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December 13, 2016

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BY HAND DELIVERY

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

Re: NEW FILING- 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 2017.

Dear Ms. Stauffer:

Enclosed for filing, please find an original and 3 copies of the Application of Chesapeake Utilities Corporation for Authority to Issue Stock, and Secured and/or Unsecured Debt, and to Enter into Agreements for Interest Rate Swap Products, Equity Products and Other Financial Derivatives and to Exceed Limitation Placed on Short Term Borrowings in 2017, along with a copy of the pleading on CD in Word format. A copy of this filing has also been provided to the Office of Public Counsel.

Your assistance in this matter is greatly appreciated. If you have any questions, please do not hesitate to contact me.

Sincerely,

Beth Keating
Gunster, Yoakley, & Stewart, P.A.
215 S. Monroe St., Suite 601
Tallahassee, FL 32301
(850) 521-1706

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BK

cc: Office of Public Counsel

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application by Chesapeake Utilities Corporation for Authorization to Issue Common Stock, Preferred Stock and Secured and/or Unsecured Debt, and to Enter into Agreements For Interest Rate Swap Products, Equity Products and Other Financial Derivatives in 2017.	Docket No.: Filed:

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 2017

Chesapeake Utilities Corporation (Chesapeake, the Company or Applicant) respectfully files this Application, pursuant to Section 366.04 (1), Florida Statutes, seeking authority in 2017 to issue up to 7,965,000 shares of Chesapeake common stock; up to 2,000,000 shares of Chesapeake preferred stock; up to $450,000,000 in secured and/or unsecured debt; to enter into agreements for up to $150,000,000 in Interest Rate Swap Products, Equity Products and other Financial Derivatives; to exceed the limitation on short-term borrowings in 2017 up to $275,000,000. The Company would utilize its short-term lines of credit and revolving credit facility for this purpose.

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
    1750 South 14th Street
    Fernandina Beach, Florida 32034

c) Florida Public Utilities Company (a wholly owned subsidiary of Chesapeake Utilities Corporation)
1750 South 14th Street
Fernandina Beach, Florida 32034

d) Florida Public Utilities Company - Indiantown Division
1750 South 14th Street
Fernandina Beach, Florida 32034

e) Florida Public Utilities Company – Fort Meade Division
1750 South 14th Street
Fernandina Beach, Florida 32034

2. Incorporated:

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

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

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

Beth Keating, Esquire
Gunster, Yoakley & Stewart, P.A.
Suite 601
215 South Monroe Street
Tallahassee, Florida 32301
(850) 521-1706

Attorneys for Chesapeake Utilities Corporation

4. Capital Stock and Funded Debt

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

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

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

c) Amount outstanding as of June 30, 2016 : 15,319,878

d) Amount held in Treasury: 0 shares.

e) Amount pledged by Applicant: None.

f) Amount owned by affiliated corporations: None.

g) Amount held in any fund: None.

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

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

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

c) Amount outstanding as of June 30, 2016: 0 shares.

d) Amount held in Treasury: None.

e) Amount pledged by Applicant: None.

f) Amount owned by affiliated corporations: None.

g) Amount held in any fund: None.

The funded indebtedness by class and series are as follows:

(a) 1 Chesapeake Utilities Corporation 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, 2016, there is a remaining balance of $5,454,545 for this issue.

(a) 2 Chesapeake Utilities Corporation 5.50% Unsecured Senior Notes due October 12, 2020 and issued on October 12, 2006 in the principal amount of $20,000,000 bearing interest payable quarterly with provisions for payment of interest only prior to October 12, 2011; thereafter, principal shall be payable, in addition to interest on the unpaid balance, for ten (10) years at the rate of $2,000,000 per annum. As of June 30, 2016, there is a remaining balance of $10,000,000 for this issue.

(a) 3 Chesapeake Utilities Corporation 5.93% Unsecured Senior Notes due October 31, 2023 and issued on October 31, 2008 in the principal amount of $30,000,000 bearing interest payable semi-annually with provisions for payment of interest only prior to April 30, 2014; thereafter, principal shall be payable, in addition to interest on the unpaid balance for ten (10) years at the rate of $1,500,000 per semi-annum. Accordingly, as of June 30, 2016, there is a balance of $22,500,000 for this issue.

(a) 4 Chesapeake Utilities Corporation 5.68% Unsecured Senior Notes due June 30, 2026 and issued on June 23, 2011 in the principal amount of $29,000,000 bearing interest payable semi-annually with provisions for payment of interest only prior to June 30, 2017; thereafter, principal shall be payable, in addition to interest on the unpaid balance for ten (10) years at the rate of $2,900,000 per annum. As of June 30, 2016, there is a balance of $29,000,000 on this issue.

(a) 5 Florida Public Utilities Company 9.08% Secured First Mortgage Bonds due June 1, 2022 and issued on June 1, 1992 in the principal amount of $8,000,000 bearing interest payable semi-annually with provisions for payment of interest only prior to June 1, 2022; thereafter, principal shall be payable in full. Accordingly, as of June 30, 2016, there is a balance of $8,000,000 for this issue.

(a) 6 Chesapeake Utilities Corporation 6.43% Unsecured Senior Notes due May 2, 2028 and issued on May 2, 2013 in the principal amount of

$7,000,000 bearing interest payable semi-annually with provisions for payment of interest only prior to May 2, 2019; thereafter, principal shall be payable, in addition to interest on the unpaid balance for ten (10) years at the rate of $700,000 per annum. As of June 30, 2016, there is a balance of $7,000,000 on this issue.

(a) 7 Chesapeake Utilities Corporation 3.73% Unsecured Senior Notes due December 16, 2028 and issued on December 16, 2013 pursuant to a Note Purchase Agreement dated September 5, 2013 in the principal amount of $20,000,000 bearing interest payable semi-annually with provisions for payment of interest only prior to December 16, 2019; thereafter, principal shall be payable, in addition to interest on the unpaid balance for ten (10) years at the rate of $2,000,000 per annum. As of June 30, 2016, there is a balance of $20,000,000 on this issue.

(a) 8 Chesapeake Utilities Corporation capital lease agreement entered into on June 1, 2013 in an original present value amount of $7,125,901 in connection with the acquisition and lease of certain assets of Eastern Shore Gas Company located in Worcester County, Maryland. The capital lease has monthly payments of $125,000 from June 2014 through May 2019. As of June 30, 2016, there is a present value balance outstanding of $4,153,351 on this capital lease.

(a) 9 Chesapeake Utilities Corporation 3.88% Unsecured Senior Notes due May 15, 2029 and issued on May 15, 2014 pursuant to a Note Purchase Agreement dated September 5, 2013 in the principal amount of $50,000,000 bearing interest payable semi-annually with provisions for payment of interest only prior to May 15, 2020; thereafter, principal shall be payable, in addition to interest on the unpaid balance for ten (10) years at the rate of \$5,000,000 per annum. As of June 30, 2016, there is a balance of \$50,000,000 on this issue.

(a) 10 Flo-Gas Corporation non-interest bearing Unsecured Senior Notes due February 5, 2019 issued on February 5, 2013 in the principal amount of \$425,000. Annual principal payments are \$70,833 until maturity. As of June 30, 2016, there is a balance of \$167,500 on this issue.

(a) 11 On May 20, 2016, Chesapeake Utilities Corporation committed to a 3.25% Unsecured Senior Note due April 30, 2032, pursuant to a Note Purchase Agreement dated October 8, 2015, in the principal amount of \$70,000,000 bearing interest payable quarterly with provisions for payment of interest only prior to July 31, 2022; Thereafter, principal shall be payable, in addition to interest on the unpaid balance for forty (40) quarters at the rate of \$1,750,000 per quarter. The shelf notes shall be issued on or before April 28, 2017. As of June 30, 2016, there is a zero balance on this issue.

As of the filing date, Chesapeake has four unsecured committed short-term bank lines of credit with three commercial lenders. Chesapeake may from time to time increase the capacity of these lines of credit and/or add additional lines of credit to meet short-term financing needs. Chesapeake currently maintains a total short-term borrowing line capacity of

$170,000,000. As of June 30, 2016, the total short-term borrowing outstanding under the bank lines of credit was $140,042,181.

As of October 8, 2015, Chesapeake entered into a committed revolving line of credit with five commercial lenders, available through October 8, 2020 for a total intermediate borrowing capacity of $150,000,000. As of June 30, 2016, the total borrowing under this line of credit was $40,000,000 designated as short-term borrowing.

5. Authorizations Requested

Chesapeake requests authorization from the FPSC to issue up to 465,000 new shares of its common stock during 2017 for the purpose of administering Chesapeake's Retirement Savings Plan, Stock and Incentive Compensation Plan, and Dividend Reinvestment and Stock Purchase Plan. The share breakdown for each specific purpose is as follows:

Number of Shares	Purpose
105,000	Issuance pursuant to the Company's Retirement Savings Plan.
180,000	Issuance under the terms of the Company's Stock and Incentive Compensation Plan.
180,000	Issuance pursuant to the Company's Dividend Reinvestment and Stock Purchase Plan.

In addition, Chesapeake is requesting FPSC authorization to issue up to 2,500,000 shares of Chesapeake stock or an equity-linked instrument equivalent in value in 2017 to permanently finance Chesapeake's ongoing capital expenditure program. Chesapeake seeks further FPSC authorization to issue during 2017 up to an additional 5,000,000 shares of common stock. This additional stock would be used to finance Chesapeake's ongoing acquisition 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 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 $450,000,000 in new secured and/or unsecured debt during 2017 for general corporate purposes including, but not limited to, working capital, retirement of short-term debt, retirement of long-term debt, capital improvements and acquisitions, excluding the $70,000,000 Unsecured Senior Note mentioned in section 4(a)11 of this Petition. 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 up to $275,000,000 during 2017.

Chesapeake is also requesting authority to issue up to 2,000,000 shares of Chesapeake preferred stock in 2017, for possible acquisitions, financing transactions, and other general corporate purposes, including potential distribution under the Company's Shareholder Rights Agreement ("Rights Agreement") adopted by the Board of Directors on August 20, 1999, and subsequently, modified and extended by the Board of Directors on September 12, 2008. On September 12, 2008, the Board extended the expiration of the Rights from August 20, 2009 to August 20, 2019 and increased the Exercise Price per share from $54.56 to $105. Adjusted for the 3-for-2 stock split effected on September 8, 2014, the current Exercise Price is $70 per share. A copy of the First Amendment to Rights Agreement and Securities and Exchange Commission Form 8-K pursuant to Chesapeake Utilities Corporation's First Amendment to Rights Agreement has been previously filed with the FPSC within Exhibit D of the Application by Chesapeake Utilities Corporation for Authorization to Issue Common Stock, Preferred Stock and Secured and/or Unsecured Debt, and to Enter into Agreements for Interest Rate Swap Products, Equity Products and Other Financial Derivatives and to Exceed Limitation Placed on Short-Term Borrowings in 2009, Docket No. 080635-GU, dated November 19, 2009, and is hereby incorporated by reference.

Chesapeake further seeks FPSC approval to enter into financial agreements with institutions in 2017 to negotiate and execute financial derivatives enabling the Company to lock in its future financing costs and minimize its risk. A financial derivative is a risk-shifting agreement, the value of which is derived from the value of an underlying asset. The underlying asset could be a physical commodity, an interest rate, a company's stock, a stock index, a currency, or virtually any other tradable instrument upon which two parties can agree. A financial derivative can be used for hedging, protecting against financial risk, or can be used to speculate on the movement of commodity or security prices, interest rates or the levels of financial indices. Financial derivatives fall into two categories. One consists of customized, privately negotiated derivatives, referred to as over-the-counter (OTC) derivatives or swaps. The other category consists of standardized, exchangeable derivatives, known generically as futures. In addition, there are various types of products within each of the two categories. The Company has attempted to identify below some of the financial derivatives that the Company may evaluate in 2017, 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 $150,000,000.

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

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, 2016, the RSP had 799 active participants; a total market valuation of approximately $113,539,187 (including 620,004 shares of the Company's common stock with a value of $41,031,818). Chesapeake's 401k Plan was amended to be a "safe harbor" plan. Effective January 1, 2011 the Company matches 100% of the participants' contributions up to six percent of the eligible compensation in cash and any supplemental contributions will generally be made in Chesapeake stock. Prior to January 1, 2011 the Company match was primarily made in Chesapeake stock. In conjunction with the adoption of a "safe harbor" plan, the plan document was amended.

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 150,000 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 150,000 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 450,000 new shares of Chesapeake common stock for the purpose of administering the RSP. Please note that this Order by the Delaware Public Service Commission is also "open ended" in the sense that there is no time limit by which approved securities need to be issued. A copy of this Order has been previously filed with the FPSC as Exhibit E of the Consummation Report of Securities Issued by Chesapeake Utilities Corporation, Docket No. 991631-GU, dated March 29, 2001, and is hereby incorporated by reference. On May 4, 2010, the Delaware Public Service Commission issued Order No. 7769 approving the issuance of an additional 900,000 new shares of Chesapeake common stock for the purpose of administering the RSP. Please note that this Order by the Delaware Public Service Commission is also "open ended" in the sense that there is no time limit by which approved securities need to be issued. A copy of the order was previously filed with the FPSC as Exhibit C of Docket No. 100444-GU dated November 16, 2010. Pursuant to these Orders, Chesapeake has issued 806,963 new shares of common stock for the RSP as of June 30, 2016. Thus, there remains to be issued 843,037 shares as authorized by the Delaware Public Service Commission. The FPSC approved the issuance and sale of up to 105,000 shares of common stock for the Plan during 2016 by Order No. PSC-16-0083-FOF-GU issued on February 22, 2016. Chesapeake now seeks FPSC authorization to issue up to 105,000 new shares of Chesapeake common stock for the purpose of administering Chesapeake's Plan during 2017.

(b) On May 2, 2013, after receiving shareholder approval, the Board adopted the 2013 Stock and Incentive Compensation Plan ("SICP") for issuing equity compensation to its directors, to its officers and other key employees, and to its employees. The FPSC approved the issuance of up to 180,000 shares of common stock for the SICP during 2016 by Order No. PSC-16-0083-FOF-GU issued on February 22, 2016. Chesapeake is requesting FPSC authorization to issue up to 180,000 new shares of Chesapeake common stock for purposes of administering the SICP during 2017. The SICP will allow the Company to continue to provide a competitive compensation program that seeks to attract and retain exceptional executive officers, directors and employees of the Company and motivate those individuals responsible for the growth and success of the Company. The SICP also enhances stockholder value by linking a portion of compensation of executive officers, directors and employees of the Company to the increase in the price per share of its common stock and the achievement of other performance objectives and encourage ownership in the Company by key personnel whose long-term employment is considered essential to the Company's continued success and progress. On October 22, 2013, the Delaware Public Service Commission issued Order No. 8470 authorizing Chesapeake to issue up to 661,862 shares of common stock to administer the Company's SICP. Chesapeake has issued 122,488 new shares of common stock for the RSP as of June 30, 2016. Thus, there remains to be issued 539,374 shares as authorized by the Delaware Public Service Commission.

(f) 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, 2016, the DRP had 1,827 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 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 "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 450,000 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 1,125,000 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 1,125,000 shares of Chesapeake common stock for the purpose of administering Chesapeake's amended Dividend Reinvestment and Stock Purchase Plan. Please note that this Order by the Delaware Public Service Commission is "open ended" in the sense that there is no time limit by which the approved securities need to be issued. A copy of this Order has been previously filed with the FPSC within Exhibit C of the Consummation Report of Securities Issued by Chesapeake Utilities Corporation, Docket No. 030942-GU, dated March 22, 2005, and is hereby incorporated by reference. In addition, on December 16, 2008, Chesapeake filed a Registration Statement on Form S-3 with the Securities and Exchange Commission relating to the registration of 631,756 shares of the Company's common stock under the Dividend Reinvestment and Direct Stock Purchase Plan. The Registration Statement was declared effective by the Securities and Exchange Commission on January 5, 2009 and replaces the prior Registration Statement in place for the Plan that had previously expired. A copy of the Chesapeake Utilities Corporation Dividend Reinvestment and Direct Stock Purchase Plan as filed with the Securities and Exchange Commission on Registration Statement Form S-3 dated December 16, 2008 has previously been filed with the FPSC as Exhibit D of the Consummation Report of Securities Issued by Chesapeake Utilities Corporation, Docket No. 070640-GU, dated March 27, 2009, and is hereby incorporated by reference. Our current Registration Statement was filed December 12, 2014, for 790,769 shares, with the Securities and Exchange Commission and will expire at December 11, 2017.

Pursuant to the Orders above, Chesapeake has issued 1,127,688 new shares of common stock as of June 30, 2016. Thus, there remains to be issued 747,312 shares as authorized by the Delaware Public Service Commission. The FPSC approved the issuance and sale of up to 180,000 shares for the DRP during 2016 by Order No. PSC-16-0083-FOF-GU issued on February 22, 2016.

The Company now seeks FPSC approval to issue up to 180,000 new shares of Chesapeake common stock for the purpose of administering Chesapeake's amended Dividend Reinvestment and Stock Purchase Plan during 2017.

(h) Chesapeake now seeks FPSC approval to issue up to 2,500,000 shares of Chesapeake stock or an equity-linked instrument equivalent in value in 2017 to permanently finance Chesapeake's ongoing capital expenditure program. Financing for the Company's capital expenditure program is subject to continuous review and modification and is funded from short-term borrowings and cash provided by operating activities. The Company, in an effort to manage its capital structure, may, from time to time permanently finance through the issuance of common stock or an equity-linked instrument, as opposed to long-term debt. The FPSC approved the issuance of 2,500,000 shares of common stock for Chesapeake during 2016 by Order No. PSC-16-0083-FOF-GU issued on February 22, 2016.

(i) Chesapeake seeks FPSC authorization to issue during 2017 up to $200,000,000 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. The FPSC approved the issuance and sale of $200,000,000 in secured and/or unsecured long-term debt during 2016 by Order No. PSC-16-0083-FOF-GU issued on February 22, 2016. The remaining proceeds from this debt issuance would be used for general corporate purposes including, but not limited to, working capital, retirement of short-term debt, retirement of long-term debt and capital improvements. Each issue will be for some lawful object within the corporate purposes of the applicant and compatible with the public interest and is reasonably necessary or appropriate for such purpose.

(j) Chesapeake seeks further FPSC authorization to issue during 2017 up to an additional 5,000,000 shares of common stock and an additional $250,000,000 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 5,000,000 shares of common stock and $100,000,000 in secured and/or unsecured long-term debt for this purpose during 2016 by Order No. PSC-16-0083-FOF-GU issued on February 22, 2016.

(k) Chesapeake seeks FPSC authorization to issue up to 2,000,000 shares of Chesapeake preferred stock during 2017 for possible acquisitions, financing transactions, and other general corporate purposes, including potential distribution under the Company's Rights Agreement adopted by the Board of Directors on August 20, 1999. The Rights Agreement was subsequently modified and extended by the Board of Directors on September 12, 2008. Pursuant to the Board's actions, the expiration of the Rights was extended from August 20, 2009 to August 20, 2019 and the Exercise Price was increased per share from $54.56 to $105.00. Adjusted for the 3-for-2 stock split effected on September 8, 2014, the current Exercise Price is $70 per share. The Rights Agreement approved by the Board of Directors is designed to protect the value of the outstanding common stock in the event of an unsolicited attempt by an acquirer to take over the Company in a manner or on terms not approved by the Board of Directors. The Rights Agreement is not intended to prevent a takeover of the Company at a fair price and should not interfere with any merger or business combination approved by the Board of Directors. Copies of the Forms 8-A and 8-K filed with the Securities and Exchange Commission in conjunction with the Rights Agreement have been previously filed with the FPSC as Exhibit D of the Application by Chesapeake Utilities Corporation for Authorization to Issue Common Stock, Preferred Stock and Secured and/or Unsecured Debt and to Exceed Limitation Placed on Short-Term Borrowings in 2000, Docket No. 991631-GU, dated October 20, 1999, and are hereby incorporated by reference. A copy of the Company's First Amendment to the Rights Agreement and the Form 8-K filed with the Securities and Exchange Commission in conjunction with the First Amendment to the Rights Agreement has been previously filed with the FPSC as Exhibit D of the Application by Chesapeake Utilities Corporation for Authorization to Issue Common Stock, Preferred Stock and Secured and/or Unsecured Debt and to Enter into Agreements For Interest Rate Swap Products, Equity Products and Other Financial Derivatives and to Exceed Limitation Placed on Short-Term Borrowings in 2010, Docket No. 080635-GU, dated November 19, 2008, and are hereby incorporated by reference. As of June 30, 2016, 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 2016 Order No. PSC-16-0083-FOF-GU issued February 22, 2016.

(I) Chesapeake is requesting authority during 2017 to enter into an agreement for financial derivatives including, but not limited to Interest Rate

Swap Products, Equity Products, and/or other Financial Derivatives on such terms as Chesapeake considers appropriate provided that the notional amount(s) for said Interest Rate Swap Products, Equity Products, and/or other Financial Derivatives do not, in the aggregate, exceed the sum of $150,000,000. On July 9, 2002, the Delaware Public Service Commission issued Order No. 5989 approving the Company's application for approval of the issuance of certain long-term debt, and acknowledging that the Company was considering entering into, or utilizing Interest Rate Swap Products. While the Company does not consider such Interest Rate Swap Products, Equity Products, and/or other Financial Derivatives to involve the actual issuance of securities within the ambit of Section 366.04 (1), Florida Statutes, in an abundance of caution, Chesapeake requests such authority to the extent the FPSC considers Interest Rate Swap Products, Equity Products, and/or other Financial Derivatives subject to its jurisdiction. In the event that the FPSC does not consider Interest Rate Swap Products, Equity Products, and/or other Financial Derivatives to be jurisdictional, Chesapeake requests that that FPSC issue an Order acknowledging the Company's request and confirming the FPSC's absence of jurisdiction regarding these instruments.

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

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

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, Stock and Incentive Compensation Plan, Dividend Reinvestment and Stock Purchase Plan, 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. <u>Counsel:</u>

The legality of the common stock, preferred stock and debt issuances will be passed upon by William A. Denman, Esquire, Parkowski, Guerke and Swayze, P.A., 116 West Water Street, Dover, Delaware 19904, who will rely on Beth Keating, Esquire, Gunster, Yoakley & Stewart, Suite 601, 215 South Monroe Street, Tallahassee, Florida 32301, as to matters of Florida law.

9. <u>Other Regulatory Agencies:</u>

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: Robert Howatt

10. <u>Control or ownership:</u>

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

11. <u>Exhibits:</u>

Filed herewith:

Exhibit A: Exhibit A consists of the following attachments:

A (1) Chesapeake Utilities Corporation Annual Report on Form 10-K (A) for the year ended December 31, 2015.

A (2) Chesapeake Utilities Corporation Quarterly Report on Form 10-Q for the quarter ended June 30, 2016.

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 2017 to issue up to 7,965,000 shares of common stock, up to 2,000,000 shares of preferred stock, and up to $450,000,000 of secured and/or unsecured debt, and authorizing it to enter into agreements up to $150,000,000 in Interest Rate Swap Products, Equity Products and other Financial Derivatives.

Respectfully submitted,

Date: 12/13/2016

Beth Keating

Beth Keating, Esquire
Gunster, Yoakley & Stewart, P.A.
Suite 601
215 South Monroe Street
Tallahassee, Florida 32301
(850) 521-1706

Attorneys for
Chesapeake Utilities Corporation

STATE OF DELAWARE *

*

COUNTY OF KENT * SS

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

Beth W. Cooper

Beth W. Cooper
Senior Vice President and Chief Financial Officer

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

Notary Public
My Commission Expires: June 2, 2019

CONNIE PAPAFIO OSEI
NOTARY PUBLIC
STATE OF DELAWARE
My Commission Expires June 2, 2019

EXHIBITS

A (1)	Chesapeake Utilities Corporation Annual Report on Form 10-K for the year ended December 31, 2015.
A (2)	Chesapeake Utilities Corporation Quarterly Report on Form 10-Q for the quarter ended June 30, 2016.

