aggregate relate to more than 25,000 shares of Common Stock.

5.04 Award Agreements.

Each Award under the Plan shall be evidenced by an Award Agreement setting forth the terms and conditions applicable to the Award. Award Agreements shall include:

(a) Non-Assignability. A provision that states that prior to the vesting of an Award, the Award shall not be assignable or transferable except by will or by the laws of descent and distribution.

(b) Termination of Employment. Provisions governing the disposition of an Award in the event of retirement, disability, death or other termination of a Participant's employment or relationship to the Company.

(c) Rights as a Stockholder. A provision that a Participant shall have no rights as a stockholder with respect to any shares covered by an Award until the date on which the Participant or his or her nominee becomes the holder of record of the shares. No adjustment shall be made for dividends or other rights for which the record date is prior to that date, unless the Award Agreement specifically requires an adjustment.

(d) Change in Control. Such provisions as the Committee deems appropriate for the vesting of Awards upon a Change in Control.

(e) Acceleration. Provisions for the acceleration of the time periods for the vesting of any Award under such circumstances as the Committee may deem appropriate.

(f) Section 409A. In setting the terms and conditions of an Award, the Committee shall ensure that, to the extent possible, no Award issued under the Plan constitutes "nonqualified deferred compensation" within the meaning of Section 409A of the Code; provided that, to the extent permitted by law, the Committee may permit Awards to be deferred under a Company-sponsored nonqualified deferred compensation plan.

(g) Other Provisions. Such other terms and conditions, consistent with the terms of the Plan, as the Committee deems are necessary or appropriate with respect to granting an Award.

SECTION 6. LIMITATIONS ON AWARDS

6.01 Limitation on Number of Shares.

Subject to any adjustment pursuant to Section 6.02, below, the aggregate number of shares of Common Stock that may be issued under the Plan shall not exceed 400,000 shares. To the extent that an Award lapses or the rights of the Participant to whom it was granted terminate, any shares of Common Stock subject to the Award shall again be available for the grant of an Award under the Plan.

6.02 Adjustment to Reflect Changes in Capital Stock.

In the event of a change in outstanding shares of Common Stock by reason of a stock dividend or split, recapitalization, combination, or exchange of shares or similar changes, a proportionate adjustment shall be made (i) in the outstanding Awards and (ii) in the aggregate number of shares of Common Stock that may be issued under the Plan in accordance with Section 6.01 above and (iii) in the aggregate number of shares of Common Stock that may be the subject of awards to an individual Participant under Section 5.04.

6.03 No Registration.

The obligation of the Company to make payment of or to issue, deliver or pay shares of Common Stock pursuant to any Award shall be subject to all applicable laws, rules and regulations, and to any approvals by any government agencies as may be required. The Company may, but shall be under no obligation to, register under the Securities Act of 1933, as amended (the "Act"), any of the shares of Common Stock issued, delivered or paid in settlement under the Plan. If Common Stock awarded under the Plan is issued pursuant to an applicable exemption from registration under the Act, the Company may impose such restrictions on the shares issued as it deems advisable to maintain the exemption.

SECTION 7. PAYMENTS OF AWARDS

7.01 Awards Solely from General Assets.

The Awards under the Plan shall be paid solely from the general assets of the Company. Nothing herein shall be construed to require the Company or the Board to maintain any fund or to segregate any amount for the benefit of any Participant, and no Participant or other person shall have any right against, right to, or security or other interest in, any fund, account, or asset of the Company from which the payment pursuant to the Plan may be made.

7.02 Plan Expenses.

All reasonable expenses of administering the Plan shall be paid by the Company.

7.03 No Fractional Shares.

No fractional shares of Common Stock shall be issued pursuant to the Plan or any Award. The Committee shall determine whether cash, other securities, or other property shall be paid or transferred in lieu of fractional shares, or whether fractional shares or any rights thereto shall be canceled, terminated, or otherwise eliminated.

SECTION 8. AMENDMENT AND TERMINATION

8.01 Amendment or Termination of Plan.

Except as otherwise provided in Section 8.02, the Board may, at any time and from time to time, alter, amend, suspend or terminate the Plan as it shall deem advisable, subject in the case of any alteration or amendment to any requirement for stockholder approval imposed by applicable law.

8.02 Change in Control.

Notwithstanding Section 8.01, above, on or after the occurrence of a Change in Control, no direct or indirect alteration, amendment, suspension, termination or discontinuance of the Plan, no establishment or modification of rules, regulations or procedures under the Plan, no interpretation of the Plan or determination under the Plan, and no exercise of authority or discretion vested in the Committee under any provision of the Plan (collectively or individually, a "Change") shall be made if the Change (i) is not required by applicable law or necessary to meet the requirements of Rule 16b-3 or Sections 162(m) or 409A of the Code and (ii) would have the effect of:

(a) eliminating, reducing or otherwise adversely affecting a Participant's, former Participant's or beneficiary's rights with respect to any Award granted prior to the Change in Control,

(b) altering the meaning or operation of the definition of "Change in Control" in Section 2.01 (and of the definition of all the defined terms that appear in the definition of "Change in Control"), the provisions of this Section 8, or any rule, regulation, procedure, provision or determination made or adopted prior to the Change in Control pursuant to this Section 8 or any provision in any rule, regulation, procedure, provision or determination made or adopted pursuant to the Plan that becomes effective upon the occurrence of a Change in Control (collectively, the "Change in Control Provisions"), or

(c) undermining or frustrating the intent of the Change in Control Provisions to secure for Participants, former Participants and beneficiaries the maximum rights and benefits that can be provided under the Plan.

Upon and after the occurrence of a Change in Control, all rights of all Participants, former Participants and beneficiaries under the Plan (including without limitation any rules, regulations or procedures promulgated under the Plan) shall be contractual rights enforceable against the Company and any successor to all or substantially all of the Company's business or assets. The Change in Control Provisions may be altered, amended or suspended at any time before the date on which a Change in Control occurs; provided that any alteration, amendment or suspension of the Change in Control Provisions that is made before the date on which a Change in Control occurs, and at the request of a person who effectuates the Change in Control, shall be treated as though it occurred after the Change in Control and shall be subject to the restrictions and limitations imposed by the preceding provisions of the immediately preceding paragraph.

8.03 Other Plans.

Nothing herein shall preclude the Committee from authorizing or approving other plans or forms of incentive compensation. The Committee shall have the right to determine the extent to which any Participant shall participate in this Plan in addition to any other plan or plans of the Company in which he shall participate.

SECTION 9. MISCELLANEOUS

9.01 No Right To Employment.

The receipt of an Award under the Plan shall not give any employee any right to continued employment by the Company, and the right to dismiss any employee is specifically reserved to the Company. The receipt of an Award shall not give an employee the right to receive any subsequent Award.

9.02 Designation of Beneficiary.

Each Participant may designate a Beneficiary to receive the Participant's awards in the event of the Participant's death. The designation shall be in writing, shall be made in the form and manner prescribed by the Committee, and shall be effective only if filed with the Committee prior to the Participant's death. A Participant may, at any time prior to his or her death, and without the consent of his or her Beneficiary, change his or her designation of Beneficiary by filing a written notice of such change with the Committee in the form and manner prescribed by the Committee. In the absence of a designated Beneficiary, or if the designated Beneficiary and any designated contingent Beneficiary predecease the Participant, the Beneficiary shall be the Participant's surviving spouse, or if the Participant has no surviving spouse, the Participant's estate.

9.03 Recipient of Payment.

(a) Except as otherwise provided in paragraph (b), below, any Award under the Plan shall be paid to the Participant, or to the Beneficiary of a deceased Participant.

(b) If the Committee determines that a Participant or Beneficiary is not competent, the Committee may pay any amount otherwise due to the Participant or Beneficiary to the court-appointed legal guardian of the Participant or Beneficiary, to an individual who has become the legal guardian of the Participant or Beneficiary by operation of state law, or to another individual whom the Committee determines to be entitled to receive the payment on behalf of the Participant or Beneficiary.

(c) If a payment is made under the Plan to a third party pursuant to paragraph (b), above, the Plan, the Committee, and the Company shall be relieved, to the fullest extent permitted by law, of any obligation to make a duplicate payment to or on behalf of the Participant or Beneficiary.

9.04 Taxes.

The Committee may make any appropriate arrangements to deduct from amounts otherwise payable to a Participant any taxes that the Committee believes to be required to be withheld by any government or governmental agency in respect of an Award. The Participant and/or his or her Beneficiary shall bear all taxes on amounts paid under the Plan to the extent that no taxes are withheld, irrespective of whether withholding is required.

9.05 Headings.

Any headings used in this document are for convenience of reference only and may not be given any weight in interpreting any provision of the Plan.