10-K 1 cpk1231201510-k.htm 10-K

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the Fiscal Year Ended: December 31, 2015

Commission File Number: 001-11590

CHESAPEAKE UTILITIES CORPORATION

(Exact name of registrant as specified in its charter)

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

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

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

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

Title of each class	Name of each exchange on which registered
Common Stock—par value per share $0.4867	New York Stock Exchange, Inc.

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒. No ☐.

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendments to this Form 10-K. ☐

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

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

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

The aggregate market value of the common shares held by non-affiliates of Chesapeake Utilities Corporation as of June 30, 2015, 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 $781.9 million.

The number of shares of Chesapeake Utilities Corporation Inc.'s common stock outstanding as of February 17, 2016 was 15,276,316.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the 2016 Annual Meeting of Stockholders are incorporated by reference in Part II and Part III.

CHESAPEAKE UTILITIES CORPORATION

FORM 10-K

YEAR ENDED DECEMBER 31, 2015

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GLOSSARY OF DEFINITIONS

401(k) SERP: Supplemental Executive Retirement Savings Plan, which was subsequently merged into the Non-Qualified Deferred Compensation Plan

AFUDC: Allowance for funds used during construction

ASC: Accounting Standards Codification

ASU: Accounting Standards Update

Anderson Gas: Anderson Gas Service, Inc., a small propane distribution company located in Florida

Aspire Energy: Aspire Energy of Ohio, LLC, a wholly-owned subsidiary of Chesapeake Utilities, into which Gatherco merged on April 1, 2015

Austin Cox: Austin Cox Home Services, Inc., a wholly-owned subsidiary of Chesapeake Utilities, providing heating, ventilation and air conditioning, plumbing and electrical services

BravePoint: BravePoint, Inc., the former advanced information services subsidiary of Chesapeake Utilities, headquartered in Norcross, Georgia, which was sold on October 1, 2014

CDD: Cooling degree-day, which is the measure of the variation in weather based on the extent to which the daily average temperature (from 10:00 am to 10:00 am) is above 65 degrees Fahrenheit

Chesapeake or Chesapeake Utilities: Chesapeake Utilities Corporation, its divisions and subsidiaries, as appropriate in the context of the disclosure

Chesapeake Onsight Services: Chesapeake Onsight Services, LLC, a wholly-owned subsidiary of Chesapeake Utilities

Chesapeake Pension Plan: A defined benefit pension plan sponsored by Chesapeake Utilities

Chesapeake Postretirement Plan: An unfunded postretirement health care and life insurance plan sponsored by Chesapeake Utilities

Chesapeake SERP: An unfunded supplemental executive retirement pension plan sponsored by Chesapeake Utilities

Chesapeake Service Company: Chesapeake Service Company, a wholly-owned subsidiary of Chesapeake Utilities and the parent company of Skipjack, CIC and ESRE

CHP: A combined heat and power plant being constructed by Eight Flags in Nassau County, Florida

CIC: Chesapeake Investment Company, a wholly-owned subsidiary of Chesapeake Service Company, which is an investment company incorporated in Delaware

Columbia: Columbia Gas Transmission, LLC

Company: Chesapeake Utilities Corporation, its divisions and subsidiaries, as appropriate in the context of the disclosure

Credit Agreement: An agreement between Chesapeake Utilities and the Lenders related to the Revolver

Deferred Compensation Plan: A non-qualified, deferred compensation arrangement under which certain of our executives and members of the Board of Directors are able to defer payment of all or a part of certain specified types of compensation, including executive cash bonuses, executive performance shares, and directors' retainers and fees; this Plan was subsequently merged into the Non-Qualified Deferred Compensation Plan

Delmarva Peninsula: A peninsula on the east coast of the United States of America occupied by Delaware and portions of Maryland and Virginia

Dodd-Frank Act: The Dodd-Frank Wall Street Reform and Consumer Protection Act

DNREC: Delaware Department of Natural Resources and Environmental Control

Dt: Dekatherm, which is a natural gas unit of measurement that includes a standard measure for heating value

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Dts/d: Dekatherms per day

Eastern Shore: Eastern Shore Natural Gas Company, a wholly-owned natural gas transmission subsidiary of Chesapeake Utilities

EGWIC: Eastern Gas & Water Investment Company, LLC, an affiliate of Eastern Shore Gas Company

Eight Flags: Eight Flags Energy, LLC, a subsidiary of Chesapeake Onsight Services

EPA: United States Environmental Protection Agency

ESG: Eastern Shore Gas Company and its affiliates

ESRE: Eastern Shore Real Estate, Inc., a wholly-owned subsidiary of Chesapeake Utilities that owns and leases office buildings in Delaware and Maryland to divisions and subsidiaries of Chesapeake Utilities

FASB: Financial Accounting Standards Board

FERC: Federal Energy Regulatory Commission, an independent agency of the United States government that regulates the interstate transmission of electricity, natural gas, and oil

FDEP: Florida Department of Environmental Protection

FDOT: Florida Department of Transportation

FGT: Florida Gas Transmission Company

Flo-gas: Flo-gas Corporation, a wholly-owned subsidiary of FPU

Fort Meade: The natural gas system purchased by FPU from the City of Fort Meade, Florida

FPU: Florida Public Utilities Company, a wholly-owned subsidiary of Chesapeake Utilities

FPU Medical Plan: A separate unfunded postretirement medical plan for FPU sponsored by Chesapeake Utilities

FPU Pension Plan: A separate defined benefit pension plan for FPU sponsored by Chesapeake Utilities

GAAP: Accounting principles generally accepted in the United States of America

Gatherco: Gatherco, Inc.

GRIP: The Gas Reliability Infrastructure Program, a natural gas pipeline replacement program in Florida, pursuant to which we collect a surcharge from certain of our Florida customers to recover capital and other program-related costs associated with the replacement of qualifying distribution mains and services in Florida

GSR: Gas Service Rates

Gulf: Columbia Gulf Transmission Company

Gulf Power: Gulf Power Company

Gulfstream: Gulfstream Natural Gas System, LLC

HDD: Heating degree-day, which is a measure of the variation in weather based on the extent to which the daily average temperature (from 10:00 am to 10:00 am) is below 65 degrees Fahrenheit

IGC: Indiantown Gas Company

IRS: Internal Revenue Service

JEA: The community-owned utility located in Jacksonville, Florida, formerly known as Jacksonville Electric Authority

Lenders: PNC, Bank of America, N.A., Citizens Bank N.A., Royal Bank of Canada, and Wells Fargo Bank, National Association, which are collectively the lenders that entered into the Credit Agreement with Chesapeake Utilities on October 8, 2015

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MDE: Maryland Department of Environment

MGP: Manufactured gas plant, which is a site where coal was previously used to manufacture gaseous fuel for industrial, commercial and residential use

MWH: Megawatt hour, which is a unit of measurement for electricity

NAM: Natural Attenuation Monitoring

Non-Qualified Deferred Compensation Plan: A non-qualified, deferred compensation arrangement under which certain of our executives and members of the Board of Directors are able to defer payment of all or a part of certain specified types of compensation, including executive base compensation, executive cash bonuses, executive performance shares, and directors' retainers and fees

Note Agreement: Note Purchase Agreement entered into by Chesapeake Utilities with the Note Holders on September 5, 2013

Note Holders: PAR U Hartford Life & Annuity Comfort Trust, The Prudential Insurance Company of America, The Gibraltar Life Insurance Co., Ltd., The Penn Mutual Life Insurance Company, Thrivent Financial for Lutherans, United of Omaha Life Insurance Company, and Companion Life Insurance Company, which are collectively the lenders that entered into the Note Agreement with Chesapeake Utilities on September 5, 2013

NYSE: New York Stock Exchange

OPT ≤ 90 Service: Off Peak ≤ 90 Firm Transportation Service, a new tariff associated with Eastern Shore's firm transportation service that enables Eastern Shore to forego scheduling service for up to 90 days during the peak months of November through April each year

OTC: Over-the-counter

Peninsula Pipeline: Peninsula Pipeline Company, Inc., Chesapeake Utilities' wholly-owned Florida intrastate pipeline subsidiary

Peoples Gas: The Peoples Gas System division of Tampa Electric Company

PESCO: Peninsula Energy Services Company, Inc., Chesapeake Utilities' wholly-owned natural gas marketing subsidiary

PNC: PNC Bank, National Association, the administrative agent and primary lender for our Revolver

Prudential: Prudential Investment Management Inc., an institutional investment management firm, with which we have entered into the Shelf Agreement for the future purchase of our Shelf Notes

PSC: Public Service Commission, which is the state agency that regulates the rates and services of Chesapeake Utilities' natural gas and electric distribution operations in Delaware, Maryland and Florida and Peninsula Pipeline in Florida

RAP: Remedial Action Plan, which is a plan that outlines the procedures taken or being considered in removing contaminants from a MGP formerly owned by Chesapeake Utilities or FPU

Rayonier: Rayonier Performance Fibers, LLC

Retirement Savings Plan: Chesapeake Utilities' qualified 401(k) retirement savings plan

Revolver: The unsecured revolving credit facility issued to us by the Lenders

Sandpiper: Sandpiper Energy, Inc., a wholly-owned subsidiary of Chesapeake Utilities, providing a tariff-based distribution service to customers in Worcester County, Maryland

Sanford Group: FPU and other responsible parties involved with the Sanford environmental site

SEC: Securities and Exchange Commission

Senior Notes: Our unsecured long-term debt primarily issued to insurance companies on various dates

Series A Notes: Series A of the Senior Notes issued on December 16, 2013 pursuant to the Note Agreement

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Series B Notes: Series B of the Senior Notes issued on May 15, 2014 pursuant to the Note Agreement

Sharp: Sharp Energy, Inc., Chesapeake Utilities' wholly-owned propane distribution subsidiary

Sharpgas: Sharpgas, Inc., a subsidiary of Sharp

Shelf Agreement: An agreement entered into between Chesapeake Utilities and Prudential pursuant to which we may request that Prudential purchase, over the next three years, up to $150.0 million of Shelf Notes at a fixed interest rate and with a maturity date not to exceed twenty years from the date of issuance.

Shelf Notes: Unsecured senior promissory notes that we may request Prudential to purchase under the Shelf Agreement

SICP: 2013 Stock and Incentive Compensation Plan

SIR: A system improvement rate adder designed to fund system expansion costs within the city limits of Ocean City, Maryland

Skipjack: Skipjack, Inc. a wholly-owned subsidiary of Chesapeake Service Company that owns and leases office buildings in Delaware and Maryland to affiliates of Chesapeake Utilities

S&P 500 Index: Standard & Poor's 500 Index

TETLP: Texas Eastern Transmission, LP

Transco: Transcontinental Gas Pipe Line Company, LLC

Xeron: Xeron, Inc., Chesapeake Utilities' wholly-owned propane wholesale marketing subsidiary, based in Houston, Texas

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PART I

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

Safe Harbor for Forward-Looking Statements

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

- state and federal legislative and regulatory initiatives (including deregulation) that affect cost and investment recovery, have an impact on rate structures, and affect the speed at, and the degree to which competition enters the electric and natural gas industries;
- the outcomes of regulatory, tax, environmental and legal matters, including whether pending matters are resolved within current estimates and whether the costs associated with such matters are adequately covered by insurance or recoverable in rates;
- the timing of certification authorizations;
- the loss of customers due to a government-mandated sale of our utility distribution facilities;
- industrial, commercial and residential growth or contraction in our markets or service territories;
- the weather and other natural phenomena, including the economic, operational and other effects of hurricanes, ice storms and other damaging weather events;
- the timing and extent of changes in commodity prices and interest rates;
- general economic conditions, including any potential effects arising from terrorist attacks and any hostilities or other external factors over which we have no control;
- changes in environmental and other laws and regulations to which we are subject and environmental conditions of property that we now or may in the future own or operate;
- the capital intensive nature of our regulated energy businesses;
- the results of financing efforts, including our ability to obtain financing on favorable terms, which can be affected by various factors, including credit ratings and general economic conditions;
- the impact on our cost and funding obligations under our pension and other post retirement benefit plans of potential downturns in the financial markets, lower discount rates, and costs associated with the Patient Protection and Affordable Care Act;
- the creditworthiness of counterparties with which we are engaged in transactions;
- the extent of our success in connecting natural gas and electric supplies to transmission systems and in expanding natural gas and electric markets;
- the ability to continue to hire, train and retain appropriately qualified personnel;
- conditions of the capital markets and equity markets during the periods covered by the forward-looking statements;
- the ability to successfully execute, manage and integrate merger, acquisition or divestiture plans; regulatory or other limitations imposed as a result of a merger, acquisition or divestiture, and the success of the business following a merger, acquisition or divestiture;
- the ability to establish and maintain new key supply sources;
- the effect of spot, forward and future market prices on our various energy businesses;
- the effect of competition on our businesses;
- the ability to construct facilities at or below estimated costs;
- possible increased federal, state and local regulation of the safety of our operations;
- the inherent hazards and risks involved in our energy businesses;
- the effect of accounting pronouncements issued periodically by accounting standard-setting bodies; and
- risks related to cyber-attacks that could disrupt our business operations or result in failure of information technology systems.

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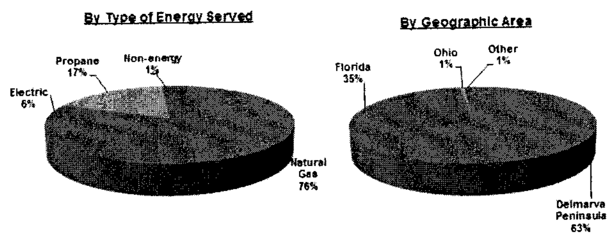
ITEM 1. BUSINESS.

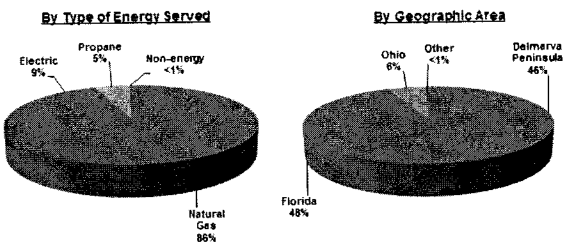
CORPORATE OVERVIEW

Chesapeake Utilities Corporation is a Delaware corporation formed in 1947. We are a diversified energy company engaged, through our operating divisions and subsidiaries, in various energy and other businesses. We operate primarily on the Delmarva Peninsula and in Florida, Pennsylvania and Ohio, providing natural gas distribution and transmission, natural gas supply, gathering and processing, electric distribution and propane distribution service. The core of our business is regulated energy services, which provides stable earnings through our utility operations. Our unregulated businesses provide opportunities to achieve returns greater than those of a traditional utility. The following charts present operating income by type of energy served and geographic area for the year ended December 31, 2015 and average investment by type of energy served and geographic area as of December 31, 2015.

Operating Income by Energy Served and Geographic Area



Average Investment by Energy Served and Geographic Area



OPERATING SEGMENTS

We operate within two reportable segments: Regulated Energy and Unregulated Energy.

The Regulated Energy segment includes our natural gas distribution, natural gas transmission and electric distribution operations. All operations in this segment are regulated, as to their rates and service, by the PSC having jurisdiction in each state in which we operate or by the FERC in the case of Eastern Shore.

The Unregulated Energy segment includes our propane distribution, propane wholesale marketing, natural gas marketing and natural gas supply, gathering and processing services, which are unregulated as to their rates and services. Also included in this segment are other unregulated energy services, such as energy-related merchandise sales and heating, ventilation and air conditioning plumbing and electrical services. In the future, our Unregulated Energy segment will include electricity and steam generation services from the CHP plant we are currently constructing in Nassau County, Florida. The revenues from these services will be included in the Unregulated Energy segment.

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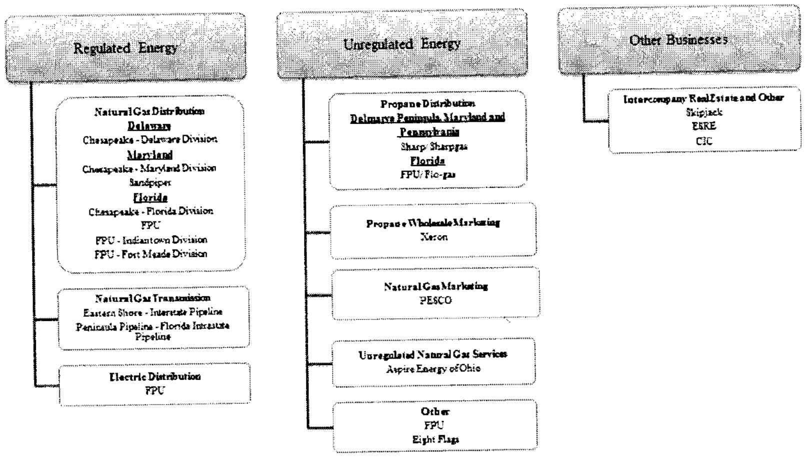
The remainder of our operations is presented as "Other businesses and eliminations". Prior to September 30, 2014, our business included a third segment, "Other", which consisted primarily of BravePoint, our former advanced information services subsidiary. On October 1, 2014, we sold BravePoint. "Other businesses and eliminations" now solely consists of unregulated subsidiaries that own real estate leased to Chesapeake Utilities, as well as certain corporate costs not allocated to other operations.

The following chart shows our principal business structure by segment and other businesses:



The following table shows the size of each of our operating segments and other businesses based on operating income for the year ended December 31, 2015 and total assets as of December 31, 2015:

(dollars in thousands)	Operating Income		Total Assets	
Regulated Energy	$ 60,985	78%	$ 870,559	82%
Unregulated Energy	16,355	21%	172,803	16%
Other businesses	418	1%	25,224	2%
Total	$ 77,758	100%	$ 1,068,586	100%

Additional financial information by business segment is set forth in *Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operation,* and *Item 8, Financial Statements and Supplementary Data* (see Note 5, *Segment Information,* in the Consolidated Financial Statements).

REGULATED ENERGY

Overview of Business

Regulated Energy is our largest segment and consists of: (i) our natural gas distribution operations in Delaware, Maryland and Florida; (ii) our electric distribution operation in Florida; and (iii) our natural gas transmission operations on the Delmarva Peninsula and in Florida. Our natural gas and electric distribution operations, which are local distribution utilities, generate revenues based on tariff rates approved by the PSC of each state in which we operate. The PSCs have also authorized our utilities to negotiate rates, based on approved methodologies, with customers that have competitive alternatives. Some of our customers in Maryland are currently served with propane under PSC-approved tariff rates as we prepare to convert some of our underground propane distribution system customers to natural gas. These customers are included in the Delmarva natural gas distribution operation.

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Eastern Shore, our interstate natural gas transmission subsidiary, bills its customers based upon the FERC-approved tariff rates. Eastern Shore is also authorized by the FERC to negotiate rates above or below the FERC-approved tariff rates. Peninsula Pipeline, our Florida intrastate pipeline subsidiary, is subject to regulation by the Florida PSC, and has negotiated contracts with third-party customers and with certain affiliates. Our rates are designed to provide the opportunity to generate revenues to recover all prudently incurred costs and provide a return on rate base sufficient to pay interest on debt and a reasonable return for our stockholders. Rate base generally consists of the original cost of utility plant less accumulated depreciation on utility plant in service, working capital and certain other assets and, depending upon the particular regulatory jurisdiction, may also include deferred income tax liabilities and other additions or deletions.

The natural gas commodity market for Chesapeake Utilities' Florida division and FPU's Indiantown division is deregulated. Accordingly, marketers, rather than a traditional utility, sell natural gas to end-use customers in those jurisdictions. For all of our other local distribution utilities, we have fuel cost recovery mechanisms authorized by the PSCs that allow us to periodically adjust fuel rates to reflect changes in the wholesale cost of natural gas and electricity and to ensure we recover all of the costs prudently incurred in purchasing natural gas and electricity for our customers.

Weather

Revenues from our residential and commercial sales are affected by seasonal variations in weather conditions, which directly influence the volume of natural gas and electricity sold and delivered. Specifically, customer demand substantially increases during the winter months, when natural gas and electricity are used for heating. For electricity, customer demand also increases during the summer months, when electricity is used for cooling. Accordingly, the volumes sold for these purposes are directly affected by the severity of summer and winter weather and can vary substantially from year to year. We measure the relative impact of weather by using an accepted degree-day methodology. Degree-day data is used to estimate amounts of energy required to maintain comfortable indoor temperature levels based on each day's average temperature. A degree-day is the measure of the variation in the weather based on the extent to which the average daily temperature (from 10:00 am to 10:00 am) falls above or below 65 degrees Fahrenheit. Each degree of temperature below 65 degrees Fahrenheit is counted as one heating degree-day. Each degree of temperature above 65 degrees Fahrenheit is counted as one cooling degree-day. Normal heating degree-days are based on the most recent 10-year average.

In an effort to stabilize the level of net revenues collected from customers of Chesapeake Utilities' Maryland division regardless of weather conditions, Chesapeake Utilities' Maryland division's rates include a weather normalization adjustment for residential heating and smaller commercial heating customers. A weather normalization adjustment is a billing adjustment mechanism (or "decoupled" rate mechanism) that is designed to eliminate the effect of deviations from average seasonal temperatures on utility net revenues. We do not currently have any weather normalization or "decoupled" rate mechanisms for our other local distribution utilities. We recently filed for approval of a weather normalization adjustment by the Delaware PSC for Chesapeake Utilities' Delaware division and by the Maryland PSC for Sandpiper, see Item 8, *Financial Statements and Supplementary Data* (Note 18, *Rates and Other Regulatory Activities*, in the Consolidated Financial Statements) for more information.

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Operational Highlights

The following table presents operating revenues, volume and average customers by customer class for our natural gas and electric distribution operations for the year ended December 31, 2015:

(in thousands)	Delmarva Natural Gas Distribution[2]		Florida Natural Gas Distribution[3]		FPU Electric Distribution	
Operating Revenues						
Residential	$ 63,745	61 %	$ 27,945	32 %	$ 46,686	59 %
Commercial	33,776	33 %	31,116	36 %	42,585	54 %
Industrial	7,214	7 %	21,988	25 %	3,111	4 %
Other[1]	(1,175)	(1)%	5,512	7 %	(12,954)	(17)%
Total Operating Revenues	$ 103,560	100 %	$ 86,561	100 %	$ 79,428	100 %
Volume ***(in Dts for natural gas/MWHs for electric)***						
Residential	3,734,888	31 %	1,575,038	6 %	303,642	48 %
Commercial	3,696,839	30 %	7,834,533	32 %	313,757	49 %
Industrial	4,617,183	38 %	14,990,843	62 %	18,880	3 %
Other	82,655	1 %	(84,763)	— %	(1,740)	— %
Total	12,131,565	100 %	24,315,651	100 %	634,539	100 %
Average Customers						
Residential	63,901	90 %	66,900	90 %	24,039	76 %
Commercial	6,637	9 %	5,609	8 %	7,389	24 %
Industrial	118	1 %	1,702	2 %	2	— %
Other	5	— %	—	— %	—	— %
Total	70,661	100 %	74,211	100 %	31,430	100 %

[1] Operating Revenues from "Other" sources include unbilled revenue, under (over) recoveries of fuel cost, conservation revenue, other miscellaneous charges, fees for billing services provided to third parties, and adjustments for pass-through taxes.
[2] Delmarva natural gas distribution operation includes Chesapeake Utilities' Delaware and Maryland divisions in addition to Sandpiper.
[3] Florida natural gas distribution operation includes Chesapeake Utilities' Florida division, FPU and FPU's Indiantown and Fort Meade divisions.