9.06 Severability.

If any provision of the Plan shall be held illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining parts of the Plan, and the Plan shall be construed and enforced as if the illegal or invalid provision had never been inserted herein. In addition, if any provision of the Plan inadvertently causes an Award granted under the Plan to be "nonqualified deferred compensation" within the meaning of Section 409A of the Code, then such Award shall be construed and enforced as if the provision had never been inserted therein.

9.07 Governing Law.

The Plan shall be construed, administered and regulated in accordance with the laws of the state of Delaware (excluding the choice of law provisions thereof) and any applicable requirements of federal law.

CHESAPEAKE UTILITIES CORPORATION
DIRECTORS STOCK COMPENSATION PLAN

1. Purpose of the Plan.

The purpose of the Directors Stock Compensation Plan of Chesapeake Utilities Corporation (the "Company") is to promote the interests of the Company by enhancing the Company's ability to attract, motivate and retain as Non-Employee Directors persons of training, experience and ability, and to encourage the highest level of Non-Employee Director performance by providing such directors with a proprietary interest in the Company's growth and financial success.

2. Definitions.

(a) **"Board"** means the Board of Directors of the Company.

(b) **"Common Stock"** means the Common Stock, $0.4867 par value, of the Company.

(c) **"Non-Employee Director"** means a member of the Board who is not at the time of receipt of an award hereunder, or within one year prior to the date of such award, an employee of the Company or of any of its subsidiaries.

3. Shares of Common Stock Subject to the Plan.

Subject to the provisions of Section 8, the aggregate number of shares of Common Stock that may be issued and awarded under the Plan shall not exceed 75,000 shares. Such shares may be either authorized and unissued shares, or shares issued and thereafter acquired by the Company.

4. Administration of the Plan.

The Plan shall be administered by the Board, which shall have the sole and complete authority to interpret the Plan and make all other determinations necessary for the Plan's administration. All action taken by the Board in the administration and interpretation of the Plan shall be final and binding on all concerned. The Board may designate officers and employees of the Company to assist the Board in the administration of the Plan and to execute documents on behalf of the Board, and the Board may delegate to such officers and employees such other ministerial and limited discretionary duties as it sees fit.

5. Eligibility.

Only directors of the Company who are Non-Employee Directors shall be eligible to receive awards under the Plan.

6. Awards.

Each Non-Employee Director who is elected as a director at the Company's Annual Meeting or whose service as a director will continue after the date of the Annual Meeting shall receive, as compensation for services during the ensuing year, an award of no more than 1,200 shares of Common Stock on the date of the Company's Annual Meeting. If the Non-Employee Director is elected or appointed other than at an Annual Meeting, the Director shall be awarded on that date the number of shares of Common Stock (rounded to the next whole number) equal to the current year's award multiplied by the fraction (i) the numerator of which is the number of days remaining until the date of the next Annual Meeting and (ii) denominator of which is 365. The awarded shares shall be registered in the name of the director on the date of the award or as soon as practicable thereafter. On the date a Director becomes the holder of record of shares awarded under the Plan, the Director will have the right to vote the shares and to receive the cash dividends distributable with respect to the shares; however the shares may not be sold or otherwise transferred by the Director for a period of six months following the date of the award.

7. Limitations on Awards.

No award will be granted in whole or in part and no certificates representing shares of Common Stock shall be delivered (a) if any requisite approval or consent of any governmental authority having jurisdiction over grant of the award shall not have been secured or if the issuance of shares of Common Stock pursuant to the award would violate any federal, state or local law, regulation or order that may be applicable; (b) at any time that the Common Stock of the Company is listed on a stock exchange, if the shares of Common Stock pursuant to the award shall not have been effectively listed on such exchange, unless the Company is advised by its counsel that such listing is not required; or (c) at any time that the Company determines that the satisfaction of withholding tax or other withholding liabilities is necessary or desirable, unless such withholding shall have been effected.

8. Adjustment Provisions.

If any subdivision or combination of shares of Common Stock or any stock dividend, capital reorganization or recapitalization occurs after the adoption of the Plan, a proportional adjustment shall be made in the number of shares of Common Stock that may be awarded under the Plan.

9. No Registration.

The Company shall have no obligation to register any of the shares of Common Stock awarded under this Plan under the Securities Act of 1933, as amended, or under any state securities laws.