The following table presents operating revenues and design day capacity for Eastern Shore for the year ended December 31, 2015 and contracted firm transportation capacity at December 31, 2015:

(in thousands)	Eastern Shore	
Operating Revenues		
Local distribution companies - affiliated[1]	$ 18,320	39%
Local distribution companies - non-affiliated	9,485	20%
Commercial and industrial	18,995	41%
Other[2]	44	—%
Total Operating Revenues	$ 46,844	100%
Contracted firm transportation capacity ***(in Dts/d)***		
Local distribution companies - affiliated	101,152	43%
Local distribution companies - non-affiliated	67,293	28%
Commercial and industrial	67,923	29%
Total	236,368	100%
Designed day capacity ***(in Dts/d)***	236,368	100%

[1] Eastern Shore's service to our local distribution affiliates is based on FERC-approved rates and is an integral component of the cost associated with providing natural gas supplies for those affiliates. We eliminate operating revenues of Eastern Shore against the cost of sales of those affiliates in our consolidated financial information; however, our local distribution affiliates include this amount in their purchased fuel cost and recover it through fuel cost recovery mechanisms.
[2] Operating revenues from "Other" sources are from the rental of gas properties.

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Peninsula Pipeline contracts with both affiliated and non-affiliated customers to provide firm transportation service. All of the contracts provide a fixed annual transportation fee. For the year ended December 31, 2015, operating revenues of Peninsula Pipeline were $5.1 million, $3.8 million of which were related to service to FPU under a contract with FPU, which was previously approved by the Florida PSC. Peninsula Pipeline's operating revenue from FPU is eliminated against the cost of sales in consolidation; however, FPU includes this amount in its purchased fuel cost and recovers it through the fuel cost recovery mechanism.

Regulatory Matters

The following table highlights the key regulatory structure and the most recent base rate proceeding information for each of our major utilities:

	Chesapeake Utilities - Delaware Division	Chesapeake Utilities - Florida Division	FPU Natural Gas	FPU Electric	Chesapeake Utilities - Maryland Division	Eastern Shore	Sandpiper
Commission Structure:	5 commissioners	5 commissioners	5 commissioners	5 commissioners	5 commissioners	5 commissioners	5 commissioners
	Part-Time	Full-Time	Full-Time	Full-Time	Full-Time	Full-Time	Full-Time
	Gubernatorial Appointment	Gubernatorial Appointment	Gubernatorial Appointment	Gubernatorial Appointment	Gubernatorial Appointment	Presidential Appointment	Gubernatorial Appointment
Regulatory Jurisdiction:	Delaware PSC	Florida PSC	Florida PSC	Florida PSC	Maryland PSC	FERC	Maryland PSC
Base Rate Proceeding:							
Delay in collection of rates subsequent to filing application	60 days	90 days	90 days	90 days	180 days	Up to 180 days	180 days
Application date associated with the most recent permanent rates	7/6/2007 [1]	7/14/2009	12/17/2008	4/28/2014	5/1/2006	12/30/2010	N/A [1]
Effective date of permanent rates	9/30/2008 [1]	1/14/2010	1/14/2010 [2]	11/1/2014	12/1/2007	7/29/2011	N/A [1]
Rate increase (decrease) approved	$325,000 [1]	$2,536,300	$7,969,000	$3,750,000	$648,000	$805,000	N/A [1]
Rate of return approved	10.25% [1][3]	10.80% [3]	10.85% [3]	10.25% [3]	10.75% [3]	13.90% [4]	N/A [1]

[1] We filed base rate proceedings for Chesapeake Utilities' Delaware division and Sandpiper on December 21, 2015 and December 1, 2015, respectively. See *Item 8, Financial Statements and Supplementary Data* (Note 18, *Rates and Other Regulatory Activities*, in the Consolidated Financial Statements) for more information.

[2] The effective date of the order approving the settlement agreement, which adjusted the rates originally approved on June 4, 2009.

[3] Allowed return on equity.

[4] Allowed pre-tax, pre-interest rate of return.

As of December 31, 2015, our investments in our regulated operations were as follows: $112.7 million for Delmarva natural gas distribution; $251.0 million for Florida natural gas and electric distribution; and $166.3 million for natural gas transmission.

The terms of the settlement agreement for the FPU electric division rate case prescribe an authorized return on equity range of 9.25 to 11.25 percent, with a mid-point of 10.25 percent. In addition, the FPU electric division cannot file for a base rate increase prior to December 2016, unless its allowed return on equity falls below the authorized range. If the allowed return on equity exceeds the authorized range, the Office of the Public Counsel can seek a rate decrease.

The terms of the settlement agreement in Eastern Shore's most recent base rate proceeding provided a five-year moratorium (which will end on December 31, 2016) on Eastern Shore's right to file a base rate increase and other parties' rights to challenge Eastern Shore's rates. However, Eastern Shore is allowed to file for rate adjustments during those five years in the event certain costs related to government-mandated obligations are incurred and Eastern Shore's pre-tax earnings do not equal or exceed 13.90 percent. Eastern Shore is also required to file a base rate proceeding by January 2017.

In May 2013, the Maryland PSC approved our application to acquire the ESG operating assets to transfer the ESG franchises to Sandpiper. The Maryland PSC also approved a new gas service tariff and rates applicable to natural gas and propane distribution customers in Worcester County, Maryland, and directed that Sandpiper file a base rate proceeding within two and one-half years. This proceeding was filed on December 1, 2015.

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In addition to the base rates approved by the PSCs, certain of our local distribution utilities have additional surcharge mechanisms, which were separately approved by their respective PSC. The most notable surcharge mechanisms include Delaware's surcharge to increase the availability of natural gas in portions of eastern Sussex County, Delaware; Maryland's surcharge designed to recover the costs associated with conversions to natural gas and to improve infrastructure in Worcester County, Maryland; and Florida's GRIP surcharge designed to recover capital and other costs, inclusive of an appropriate return on investment, associated with accelerating the replacement of qualifying distribution mains.

See Item 8, *Financial Statements and Supplementary Data* (Note 18, *Rates and Other Regulatory Activities*, in the Consolidated Financial Statements) for more information.

Competition

Our natural gas and electric distribution operations and our natural gas transmission operations compete with other forms of energy, including natural gas, electricity, oil, propane and other alternative sources of energy. The principal competitive factors are price and, to a lesser extent, accessibility. Our natural gas distribution operations have several large industrial customers that are able to use fuel oil or propane as an alternative to natural gas. When oil or propane prices decline, these interruptible customers may convert to an alternative fuel source to satisfy their fuel requirements, and our sales volumes may decline. To address the uncertainty of alternative fuel prices, we use flexible pricing arrangements on both the supply and sales sides of our business to compete with alternative fuel price fluctuations.

Large industrial natural gas customers may be able to bypass our distribution and transmission systems and make direct connections with "upstream" interstate transmission pipelines when such connections are economically feasible. Certain large industrial electric customers may be capable of generating electricity for their own consumption. Although the risk of bypassing our systems is not considered significant, we may adjust services and rates for these customers to retain their business in certain situations.

Supplies, Transmission and Storage

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

Chesapeake Utilities' Delaware and Maryland divisions use their firm transportation resources to meet a significant percentage of their projected demand requirements. They purchase firm natural gas supplies to meet those projected requirements with purchases of base load, daily spot supplies and storage service. They have both firm and interruptible transportation service contracts with four interstate "open access" pipeline companies (Eastern Shore, Transco, Columbia and TETLP) in order to meet customer demand. Their distribution system is directly interconnected with Eastern Shore's pipeline, which is directly interconnected with the upstream pipelines of Transco, Columbia and TETLP.

Chesapeake Utilities' Delaware division has 72,254 Dts of maximum daily firm transportation capacity with Eastern Shore through contracts expiring on various dates between 2016 and 2028. It also has a total of 66,483 Dts of maximum daily firm transportation capacity with three upstream pipelines through contracts expiring between 2016 and 2028. Chesapeake Utilities' Maryland division has 26,448 Dts/d of maximum firm transportation capacity with Eastern Shore through contracts expiring on various dates between 2016 and 2027 and a total of 26,228 Dts/d of maximum firm transportation capacity with three upstream pipelines through contracts expiring between 2016 and 2027. The Delaware and Maryland divisions also have the capability to use propane-air peak-shaving equipment to supplement or displace natural gas purchases.

Chesapeake Utilities' Delaware and Maryland divisions contract with an unaffiliated energy marketing and risk management company through an asset management agreement to optimize their transportation and storage capacity and secure an adequate supply of natural gas. Pursuant to the asset management agreement, the asset manager pays our divisions a fee, which our divisions share with their customers. The current asset management agreement expires in March 2017.

Sandpiper is a party to a capacity, supply and operating agreement with EGWIC to purchase propane over a six-year term. Approximately three years remain under this contract. Sandpiper's current annual commitment is estimated at approximately 6.5 million gallons. Sandpiper also has 2,450 Dts of maximum daily firm transportation capacity available from Eastern Shore through contracts expiring on various dates between 2016 and 2027.

In 2015, Chesapeake Utilities' Florida division's previous two firm transportation service agreements with FGT were consolidated under FPU's firm transportation agreements. Chesapeake Utilities' Florida division has a firm transportation service agreement with Gulfstream for firm transportation capacity of 10,000 Dts/d until May 2022. Pursuant to a program approved by the Florida PSC, all of the capacity under this agreement has been released to various third parties, including PESCO. Under the terms of these capacity release agreements, we are contingently liable to Gulfstream, if any party that acquired the capacity through release fails to pay the capacity charge.

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FPU has firm transportation service agreements with FGT, Florida City Gas and Peninsula Pipeline, ranging from 52,455 to 81,056 Dts/d. These agreements expire on various dates between 2020 and 2035. FPU uses gas marketers and producers to procure all of its gas supplies to meet projected requirements. FPU also uses Peoples Gas to provide wholesale gas sales service in areas far from FPU's interconnections with FGT.

Eastern Shore has three agreements with Transco for a total of 7,292 Dts/d of firm daily storage injection and withdrawal entitlements and total storage capacity of 288,003 Dts. These agreements expire on various dates between 2018 and 2023. Eastern Shore retains these firm storage services in order to provide swing transportation service and firm storage service to customers requesting such services.

FPU currently purchases its wholesale electricity primarily from two suppliers, JEA and Gulf Power, under full requirements contracts expiring in December 2017 and 2019, respectively. The JEA contract provides generation and transmission service to northeast Florida. The Gulf Power contract provides generation and transmission service to northwest Florida. FPU also has a renewable energy purchase agreement with Rayonier to purchase between 1.7 MWH and 3.0 MWH of electricity annually through 2036. In September 2014, FPU entered into an agreement with its affiliate, Eight Flags, to purchase up to 20 MWH of electricity from a CHP plant located in Nassau County, Florida, once construction of the plant is completed. Both agreements with Rayonier and Eight Flags will serve a portion of FPU's electric distribution customer load in northeast Florida.

UNREGULATED ENERGY

Our Unregulated Energy segment provides propane distribution, propane wholesale marketing, natural gas marketing, supply, gathering and processing and other unregulated energy-related services to customers. Revenues generated from this segment are not subject to any federal, state or local pricing regulations. Our businesses in this segment typically complement our regulated businesses by offering propane as a fuel source where natural gas is not readily available, or by providing natural gas marketing, supply, gathering and processing services to our customers. Through competitive pricing and supply management, these businesses provide the opportunity to generate returns greater than those of a traditional utility.

Propane Distribution

Our propane distribution operations sell propane primarily to residential, commercial/industrial and wholesale customers in Delaware, Maryland, Virginia and in southeastern Pennsylvania through Sharp and Sharpgas, and in Florida through FPU and Flo-gas. Many of our propane distribution customers are "bulk delivery" customers. We make deliveries of propane to the bulk delivery customers as needed, based on the level of propane remaining in the tank located at the customer's premises. We invoice and record revenues for our bulk delivery service customers at the time of delivery, rather than upon customers' actual usage, since the customers typically own the propane gas in the tanks on their premises. We also have underground propane distribution systems serving various neighborhoods and communities. Such customers are billed monthly based on actual consumption, which is measured by meters installed on their premises. In Florida, we also offer metered propane distribution service to residential and commercial customers. The customers' tanks are metered, and we read and bill the customers once a month.

Propane Distribution - Weather

Revenues from our propane distribution sales activities are affected by seasonal variations in weather conditions. Weather conditions directly influence the volume of propane used by our metered customers or sold and delivered to our bulk customers; specifically, their demand substantially increases during the winter months when propane is used for heating. The timing of deliveries to the bulk delivery customers can also vary significantly from year to year depending on weather variation. Accordingly, the propane volumes sold for heating are directly affected by the severity of winter weather and can vary substantially from year to year. Sustained warmer-than-normal temperatures will tend to reduce propane use, while sustained colder-than-normal temperatures will tend to increase consumption.

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Propane Distribution - Operational Highlights

For the year ended December 31, 2015, operating revenues, total gallons sold and average customers by customer class for our Delmarva and Florida propane distribution operations were as follows:

(in thousands)	Delmarva Peninsula and Pennsylvania		Florida	
Operating Revenues				
Residential bulk	$ 23,676	34%	$ 5,554	31%
Residential metered	7,857	11%	4,770	27%
Commercial bulk	16,261	23%	4,533	26%
Commercial metered	—	—%	1,862	11%
Wholesale	18,355	26%	673	4%
Other [(1)]	4,259	6%	272	1%
Total Operating Revenues	$ 70,408	100%	$ 17,664	100%
Volume *(in gallons)*				
Residential bulk	9,511	20%	1,320	22%
Residential metered	3,749	8%	960	16%
Commercial bulk	12,228	26%	2,215	38%
Commercial metered	—	—%	747	12%
Wholesale	21,173	46%	741	12%
Other	—	—%	(2)	—%
Total	46,661	100%	5,981	100%
Average customers				
Residential bulk	25,532	68%	8,763	54%
Residential metered	8,188	22%	6,224	38%
Commercial bulk	3,689	10%	975	6%
Commercial metered	—	—%	270	2%
Wholesale	34	—%	7	—%
Total	37,443	100%	16,239	100%

[(1)] Operating revenues from "Other" sources include revenues from customer loyalty programs; delivery, service and appliance fees; and unbilled revenues.

Propane Distribution - Competition

We compete with several other propane distributors in our geographic markets, primarily on the basis of price and service. Our competitors generally include local outlets of national distributors and local independent distributors, whose proximity to customers entails lower costs to provide service. As an energy source, propane competes with home heating oil and electricity, which are typically more expensive (based on equivalent unit of heat value). Since natural gas has historically been less expensive than propane, propane is generally not distributed in geographic areas served by natural gas pipelines or distribution systems.

Propane Distribution - Supplies, Transportation and Storage

We purchase propane for our propane distribution operations primarily from suppliers, including major oil companies, independent producers of natural gas liquids and from Xeron. Although supplies of propane from these and other sources are generally readily available for purchase, extreme market conditions, such as significant fluctuation in weather, closing of refineries and disruption in supply chains, could result in a reduction in available supplies.

Propane is transported by trucks and railroad cars from refineries, natural gas processing plants or pipeline terminals to our bulk storage facilities. We own various bulk propane storage facilities with an aggregate capacity of approximately 4.1 million gallons in Delaware, Maryland, Pennsylvania, Virginia and Florida. From these storage facilities, propane is delivered by "bobtail" trucks, owned and operated by us, to tanks located at the customers' premises.

Propane Wholesale Marketing

Through Xeron, we market propane and crude oil to major independent oil and petrochemical companies, wholesale resellers and retail propane companies located primarily in the southeastern United States. Xeron enters into forward contracts with various counterparties to commit to purchase or sell an agreed-upon quantity of propane and crude oil at an agreed-upon price at a specified future date, which typically ranges from one to six months from the execution of the contract. At the expiration of the forward

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contracts, Xeron typically settles its purchases and sales financially, without taking physical delivery of the propane or crude oil. Xeron also enters into futures and other option contracts that are traded on the InterContinentalExchange, Inc. The level and profitability of the propane and crude oil wholesale marketing activity is affected by both propane and crude oil wholesale price volatility and liquidity in the wholesale market. In 2015, Xeron had operating revenues, net of the associated cost of propane and crude oil sold, totaling approximately $301,000. For further discussion of Xeron's wholesale marketing activities, market risks and controls that monitor Xeron's risks, refer to *Item 7A, Management's Discussion and Analysis of Financial Condition and Results of Operations — Market Risk*. Xeron does not own physical storage facilities or equipment to transport propane or crude oil; however, it contracts for storage and pipeline capacity to facilitate the sale of propane and crude oil on a wholesale basis.

Natural Gas Marketing

We provide natural gas supply and supply management services through PESCO to 2,996 customers in Florida, 30 customers located primarily on the Delmarva Peninsula and five customers operating in other states. In 2015, PESCO had operating revenues of $42.0 million in Florida, $7.5 million from customers located primarily on the Delmarva Peninsula and $6.8 million from other customers. PESCO competes with regulated utilities and other unregulated third-party marketers to sell natural gas supplies directly to commercial and industrial customers through competitively-priced contracts. PESCO does not own or operate any natural gas transmission or distribution assets. The gas that PESCO sells is delivered to retail customers through affiliated and non-affiliated local distribution company systems and transmission pipelines. PESCO bills its customers directly or through the billing services of the regulated utilities that deliver the gas.

Other Unregulated Natural Gas Services

On April 1, 2015, we completed the merger with Gatherco, in which Gatherco merged with and into Aspire Energy, a then newly formed, wholly-owned subsidiary of Chesapeake Utilities. As a result, Aspire Energy is an unregulated natural gas infrastructure company with approximately 2,500 miles of pipeline systems in 40 counties throughout Ohio. The majority of Aspire Energy's margin is derived from long-term supply agreements with Columbia Gas of Ohio and Consumers Gas Cooperative, which together serve more than 20,000 end-use customers. Aspire Energy primarily sources gas from 300 conventional producers and provides gathering and processing services necessary to maintain quality and reliability to its wholesale markets.

For the period from April 1, 2015 (the date the merger closed) to December 31, 2015, operating revenues and deliveries by customer class were as follows:

	Operating revenues *(in thousands)*	Deliveries *(in Dts)*
Supply to Columbia Gas of Ohio	$ 4,884	1,258
Supply to Consumers Gas Cooperative	4,019	635
Supply to Marketers - affiliated	3,330	1,342
Supply to Marketers - unaffiliated	2,507	1,009
Other (including natural gas gathering and processing)	1,992	260
Total	$ 16,732	4,504

Other Unregulated Businesses

We provide heating, ventilation and air conditioning, plumbing and electrical services to residential, commercial and industrial customers throughout the lower Delmarva Peninsula. FPU sells energy-related merchandise in Florida. Operating revenues in 2015 from these other unregulated businesses totaled $5.3 million.

OTHER BUSINESSES

Overview

Other businesses consists primarily of other unregulated subsidiaries, including Skipjack and ESRE that own real estate leased to affiliates; and certain unallocated corporate costs, which are not directly attributable to a specific business unit. Skipjack and ESRE own and lease office buildings in Delaware and Maryland to divisions and other subsidiaries of Chesapeake Utilities.

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Environmental Compliance

We are subject to federal, state and local laws and regulations governing environmental quality and pollution control. These laws and regulations require us to remove or remediate the effect on the environment of the disposal or release of specified substances at current and former operating sites. We have participated in the investigation, assessment or remediation, and have exposures at seven former MGP sites. At December 31, 2015, we have recorded $10.6 million in environmental liabilities associated with these MGP sites, representing our estimate of future costs principally related to two of the seven former MGP sites. The most significant site is located in West Palm Beach, Florida, where FPU previously operated an MGP and is currently implementing a remedial plan approved by the FDEP. The estimated cost of remediation for the West Palm Beach site ranges from approximately $4.5 million to $15.4 million. We are also currently assessing a remediation plan and actively remediating a former MGP site in Winter Haven, Florida. The estimated cost of remediation for the Winter Haven site is not expected to exceed $443,000. We have entered into a voluntary clean-up program for our former MGP site in Seaford Delaware, where the cost of potential remedial actions for the site is estimated to be between $273,000 and $465,000. We are also discussing with the MDE another former MGP site in Maryland.

Base rates of our local distribution utilities include, or are expected to include, recovery of environmental remediation costs adequate to fully recover our current estimate of remediation costs. We continue to expect that any costs related to environmental remediation and related activities beyond our current estimate will also be recoverable from customers through rates.

We completed the investigation, assessment and remediation of eight natural gas pipeline facilities in Ohio that Aspire Energy acquired from Gatherco pursuant to the merger. The costs incurred to date associated with remediation activities for these facilities, is approximately $1.0 million. Pursuant to the merger agreement, an escrow was established to fund certain claims by Chesapeake Utilities and Aspire Energy for indemnification by Gatherco, including environmental claims. Gatherco's indemnification obligations for environmental matters apply to remediation costs in excess of $431,250 and are capped at $1.65 million. We expect to be reimbursed for substantially all remediation costs we have incurred to date associated with these pipeline facilities in excess of $431,250.

For additional information on each site, refer to Item 8, *Financial Statements and Supplementary Data* (see Note 19, *Environmental Commitments and Contingencies* in the Consolidated Financial Statements).

Employees

As of December 31, 2015, we had a total of 832 employees, 116 of whom are union employees represented by two labor unions: the International Brotherhood of Electrical Workers and Commercial Workers Union, whose collective bargaining agreements expire in 2019.

Financial Information About Geographical Areas

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

Available Information and Corporate Governance Documents

Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and other reports and amendments to these reports that we file with or furnish to the SEC are available free of charge at our website, *www.chpk.com,* as soon as reasonably practicable after we electronically file these reports with, or furnish these reports to, the SEC. The content of this website is not part of this report. These reports, and amendments to these reports, that we file with or furnish to the SEC are also available on the SEC's website, *www.sec.gov*. The public may also read and copy any materials that we file with the SEC at the SEC's Public Reference Room, 100 F Street, N.E., Washington, DC 20549-5546. The public may obtain information from the Public Reference Room by calling the SEC at 1-800-SEC-0330.

In addition, the following documents are available free of charge on our website, *www.chpk.com*:

- Business Code of Ethics and Conduct applicable to all employees, officers and directors;
- Code of Ethics for Financial Officers;
- Corporate Governance Guidelines;
- Charters for the Audit Committee, Compensation Committee and Corporate Governance Committee of the Board of Directors; and
- Corporate Governance Guidelines on Director Independence.

Any of these reports or documents may also be obtained by writing to: Corporate Secretary; c/o Chesapeake Utilities Corporation, 909 Silver Lake Boulevard, Dover, DE 19904.

If we make any amendment to, or grant a waiver of, any provision of the Business Code of Ethics and Conduct or the Code of

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

CERTIFICATION TO THE NYSE

Our Chief Executive Officer certified to the NYSE on May 20, 2015, that as of that date, he was unaware of any violation by Chesapeake Utilities of the NYSE's corporate governance listing standards.

ITEM 1A. RISK FACTORS.

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

FINANCIAL RISKS

Instability and volatility in the financial markets could negatively impact our ability to access capital at competitive rates, which could affect our ability to implement our strategic plan, undertake improvements and make other investments required for our future growth.

Our business strategy includes the continued pursuit of growth, both organically and through acquisitions. To the extent that we do not generate sufficient cash flow from operations, we may incur additional indebtedness to finance our growth. We rely on access to both short-term and long-term capital markets as a significant source of liquidity for capital requirements not satisfied by the cash flows from our operations. We are committed to maintaining a sound capital structure and strong credit ratings to provide the financial flexibility needed to access capital markets when required. However, if we are not able to access capital at competitive rates, our ability to implement our strategic plan, undertake improvements and make other investments required for our future growth may be limited.

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

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

If we fail to comply with our debt covenant obligations, we could experience adverse financial consequences that could affect our liquidity and ability to borrow funds.

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

An increase in interest rates may adversely affect our results of operations and cash flows.

An increase in interest rates, without the recovery of the higher cost of debt in the sales and/or transportation rates we charge our utility customers, could adversely affect future earnings. An increase in short-term interest rates could negatively affect our results of operations, which depend on short-term lines of credit to finance accounts receivable and storage gas inventories and to temporarily finance capital expenditures.

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

Inflation affects the cost of supply, labor, products and services required for operations, maintenance and capital improvements. To help cope with the effects of inflation on our capital investments and returns, we seek rate increases from regulatory commissions for regulated operations and closely monitor the returns of our unregulated operations. There can be no assurance that we will be able to obtain adequate and timely rate increases to offset the effects of inflation. If we are unable to offset the effects of inflation through rate increases, our results of operations, cash flows, and financial position may be adversely affected.

Fluctuations in propane gas prices could negatively affect results or operations.

To compensate for fluctuations in propane gas prices, we adjust our propane selling prices to the extent allowed by the market. There can be no assurance, however, that we will be able to increase propane sales prices sufficiently to compensate fully for such fluctuations in the cost of propane gas to us. If we are unable to increase propane sales prices sufficiently to compensate fully for such fluctuations, our earnings could be negatively affected, which would adversely impact our results of operations.

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

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

Our energy marketing subsidiaries are exposed to credit risk of their counterparties.

Our energy marketing subsidiaries extend credit to counterparties and continually monitor and manage collections aggressively. Each of these subsidiaries is exposed to the risk that it may not be able to collect amounts owed to it. If the counterparty to such a transaction fails to perform, and any underlying collateral is inadequate, we could experience financial losses, which would negatively impact our results of operations.

Our energy marketing subsidiaries are dependent upon the availability of credit to successfully operate their businesses.

Our energy marketing subsidiaries are dependent upon the availability of credit to buy propane and natural gas for resale or to trade. If financial market conditions decline generally, or the financial condition of these subsidiaries or of our Company declines, then the cost of credit available to these subsidiaries could increase. If credit is not available, or if credit is more costly, our results of operations, cash flows and financial condition may be adversely affected.

Current market conditions could adversely impact the return on plan assets for our pension plans, which may require significant additional funding.

Our pension plans are closed to new employees, and the future benefits are frozen. The costs of providing benefits and related funding requirements of these plans are subject to changes in the market value of the assets that fund the plans and the discount rates used to estimate the pension benefit obligations. As a result of the extreme volatility and disruption in the domestic and international equity, bond and interest rate markets in recent years, the asset values and benefit obligations of Chesapeake Utilities' and FPU's Pension Plans have fluctuated significantly since 2008. The funded status of the plans and the related costs reflected in our financial statements are affected by various factors that are subject to an inherent degree of uncertainty, particularly in the current economic environment. Future losses of asset values and further declines in discount rates may necessitate accelerated funding of the plans in the future to meet minimum federal government requirements as well as higher pension expense to be recorded in future years. Adverse changes in the asset values and benefit obligations of our pension plans may require us to record higher pension expense and fund obligations earlier than originally planned, which would have an adverse impact on our cash flows from operations, decrease borrowing capacity and increase interest expense.

OPERATIONAL RISKS

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

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

We operate in a competitive environment, and we may lose customers to competitors.

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

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

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

Our propane wholesale marketing operation competes with various marketers, many of which have significantly greater resources and are able to obtain price or volumetric advantages. Failure to effectively compete with these marketers would have an adverse effect on our results of operations, cash flows and financial condition.

Fluctuations in weather may cause a significant variance in our earnings.

Our natural gas distribution, propane distribution and natural gas supply, gathering and processing operations, are sensitive to fluctuations in weather conditions, which directly influence the volume of natural gas and propane we sell and deliver to our customers. A significant portion of our natural gas and propane distribution revenue is derived from the sales and deliveries to residential and commercial heating customers during the five-month peak heating season (November through March). If the weather is warmer than normal, we sell and deliver less natural gas and propane to customers, and earn less revenue, which could adversely affect our results of operations, cash flows and financial condition. A significant portion of our Ohio natural gas supply, gathering and processing services operation's revenue is also generated during the five-month peak heating season (November through March) as a result of the natural gas requirements of its key customers, including Columbia Gas of Ohio, various regional marketers, and the Consumers Gas Cooperative.

Our electric distribution operation is also affected by variations in weather conditions generally and unusually severe weather conditions. However, electricity consumption is generally less seasonal than natural gas and propane because it is used for both heating and cooling in our service areas.

Accidents, natural disasters, severe weather (such as a major hurricane) and acts of terrorism could adversely impact earnings.

Inherent in energy transmission and distribution activities are a variety of hazards and operational risks, such as leaks, ruptures, fires, explosions, sabotage and mechanical problems. Natural disasters and severe weather may damage our assets, cause operational interruptions and result in the loss of human life, all of which could negatively affect our earnings, financial condition and results of operations. Acts of terrorism and the impact of retaliatory military and other action by the United States and its allies may lead to increased political, economic and financial market instability and volatility in the price of natural gas, electricity and propane that could negatively affect our operations. Companies in the energy industry may face a heightened risk of exposure to acts of terrorism, which could affect our earnings, financial condition and results of operations. The insurance industry may also be affected by natural disasters, severe weather and acts of terrorism; as a result, the availability of insurance covering risks against which we and our competitors typically insure may be limited. In addition, the insurance we are able to obtain may have higher deductibles, higher premiums and more restrictive policy terms, which could adversely affect our results of operations, financial condition and cash flows.

Operating events affecting public safety and the reliability of our natural gas and electric distribution and transmission systems could adversely affect our operations and increase our costs.

Our natural gas and electric operations are exposed to operational events and risks, such as major leaks, outages, mechanical failures and breakdown, operations below the expected level of performance or efficiency, and accidents that could affect public safety and the reliability of our distribution and transmission systems, significantly increase costs and cause loss of customer confidence. If we are unable to recover all or some of these costs from customers through the regulatory process, our authorized rate of return, our results of operations, financial condition and cash flows could be adversely affected.

A security breach disrupting our operating systems and facilities or exposing confidential information may adversely affect our reputation, disrupt our operations and increase our costs.

Security breaches of our information technology infrastructure, including cyber-attacks and cyber-terrorism, could lead to system disruptions or cause facility shutdowns. If such an attack or security breach were to occur, our business, results of operations and financial condition could be adversely affected. In addition, the protection of customer, employee and Company data is crucial to our operational security. A breach or breakdown of our systems that results in the unauthorized release of individually identifiable customer or other sensitive data could have an adverse effect on our reputation, results of operations and financial condition and could also materially increase our costs of maintaining our system and protecting it against future breakdowns or breaches. We take reasonable precautions to safeguard our information systems from cyber-attacks and security breaches; however, there is no guarantee that the procedures implemented to protect against unauthorized access to our information systems are adequate to safeguard against all attacks and breaches.

Failure to attract and retain an appropriately qualified employee workforce could adversely affect operations.

Our ability to implement our business strategy and serve our customers is dependent upon our continuing ability to attract and retain talented professionals and a technically skilled workforce, and being able to transfer the knowledge and expertise of our workforce to new employees as our aging employees retire. Failure to hire and adequately train replacement employees, including the transfer of significant internal historical knowledge and expertise to the new employees, or the future availability and cost of contract labor could adversely affect our ability to manage and operate our business. If we were unable to hire, train and retain appropriately qualified personnel, our results of operations could be adversely affected.

A strike, work stoppage or a labor dispute could adversely affect our operations.

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

Our businesses are capital intensive, and the increased costs and/or delays of capital projects may adversely affect our future earnings.

Our businesses are capital intensive and require significant investments in on-going infrastructure projects. Our ability to complete our infrastructure projects on a timely basis and manage the overall cost of those projects may be affected by the limited availability of the necessary materials and qualified vendors. Our future earnings could be adversely affected if we are unable to manage such capital projects effectively, or if full recovery of such capital costs is not permitted in future regulatory proceedings.

Our regulated energy business may be at risk if franchise agreements are not renewed, or new franchise agreements are not obtained, which could adversely affect our future results or operating cash flows and financial condition.

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

Slowdowns in customer growth may adversely affect earnings and cash flows.

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

Energy conservation could lower energy consumption, which would adversely affect our earnings.

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We have seen various legislative and regulatory initiatives to promote energy efficiency and conservation at both the federal and state levels. In response to the initiatives in the states in which we operate, we have implemented programs to promote energy efficiency by our current and potential customers. To the extent a PSC allows us to recover the cost of such energy efficiency programs, funding for such programs is recovered through the rates we charge to our regulated customers. However, lower energy consumption as a result of energy efficiency and conservation by current and potential customers may adversely affect our results of operations, cash flows and financial condition.

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

Natural Gas/Electricity. Higher natural gas prices can significantly increase the cost of gas billed to our natural gas customers. Increases in the cost of coal, natural gas and other fuels used to generate electricity can significantly increase the cost of electricity billed to our electric customers. Damage to the production or transportation facilities of our suppliers, which decreases their supply of natural gas and electricity, could result in increased supply costs and higher prices for our customers. Such cost increases generally have no immediate effect on our revenues and net income because of our regulated fuel cost recovery mechanisms. However, our net income may be reduced by higher expenses that we may incur for uncollectible customer accounts and by lower volumes of natural gas and electricity deliveries when customers reduce their consumption. Therefore, increases in the price of natural gas, coal and other fuels can adversely affect our operating cash flows, results of operations and financial condition, as well as the competitiveness of natural gas and electricity as energy sources.

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

A substantial disruption or lack of growth in interstate natural gas pipeline transmission and storage capacity or electric transmission capacity may impair our ability to meet customers' existing and future requirements.

In order to meet existing and future customer demands for natural gas and electricity, we must acquire sufficient supplies of natural gas and electricity, interstate pipeline transmission and storage capacity, and electric transmission capacity to serve such requirements. We must contract for reliable and adequate upstream transmission capacity for our distribution systems while considering the dynamics of the interstate pipeline and storage and electric transmission markets, our own on-system resources, as well as the characteristics of our markets. Our financial condition and results of operations would be materially and adversely affected if the future availability of these capacities were insufficient to meet future customer demands for natural gas and electricity. Currently, our Florida natural gas operation relies primarily on one pipeline system, FGT, for most of its natural gas supply and transmission. Our Florida electric operation relies primarily on two suppliers, Gulf Power for the northwest service territory and JEA for the northeast service territory. Any interruption to these systems could adversely affect our ability to meet the demands of FPU's customers, which could negatively impact our earnings, financial condition and results of operations.

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

Natural gas, propane and electricity production can be affected by factors beyond our control, which may affect our ability to obtain sufficient supplies to meet demand and may adversely impact the financial results in those businesses. Any disruption in the availability of supplies of natural gas, propane and electricity could result in increased supply costs and higher prices for customers, which could also adversely affect our financial condition and results of operations.

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

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

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

Fluctuating commodity prices may affect our earnings and financing costs because our propane distribution, wholesale marketing and natural gas marketing operations use derivative instruments, including forwards, futures, swaps, puts, and calls, to hedge price risk. While we have risk management policies and operating procedures in place to control our exposure to risk, if we purchase derivative instruments that are not properly matched to our exposure, our results of operations, cash flows, and financial condition may be adversely affected.

Our propane inventory is subject to inventory valuation risk, which may result in a write-down of inventory.

Our propane distribution operations own bulk propane storage facilities, with an aggregate capacity of approximately 4.1 million gallons. We purchase and store propane based on several factors, including inventory levels and the price outlook. We may purchase large volumes of propane at current market prices during periods of low demand and low prices, which generally occur during the summer months. Propane is a commodity, and as such, its price is subject to volatile fluctuations in response to changes in supply or other market conditions. We have no control over these market conditions. Consequently, the wholesale purchase price can change rapidly over a short period of time. The retail market price for propane could fall below the price at which we made the purchases, which would adversely affect our profits or cause sales from that inventory to be unprofitable. In addition, falling propane prices may result in inventory write-downs, as required by GAAP, if the market price of propane falls below our weighted average cost of inventory, which could adversely affect net income.

REGULATORY, LEGAL AND ENVIRONMENTAL RISKS

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

The Delaware, Maryland and Florida PSCs regulate our utility operations in those states. Eastern Shore is regulated by the FERC. The PSCs and the FERC set the rates that we can charge customers for services subject to their regulatory jurisdiction. Our ability to obtain timely future rate increases and rate supplements to maintain current rates of return depends on regulatory approvals, and there can be no assurance that our regulated operations will be able to obtain such approvals or maintain currently authorized rates of return. When our earnings from the regulated utilities exceed the authorized rate of return, the respective PSC, or the FERC in the case of Eastern Shore, may require us to reduce our rates charged to customers in the future.

We may face certain regulatory and financial risks related to pipeline safety legislation.

A number of legislative proposals to implement increased oversight over natural gas pipeline operations and facilities to inspect pipeline facilities, upgrade pipeline facilities, or control the impact of a breach of such facilities are pending at the federal level. Additional operating expenses and capital expenditures may be necessary to remain in compliance with the increased federal oversight that may result from such proposals. If such legislation is adopted and we incur additional expenses and expenditures, our financial condition, results of operations and cash flows could be adversely affected, particularly if we are not authorized through the regulatory process to recover from customers some or all of these costs and our authorized rate of return.

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

Our operations are subject to the operating hazards and risks normally incidental to handling, storing, transporting, transmitting and delivering natural gas, electricity and propane to end users. From time to time, we are a defendant in legal proceedings arising in the ordinary course of business. We maintain insurance coverage for our general liabilities in the amount of $51 million, which we believe is reasonable and prudent. However, there can be no assurance that such insurance will be adequate to protect us from all material expenses related to potential future claims for personal injury and property damage or that such levels of insurance will be available in the future at economical prices.

Costs of compliance with environmental laws may be significant.

We are subject to federal, state and local laws and regulations governing environmental quality and pollution control. These evolving laws and regulations may require expenditures over a long period of time to control environmental effects at our current and former operating sites, especially former MGP sites. To date, we have been able to recover, through regulatory rate mechanisms, the costs associated with the remediation of former MGP sites. However, there is no guarantee that we will be able to recover future remediation costs in the same manner or at all. A change in our approved rate mechanisms for recovery of environmental remediation costs at former MGP sites could adversely affect our results of operations, cash flows and financial condition

Further, existing environmental laws and regulations may be revised, or new laws and regulations seeking to protect the environment may be adopted and be applicable to us. Revised or additional laws and regulations could result in additional operating restrictions

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on our facilities or increased compliance costs, which may not be fully recoverable. Any such increase in compliance costs could adversely affect our financial condition and results of operations. Compliance with these legal obligations requires us to commit capital. If we fail to comply with environmental laws and regulations, even if such failure is caused by factors beyond our control, we may be assessed civil or criminal penalties and fines, which could impact our financial condition and results of operations.

Derivatives legislation and the implementation of related rules could have an adverse impact on our ability to hedge risks associated with our business.

The Dodd-Frank Act regulates derivative transactions, which include certain instruments used in our risk management activities. The Dodd-Frank Act contemplates that most swaps will be required to be cleared through a registered clearing facility and traded on a designated exchange or swap execution facility, subject to certain exceptions for entities that use swaps to hedge or mitigate commercial risk. Although the Dodd-Frank Act includes significant new provisions regarding the regulation of derivatives, the impact of those requirements will not be known definitively until regulations have been adopted and fully implemented by both the SEC and the Commodities Futures Trading Commission, and market participants establish registered clearing facilities under those regulations. Although we may qualify for exceptions, our derivatives counterparties may be subject to new capital, margin and business conduct requirements imposed as a result of the Dodd-Frank Act, which may increase our transaction costs, make it more difficult for us to enter into hedging transactions on favorable terms or affect the number and/or creditworthiness of available counterparties. Our inability to enter into hedging transactions on favorable terms, or at all, could increase operating expenses and increase exposure to risks of adverse changes in commodity prices, which could adversely affect the predictability of cash flows.

Our business may be subject in the future to additional regulatory and financial risks associated with global warming and climate change.

There have been a number of federal and state legislative and regulatory initiatives proposed in recent years in an attempt to control or limit the effects of global warming and overall climate change, including greenhouse gas emissions, such as carbon dioxide. The adoption of this type of legislation by Congress, or similar legislation by states, or the adoption of related regulations by federal or state governments mandating a substantial reduction in greenhouse gas emissions in the future could have far-reaching and significant impacts on the energy industry. Such new legislation or regulations could result in increased compliance costs for us or additional operating restrictions on our business, affect the demand for natural gas and propane or impact the prices we charge to our customers. At this time, we cannot predict the potential impact of such laws or regulations that may be adopted on our future business, financial condition or financial results.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES.

Key Properties

We own approximately 1,374 miles of natural gas distribution mains (together with related service lines, meters and regulators) located in New Castle, Kent and Sussex Counties, Delaware; and Cecil, Caroline, Dorchester, Wicomico and Worcester Counties, Maryland. We own approximately 2,762 miles of natural gas distribution mains (and related equipment) in Nassau, Polk, Osceola, Citrus, DeSoto, Liberty, Hillsborough, Holmes, Jackson, Gadsden, Gilchrist, Union, Washington, Pasco, Suwannee, Palm Beach, Broward, Martin, Marion, Seminole and Volusia Counties, Florida. In addition, we have adequate gate stations to handle receipt of the gas into each of the distribution systems. We also own facilities in Delaware and Maryland, which we use for propane-air injection during periods of peak demand.

Through Eastern Shore, we own and operate approximately 442 miles of natural gas transmission pipeline, extending from supply interconnects at Parkesburg, Daleville and Honey Brook, Pennsylvania; and Hockessin, Delaware, to 90 delivery points in southeastern Pennsylvania, Delaware and the eastern shore of Maryland. Through Peninsula Pipeline, we own and operate approximately 44 miles of natural gas transmission pipeline in Suwannee, Indian River, Palm Beach and Polk counties, Florida. We also own approximately 45 percent of the 16-mile natural gas pipeline extending from the Duval/Nassau County line to Amelia Island in Nassau County, Florida. The remaining 55 percent of the natural gas pipeline is owned by Peoples Gas.

Through FPU, we own and operate approximately 20 miles of electric transmission line located in Nassau County, Florida and approximately 889 miles of electric distribution line in Jackson, Liberty, Calhoun and Nassau Counties, Florida.

We own approximately 378 miles of underground propane distribution mains in Delaware; Dorchester, Princess Ann, Queen Anne's, Somerset, Talbot, Wicomico and Worcester Counties, Maryland; Chester and Delaware Counties, Pennsylvania; and

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Alachua, Brevard, Broward, Citrus, Duval, Hillsborough, Marion, Nassau, Orange, Palm Beach, Polk, Seminole, St. Johns and Volusia Counties, Florida.

We own bulk propane storage facilities, with an aggregate capacity of approximately 3.2 million gallons, at 33 propane storage facilities in Delaware, Maryland, Pennsylvania and Virginia, located on real estate that is either owned or leased by us. In Florida, we own bulk propane storage facilities with an aggregate capacity of approximately 870,000 gallons at 17 propane storage facilities. Xeron does not own physical storage facilities or equipment to transport propane; however, it leases propane storage and pipeline capacity from non-affiliated third parties.

Through Aspire Energy, we own 16 natural gas gathering systems and approximately 2,500 miles of pipeline in Central and Eastern Ohio.

We own or lease offices and other operational facilities in the following locations: Anne Arundel, Worcester, Wicomico, Dorchester, Talbot, Cecil and Somerset Counties, Maryland; New Castle, Kent and Sussex Counties, Delaware; Accomack County, Virginia; Palm Beach, Volusia, Levy, Martin, Jackson, Broward, Nassau, Brevard, Alachua, Hendry, Okeechobee, and Polk Counties, Florida; and Orrville, Ohio.

All of the assets owned by FPU are subject to a lien in favor of the holders of its first mortgage bond securing its indebtedness under its Mortgage Indenture and Deed of Trust. FPU owns offices and facilities in the following locations: Palm Beach, Volusia, Levy, Martin, Jackson, Broward, Nassau, Brevard, Alachua, Hendry and Okeechobee Counties, Florida. The FPU assets subject to the lien also include: 1,885 miles of natural gas distribution mains (and related equipment) in its service areas; 20 miles of electric transmission line located in Nassau County, Florida; 889 miles of electric distribution line located in Jackson, Liberty, Calhoun and Nassau Counties in Florida; 17 propane storage facilities with a total capacity of 870,000 gallons, located in south and central Florida; and 59 miles of underground propane distribution mains in Alachua, Brevard, Broward, Citrus, Duval, Hillsborough, Marion, Nassau, Orange, Palm Beach, Polk, Seminole, St. Johns and Volusia Counties, Florida.

ITEM 3. LEGAL PROCEEDINGS.

LEGAL PROCEEDINGS

As disclosed in *Item 8, Financial Statements and Supplementary Data* (see Note 20, *Other Commitments and Contingencies*, in the Consolidated Financial Statements), we are involved in various legal actions and claims arising in the normal course of business. We are also involved in certain administrative proceedings before various governmental or regulatory agencies concerning rates. In the opinion of management, the ultimate disposition of these current proceedings will not have a material effect on our consolidated financial position, results of operations or cash flows.

ITEM 4A. EXECUTIVE OFFICERS OF THE REGISTRANT.

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

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Name	Age	Position
Michael P. McMasters	57	President (March 2010 - present) Chief Executive Officer (January 2011 - present) Director (March 2010 - present) Executive Vice President (September 2008 - February 2010) Chief Operating Officer (September 2008 - December 2010) Chief Financial Officer (January 1997 - September 2008) *Mr. McMasters also previously served as Senior Vice President, Vice President, Treasurer, Director of Accounting and Rates and Controller.*
Beth W. Cooper	49	Senior Vice President (September 2008 - present) Chief Financial Officer (September 2008 - present) Assistant Secretary (March 2015-present) Corporate Secretary (June 2005 - March 2015) Vice President (June 2005 - September 2008) Treasurer (March 2003 - May 2012) *Ms. Cooper also previously served as Assistant Vice President, Assistant Treasurer, Director of Internal Audit and Director of Strategic Planning.*
Elaine B. Bittner	46	Senior Vice President of Strategic Development (May 2013 - present) Chief Operating Officer - Sharp, Aspire Energy, PESCO and Xeron (May 2014 - Present) Vice President of Strategic Development (June 2010 - May 2013) Vice President, Eastern Shore (May 2005 - June 2010) *Ms. Bittner also previously served as Director of Eastern Shore, Director of Customer Services and Regulatory Affairs for Eastern Shore and Director of Environmental Affairs and Envir*
Stephen C. Thompson	55	Senior Vice President (September 2004 - present) President, Eastern Shore (January 1997 - present) Vice President (May 1997 - September 2004) *Mr. Thompson also previously served as Director of Gas Supply and Marketing for Eastern Shore, Superintendent of Eastern Shore and Regional Manager for Florida distribution operati*
Jeffry M. Householder	58	President of Florida Public Utilities Company (June 2010 - present) *Prior to joining Chesapeake Utilities, Mr. Householder operated a consulting practice that provided business development and regulatory services to utilities, propane retailers and indust*
James F. Moriarty	58	Vice President, General Counsel & Corporate Secretary (March 2015 - present) *Prior to joining Chesapeake Utilities, Mr. Moriarty was a Partner at Locke Lord LLP and Fulbright & Jaworski, L* *D.C.*

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PART II

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

COMMON STOCK PRICE RANGES, COMMON STOCK DIVIDENDS AND STOCKHOLDER INFORMATION:

At February 17, 2016, there were 2,398 holders of record of our common stock. Our common stock is listed on the NYSE under the symbol "CPK." The high, low and closing prices of our common stock and dividends declared per share for each calendar quarter during 2015 and 2014 are included in the below table. The high, low and closing prices and dividends declared per share of our common stock for the first and second quarters of 2014 have been adjusted for the three-for-two stock split effected as a stock dividend on September 9, 2014.

	Quarter Ended	High	Low	Close	Dividends Declared Per Share
2015					
	March 31	**$ 52.22**	**$ 44.83**	**$ 50.61**	**$ 0.2700**
	June 30	**$ 55.72**	**$ 44.37**	**$ 53.85**	**$ 0.2875**
	September 30	**$ 56.15**	**$ 45.25**	**$ 53.08**	**$ 0.2875**
	December 31	**$ 61.13**	**$ 49.50**	**$ 56.75**	**$ 0.2875**
2014					
	March 31	$ 43.01	$ 37.49	$ 42.11	$ 0.2567
	June 30	$ 47.69	$ 39.77	$ 47.55	$ 0.2700
	September 30	$ 48.73	$ 39.28	$ 41.66	$ 0.2700
	December 31	$ 52.66	$ 40.88	$ 49.66	$ 0.2700

We have paid a cash dividend to our common stock stockholders for 55 consecutive years. Dividends are payable at the discretion of our Board of Directors. Future payment of dividends, and the amount of these dividends, will depend on our financial condition, results of operations, capital requirements, and other factors. We declared quarterly cash dividends on our common stock in 2015 and 2014, totaling $1.1325 per share and $1.0667 per share, respectively.