10. General.

Nothing in the Plan or in any instrument executed pursuant to the Plan shall confer upon any person any right to continue to serve as a Director of the Company if validly removed. Nothing herein shall preclude the Company from authorizing or approving other plans or forms of compensation for Directors. All reasonable expenses of administering the Plan shall be paid by the Company.

11. Taxes.

The Director (or the Director's beneficiary) shall be responsible for all taxes on shares issued under the Plan. The Company may make appropriate arrangements to collect from any Director the taxes, if any, that the Company may be required to withhold by any government or government agency prior to issuance of shares under the Plan.

12. Amendment and Termination.

The Board may amend, suspend, or terminate the Plan at any time; provided that no amendment shall be made without stockholder approval if stockholder approval is required by law, regulation, or securities exchange listing requirements.

13. Governing Law.

The Plan shall be construed, administered and regulated in accordance with the laws of the state of Delaware (excluding the choice of law provisions thereof) and any applicable requirements of federal law.

14. Effectiveness and Expiration of the Plan.

The Plan, if approved by the stockholders of the Company at the 2005 Annual Meeting, will become effective on the date of the Annual Meeting. Unless terminated earlier by the Board, the Plan will expire on December 31, 2015, and no further awards may be granted after that date, subject to an extension of the term of the Plan by the Board and, if required, with the approval of the Company's stockholders.

CHESAPEAKE UTILITIES CORPORATION
EMPLOYEE STOCK AWARD PLAN

1. Purpose of the Plan.

The purpose of the Employee Stock Award Plan ("Plan") of Chesapeake Utilities Corporation (the "Company") is to enhance the ability of the Company and its subsidiaries to attract, motivate and retain its employees and to encourage the highest level of employee performance by enabling the Company to recognize exemplary employee performance through stock awards.

2. Shares of Common Stock Subject to the Plan.

Up to 25,000 shares of Common Stock, $0.4867 par value, of the Company ("Common Stock") may be issued as awards under the Plan; provided that in no event shall more than 5,000 shares of Common Stock be issued under the Plan in any calendar year. Such shares may be either authorized and unissued shares or shares issued and thereafter acquired by the Company. If any subdivision or combination of shares of Common Stock or any stock dividend, capital reorganization or recapitalization occurs after the adoption of the Plan, a proportionate adjustment shall be made in the number of shares of Common Stock that may be awarded under the Plan.

3. Administration of the Plan.

The Plan shall be administered by one or more officers of the Company selected by the Company's Board of Directors (the "Administrator"). The Administrator shall have the sole and complete authority to interpret the Plan and make all other determinations necessary for the Plan's administration. All action taken by the Administrator in the administration and interpretation of the Plan shall be final and binding on all concerned. The Administrator may designate other officers or employees of the Company to assist the Administrator in the administration of the Plan and to execute documents on behalf of the Company.

4. Eligibility.

Only employees of the Company and its subsidiaries who are not officers of the Company shall be eligible to receive awards under the Plan ("Eligible Employees").

5. Awards.

Awards of Common Stock may be made from time to time to Eligible Employees selected by the Administrator based on such performance criteria as the Administrator shall establish.

6. Limitations on Awards.

No award shall be made in whole or in part and no certificates representing shares of Common Stock shall be delivered (a) if any requisite approval or consent of any governmental authority having jurisdiction over the grant of the award shall not have been secured or if the issuance of shares of Common Stock pursuant to the award would violate any federal, state or local law, regulation or order that may be applicable; (b) at any time that the Common Stock of the Company is listed on a stock exchange, if the shares of Common Stock pursuant to the award shall not have been effectively listed on such exchange, unless the Company is advised by its counsel that such listing is not required; or (c) at any time that the Company determines that the satisfaction of withholding tax or other withholding liabilities is necessary or desirable, unless such withholding shall have been effected.

7. No Registration.

The Company shall have no obligation to register any of the shares of Common Stock awarded under this Plan under the Securities Act of 1933, as amended, or under any state securities laws.

8. Employment Unaffected by Plan Participation.

Nothing in the Plan or in any instrument executed pursuant to the Plan shall confer upon any employee of the Company or any subsidiary any right to continued employment by the Company or any of its subsidiaries.

9. Plan Expenses.

All reasonable expenses of administering the Plan shall be paid by the Company.

10. Taxes.

An employee who receives an award of shares of Common Stock under the Plan shall be responsible for any and all associated taxes. The Company may make appropriate arrangements to collect from any employee the taxes that the Company may be required to withhold by any government or governmental agency prior to issuance of shares under the Plan.