Indentures to our long-term debt contain various restrictions which limit our ability to pay dividends. Each of our Senior Notes contains a "restricted payments" covenant. The most restrictive covenants of this type are included within the 6.64 percent, 5.50 percent and 5.93 percent Senior Notes, due October 31, 2017, October 12, 2020 and October 31, 2023, respectively. The covenant provides that we cannot pay or declare any dividends or make any other restricted payments (such as dividends) in excess of the sum of $10.0 million plus our consolidated net income accrued on and after January 1, 2003. As of December 31, 2015, our cumulative consolidated net income base was $285.0 million, offset by restricted payments of $138.4 million, leaving $146.6 million of cumulative net income free of restrictions.

FPU's first mortgage bonds, which are due in 2022, contain a similar restriction that limits the payment of dividends by FPU. The bonds provide that FPU cannot make dividend or other restricted payments in excess of the sum of $2.5 million plus FPU's consolidated net income accrued on and after January 1, 1992. As of December 31, 2015, FPU had a cumulative net income base of $116.3 million, offset by restricted payments of $37.6 million, leaving $78.7 million of cumulative net income of FPU free of restrictions based on this covenant.

No securities were sold during fiscal 2015 that were not registered under the Securities Act of 1933, as amended.

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PURCHASES OF EQUITY SECURITIES BY THE ISSUER

The following table sets forth information on purchases by us or on our behalf of shares of our common stock during the quarter ended December 31, 2015.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs [2]	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs [2]
October 1, 2015 through October 31, 2015 [1]	377	$ 53.43	—	—
November 1, 2015 through November 30, 2015	—	—	—	—
December 1, 2015 through December 31, 2015	—	—	—	—
Total	377	$ 53.43	—	—

[1] In October, we purchased shares of common stock on the open market for the purpose of reinvesting the dividend on shares held in the Rabbi Trust accounts for certain Directors and Senior Executives under the Non-Qualified Deferred Compensation Plan. The Non-Qualified Deferred Compensation Plan is discussed in detail in *Item 8, Financial Statements and Supplementary Data* (see Note 16, *Employee Benefit Plans*, in the Consolidated Financial Statements). During the quarter, 377 shares were purchased through the reinvestment of dividends.

[2] Except for the purpose described in Footnote [1], we have no publicly announced plans or programs to repurchase our shares.

Discussion of our compensation plans, for which shares of our common stock are authorized for issuance, is included in the portion of the Proxy Statement captioned "Equity Compensation Plan Information" to be filed no later than March 31, 2016, in connection with our Annual Meeting to be held on or about May 6, 2016, and is incorporated herein by reference.

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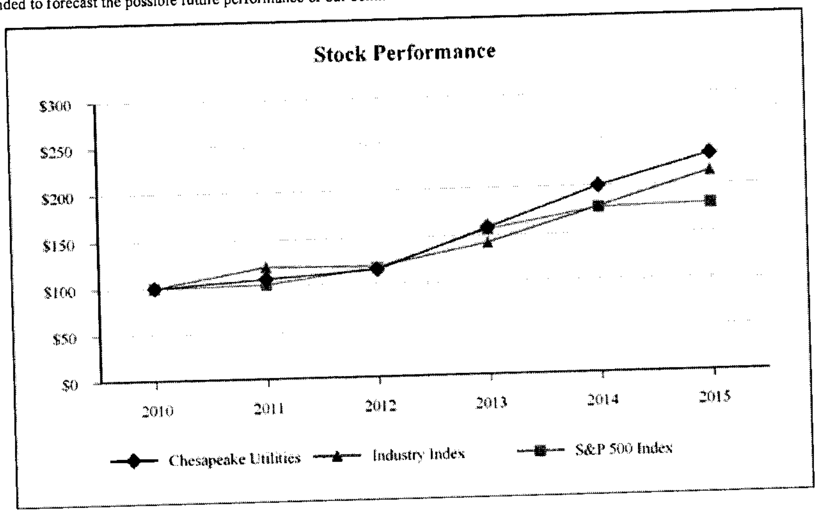
Common Stock Performance Graph

The stock performance graph and table below compares cumulative total stockholder return on our common stock during the five fiscal years ended December 31, 2015, with the cumulative total stockholder return of the S&P 500 Index and the cumulative total stockholder return of select peers, which include the following companies: AGL Resources, Inc., Atmos Energy Corporation, Delta Natural Gas Company, Inc., The Laclede Group, Inc., New Jersey Resources Corporation, Northwest Natural Gas Company, Piedmont Natural Gas Company, Inc., RGC Resources, Inc., South Jersey Industries, Inc., and WGL Holdings, Inc.

The comparison assumes $100 was invested on December 31, 2010 in our common stock and in each of the foregoing indices and assumes reinvested dividends. The comparisons in the graph below are based on historical data and are not intended to forecast the possible future performance of our common stock.



	2010	2011	2012	2013	2014	2015
Chesapeake Utilities	$ 100	$ 108	$ 116	$ 158	$ 200	$ 233
Industry Index	$ 100	$ 121	$ 119	$ 142	$ 178	$ 214
S&P 500 Index	$ 100	$ 102	$ 118	$ 156	$ 177	$ 180

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ITEM 6. SELECTED FINANCIAL DATA

	For the Year Ended December 31,		
	2015	2014	2013
Operating [1]			
(in thousands)			
Revenues			
Regulated Energy	$ 301,902	$ 300,442	$ 264,637
Unregulated Energy	162,108	184,961	166,723
Other businesses and eliminations	(4,766)	13,431	12,946
Total revenues	$ 459,244	$ 498,834	$ 444,306
Operating income			
Regulated Energy	$ 60,985	$ 50,451	$ 50,084
Unregulated Energy	16,355	11,723	12,353
Other businesses and eliminations	418	105	297
Total operating income	$ 77,758	$ 62,279	$ 62,734
Net income from continuing operations	$ 41,140	$ 36,092	$ 32,787
Assets			
(in thousands)			
Gross property, plant and equipment	$ 1,070,263	$ 883,131	$ 805,394
Net property, plant and equipment	$ 854,950	$ 689,762	$ 631,246
Total assets	$ 1,068,586	$ 904,469	$ 837,522
Capital expenditures [1]	$ 142,713	$ 98,057	$ 108,039
Capitalization			
(in thousands)			
Stockholders' equity	$ 358,138	$ 300,322	$ 278,773
Long-term debt, net of current maturities	149,340	158,486	117,592
Total capitalization	$ 507,478	$ 458,808	$ 396,365
Current portion of long-term debt	9,151	9,109	11,353
Short-term debt	173,397	88,231	105,666
Total capitalization and short-term financing	$ 690,026	$ 556,148	$ 513,384

(1) These amounts exclude the results of distributed energy due to their reclassification to discontinued operations. We closed our distributed energy operation in 2007. These amounts also include accruals for capital expenditures that we have incurred for each reporting period.

(2) These amounts include the financial position and results of operation of FPU for the period from the merger (October 28, 2009) to December 31, 2009. These amounts also include the effects of acquisition accounting and issuance of our common shares as a result of the merger.

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	For the Year Ended December 31,						
	2012	2011	2010	2009[1]	2008	2007	2006
	$ 246,208	$ 256,226	$ 269,438	$ 138,671	$ 116,123	$ 128,566	$ 124,438
	133,049	149,586	146,793	119,973	161,290	115,190	94,320
	13,245	12,215	11,315	10,141	14,030	14,530	12,442
	$ 392,502	$ 418,027	$ 427,546	$ 268,785	$ 291,443	$ 258,286	$ 231,200
	$ 46,999	$ 43,911	$ 43,267	$ 26,668	$ 23,833	$ 21,739	$ 18,618
	8,355	9,619	8,150	8,390	3,600	5,244	3,650
	1,281	175	513	(1,322)	1,046	1,131	1,064
	$ 56,635	$ 53,705	$ 51,930	$ 33,736	$ 28,479	$ 28,114	$ 23,332
	$ 28,863	$ 27,622	$ 26,056	$ 15,897	$ 13,607	$ 13,218	$ 10,748
	$ 697,159	$ 625,488	$ 584,385	$ 543,905	$ 381,689	$ 352,838	$ 325,836
	$ 541,781	$ 487,704	$ 462,757	$ 436,587	$ 280,671	$ 260,423	$ 240,825
	$ 733,746	$ 709,066	$ 670,993	$ 615,811	$ 385,795	$ 381,557	$ 325,585
	$ 78,210	$ 44,431	$ 46,955	$ 26,294	$ 30,844	$ 30,142	$ 49,154
	$ 256,598	$ 240,780	$ 226,239	$ 209,781	$ 123,073	$ 119,576	$ 111,152
	101,907	110,285	89,642	98,814	86,422	63,256	71,050
	$ 358,505	$ 351,065	$ 315,881	$ 308,595	$ 209,495	$ 182,832	$ 182,202
	8,196	8,196	9,216	35,299	6,656	7,656	7,656
	61,199	34,707	63,958	30,023	33,000	45,664	27,554
	$ 427,900	$ 393,968	$ 389,055	$ 373,917	$ 249,151	$ 236,152	$ 217,412

	For the Year Ended December 31,		
	2015	2014	2013
Common Stock Data and Ratios			
Basic earnings per share from continuing operations [1][5]	$ 2.73	$ 2.48	$ 2.27
Diluted earnings per share from continuing operations [1][5]	$ 2.72	$ 2.47	$ 2.26
Return on average equity from continuing operations [1]	12.1%	12.2%	12.2%
Common equity / total capitalization	70.6%	65.5%	70.3%
Common equity / total capitalization and short-term financing	51.9%	54.0%	54.3%
Book value per share [5]	$ 23.45	$ 20.59	$ 19.28
Market price:			
High	$ 61.130	$ 52.660	$ 40.780
Low	$ 44.370	$ 37.493	$ 30.560
Close	$ 56.750	$ 49.660	$ 40.013
Weighted average number of shares outstanding [5]	15,094,423	14,551,308	14,430,962
Shares outstanding at year-end [5]	15,270,659	14,588,711	14,457,345
Registered common shareholders	2,396	2,329	2,345
Cash dividends declared per share [5]	$ 1.13	$ 1.07	$ 1.01
Dividend yield (annualized) [3]	2.0%	2.2%	2.6%
Payout ratio from continuing operations [1][4]	41.5%	43.0%	44.6%
Additional Data			
Customers			
Natural gas distribution	144,872	141,227	138,210
Electric distribution	31,430	31,272	31,151
Propane distribution	53,682	53,272	51,988
Volumes			
Natural gas deliveries (in Dts)	79,564,618	77,623,201	74,117,121
Electric Distribution (in MWHs)	634,539	643,332	649,025
Propane distribution (in thousands of gallons)	52,643	53,525	48,511
Other unregulated natural gas services deliveries (in Dts)	4,504	—	—
Heating degree-days (Delmarva Peninsula)			
Actual HDD	4,363	4,826	4,638
10-year average HDD (normal)	4,496	4,483	4,454
Heating degree-days (Florida)			
Actual HDD	569	888	671
10-year average HDD (normal)	859	856	885
Cooling degree-days (Florida)			
Actual CDD	3,338	2,705	2,750
10-year average CDD (normal)	2,760	2,768	2,750
Propane bulk storage capacity (in thousands of gallons)	4,060	3,833	3,566
Total employees	832	753	842

(1) These amounts exclude the results of a former distributed energy subsidiary due to its reclassification to discontinued operations in 2007.
(2) These amounts include the financial position and results of operation of FPU for the period from the merger closing (October 28, 2009) to December 31, 2009.
(3) Dividend yield (annualized) is calculated by multiplying the fourth quarter dividend by four (4), then dividing that amount by the closing common stock price at December 31.

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For the Year Ended December 31,

2012	2011	2010	2009[2]	2008	2007	2006
$ 2.01	$ 1.93	$ 1.83	$ 1.45	$ 1.33	$ 1.31	$ 1.19
$ 1.99	$ 1.91	$ 1.82	$ 1.43	$ 1.32	$ 1.29	$ 1.17
11.6%	11.6%	11.6%	11.2%	11.2%	11.5%	11.0%
71.6%	68.6%	71.6%	68.0%	58.7%	65.4%	61.0%
60.0%	61.1%	58.2%	56.1%	49.4%	50.6%	51.1%
$ 17.82	$ 16.78	$ 15.84	$ 14.89	$ 12.02	$ 11.76	$ 11.08
$ 32.613	$ 29.687	$ 28.133	$ 23.333	$ 23.227	$ 24.833	$ 23.767
$ 26.593	$ 24.000	$ 18.673	$ 14.680	$ 14.620	$ 18.667	$ 18.600
$ 30.267	$ 28.900	$ 27.680	$ 21.367	$ 20.987	$ 21.233	$ 20.433
14,379,216	14,333,699	14,211,831	10,969,980	10,217,772	10,114,562	9,048,693
14,396,248	14,350,959	14,286,293	14,091,471	10,240,682	10,166,115	10,032,126
2,396	2,481	2,482	2,670	1,914	1,920	1,978
$ 0.96	$ 0.91	$ 0.87	$ 0.83	$ 0.81	$ 0.78	$ 0.77
3.2%	3.2%	3.2%	3.9%	3.9%	3.7%	3.8%
47.8%	47.4%	47.6%	57.6%	60.5%	60.2%	65.2%
124,015	121,934	120,230	117,887	65,201	62,884	59,132
31,066	30,986	30,966	31,030	—	—	—
49,312	48,824	48,100	48,680	34,981	34,143	33,282
66,784,690	57,493,022	49,310,314	50,159,227	46,539,142	42,910,964	41,826,357
670,998	694,653	751,507	105,739	—	—	—
37,438	37,387	39,807	32,546	27,956	29,785	24,243
—	—	—	—	—	—	—
3,936	4,221	4,831	4,729	4,431	4,504	3,931
4,491	4,499	4,528	4,462	4,401	4,376	4,372
633	753	1,501	911	—	—	—
915	920	863	849	—	—	—
2,871	2,858	2,859	2,770	—	—	—
2,756	2,718	2,695	2,687	—	—	—
3,400	3,351	3,041	3,042	2,471	2,441	2,315
738	711	734	757	448	445	437

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

[5] Shares and per share amounts for all periods presented reflect the three-for-two stock split declared on July 2, 2014, effected in the form of a stock dividend, and distributed on September 8, 2014.

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

This section provides management's discussion of Chesapeake Utilities and its consolidated subsidiaries, with specific information on results of operations, liquidity and capital resources, as well as discussion of how certain accounting principles affect our financial statements. It includes management's interpretation of our financial results and our operating segments, the factors affecting these results, the major factors expected to affect future operating results as well as investment and financing plans. This discussion should be read in conjunction with our Consolidated Financial Statements and notes thereto in Item 8, *Financial Statements and Supplementary Data*.

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

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

Shares and per share amounts for all periods presented reflect the three-for-two stock split declared on July 2, 2014, which was effected in the form of a stock dividend and distributed on September 8, 2014. Unless otherwise noted, earnings per share information is presented on a diluted basis.

INTRODUCTION

We are a diversified energy company engaged, directly or through our operating divisions and subsidiaries, in regulated and unregulated energy businesses.

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

- executing a capital investment program in pursuit of organic growth opportunities that generate returns equal to or greater than our cost of capital;
- expanding the regulated energy distribution and transmission businesses into new geographic areas and providing new services in our current service territories;
- expanding the propane distribution business in existing and new markets through our bulk delivery capabilities, our community gas system services and our propane vehicle fuel offerings ;
- expanding both our regulated energy and unregulated energy businesses through strategic acquisitions;
- utilizing our expertise across our various businesses to improve overall performance;
- pursuing and entering new unregulated energy markets and business lines that will complement our existing strategy and operating units while capitalizing on opportunities across the natural gas value chain;
- enhancing marketing channels to attract new customers;
- providing reliable and responsive customer service to existing customers so they become our best promoters;
- engaging our customers through a distinctive service excellence initiative;
- developing and retaining a high-performing team that advances our goals;
- empowering and engaging our employees to live our brand and vision;
- demonstrating community leadership and engaging our local communities and governments in a cooperative and mutually beneficial way;
- maintaining a capital structure that enables us to access capital as needed;

- continuing to build our brand in a culture with a shared mission, vision and values;
- achieving strong growth in earnings and capital investment, thereby generating above regulated return on equity performance;
- maintaining a consistent and competitive dividend for stockholders;
- maximizing shareholder value; and
- creating and maintaining a diversified customer base, energy portfolio and utility foundation.

CRITICAL ACCOUNTING POLICIES

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

Regulatory Assets and Liabilities

As a result of the ratemaking process, we record certain assets and liabilities in accordance with FASB ASC Topic 980, *Regulated Operations*, and consequently, the accounting principles applied by our regulated energy businesses differ in certain respects from those applied by the unregulated businesses. Costs are deferred when there is a probable expectation that they will be recovered in future revenues as a result of the regulatory process. As more fully described in Item 8, *Financial Statements and Supplementary Data (*see Note 2, *Summary of Significant Accounting Policies*, in the Consolidated Financial Statements), we have recorded regulatory assets of $85.8 million and regulatory liabilities of $50.4 million at December 31, 2015. If we were required to terminate the application of ASC Topic 980, we would be required to recognize all such deferred amounts as a charge or a credit to earnings, net of applicable income taxes. Such an adjustment could have a material effect on our results of operations.

Valuation of Environmental Liabilities and Related Regulatory Assets

As more fully described in Item 8, *Financial Statements and Supplementary Data (*see Note 19, *Environmental Commitments and Contingencies*, in the Consolidated Financial Statements), we are currently participating in the investigation, assessment or remediation of seven former MGP sites for which we have or will seek regulatory approval to recover through rates the estimated costs of remediation and related activities. Amounts have been recorded as environmental liabilities based on estimates of future costs to remediate these sites, which are provided by independent consultants. At December 31, 2015, we have recorded $10.6 million in environmental liabilities associated with these MGP sites, representing our estimate of such future costs. We have also recorded regulatory and other assets to reflect future recovery of those costs in rates and have recorded $4.2 million of such assets at December 31, 2015, representing the amount of our environmental remediation costs to be recovered in future rates. There is uncertainty in these amounts, as the EPA, or other applicable state environmental authority, may not have selected the final remediation methods. In addition, there is uncertainty with regard to amounts that may be recovered from other potentially responsible parties.

We have also completed the investigation, assessment and remediation of eight natural gas pipeline facilities in Ohio that Aspire Energy acquired from Gatherco pursuant to the merger. The costs incurred to date associated with remediation activities for these facilities is approximately $1.0 million. Pursuant to the merger agreement, an escrow was established to fund certain claims by Chesapeake Utilities and Aspire Energy for indemnification by Gatherco, including environmental claims. Gatherco's indemnification obligations for environmental matters apply to remediation costs in excess of $431,250 and are capped at 1.65 million. We expect to be reimbursed for substantially all remediation costs we have incurred to date associated with these pipeline facilities in excess of $431,250.

Derivatives

We use derivative and non-derivative instruments to manage the risks related to obtaining adequate supplies and the price fluctuations of natural gas, electricity and propane. We also use derivative instruments to engage in propane wholesale marketing activities. We continually monitor the use of these instruments to ensure compliance with our risk management policies and account

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for them in accordance with the appropriate GAAP, such that every derivative instrument is recorded as either an asset or a liability measured at its fair value. It also requires that changes in the derivatives' fair value are recognized in the current period earnings unless specific hedge accounting criteria are met. If these instruments do not meet the definition of derivatives or are considered "normal purchases and sales," they are accounted for on an accrual basis of accounting.

Additionally, GAAP also requires us to classify the derivative assets and liabilities based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the fair value of the assets and liabilities and their placement within the fair value hierarchy.

During the last three years, we had the following derivative assets and liabilities:

- Propane forward contracts entered into by Xeron;
- Propane put options, call options and swap agreements entered into by Sharp; and
- Natural gas futures contracts entered into by PESCO.

We determined that certain propane put options, call options, swap agreements and natural gas futures contracts met the specific hedge accounting criteria. We also determined that most of our contracts for the purchase or sale of natural gas, electricity and propane either (i) did not meet the definition of derivatives because they did not have a minimum purchase/sell requirement or (ii) were considered "normal purchases and sales," because the contracts provided for the purchase or sale of natural gas, electricity or propane to be delivered in quantities that we expect to use or sell over a reasonable period of time in the normal course of business. Accordingly, these contracts were accounted for on an accrual basis of accounting. Additional information about our derivative instruments is disclosed in Item 8, *Financial Statements and Supplementary Data* (See Note 7: *Derivative Instruments*, in the Consolidated Financial Statements).

As of December 31, 2015, we recorded $153,000 and $433,000 of derivative assets and liabilities, respectively. As of December 31, 2014, we have recorded $1.1 million and $1.0 million of derivative assets and liabilities, respectively.

Operating Revenues

Revenues for our natural gas and electric distribution operations are based on rates approved by the PSC of each state in which we operate. Customers' base rates may not be changed without formal approval by these PSCs. However, PSCs authorized our regulated operations to negotiate rates, based on approved methodologies, with customers that have competitive alternatives. Eastern Shore's revenues are based on rates approved by the FERC. The FERC has also authorized Eastern Shore to negotiate rates above or below the FERC-approved maximum rates, which customers can elect as an alternative to negotiated rates.

Peninsula Pipeline, our Florida intrastate pipeline subsidiary that is subject to regulation by the Florida PSC, has negotiated firm transportation service contracts with third-party customers and with certain affiliates.

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

We record trading activity for open propane wholesale marketing contracts on a net mark-to-market basis in the consolidated statements of income. For propane bulk delivery customers without meters we record revenue in the period the products are delivered and/or services are rendered.

Our natural gas supply operation in Ohio recognizes revenues based on actual volumes of natural gas shipped using contractual rates, which are based upon index prices that are published monthly.

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

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

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Allowance for Doubtful Accounts

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

Goodwill and Other Intangible Assets

We test goodwill for impairment at least annually in December of each year. The testing of goodwill for 2015 indicated no goodwill impairment. At December 31, 2014, we recorded a non-cash, pre-tax impairment charge of $412,000 related to the impairment of goodwill and intangible assets associated with the 2013 acquisition of certain assets of Austin Cox.

Other Asset Impairment Evaluations

We periodically evaluate whether events or circumstances have occurred which indicate that long-lived assets may not be recoverable. When events or circumstances indicating impairment are present, we record an impairment loss equal to the excess of the assets' carrying value over its fair value, if any.

On May 29, 2015, we entered into a settlement agreement with a vendor related to the implementation of a customer billing system. Pursuant to the agreement, we received $1.5 million in cash, which is reflected as "Gain from a settlement" in the accompanying consolidated statements of income. Previously, at December 31, 2014, we recorded a $6.5 million pre-tax, non-cash impairment loss related to the same billing system implementation. We may also receive $750,000 in additional cash and discounts on future services; however, the receipt or retention of additional cash and future discounts is contingent upon engaging this vendor to provide agreed-upon services over the next five years. We will establish a regulatory asset for the portion of impairment loss not recovered from the vendor when future recovery through rates is probable.

Pension and Other Postretirement Benefits

Pension and other postretirement plan costs and liabilities are determined on an actuarial basis and are affected by numerous assumptions and estimates including the market value of plan assets, estimates of the expected returns on plan assets, assumed discount rates, the level of contributions made to the plans, and current demographic and actuarial mortality data. The assumed discount rates and the expected returns on plan assets are the assumptions that generally have the most significant impact on the pension costs and liabilities. The assumed discount rates, the assumed health care cost trend rates and the assumed rates of retirement generally have the most significant impact on our postretirement plan costs and liabilities. Additional information is presented in Item 8, *Financial Statements and Supplementary Data (*See Note 16, *Employee Benefit Plans,* in the Consolidated Financial Statements), including plan asset investment allocation, estimated future benefit payments, general descriptions of the plans, significant assumptions, the impact of certain changes in assumptions, and significant changes in estimates.

For 2015, actuarial assumptions include expected long-term rates of return on plan assets of 6.00 percent and 7.00 percent for Chesapeake Utilities' pension plan and FPU's pension plan, respectively, and discount rates of 3.50 percent and 3.75 percent for Chesapeake Utilities' and FPU's plans, respectively. The discount rate for each plan was determined by management considering high-quality corporate bond rates, such as Prudential curve index and the Citigroup yield curve, changes in those rates from the prior year and other pertinent factors, including the expected lives of the plans and the availability of the lump-sum payment option. A 0.25 percent decrease in the discount rate could increase our annual pension and postretirement costs by approximately $19,000, and a 0.25 percent increase could decrease our annual pension and postretirement costs by approximately $19,000.

The mortality assumption used for our pension and postretirement plans is based on the actuarial table that is most reflective of the expected mortality of the plan participants and reviewed periodically. We adopted a new mortality table (RP 2014 MP-2015), which was developed by the Society of Actuaries and published in 2015.

Actual changes in the fair value of plan assets and the differences between the actual return on plan assets and the expected return on plan assets could have a material effect on the amount of pension benefit costs that we ultimately recognize. A 0.25 percent change in the rate of return could change our annual pension cost by approximately $126,000 and would not have an impact on the postretirement and Chesapeake SERP because these plans are not funded.

The health care inflation rate for 2015 used to calculate the benefit obligation is five percent for medical and six percent for prescription drugs for the Chesapeake Postretirement Plan; and five percent for the FPU Medical Plan. A one-percentage point increase in the health care inflation rate from the assumed rate would increase the accumulated postretirement benefit obligation by approximately $335,000 as of December 31, 2015, and would increase the aggregate of the service cost and interest cost

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components of the net periodic postretirement benefit cost for 2015 by approximately $13,000. A one-percentage point decrease in the health care inflation rate from the assumed rate would decrease the accumulated postretirement benefit obligation by approximately $268,000 as of December 31, 2015, and would decrease the aggregate of the service cost and interest cost components of the net periodic postretirement benefit cost for 2015 by approximately $10,000.

Tax-related Contingency

We account for uncertainty in income taxes in the financial statements only if it is more likely than not that an uncertain tax position is sustainable based on technical merits. Recognizable tax positions are then measured to determine the amount of benefit recognized in the financial statements. We recognize penalties and interest related to unrecognized tax benefits as a component of other income.

We account for contingencies associated with taxes other than income when the likelihood of a loss is both probable and estimable. In assessing the likelihood of a loss, we do not consider the existence of current inquiries, or the likelihood of future inquiries, by tax authorities as a factor. Our assessment is based solely on our application of the appropriate statutes and the likelihood of a loss, assuming the proper inquiries are made by tax authorities.

As of December 31, 2015 and 2014, we recorded total liabilities of $50,000 and $100,000, respectively, associated with unrecognized income tax benefits. As of December 31, 2015 and 2014, we recorded total liabilities of $310,000 and $724,000, respectively, related to taxes other than income.

OVERVIEW AND HIGHLIGHTS

(in thousands except per share) For the Year Ended December 31,	2015	2014	Increase (decrease)	2014	2013	Increase (decrease)
Business Segment:						
Regulated Energy	**$ 60,985**	$ 50,451	$ 10,534	$ 50,451	$ 50,084	$ 367
Unregulated Energy	**16,355**	11,723	4,632	11,723	12,353	(630)
Other businesses and eliminations	**418**	105	313	105	297	(192)
Operating Income	**77,758**	62,279	15,479	62,279	62,734	(455)
Gains from sales of businesses	—	7,139	(7,139)	7,139	—	7,139
Other income, net of other expenses	**293**	101	192	101	372	(271)
Interest charges	**10,006**	9,482	524	9,482	8,234	1,248
Income Before Income Taxes	**68,045**	60,037	8,008	60,037	54,872	5,165
Income taxes	**26,905**	23,945	2,960	23,945	22,085	1,860
Net Income	**$ 41,140**	$ 36,092	$ 5,048	$ 36,092	$ 32,787	$ 3,305
Earnings Per Share of Common Stock						
Basic	**$ 2.73**	$ 2.48	$ 0.25	$ 2.48	$ 2.27	$ 0.21
Diluted	**$ 2.72**	$ 2.47	$ 0.25	$ 2.47	$ 2.26	$ 0.21

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2015 compared to 2014

Our net income increased by approximately $5.0 million or $0.25 per share (diluted) in 2015, compared to 2014. Key variances included:

(in thousands, except per share)	Pre-tax Income	Net Income	Earnings Per Share
Year ended December 31, 2014 Reported Results	$ 60,037	$ 36,092	$ 2.47
Adjusting for unusual items:			
Gains on sales of businesses, recorded in 2014	(7,139)	(4,292)	(0.29)
Asset impairment charges, recorded in 2014	6,880	4,136	0.28
Weather impact	(4,408)	(2,650)	(0.18)
Gain from a customer billing system settlement	1,500	902	0.06
	(3,167)	(1,904)	(0.13)
Increased (Decreased) Gross Margins:			
Higher retail propane margins	8,930	5,369	0.37
Service expansions (see Major Projects and Initiatives table)	5,215	3,135	0.21
Other natural gas growth	4,260	2,561	0.17
GRIP	4,151	2,496	0.17
FPU electric base rate increase	2,465	1,482	0.10
Propane wholesale marketing	(1,179)	(709)	(0.05)
Decreased wholesale propane sales	(446)	(268)	(0.02)
	23,396	14,066	0.95
Increased Other Operating Expenses:			
Higher payroll and benefits costs	(4,071)	(2,447)	(0.17)
Higher depreciation, asset removal and property tax costs due to new capital investments	(3,265)	(1,963)	(0.13)
Higher facility maintenance and service contractor costs	(2,499)	(1,502)	(0.10)
Costs associated with a customer billing system settlement and other transactions	(1,081)	(650)	(0.04)
Increased incentive compensation	(910)	(547)	(0.04)
	(11,826)	(7,109)	(0.48)
Net contribution from Aspire Energy, including impact of shares issued	567	341	(0.06)
Adjustment for other shares issued in 2015	—	—	(0.01)
Interest Charges	(525)	(316)	(0.02)
Net Other Changes	(437)	(259)	(0.02)
Tax Rate Change	—	229	0.02
Year ended December 31, 2015 Reported Results	$ 68,045	$ 41,140	$2.72

2014 compared to 2013

Our net income increased by approximately $3.3 million, or $0.21 per share (diluted) in 2014, compared to 2013. Key variances included:

(in thousands, except per share amounts)	Pre-tax Income	Net Income	Earnings Per Share
Year ended December 31, 2013 Reported Results	$ 54,872	$ 32,787	$ 2.26
Adjusting for unusual items:			
Gains on sales of businesses	7,139	4,266	0.29
Asset impairment charges	(6,880)	(4,111)	(0.28)
Weather impact	2,799	1,672	0.11
Regulatory recovery of litigation-related costs in 2013	(1,494)	(893)	(0.06)
Accrual for additional taxes other than income in 2013	990	592	0.04
One-time sales tax expense recorded by Sandpiper in conjunction with the 2013 ESG acquisition	726	434	0.03
	3,280	1,960	0.13
Increased (Decreased) Gross Margins:			
Major projects (see Major Projects and Initiatives table)			
Service expansions	5,591	3,341	0.23
Margin generated by Sandpiper	5,544	3,313	0.23
GRIP	2,862	1,710	0.12
Other natural gas growth	2,671	1,596	0.11
Increased wholesale propane sales	1,391	831	0.06
FPU electric base rate increase	1,269	758	0.05
	19,328	11,549	0.80
Increased Other Operating Expenses:			
Higher payroll and benefits costs	(5,164)	(3,085)	(0.21)
Expenses from acquisitions	(3,526)	(2,107)	(0.14)
Higher depreciation, asset removal and property tax costs due to new capital investments	(2,842)	(1,698)	(0.12)
Higher facility maintenance and service contractor costs	(2,735)	(1,634)	(0.11)
Increased incentive compensation	(1,356)	(810)	(0.06)
Transaction costs	(760)	(454)	(0.03)
	(16,383)	(9,788)	(0.67)
Interest Charges	(1,247)	(745)	(0.05)
Net Other Changes	187	329	—
Year ended December 31, 2014 Reported Results	$ 60,037	$ 36,092	$ 2.47

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SUMMARY OF KEY FACTORS

Major Projects and Initiatives

The following table summarizes gross margin for our existing and future major projects and initiatives:

(in thousands)	Gross Margin for the Period: Year Ended December 31, 2015	2014	Variance	Year Ended December 31, 2014	2013	Variance	Estimate 2016	2017
Existing major projects and initiatives	$ 25,270	$ 7,115	$ 18,155	$ 7,115	$ —	$ 7,115	$ 37,275	$ 36,493
Future major projects and initiatives	—	—	—	—	—	—	7,200	18,150
Total	$ 25,270	$ 7,115	$ 18,155	$ 7,115	$ —	$ 7,115	$ 44,475	$ 54,643

Existing Major Projects and Initiatives

The following table summarizes our major projects and initiatives commenced since 2014:

(in thousands)	Gross Margin for the Period [1]: Year Ended December 31, 2015	2014	Variance	Year Ended December 31, 2014	2013	Variance	Estimate for 2016	2017
Acquisition:								
Aspire Energy [2]	$ 6,324	$ —	$ 6,324	$ —	$ —	$ —	$ 12,824	$ 14,198
Natural Gas Transmission Expansions and Contracts:								
Short-term contracts								
New Castle County, Delaware	$ 2,682	$ 2,026	$ 656	$ 2,026	$ —	$ 2,026	$ 2,294	$ 1,561
Kent County, Delaware [3]	2,270	—	2,270	—	—	—	3,748	—
Total short-term Contracts	4,952	2,026	2,926	2,026	—	2,026	6,042	1,561
Long-term Contracts								
Kent County, Delaware	1,844	463	1,381	463	—	463	1,815	1,789
Polk County, Florida	908	—	908	—	—	—	1,627	1,627
Total long-term contracts	$ 2,752	$ 463	$ 2,289	$ 463	$ —	$ 463	$ 3,442	$ 3,416
Total Expansions & Contracts	$ 7,704	$ 2,489	$ 5,215	$ 2,489	$ —	$ 2,489	$ 9,484	$ 4,977
Florida GRIP	$ 7,508	$ 3,357	$ 4,151	$ 3,357	$ —	$ 3,357	$ 11,405	$ 13,756
Florida Electric Rate Case	$ 3,734	$ 1,269	$ 2,465	$ 1,269	$ —	$ 1,269	$ 3,562	$ 3,562
Total Existing Major Projects and Initiatives	$ 25,270	$ 7,115	$ 18,155	$ 7,115	$ —	$ 7,115	$ 37,275	$ 36,493

[1] Does not include gross margin of $21.8 million and $13.2 million for the year ended December 31, 2014 and 2013, respectively, related to projects initiated prior to 2014. These projects were previously disclosed and are excluded from this table as they no longer result in period-over-period variances

[2] During the year ended December 31, 2015 we incurred $5.8 million, in other operating expenses related to Aspire Energy's operation.

[3] Gross margin of $2.3 million is attributable to interruptible service and a short-term OPT ≤ 90 Service Eastern Shore provided to an industrial customer beginning in April 2015. These short-term services will be replaced by a 20-year OPT ≤ 90 Service.

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Gatherco Acquisition
On April 1, 2015, we completed the merger with Gatherco, pursuant to which Gatherco merged with and into Aspire Energy. Aspire Energy is an unregulated natural gas infrastructure company with approximately 2,500 miles of pipeline systems in 40 counties throughout Ohio. The majority of Aspire Energy's margin is derived from long-term supply agreements with Columbia Gas of Ohio and Consumers Gas Cooperative, which together serve more than 20,000 end-use customers. Aspire Energy primarily sources gas from 300 conventional producers and provides gathering and processing services necessary to maintain quality and reliability to its wholesale markets.

Aspire Energy generated $6.3 million in additional gross margin and incurred $5.8 million in other operating expenses for the year ended December 31, 2015. The financial results of Aspire Energy had a minimal impact on our earnings per share in 2015, because the merger was completed after the first quarter and Ohio experienced warmer than normal weather during the fourth quarter of 2015. The first and fourth quarters include key winter months, which historically produced a significant portion of Gatherco's annual earnings. This acquisition is expected to be accretive to our earnings in the first full year of operations, which will include the first quarter of 2016.

Service Expansions
During 2014, Eastern Shore, executed a one-year contract with an industrial customer in New Castle County, Delaware to provide 50,000 Dts/d of additional transmission service from April 2014 to April 2015. This contract was subsequently amended to provide 55,580 Dts/d of transmission service at a lower reservation rate through August 2020. The extension of the contract, net of the impact of the lower rate, generated additional gross margin of $334,000 for the year ended December 31, 2015 compared to 2014.

In December 2014 and November 2015, Eastern Shore executed two separate short-term contracts with the same customer in New Castle County, Delaware, to provide an additional 10,000 Dts/d of OPT ≤ 90 Service from December 2014 to March 2015 and November 2015 to March 2016, respectively. These short-term contracts generated additional gross margin of $322,000 for the year ended December 31, 2015 compared to 2014.

On October 1, 2014, Eastern Shore commenced a new lateral service to an industrial customer facility in Kent County, Delaware. This service commenced after construction of new facilities, including approximately 5.5 miles of pipeline lateral and metering facilities extending from Eastern Shore's mainline to the new industrial customer facility. This service generated additional gross margin of $1.4 million for 2015 compared to 2014. We expect this service to generate approximately $1.2 million to $1.8 million of annual gross margin during the 37-year service period.

In April 2015, Eastern Shore commenced interruptible service to the same industrial customer in Kent County, Delaware and generated additional gross margin of $1.6 million for 2015. Interruptible service concluded in December 2015 and was replaced by a short-term OPT ≤ 90 Service, which generated additional gross margin of $646,000 during 2015. The short-term OPT ≤ 90 Service is expected to be replaced by a 20-year OPT ≤ 90 Service.

On January 16, 2015, the Florida PSC approved a firm transportation agreement between Peninsula Pipeline and our Florida natural gas distribution division. Under this agreement, Peninsula Pipeline provides natural gas transmission service to support our expansion of natural gas distribution service in Polk County, Florida. Peninsula Pipeline began the initial phase of its service to Chesapeake Utilities' Florida natural gas distribution division in March 2015, generating $908,000 of additional gross margin for the year ended December 31, 2015. Once completed, all phases of this service will generate an estimated annual gross margin of $1.6 million.

GRIP
GRIP is a natural gas pipe replacement program approved by the Florida PSC, designed to expedite the replacement of qualifying distribution mains and services (any material other than coated steel or plastic) to enhance reliability and integrity of the Florida natural gas distribution systems. This program allows recovery, through regulated rates, of capital and other program-related costs, inclusive of a return on investment, associated with the replacement of the mains and services. Since the program's inception in August 2012, our Florida natural gas distribution operations have invested $76.7 million to replace 162 miles of qualifying distribution mains, $32.8 million of which was invested during 2015. We expect to invest an additional $21.1 million in this program in 2016. The increased investment in GRIP generated additional gross margin of $4.2 million for 2015, compared to 2014.

Florida Electric Rate Case
On September 15, 2014, the Florida PSC approved a settlement agreement between FPU and the Florida Office of Public Counsel in FPU's base rate case filing for its electric operation, which included, among other things, an increase in FPU's annual revenue requirement of approximately $3.8 million and a 10.25 percent rate of return on common equity. The new rates became effective for all meter reads on or after November 1, 2014. Previously, the Florida PSC approved interim rate relief, effective for meter

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readings on or after August 10, 2014. The higher base rates in FPU's electric operation generated $2.5 million in additional gross margin for 2015 compared to 2014.

Future Major Projects and Initiatives

White Oak Mainline Expansion Project: In December 2014, Eastern Shore entered into a precedent agreement with an industrial customer in Kent County, Delaware, to provide a 20-year natural gas transmission service for 45,000 Dts/d for the customer's new facility, upon the satisfaction of certain conditions. This new service will be provided as OPT ≤ 90 Service and is expected to generate at least $5.8 million in annual gross margin. In November 2014, Eastern Shore requested authorization by the FERC to construct 7.2 miles of 16-inch pipeline looping and 3,550 horsepower of new compression in Delaware to provide this service. The updated, estimated cost of these new facilities is approximately $32.0 - $35.0 million. As previously discussed, during the year ended December 31, 2015, we generated $2.3 million in additional gross margin by providing interruptible service and short-term OPT ≤ 90 Service to this customer. The estimated annual gross margin from this project, once it is in service, will be approximately $5.8 million.

System Reliability Project: On May 22, 2015, Eastern Shore submitted an application to the FERC seeking authorization to construct, own and operate approximately 10.1 miles of 16-inch pipeline looping and auxiliary facilities in New Castle and Kent Counties, Delaware and a new compressor at its existing Bridgeville compressor station in Sussex County, Delaware. Eastern Shore further proposes to reinforce critical points on its pipeline system. The total project will benefit all of Eastern Shore's customers by modifying the pipeline system to respond to severe operational conditions experienced during actual winter peak days in 2014 and 2015. Since the project is intended to improve system reliability, Eastern Shore requested a predetermination of rolled-in rate treatment for the costs of the project and an order granting the requested authorization. This project will be included in Eastern Shore's upcoming 2017 rate case filing. The estimated cost of the project is $32.1 million. The estimated annual gross margin associated with this project, assuming recovery in the 2017 rate case filing, is approximately $4.5 million.

TETLP Capacity Expansion Project: On October 13, 2015, Eastern Shore submitted an application to the FERC to make certain measurement and related improvements at its TETLP interconnect facilities, which will enable Eastern Shore to increase natural gas receipts from TETLP by 53,000 Dts/d, for a total capacity of 160,000 Dts/d. In December 2015, the FERC authorized Eastern Shore to proceed with the project. We anticipate that, once completed, this project will generate approximately $2.8 million in annual gross margin.

Eight Flags: Eight Flags, one of our unregulated energy subsidiaries, is engaged in the development and construction of a CHP plant in Nassau County, Florida. This CHP plant, which will consist of a natural-gas-fired turbine and associated electric generator, is designed to generate approximately 20 megawatts of base load power and will include a heat recovery system generator capable of providing approximately 75,000 pounds per hour of unfired steam. Eight Flags will sell the power generated from the CHP plant to FPU for distribution to its retail electric customers pursuant to a 20-year power purchase agreement. It will also sell the steam to an industrial customer pursuant to a separate 20-year contract. FPU will transport natural gas through its distribution system to Eight Flags' CHP plant, which will then produce the power and steam. On a consolidated basis, this project is expected to generate approximately $7.3 million in annual gross margin, which could fluctuate based upon various factors, including, but not limited to, the quantity of steam delivered and the CHP plant's hours of operations. Our total projected investment, by Eight Flags and our affiliates, to construct the CHP plant and associated facilities is approximately $40.0 million.

The following table summarizes estimated gross margin for the foregoing projects (dollars in thousands):

	Estimated Margin for [1]		
Project	**2016**	**2017**	**Annualized Margin**
White Oak Mainline Expansion Project in Kent County, Delaware	$ 1,300	$ 5,800	$ 5,800
Eastern Shore System Reliability Project	—	2,250	4,500
Eastern Shore TETLP Capacity Expansion Project	2,200	2,800	2,800
Eight Flags CHP plant in Nassau County, Florida	3,700	7,300	7,300
	$ 7,200	$ 18,150	$ 20,400

[1]Estimated margin for these projects is based on current tariff or negotiated rates.

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Weather and Consumption
Significantly warmer temperatures in 2015, particularly during the last three months of the year when the demand for natural gas and propane is normally high, had a large negative impact on the our earnings. Lower customer energy consumption, directly attributable to warmer than normal temperatures during 2015, reduced gross margin for the year ended December 31, 2015, by $4.4 million, compared to 2014. The following tables summarize the HDD and CDD information for the years ended December 31, 2015 and 2014, and the gross margin variance resulting from weather fluctuations in those periods.

HDD and CDD Information

For the Periods Ended December 31,	2015	2014	Variance	2014	2013	Variance
Delmarva						
Actual HDD	4,363	4,826	(463)	4,826	4,638	188
10-Year Average HDD ("Normal")	4,496	4,483	13	4,483	4,454	29
Variance from Normal	(133)	343		343	184	
Florida						
Actual HDD	569	888	(319)	888	671	217
10-Year Average HDD ("Normal")	859	856	3	856	885	(29)
Variance from Normal	(290)	32		32	(214)	
Ohio [1]						
Actual HDD	2,404	—	N/A	—	—	N/A
10-Year Average HDD ("Normal")	2,903	—	N/A	—	—	N/A
Variance from Normal	(499)	—		—	—	
Florida						
Actual CDD	3,338	2,705	633	2,705	2,750	(45)
10-Year Average CDD ("Normal")	2,760	2,768	(8)	2,768	2,750	18
Variance from Normal	578	(63)		(63)	—	

[1] HDD for Ohio is presented from April 1, 2015 through December 31, 2015.

Gross Margin Variance attributed to Weather

(in thousands)	2015 vs. 2014	2015 vs. Normal	2014 vs. 2013	2014 vs. Normal
Delmarva				
Regulated Energy	$ (1,414)	$ (183)	$ 232	$ 765
Unregulated Energy	(780)	593	1,431	1,324
Florida				
Regulated Energy	(1,326)	(922)	877	145
Unregulated Energy	(888)	297	292	485
Total	$ (4,408)	$ (215)	$ 2,832	$ 2,719

Propane Prices
Higher retail margins per gallon generated $7.0 million in additional gross margin by the Delmarva propane distribution operation for 2015 compared to 2014. A large decline in propane prices in the first quarter of 2015 had a significant impact on the amount of revenue and cost of sales associated with our propane distribution operations. Based on the Mont Belvieu wholesale propane index, propane prices in the first quarter of 2015 were approximately 55 percent lower than prices in the same quarter in 2014. As a result of favorable supply management and hedging activities, the Delmarva propane distribution operation experienced a

decrease in its average propane cost in addition to the decrease in wholesale prices, which generated increased retail margins per gallon. During the remainder of 2015, wholesale propane prices continued to remain significantly lower than prices in 2014.

In Florida, higher retail propane margins per gallon as a result of local market conditions generated $1.9 million of additional gross margin for 2015 compared to 2014.

These market conditions include competition with other propane suppliers as well as the availability and price of alternative energy sources, may fluctuate based on changes in demand, supply and other energy commodity prices. The level of retail margins per gallon generated during 2015 is not typical and, therefore, is not included in our long-term financial plans or forecasts.

Xeron, which benefits from wholesale price volatility by entering into trading transactions, experienced a gross margin decrease of $1.2 million, for 2015 compared to 2014, due to lower wholesale price volatility.

Other Natural Gas Growth - Distribution Operations

In addition to service expansions, the natural gas distribution operations on the Delmarva Peninsula generated $1.4 million in additional gross margin for 2015, compared to 2014, due to an increase in residential, commercial and industrial customers served. The number of residential customers on the Delmarva Peninsula increased by 2.7 percent in 2015 compared to 2014. The natural gas distribution operations in Florida generated $1.9 million in additional gross margin for 2015, compared to 2014, due primarily to an increase in commercial and industrial customers in Florida.