11. Amendment and Termination.

The Board of Directors may amend, suspend, or terminate the Plan at any time; provided that no amendment shall be made without stockholder approval if stockholder approval is required by law, regulation or securities exchange listing requirements.

12. Governing Law.

The Plan shall be construed, administered and regulated in accordance with the laws of the state of Delaware (excluding the choice of law provisions thereof) and any applicable requirements of federal law.

13. Effectiveness and Expiration of the Plan.

The Plan, if approved by the stockholders of the Company at the 2005 Annual Meeting, will become effective on the date of the Annual Meeting. Unless terminated earlier by the Board of Directors, the Plan will expire on December 31, 2015, and no further awards may be granted after that date.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF DELAWARE

IN THE MATTER OF THE APPLICATION OF CHESAPEAKE UTILITIES CORPORATION FOR APPROVAL OF THE ISSUANCE OF COMPANY STOCK	))))	**P.S.C. DOCKET NO. 04-**

Chesapeake Utilities Corporation (hereinafter sometimes called "Chesapeake" or "Applicant") pursuant to 26 Del. C. section 215, makes the following application for approval by the Delaware Public Service Commission ("Commission") of the issuance of up to 780,000 shares of Chesapeake common stock.

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

2. Counsel for the Applicant is William A. Denman, Esquire, Parkowski, Guerke & Swayze P.A., 116 West Water Street, P.O. Box 598, Dover, Delaware 19903. Correspondence and other communications concerning this application should be directed to counsel at the foregoing address, or at the following e-mail address: wdenman@pgslegal.com. The respective telephone number and facsimile number are 302.678.3262 and 302.678.9415.

3. Chesapeake is a corporation incorporated under the laws of the State of Delaware. The voting stock of Chesapeake is publicly owned. Shares of common stock, 5,759,405 of which were outstanding as of September 30, 2004, are the only voting securities of Chesapeake. Each share is entitled to one vote.

4. On May 24, 1989, the Delaware Public Service Commission issued Order No. 3071 approving the issuance of up to 200,000 shares of Chesapeake common stock for the purpose of instituting and administering a Common Stock Dividend Reinvestment and Stock Purchase Plan (the "Plan"). A copy of the Plan is attached hereto as Attachment A. On December 19, 1995, the Commission issued Order No, 4097 approving the issuance of an additional 300,000 shares of common stock. As of September 30, 2004, Chesapeake had issued a total of 483,943 shares under the Plan. It is anticipated that the remaining 16,057 authorized shares will be used during 2004. The Plan was developed in response to stockholder interest. Many other publicly owned corporations have a dividend reinvestment plan in place, and Chesapeake believes that by continuing the Plan, the Corporation will maintain its attractiveness to existing and future shareholders. Net proceeds from the issuance will be added to Chesapeake's treasury and used for general corporate purposes. Chesapeake hereby requests approval from the Commission to issue an additional 750,000 shares of common stock for the purpose of administering the Plan.

5. The Board of Directors of Chesapeake authorized the issuance of shares on August 5, 2004. The Board of Director's also approved amendments to the Plan that; (a) allow for direct stock purchases by persons who at the time of

purchase are not shareholders of the Company; (b) establish the minimum investment amount for direct stock purchases by persons who are not shareholders of the Company; (c) fix the minimum monthly and maximum annual optional cash investment limits for participating shareholders; (d) allow for direct debiting of shareholder-designated bank accounts for purchases; and (e) add a provision to the Plan whereby the Company, with the prior approval of the Board of Directors or under guidelines adopted by the Board of Directors, could on a case-by-case basis waive the maximum annual optional cash investment limit and accept investments in excess of that amount.

6. Chesapeake also requests approval from the Commission for the issuance of 30,000 shares of common stock to be available for issuance to satisfy 30,000 outstanding warrants. In 2000 and 2001, the Company entered into agreements with an investment banking firm to provide strategy advice and consulting services. Under the agreements, which are attached hereto as Attachment B, the Company issued warrants to the investment banking firm to purchase shares of Chesapeake common stock. In 2001, 15,000 warrants were issued at a strike price of $18.25 per shares. In 2000, 15,000 warrants were issued at a strike price of $18.00 per share. The warrants are exercisable during a seven-year period. The agreements provide that Chesapeake may satisfy any exercised warrants by issuing new shares of Chesapeake common stock.