Capital Expenditures

Our capital expenditures for 2015 were $142.7 million, excluding the net amount expended to acquire Gatherco of $52.5 million. This represents a significant increase over the level of annual capital expenditures during the preceding three years, which averaged $94.8 million per year. Major expenditures to date associated with projects currently underway, such as the Eight Flags' CHP plant and associated facilities, anticipated new facilities to serve an industrial customer in Kent County, Delaware under the OPT ≤ 90 Service, and additional GRIP investments during 2015, account for approximately $99.0 million of the capital expenditures in 2015.

The 2016 capital budget is $179.3 million, a significant increase over the prior three years' average annual level of capital expenditures, excluding the Gatherco acquisition, due to a shifting in the capital outlay from 2015 to 2016 for several ongoing projects, including but not limited to the Eight Flags CHP plant, White Oak mainline expansion, and Eastern Shore's system reliability projects; additional expansions of our natural gas distribution and transmission systems; continued natural gas infrastructure improvement activities as well as expenditures for continued replacement under the Florida GRIP; replacement of several facilities and systems; and other strategic initiatives and investments expected in 2016. In addition, approximately $30.0 million is included in the 2016 capital budget for projects that are in the early development stage.

In order to fund the 2016 capital expenditures, we may further increase the level of borrowings during 2016 to supplement cash provided by operating activities. Our target ratio of equity to total capitalization, including short-term borrowings, is between 50 and 60 percent, and we have maintained a ratio of equity to total capitalization, including short-term borrowings, between 52 and 54 percent during the past three years. By increasing the level of debt during 2015 and 2016 to fund capital expenditures, our ratio of equity to total capitalization, including short-term borrowings, will temporarily decline.

On October 8, 2015, we entered into the Revolver with the Lenders, which increased our borrowing capacity by $150.0 million. To facilitate the refinancing of a portion of the short-term borrowings into long-term debt, as appropriate, we entered into a long-term private placement Shelf Agreement also for $150.0 million.

For larger capital projects, we will seek to align, as much as feasible, any such long-term debt or equity issuance(s) with the earnings associated with commencement of service on such projects. The exact timing of any long-term debt or equity issuance(s) will be based on market conditions.

Capital expenditures are subject to continuous review and modification by our management and Board of Directors, and some anticipated capital expenditures are subject to approval by the applicable regulators.

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REGULATED ENERGY

For the Year Ended December 31,	2015	2014	Increase (decrease)	2014	2013	Increase (decrease)
(in thousands)						
Revenue	$ 301,902	$ 300,442	$ 1,460	$ 300,442	$ 264,637	$ 35,805
Cost of sales	122,814	134,560	(11,746)	134,560	118,817	15,743
Gross margin	179,088	165,882	13,206	165,882	145,820	20,062
Operations & maintenance	83,616	76,046	7,570	76,046	65,713	10,333
(Gain from a settlement)/asset impairment charge	(1,497)	6,449	(7,946)	6,449	—	6,449
Depreciation & amortization	24,195	21,915	2,280	21,915	19,822	2,093
Other taxes	11,789	11,021	768	11,021	10,201	820
Other operating expenses	118,103	115,431	2,672	115,431	95,736	19,695
Operating Income	$ 60,985	$ 50,451	$ 10,534	$ 50,451	$ 50,084	$ 367

2015 compared to 2014

Operating income for the Regulated Energy segment increased by $2.6 million year-over-year, excluding the impact of several non-recurring items discussed below. The increase in operating income of $2.6 million was a result of an increase in gross margin of $13.2 million, partially offset by a $10.6 million increase in other operating expenses.

Gross Margin

Items contributing to the year-over-year increase of $13.2 million, or 8.0 percent, in gross margin are listed in the following table:

(in thousands)	
Gross margin for the year ended December 31, 2014	$ 165,882
Factors contributing to the gross margin increase for the year ended December 31, 2015:	
Service expansions	5,215
Additional revenue from GRIP in Florida	4,151
Natural gas distribution customer growth	3,322
Weather and other	(3,096)
FPU Electric base rate increase	2,465
Growth in natural gas transmission services (other than service expansions)	938
Other	210
Gross margin for the year ended December 31, 2015	$ 179,088

The following is a narrative discussion of the significant items, which we believe is necessary to understand the information disclosed in the foregoing table.

Service Expansions

Increased gross margin from natural gas service expansions was due primarily to the following:

- $1.6 million from interruptible service that commenced in April 2015 to an industrial customer facility in Kent County, Delaware. The interruptible service was replaced by short-term OPT ≤ 90 Service in December 2015, which generated an additional $646,000 of gross margin. The short-term OPT ≤ 90 Service is expected to be replaced by a 20-year OPT ≤ 90 Service.
- $1.4 million from a new service to the same industrial customer in Kent County, Delaware, that commenced on October 1, 2014 upon completion of new facilities, which included approximately 5.5 miles of pipeline lateral and metering facilities extending from Eastern Shore's mainline to the new industrial customer facility.

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- $334,000 from a short-term contract with an existing industrial customer in New Castle County, Delaware to provide 50,000 Dts/d of service from April 2014 to April 2015. This contract was subsequently amended to provide 55,580 Dts/d of service at a lower reservation rate through August 2020. Although the lower rate decreased gross margin by $437,000 for 2015, the extension of the contract at a higher volume generated additional gross margin of $771,000 for 2015. This service generated $2.3 million of gross margin in 2015 compared to $1.9 million of gross margin generated in 2014.
- $322,000 from two short-term contracts with the same industrial customer in New Castle County, Delaware, to provide an additional 10,000 Dts/d of OPT ≤ 90 Service transmission service from December 2014 to March 2015 and November 2015 to March 2016, respectively.
- $908,000 from natural gas transmission service as part of the major expansion initiative in Polk County, Florida.

Additional Revenue from GRIP in Florida

In 2015, FPU and Chesapeake Utilities' Florida division recorded $4.2 million in additional gross margin as a result of additional GRIP capital expenditures.

FPU Electric Base Rate Increase

FPU's electric distribution operation generated additional gross margin of $2.5 million due to higher base rates approved in September 2014 as a result of the rate case settlement. The new rates became effective for all meter reads on or after November 1, 2014.

Natural Gas Distribution Customer Growth

Increased gross margin from other natural gas growth was generated primarily from the following:

- $1.9 million from Florida natural gas customer growth due primarily to new services to commercial and industrial customers; and
- $1.4 million from a 2.7 percent increase in residential customers in the Delmarva natural gas distribution operations, as well as growth in commercial and industrial customers in Worcester County, Maryland.

Growth in Natural Gas Transmission Services (Other Than Service Expansions)

Increased gross margin from other growth in natural gas transmission services was generated primarily from the following:

- $678,000 from natural gas transmission service to commercial customers in Florida, and
- $137,000 from interruptible service to an industrial customer in New Castle County, Delaware.

Decreased Customer Consumption—Weather and Other

In 2015, customer consumption of natural gas and electricity decreased as a result of near record high temperatures on the Delmarva Peninsula and in Florida during the fourth quarter which reduced gross margin by approximately $3.1 million.

<u>*Other Operating Expenses*</u>

The increase in other operating expenses was due primarily to:

- $2.9 million in higher depreciation, asset removal and property tax costs associated with recent capital investments;
- $2.8 million in higher payroll and benefits costs as a result of additional personnel to support growth and increased overtime on the Delmarva Peninsula in early 2015 due to colder weather;
- $1.4 million in higher service contractor and other consulting costs;
- $987,000 in legal and consulting costs associated with the billing system settlement and other initiatives; and
- $480,000 in higher accruals for incentive compensation as a result of improved year-to-date financial performance; partially offset by:
- $1.5 million gain from the billing system settlement, which reduced other operating expenses for 2015.

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The non-recurring items added incremental operating income of $7.9 million in 2015, reflecting the absence of the $6.4 million asset impairment charge recorded in 2014 related to the then uncertainty about the implementation of a customer billing system and receipt of $1.5 million in 2015 as part of a settlement with the vendor of the customer billing system.

2014 compared to 2013

Operating income for the Regulated Energy segment increased by $367,000 to $50.5 million for 2014, compared to 2013. An increase in gross margin of $20.1 million was partially offset by the $6.4 million asset impairment charge in 2014 related to the then uncertainty about the implementation of a customer billing system and an increase in other operating expenses of $13.3 million. Excluding the impairment charge, operating income increased by $6.8 million.

Gross Margin

Items contributing to the year-over-year increase of $20.1 million, or 14 percent, in gross margin are listed in the following table:

(in thousands)		
Gross margin for the year ended December 31, 2013	$	145,820
Factors contributing to the gross margin increase for the year ended December 31, 2014:		
Margin from acquisitions		5,718
Service expansions		5,591
Additional revenue from GRIP in Florida		2,862
Other natural gas growth		2,671
Increased customer consumption—weather and other		1,432
Implementation of electric rates in Florida		1,269
Other		519
Gross margin for the year ended December 31, 2014	$	165,882

The following is a narrative discussion of the significant items, which we believe is necessary to understand the information disclosed in the foregoing table.

Contributions from Acquisitions

Sandpiper generated $5.5 million of additional gross margin in 2014 due to the inclusion of a full year of operation (the acquisition of the operating assets of ESG by Sandpiper occurred in late May 2013). Also, the acquisition in December 2013 of certain operating assets of Fort Meade generated $174,000 of additional gross margin in 2014.

Service Expansions

Increased gross margin from natural gas service expansions was due primarily to the following:

- $2.1 million from long-term natural gas transmission services that commenced in November 2013 to industrial customers located in New Castle and Kent Counties, Delaware, which displaced short-term services provided to the same customers from May through October 2013.
- $1.9 million from a short-term contract with an existing industrial customer to provide an additional 50,000 Dts/d of natural gas transmission services from April 2014 to April 2015. This new service was subsequently extended to August 2014 to provide 55,580 Dts/d of service through August 2020. This short-term contract is expected to generate $2.2 million of gross margin in 2015.
- $1.1 million from other major service expansions completed in 2013 that facilitated new natural gas transmission and distribution services in Sussex County, Delaware; Worcester and Cecil Counties, Maryland; and Indian River County, Florida.
- $463,000 from a new service to an industrial customer facility in Kent County, Delaware that commenced on October 1, 2014. This service required construction of new facilities, including approximately 5.5 miles of pipeline lateral and metering facilities, extending from Eastern Shore's mainline to the new industrial customer facility, and is expected to generate annual gross margin of $1.2 million to $1.8 million.

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Additional Revenue from GRIP in Florida

In 2014, FPU and Chesapeake Utilities' Florida division recorded $2.9 million in additional gross margin as a result of additional GRIP capital expenditures.

Other Natural Gas Growth

Increased gross margin from other natural gas growth was due primarily to the following:

- $2.0 million from natural gas customer growth in Florida due primarily to new services to commercial and industrial customers.
- $788,000 from a three percent increase in residential customers, as well as growth in commercial and industrial customers, in our Delmarva natural gas distribution operations.

Increased Customer Consumption—Weather and Other

In 2014, higher customer consumption due to colder temperatures on the Delmarva Peninsula and in Florida generated increased gross margin of approximately $1.1 million. Higher non-weather-related consumption generated additional gross margin of $322,000.

Implementation of Electric Rates in Florida

Our FPU electric distribution operation generated additional gross margin of $1.3 million as a result of implementing interim and full rates as part of its base rate case filing.

Other Operating Expenses

The increase in other operating expenses, excluding impairment charges, was due primarily to: (a) $3.3 million in higher payroll and benefits costs to support growth, and a change in our vacation policy in 2013; (b) $2.5 million in other operating expenses associated with Sandpiper's operations; (c) $2.6 million in higher depreciation, amortization, asset removal costs and property taxes associated with capital investments to support growth and maintain system integrity; (d) $2.2 million in higher costs associated with facilities maintenance and service contractors; (e) the absence in 2014 of a one-time credit of $1.5 million in 2013 associated with the City of Marianna litigation cost recovery; and (f) $1.0 million of increased accruals for incentive bonuses as a result of strong financial performance. These increases in other operating expenses were partially offset by the non-recurrence of a sales tax expense of $726,000 in 2013 recorded in conjunction with the ESG acquisition.

UNREGULATED ENERGY

For the Year Ended December 31,	2015	2014	Increase (decrease)	2014	2013	Increase (decrease)
(in thousands)						
Revenue	**$ 162,108**	$ 184,961	$ (22,853)	$ 184,961	$ 166,723	$ 18,238
Cost of sales	**101,791**	137,081	(35,290)	137,081	121,348	15,733
Gross margin	**60,317**	47,880	12,437	47,880	45,375	2,505
Operations & maintenance	**36,536**	30,197	6,339	30,197	26,657	3,540
Asset impairment charges	**—**	432	(432)	432	—	432
Depreciation & amortization	**5,679**	3,994	1,685	3,994	3,686	308
Other taxes	**1,747**	1,534	213	1,534	2,679	(1,145)
Other operating expenses	**43,962**	36,157	7,805	36,157	33,022	3,135
Operating Income	**$ 16,355**	$ 11,723	$ 4,632	$ 11,723	$ 12,353	$ (630)

2015 Compared to 2014

Operating income for the Unregulated Energy segment was $16.4 million, an increase of $4.6 million, compared to 2014. The increase in operating income was primarily due to an increase in gross margin of $12.4 million and the absence of $432,000 in asset impairment charges of goodwill and intangible assets recorded in 2014, offset by an increase in other operating expenses of $8.2 million.

Gross Margin

Items contributing to the year-over-year increase of $12.4 million, or 26.0 percent, in gross margin were as follows:

(in thousands)		
Gross margin for the year ended December 31, 2014	$	47,880
Factors contributing to the gross margin increase for the year ended December 31, 2015:		
Increase in retail propane margins		8,930
Margin generated by Aspire Energy		6,345
Decreased customer consumption - weather and other		(1,792)
Propane Wholesale Marketing		(1,179)
Other		133
Gross margin for the year ended December 31, 2015	$	60,317

The following is a narrative discussion of the significant items, which we believe is necessary to understand the information disclosed in the foregoing table.

Increased Retail Propane Margins

Higher retail propane margins for our Delmarva Peninsula and Florida propane distribution operations during 2015 generated $7.0 million and $1.9 million, respectively, in additional gross margin. A large decline in wholesale propane prices during 2015, coupled with favorable supply management and hedging activities, resulted in a decrease in the average propane costs for the Delmarva propane distribution operation, which resulted in increased retail propane margins per gallon.

Margin generated by Aspire Energy

Aspire Energy generated $6.3 million in gross margin during 2015.

Decreased Customer Consumption - Weather and Other

Reduced consumption decreased gross margin by $1.8 million. The decrease was mainly driven by weather due to record high temperatures during the fourth quarter of 2015 on the Delmarva Peninsula and by lower non-weather consumption in Florida.

Lower Propane Wholesale Marketing Results

Xeron's gross margin decreased by $1.2 million during 2015, compared to 2014, as a result of a 14-percent decrease in trading activity and lower margins on executed trades. In contrast, Xeron experienced higher price volatility and higher trading volumes in 2014, which resulted in unusually high profitability during that year.

Other Operating Expenses

Other operating expenses increased by $7.8 million due primarily to $5.8 million of other operating expenses incurred by Aspire Energy. The remaining increase in other operating expenses was due primarily to:

- $1.4 million in higher payroll and benefits expense due to increased seasonal overtime and additional resources hired to support growth;
- $553,000 in additional costs for facility maintenance; and
- $411,000 in increased accruals for incentive compensation as a result of improved year-to-date financial results in 2015 as well as a larger workforce.

2014 Compared to 2013

Operating income for the Unregulated Energy segment was $11.7 million, a decrease of $630,000, compared to 2013. An increase in gross margin of $2.5 million was more than offset by $432,000 in asset impairment charges for goodwill and intangible assets related to the 2013 acquisition of certain assets by Austin Cox and an increase in other operating expenses of $2.7 million.

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Gross Margin

Items contributing to the year-over-year increase of $2.5 million, or six percent, in gross margin were as follows:

(in thousands)		
Gross margin for the year ended December 31, 2013	$	45,375
Factors contributing to the gross margin increase for the year ended December 31, 2014:		
Increased customer consumption—weather and other		1,412
Increased wholesale propane sales		1,391
Decrease in retail propane margins		(356)
Other		58
Gross margin for the year ended December 31, 2014	$	47,880

The following is a narrative discussion of the significant items, which we believe is necessary to understand the information disclosed in the foregoing table.

Increased Customer Consumption—Weather and Other

Higher customer consumption due to colder temperatures during 2014 generated an additional gross margin of $1.7 million. This was partially offset by lower non-weather related consumption, which reduced gross margin by $279,000.

Increased Wholesale Propane Sales

An increase in wholesale propane sales generated additional gross margin of $1.4 million due primarily to the supply agreement entered into in May 2013 with an affiliate of ESG.

Decrease in Retail Propane Margins

Lower retail propane margins for our Delmarva propane distribution operation decreased gross margin by $2.3 million. A significant increase in wholesale prices in late 2013 and early 2014 increased our propane inventory cost in 2014 and retail margins reverted to more normal levels. In addition, a rapid decline in wholesale prices in late 2014 resulted in a lower-of-cost-or-market propane inventory valuation adjustment and our decision to discontinue hedge accounting on swap agreements to recognize the expected losses on those agreements in current years' earnings. The lower-of-cost-or-market adjustment and the discontinuation of hedge accounting decreased retail margins per gallon in 2014.

This decrease was partially offset by $1.9 million in higher retail propane margins in Florida, as local market conditions enabled the Florida propane distribution operations to maintain strong margins on sales despite volatility in propane supply costs. The propane retail price per gallon is subject to various market conditions, including competition with other propane suppliers and the availability and price of alternative energy sources. The propane retail price per gallon may fluctuate based on changes in demand, supply and other energy commodity prices.

Other Operating Expenses

The increase in other operating expenses, excluding impairment charges, was due primarily to: (a) $1.9 million in higher payroll and benefits costs due to increased seasonal overtime and additional resources to support growth; (b) $897,000 in additional expenses associated with serving newly acquired customers; and (c) $540,000 in higher costs associated with facilities maintenance. These increases were partially offset by the non-recurrence of a contingency accrual of $990,000 in 2013 related to taxes other than income.

GAIN FROM SALE OF BUSINESSES

On October 1, 2014, we completed the sale of BravePoint for approximately $12.0 million. We recorded a pre-tax gain of approximately $6.7 million ($4.0 million after-tax) from this sale in the fourth quarter of 2014. We reinvested the proceeds from this sale in our regulated and unregulated energy businesses. We also recorded a gain of $396,000 from the sale of the Florida fuel line maintenance business in April 2014. No businesses were sold in 2015 or 2013.

OTHER INCOME

Other income for 2015, 2014 and 2013 was $293,000, $101,000 and $372,000, respectively, which includes non-operating investment income, interest income, late fees charged to customers and gains or losses from the sale of assets.

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INTEREST EXPENSE

2015 Compared to 2014
Interest charges for 2015 increased by approximately $524,000, or six percent, compared to 2014. The increase in interest charges is attributable an increase of $356,000 in interest expense from higher short-term borrowings and an increase of $95,000, in long-term interest charges as a result of $50.0 million of Senior Notes issued in May 2014.

2014 Compared to 2013
Interest expense for 2014 increased by approximately $1.2 million, or 15 percent, compared to the same period in 2013. The increase in interest expense was attributable primarily to the Senior Notes issued in December 2013 and May 2014.

INCOME TAXES

2015 Compared to 2014
Income tax expense was $26.9 million for 2015, compared to $23.9 million in 2014. The increase in income tax expense was due primarily to higher taxable income. Our effective tax rate was 39.5 percent in 2015, compared to 39.9 percent in 2014.

2014 Compared to 2013
Income tax expense was $23.9 million in 2014, compared to $22.1 million in 2013. Our effective tax rate was 39.9 percent in 2014, compared to 40.2 percent in 2013.

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Liquidity and Capital Resources

Our capital requirements reflect the capital-intensive and seasonal nature of our business and are principally attributable to investment in new plant and equipment, retirement of outstanding debt and seasonal variability in working capital. We rely on cash generated from operations, short-term borrowings, and other sources to meet normal working capital requirements and to temporarily finance capital expenditures. We may also issue long-term debt and equity to fund capital expenditures and to more closely align our capital structure to target.

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

Capital expenditures for investments in new or acquired plant and equipment are our largest capital requirements. Our capital expenditures, including acquisitions, during 2015, 2014 and 2013 were $195.2 million, $98.1 million and $108.0 million, respectively. The significant increase in our capital expenditures in 2015 compared to 2014 and 2013, resulted from the acquisition of Gatherco ($52.5 million net of cash acquired), additional capital investment in the Florida GRIP ($32.8 million) and Eight Flags' construction of the CHP plant in Florida ($24.7 million).

We have budgeted $179.3 million for capital expenditures in 2016. The following table shows the 2016 capital expenditure budget by segment and by business line:

(dollars in thousands)		
Regulated Energy:		
Natural gas distribution	$	73,285
Natural gas transmission		66,938
Electric distribution		7,566
Total Regulated Energy		147,789
Unregulated Energy:		
Propane distribution		11,141
Other unregulated energy		13,504
Total Unregulated Energy		24,645
Other:		
Other corporate and common		6,871
Total Other		6,871
Total 2016 Capital Expenditures	$	179,305

The 2016 budget is a significant increase over prior years' average annual level of capital expenditures, excluding the Gatherco acquisition, due to a shifting in the capital outlay from 2015 to 2016 for several ongoing projects, including but not limited to the Eight Flags' CHP plant, Eastern Shore's White Oak mainline expansion and system reliability projects; additional expansions of our natural gas distribution and transmission systems; continued natural gas infrastructure improvement activities as well as expenditures for continued replacement under the GRIP in our Florida natural gas distribution operations; replacement of several facilities and systems; and other strategic initiatives and investments expected in 2016. In addition, $30.0 million is included in the 2016 capital budget for projects that are in the early development stage.

Actual capital requirements may vary from the above estimates due to a number of factors, including changing economic conditions, customer growth in existing areas, regulation, new growth or acquisition opportunities and availability of capital. Historically, actual capital expenditures have typically lagged behind the budgeted amounts.

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Capital Structure

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

The following presents our capitalization, excluding and including short-term borrowings, as of December 31, 2015 and 2014:

(in thousands)	December 31, 2015		December 31, 2014	
Long-term debt, net of current maturities	$ 149,340	29%	$ 158,486	35%
Stockholders' equity	358,138	71%	300,322	65%
Total capitalization, excluding short-term borrowings	$ 507,478	100%	$ 458,808	100%

(in thousands)	December 31, 2015		December 31, 2014	
Short-term debt	$ 173,397	25%	$ 88,231	16%
Long-term debt, including current maturities	158,491	23%	167,595	30%
Stockholders' equity	358,138	52%	300,322	54%
Total capitalization, including short-term borrowings	$ 690,026	100%	$ 556,148	100%

Included in the long-term debt balance at December 31, 2015 was a capital lease obligation associated with Sandpiper's capacity, supply and operating agreement ($3.5 million net of current maturities and $4.8 million including current maturities). At the closing of the ESG acquisition in May 2013, Sandpiper entered into this agreement, which has a six-year term. The capacity portion of this agreement is accounted for as a capital lease.

As of December 31, 2015, we did not have any restrictions on our cash balances. Chesapeake Utilities' Senior Notes and FPU's first mortgage bonds contain a restriction that limits the payment of dividends or other restricted payments in excess of certain pre-determined thresholds. As of December 31, 2015, $146.6 million of Chesapeake Utilities' cumulative consolidated net income and $78.7 million of FPU's cumulative net income were free of such restrictions.

Our target ratio of equity to total capitalization, including short-term borrowings, is between 50 and 60 percent. We have maintained a ratio of equity to total capitalization, including short-term borrowings, between 52 percent and 54 percent during the past three years. Our equity as a percent of total capital declined in 2015 as we financed several large revenue generating capital projects with short-term borrowings. As we continue to construct these projects in 2016, the ratio of equity to total capitalization, including short-term borrowings, will further decline temporarily.

As described below under "Short-term Borrowings", we entered into a new Revolver with the Lenders on October 8, 2015, which increased our borrowing capacity by $150.0 million. To facilitate the refinancing of a portion of the short-term borrowings into long-term debt, as appropriate, we also entered into a long-term private placement Shelf Agreement with Prudential that is further described below under "Shelf Agreement."