7. A copy of the opinion of counsel for Chesapeake with respect to the legality of the proposed issuance of common stock is attached hereto as Attachment C.

8. Attached hereto as Attachment D and incorporated herein by reference is a schedule setting forth Chesapeake's balance sheet and income statement for the twelve (12) months ended September 30, 2004, both before and after the issuance of the common stock.

9. Attached hereto as Attachment E is a copy of Chesapeake's annual report on Form 10-K for the calendar year ended December 31, 2003. Attached hereto as Attachment F is Chesapeake's most recent quarterly report on Form 10-Q. Both reports have been filed with the Securities and Exchange Commission.

10. Pursuant to the Commission's Minimum Filing Requirements – Part (D), attached hereto and incorporated herein by reference are the following schedules:

a) Schedule No. 1 – Capitalization ratios, actual and pro forma as of September 30, 2004.

b) Schedule No. 2 – Rate of return, actual and pro forma for the twelve (12) months ended September 30, 2004.

c) Schedule No. 3 – Fixed charge coverage ratios for the twelve (12) months ended September 30, 2004.

11. Chesapeake represents that the proposed issuance of common stock is in accordance with law, for a proper purpose, and consistent with the public interest.

WHEREFORE, Chesapeake prays as follows:

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

B. That the Commission approves the proposed issuance of common stock as described herein.

CHESAPEAKE UTILITIES CORPORATION

By: Beth W. Cooper

Beth W. Cooper
Treasurer & Assistant Secretary

PARKOWSKI & GUERKE, P.A.

By: William A. Denman

William A. Denman
116 West Water Street
Dover, DE 19903
Attorney for Applicant

DATED: November 23, 2004

DATED: **November 23, 2004**

STATE OF DELAWARE)
)
COUNTY OF KENT)

BE IT REMEMBERED that on this 23rd day of November, 2004, personally appeared before me, a notary public for the State and County aforesaid, Beth W. Cooper, who being by me duly sworn, did depose and say that she is Treasurer and Assistant Secretary of Chesapeake Utilities Corporation, a Delaware corporation, and that insofar as the Application of Chesapeake Utilities Corporation states facts, and insofar as those facts are within her personal knowledge, they are true; and insofar as those facts are not within her personal knowledge, she believes them to be true; and that the attachments accompanying this application and attached hereto are true and correct copies of the originals of the aforesaid attachments, and that she has executed this Application on behalf of the Company and pursuant to the authorization of its Board of Directors.

Beth W. Cooper
Beth W. Cooper
Treasurer & Assistant Secretary

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

Heidi W. Watkins
Notary Public
My Commission Expires: 10/24/05

Exhibit H

STATE OF DELAWARE

BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF THE APPLICATION OF CHESAPEAKE UTILITIES CORPORATION FOR APPROVAL OF THE ISSUANCE OF COMMON STOCK (FILED NOVEMBER 23, 2004)	)))))	PSC DOCKET NO. 04-444

ORDER NO. 6543

AND NOW, on this 21st day of December, 2004;

WHEREAS, by application dated November 23, 2004, Chesapeake Utilities Corporation ("Chesapeake" or the "Company"), seeks Commission approval to issue 750,000 shares of new common stock to be used by the Company in meeting its matching obligations under the Company's Common Stock Dividend Reinvestment and Stock Purchase Plan, and 30,000 shares of new common stock to satisfy 30,000 outstanding warrants; and

WHEREAS, the Commission having examined the Company's application and made such investigation in connection with said matters as the Commission deemed necessary, and having heard the presentation of the Company and the Commission Staff at the Commission meeting of December 21, 2004; and

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

WHEREAS, the Commission having been advised by Staff, and having determined, that the proposed issuance of 780,000 shares of common stock by Chesapeake is in accordance with law, for a proper purpose, and consistent with the public interest; now, therefore,

IT IS ORDERED THAT:

1. The application filed by Chesapeake Utilities Corporation in this matter on or about November 23, 2004, is hereby approved and Chesapeake Utilities Corporation is hereby authorized to issue 780,000 new shares of common stock. The proceeds from such new issuance of common stock shall be used for the purposes outlined in the application.

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

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

4. Chesapeake Utilities Corporation shall, within thirty days of the consummation of the above transaction, provide the Commission notice, by letter, of the date of consummation.

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

BY ORDER OF THE COMMISSION:

Chair

Vice Chair

Commissioner

Commissioner

Commissioner

ATTEST:

Acting Secretary