We will seek to align, as much as feasible, any such long-term debt or equity issuance(s) with the commencement of service, and associated earnings, for larger revenue generating capital projects. In addition, the exact timing of any long-term debt or equity issuance(s) will be based on market conditions.

Shelf Agreement

On October 8, 2015, we entered into a committed Shelf Agreement with Prudential and other purchasers that may become a party to the Shelf Agreement. Under the terms of the Shelf Agreement, we may request that Prudential purchase, over the next three years, up to $150.0 million of our Shelf Notes at a fixed interest rate and with a maturity date not to exceed twenty years from the date of issuance. Prudential and its affiliates are under no obligation to purchase any of the Shelf Notes. The interest rate and terms of payment of any series of Shelf Notes will be determined at the time of purchase. We currently anticipate that the proceeds from the sale of any series of Shelf Notes will be used for general corporate purposes, including the refinancing of short-term borrowings and/or repayment of outstanding indebtedness and financing of capital expenditures on future projects; however, actual use of such proceeds will be determined at the time of a purchase and each request for purchase with respect to a series of Shelf Notes will specify the exact use of the proceeds.

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Short-term Borrowings

Our outstanding short-term borrowings at December 31, 2015 and 2014 were $173.4 million and $88.2 million, respectively, at the weighted average interest rates of 1.30 percent and 1.15 percent, respectively.

We utilize bank lines of credit to provide funds for our short-term cash needs to meet seasonal working capital requirements and to temporarily fund portions of the capital expenditure program. During 2015, we had four unsecured bank credit facilities with three financial institutions totaling $170.0 million in total available credit. In addition, beginning in October of 2015, we also had additional short-term debt capacity available under a Revolver with five participating Lenders totaling $150.0 million. The terms of the Revolver are described in further detail below. We also had access to two credit facilities, which totaled $40.0 million; however, these credit facilities expired on October 31, 2015. These facilities were not renewed given the addition of the new Revolver. None of the unsecured bank lines of credit requires compensating balances. Our Board of Directors previously authorized us to borrow up to $200.0 million of short-term borrowings, as necessary. On February 24, 2016, the Board of Directors increased this limit to $275.0 million.

On October 8, 2015, we entered into the Credit Agreement with the Lenders to provide a $150.0 million Revolver for five years subject to the terms and conditions as specified. Borrowings under the Revolver will be used for general corporate purposes, including repayments of short-term borrowings, working capital requirements and capital expenditures. Borrowings under the Revolver will bear interest at: (i) the LIBOR Rate plus an applicable margin of 1.25 percent or less, with such margin based on total indebtedness as a percentage of total capitalization, both as defined by the Credit Agreement, or (ii) the base rate plus 0.25% or less. Interest is payable quarterly and the Revolver is subject to a commitment fee on the unused portion of the facility. We may extend the expiration date for up to two years on any anniversary date of the Revolver, with such extension subject to the Lenders' approval. We may also request the Lenders to increase the Revolver to $200.0 million with any increase at the sole discretion of each Lender. At December 31, 2015, we had borrowed $35.0 million under the Revolver.

Our outstanding short-term borrowings at December 31, 2015 and 2014 included $4.6 million and $2.2 million, respectively, of book overdrafts. Book overdrafts are not actual borrowings under the credit facilities; however, these book overdrafts, if presented, would be funded through the credit facilities if presented and, therefore, were included in the short-term borrowings.

As of December 31, 2015, we had issued $5.6 million in letters of credit to various counterparties under one of the bank lines of credit. Although the amount of the letters of credit is not included in the outstanding short-term borrowings and we do not anticipate they will be drawn upon by the counterparties, the letters of credit reduce the available borrowings under the credit facilities.

Our outstanding borrowings under these unsecured short-term credit facilities at December 31, 2015 and 2014 were $168.8 million and $86.0 million, respectively. Short term borrowings were as follows during 2015, 2014 and 2013:

(in thousands)	2015	2014	2013
Average borrowings	$ 102,062	$ 68,928	$ 67,367
Weighted average interest rate	1.22%	1.28%	1.34%
Maximum month-end borrowings	$ 168,757	$ 86,040	$ 102,554

Cash Flows

The following table provides a summary of our operating, investing and financing cash flows for the years ended December 31, 2015, 2014 and 2013:

	For the Year Ended December 31,		
(in thousands)	**2015**	**2014**	**2013**
Net cash provided by (used in):			
Operating activities	**$ 105,142**	$ 79,284	$ 72,931
Investing activities	**(165,558)**	(86,586)	(114,781)
Financing activities	**58,697**	8,520	41,845
Net increase (decrease) in cash and cash equivalents	**(1,719)**	1,218	(5)
Cash and cash equivalents—beginning of period	**4,574**	3,356	3,361
Cash and cash equivalents—end of period	**$ 2,855**	$ 4,574	$ 3,356

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Cash Flows Provided by Operating Activities

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

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

During 2015 and 2014, net cash provided by operating activities was $105.1 million and $79.3 million, respectively, resulting in an increase in cash flows of $25.8 million in 2015. Significant operating activities generating the cash flow change were as follows:

- The changes in net regulatory assets and liabilities increased cash flows by $14.9 million, due primarily to the change in fuel costs collected through the various fuel cost recovery mechanisms.
- The change in income taxes receivable increased cash flows by $11.0 million, due primarily to the receipt of a tax refund related to our 2014 federal income tax obligation. Our tax deductions, which were higher than projected, due to bonus depreciation (approved by the President of the United States in December 2014), reduced our 2014 federal income tax obligation.
- Net income, adjusted for non-cash adjustments and reconciling activities, increased cash flows by $7.6 million, due primarily to higher earnings and higher non-cash adjustments for depreciation and amortization.
- Changes in customer deposits and refunds increased cash flows by $2.9 million.
- Changes in net accounts receivable and payable decreased cash flows by $6.4 million, due primarily to the timing of the collections and payments associated with trading contracts entered into by our propane wholesale and marketing subsidiary and net cash flows from accounts receivable and payable attributed to Aspire Energy. This decrease was partially offset by an increase in net cash flow from receivables and payables in various other operations.
- Net cash flows from changes in propane, natural gas and materials inventories decreased by approximately $2.7 million.

During 2014 and 2013, net cash provided by operating activities was $79.3 million and $72.9 million, respectively, resulting in an increase in cash flows of $6.4 million in 2014. Significant operating activities generating the cash flow change were as follows:

- Net income, adjusted for non-cash adjustments and reconciling activities, increased cash flows by $15.1 million.
- Changes in net accounts receivable and payable increased cash flows by $15.1 million, due primarily to the timing of the collections and payments associated with trading contracts entered into by our propane wholesale and marketing subsidiary.
- Net cash flows from changes in inventories increased by approximately $8.7 million as a result of lower commodity prices, which decreased the carrying value of our inventory.
- These increases in operating cash flow were partially offset by a decrease in cash flows from changes in net regulatory assets and liabilities of $13.3 million, due primarily to a change in fuel cost collected through fuel cost recovery mechanisms and additional piping and conversion costs during 2014, which will be recovered through future rates.
- Higher net income tax payments decreased cash flows by $18.2 million.

Cash Flows Used in Investing Activities

Net cash used in investing activities totaled $165.6 million and $86.6 million for 2015 and 2014, respectively, resulting in a decrease in cash flows of $79.0 million. Significant investing activities contributing to the cash flow change were as follows:

- An increase in cash paid for capital expenditures year-over-year, due primarily to our GRIP investment in our Florida natural gas distribution operations and Eight Flags' construction of the CHP plant, which decreased cash flows by $47.5 million.
- We paid $20.7 million in cash ($27.5 million paid, less $6.8 million of cash acquired) through our short-term borrowings in conjunction with the acquisition of Gatherco on April 1, 2015. In addition to the net cash consideration, we also issued 592,970 shares of our common stock, which had no cash flow impact.

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Net cash used in investing activities totaled $86.6 million and $114.8 million for 2014 and 2013, respectively, resulting in an increase in cash flows of $28.2 million. Significant investing activities contributing to the cash flow change were as follows:

- We paid $20.2 million for various acquisitions in 2013. There were no corresponding transactions during 2014.
- We received $10.2 million associated with the disposition of BravePoint in October 2014, compared to $2.3 million received from the sale of equity securities during 2013.

Cash Flows Provided by Financing Activities

Net cash provided by financing activities totaled $58.7 million and $8.5 million for 2015 and 2014, respectively, resulting in an increase of $50.2 million in 2015. Significant financing activities generating the cash flow change were as follows:

- Net borrowings/repayments under the line of credit agreements increased cash flows by $98.7 million due to an increase in short-term borrowing, which includes the $35.0 million we borrowed under the Revolver. In 2014, we used the proceeds from the issuance of $50.0 million of Series B Notes to repay borrowings under our lines of credit arrangements.
- Book overdrafts decreased cash flows by $3.4 million.
- Net proceeds from and repayments of long-term debt decreased cash flows by $50.8 million due primarily to the $50.0 million issuance of Series B Notes in May 2014.

Net cash provided by financing activities totaled $8.5 million and $41.8 million for 2014 and 2013, respectively, resulting in a decrease of $33.3 million in 2014. Significant financing activities generating the cash flow change were as follows:

- Net borrowings/repayments under the line of credit agreements decreased cash flows by $62.6 million. The proceeds from the issuance of the Series B Notes were used to repay borrowings under line of credit agreements.
- Net proceeds from and repayments of long-term debt increased cash flows by $28.2 million due primarily to the $50.0 million issuance of the Series B Notes in May 2014, compared to $20.0 million from the issuance of the Series A Notes in December 2013.

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Contractual Obligations

We have the following contractual obligations and other commercial commitments as of December 31, 2015:

Contractual Obligations	Payments Due by Period				
	Less than 1 year	1 — 3 years	3 — 5 years	More than 5 years	Total
(in thousands)					
Long-term debt [1]	$ 7,798	$ 18,669	$ 26,226	$ 101,000	$ 153,693
Operating leases [2]	1,270	1,133	697	2,215	5,315
Capital leases [2] [3]	1,353	2,852	620	—	4,825
Purchase obligations [4]					
Transmission capacity	27,750	55,067	44,907	100,133	227,857
Storage — Natural Gas	1,482	2,502	1,365	641	5,990
Commodities	27,272	6,452	1,128	—	34,852
Electric supply	15,792	32,812	17,020	—	65,624
Unfunded benefits [5]	407	731	680	1,707	3,525
Funded benefits [6]	2,091	4	—	3,608	5,703
Total Contractual Obligations	**$ 85,215**	**$ 120,222**	**$ 92,643**	**$ 209,304**	**$ 507,384**

(1) This represents principal payments on long-term debt. See Item 8, *Financial Statements and Supplementary Data*, Note 12, *Long-Term Debt*, for additional discussion of this item. The expected interest payments on long-term debt are $8.2 million, $15.0 million, $12.7 million and $21.9 million, respectively, for the periods indicated above. Expected interest payments for all periods total $58.0 million.

(2) See Item 8, *Financial Statements and Supplementary Data*, Note 14, *Lease Obligations*, for further information.

(3) See Item 8, *Financial Statements and Supplementary Data*, Note 4, *Acquisitions and Disposition*, for further information.

(4) See Item 8, *Financial Statements and Supplementary Data*, Note 20, *Other Commitments and Contingencies*, for further information.

(5) We have recorded long-term liabilities of $3.5 million at December 31, 2015 for unfunded post-employment and post-retirement benefit plans. The amounts specified in the table are based on expected payments to current retirees and assume a retirement age of 62 for currently active employees. There are many factors that would cause actual payments to differ from these amounts, including early retirement, future health care costs that differ from past experience and discount rates implicit in calculations.

(6) We have recorded long-term liabilities of $26.0 million at December 31, 2015 for two qualified, defined benefit pension plans. The assets funding these plans are in a separate trust and are not our considered assets of ours or included in our balance sheets. The Contractual Obligations table above includes $2.1 million, reflecting the expected payments we will make to the trust funds in 2015. Additional contributions may be required in future years based on the actual return earned by the plan assets and other actuarial assumptions, such as the discount rate and long-term expected rate of return on plan assets. See Item 8, *Financial Statements and Supplementary Data*, Note 16, *Employee Benefit Plans*, for further information on the plans. Additionally, the Contractual Obligations table includes deferred compensation obligations totaling $3.6 million, funded with Rabbi Trust assets in the same amount. The Rabbi Trust assets are recorded under Investments on the Balance Sheet. We assume a retirement age of 65 for purposes of distribution from this account.

Off-Balance Sheet Arrangements

We have issued corporate guarantees to certain vendors of our subsidiaries, primarily Xeron and PESCO. These corporate guarantees provide for the payment of propane and natural gas purchases in the event of the respective subsidiary's default. Neither of these subsidiaries has ever defaulted on its obligations to pay its suppliers. The liabilities for these purchases are recorded in our financial statements when incurred. The aggregate amount guaranteed at December 31, 2015 was $45.6 million, with the guarantees expiring on various dates through December 29, 2016.

We have issued letters of credit totaling $5.6 million related to the electric transmission services for FPU's northwest electric division, the firm transportation service agreement between TETLP and our Delaware and Maryland divisions and to our current and previous primary insurance carrier. These letters of credit have varying expiration dates extending through October 31, 2016. There have been no draws on these letters of credit as of December 31, 2015. We do not anticipate that the letters of credit will be drawn upon by the counterparties, and we expect that the letters of credit will be renewed to the extent necessary in the future. Additional information is presented in Item 8, *Financial Statements and Supplementary Data*, Note 20, *Other Commitments and Contingencies* in the Consolidated Financial Statements.

ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

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Long-term debt is subject to potential losses based on changes in interest rates. Our long-term debt consists of fixed-rate Senior Notes and $8.0 million of secured debt. All of our long-term debt is fixed-rate debt and was not entered into for trading purposes. The carrying value of long-term debt, including current maturities but excluding a capital lease obligation was, $153.7 million at December 31, 2015, as compared to a fair value of $165.1 million, using a discounted cash flow methodology that incorporates a market interest rate based on published corporate borrowing rates for debt instruments with similar terms and average maturities with adjustments for duration, optionality, credit risk, and risk profile. We evaluate whether to refinance existing debt or permanently refinance existing short-term borrowings based in part on the fluctuation in interest rates.

Commodity Price Risk Related To Regulated Energy Segment

We have entered into agreements with various wholesale suppliers to purchase natural gas and electricity for resale to our customers. Purchases under these contracts either do not meet the definition of derivatives or are considered "normal purchases and sales" and are accounted for on an accrual basis. For all of our regulated businesses that sell natural gas or electricity to end-use customers, we have fuel cost recovery mechanisms authorized by the PSCs that allow us to periodically adjust fuel rates to reflect changes in the wholesale cost of natural gas and electricity and to ensure that we recover all of the costs prudently incurred in purchasing natural gas and electricity for our customers.

Commodity Price Risk Related To Unregulated Energy Segment

Sharp is exposed to commodity price risk as a result of the competitive nature of retail pricing offered to our customers. In order to mitigate this risk, we utilize propane storage activities and forward contracts for supply.

We can store up to approximately 6.5 million gallons of propane (including leased storage and rail cars) during the winter season to meet our customers' peak requirements and to serve metered customers. Purchases under forward contracts are typically considered "normal purchases and sales" and are accounted for on an accrual basis. Decreases in the wholesale price of propane may cause the value of stored propane to decline, particularly if we utilize fixed price forward contracts for supply. To mitigate the risk of propane commodity price fluctuations on the inventory valuation, we have adopted a Risk Management Policy that allows our propane distribution operation to enter into fair value hedges, cash flows hedges or other economic hedges of our inventory.

Aspire Energy is exposed to commodity price risk primarily during the winter season, to the extent we are not successful in balancing our natural gas purchases and sales and have to secure natural gas from alternative sources at higher spot prices. In order to mitigate this risk, we procure firm capacity that meets our volume requirements and we continue to seek out new producers with which to contract in order to fulfill our natural gas purchase requirements.

Commodity Contracts

Xeron is a party to natural gas liquids forward contracts, which are primarily propane contracts, with various third parties. These contracts require that the propane wholesale marketing operation purchase or sell natural gas liquids at a fixed price at fixed future dates. At expiration, the contracts are typically settled financially without taking physical delivery of propane. Xeron also enters into futures contracts that are traded on the InterContinentalExchange. In certain cases, the futures contracts are settled by the payment or receipt of a net amount equal to the difference between the current market price of the futures contract and the original contract price; however, they may also be settled by physical receipt or delivery of propane. The forward and futures contracts are entered into for trading and wholesale marketing purposes.

PESCO is party to natural gas futures contracts. These contracts provide PESCO with the right to purchase natural gas at a fixed price at future dates. At the expiration, the contracts can be settled financially without taking delivery of natural gas or PESCO can procure natural gas for its customers.

Xeron and PESCO are subject to commodity price risk on their open positions to the extent that market prices for natural gas liquids and natural gas deviate from fixed contract settlement prices. Market risk associated with the trading of futures and forward contracts is monitored daily for compliance with our Risk Management Policy, which includes volumetric limits for open positions. To manage exposures to changing market prices, open positions are marked up or down to market prices and reviewed daily by our oversight officials. In addition, the Risk Management Committee reviews periodic reports on markets and the credit risk of counterparties, 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.

Additional information about our derivative instruments is disclosed in Item 8, *Financial Statements and Supplementary Data* (See Note 7: *Derivative Instruments*, in the Consolidated Financial Statements).

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INFLATION

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

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Chesapeake Utilities Corporation

We have audited the accompanying consolidated balance sheets of Chesapeake Utilities Corporation (the "Company") as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2015. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2015 and 2014, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2015, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), and our report dated February 26, 2016 expressed an unqualified opinion.

/s/ Baker Tilly Virchow Krause, LLP

Philadelphia, Pennsylvania
February 26, 2016

Chesapeake Utilities Corporation and Subsidiaries

Consolidated Statements of Income

	For the Year Ended December 31,		
(in thousands, except shares and per share data)	**2015**	**2014**	**2013**
Operating Revenues			
Regulated Energy	$ **301,902**	$ 300,442	$ 264,637
Unregulated Energy	**162,108**	184,961	166,723
Other businesses and eliminations	**(4,766)**	13,431	12,946
Total operating revenues	**459,244**	498,834	444,306
Operating Expenses			
Regulated energy cost of sales	**122,814**	134,560	118,818
Unregulated energy and other cost of sales	**97,228**	143,556	126,017
Operations	**107,562**	102,197	91,452
Maintenance	**11,803**	9,706	7,509
(Gain from a settlement)/asset impairment charges	**(1,500)**	6,881	—
Depreciation and amortization	**29,972**	26,316	23,965
Other taxes	**13,607**	13,339	13,811
Total operating expenses	**381,486**	436,555	381,572
Operating Income	**77,758**	62,279	62,734
Gains from sales of businesses	**—**	7,139	—
Other income, net of other expenses	**293**	101	372
Interest charges	**10,006**	9,482	8,234
Income Before Income Taxes	**68,045**	60,037	54,872
Income taxes	**26,905**	23,945	22,085
Net Income	$ **41,140**	$ 36,092	$ 32,787
Weighted Average Common Shares Outstanding:			
Basic	**15,094,423**	14,551,308	14,430,962
Diluted	**15,143,373**	14,604,944	14,543,446
Earnings Per Share of Common Stock:			
Basic	$ **2.73**	$ 2.48	$ 2.27
Diluted	$ **2.72**	$ 2.47	$ 2.26
Cash Dividends Declared Per Share of Common Stock	$ **1.1325**	$ 1.0667	$ 1.0133

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

Chesapeake Utilities Corporation and Subsidiaries

Consolidated Statements of Comprehensive Income

	For the Year Ended December 31,		
(in thousands)	2015	2014	2013
Net Income	$ 41,140	$ 36,092	$ 32,787
Other Comprehensive Income (Loss), net of tax:			
Employee Benefits, net of tax:			
Amortization of prior service cost, net of tax of $(27), $(24) and $(24), respectively	(40)	(34)	(36)
Net gain (loss), net of tax of $73, $(1,997) and $1,673, respectively	103	(3,076)	2,565
Cash Flow Hedges, net of tax:			
Unrealized loss on commodity contract cash flow hedges, net of tax of $(150), $(22) and $0, respectively	(227)	(33)	—
Total Other Comprehensive Income (Loss)	(164)	(3,143)	2,529
Comprehensive Income	$ 40,976	$ 32,949	$ 35,316

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

Chesapeake Utilities Corporation and Subsidiaries

Consolidated Balance Sheets

	As of December 31,	
Assets	**2015**	**2014**
(in thousands, except shares and per share data)		
Property, Plant and Equipment		
Regulated energy	$ 842,756	$ 766,855
Unregulated energy	145,734	84,773
Other businesses and eliminations	18,999	18,497
Total property, plant and equipment	1,007,489	870,125
Less: Accumulated depreciation and amortization	(215,313)	(193,369)
Plus: Construction work in progress	62,774	13,006
Net property, plant and equipment	854,950	689,762
Current Assets		
Cash and cash equivalents	2,855	4,574
Accounts receivable (less allowance for uncollectible accounts of $909 and $1,120, respectively)	41,007	53,300
Accrued revenue	12,452	13,617
Propane inventory, at average cost	6,619	7,250
Other inventory, at average cost	3,803	3,699
Regulatory assets	8,268	8,967
Storage gas prepayments	3,410	4,258
Income taxes receivable	24,950	18,806
Deferred income taxes	831	—
Prepaid expenses	7,146	6,652
Mark-to-market energy assets	153	1,055
Other current assets	1,044	195
Total current assets	112,538	122,373
Deferred Charges and Other Assets		
Goodwill	14,548	4,952
Other intangible assets, net	2,222	2,404
Investments, at fair value	3,644	3,678
Regulatory assets	77,519	78,136
Receivables and other deferred charges	3,165	3,164
Total deferred charges and other assets	101,098	92,334
Total Assets	$ 1,068,586	$ 904,469

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

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Chesapeake Utilities Corporation and Subsidiaries

Consolidated Balance Sheets

Capitalization and Liabilities	As of December 31, 2015	2014
(in thousands, except shares and per share data)		
Capitalization		
Stockholders' equity		
Common stock, par value $0.4867 per share (authorized 25,000,000)	$ 7,432	$ 7,100
Additional paid-in capital	190,311	156,581
Retained earnings	166,235	142,317
Accumulated other comprehensive loss	(5,840)	(5,676)
Deferred compensation obligation	1,883	1,258
Treasury stock	(1,883)	(1,258)
Total stockholders' equity	358,138	300,322
Long-term debt, net of current maturities	149,340	158,486
Total capitalization	507,478	458,808
Current Liabilities		
Current portion of long-term debt	9,151	9,109
Short-term borrowing	173,397	88,231
Accounts payable	39,300	44,610
Customer deposits and refunds	27,173	25,197
Accrued interest	1,311	1,352
Dividends payable	4,390	3,939
Deferred income taxes	—	832
Accrued compensation	10,014	10,076
Regulatory liabilities	7,365	3,268
Mark-to-market energy liabilities	433	1,018
Other accrued liabilities	7,059	6,603
Total current liabilities	279,593	194,235
Deferred Credits and Other Liabilities		
Deferred income taxes	193,431	160,232
Regulatory liabilities	43,064	43,419
Environmental liabilities	8,942	8,923
Other pension and benefit costs	33,481	35,027
Deferred investment tax credits and other liabilities	2,597	3,825
Total deferred credits and other liabilities	281,515	251,426
Other commitments and contingencies (Note 19 and 20)		
Total Capitalization and Liabilities	$ 1,068,586	$ 904,469

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

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Chesapeake Utilities Corporation and Subsidiaries

Consolidated Statements of Cash Flows

	For the Year Ended December 31,		
(in thousands)	2015	2014	2013
Operating Activities			
Net Income	$ 41,140	$ 36,092	$ 32,787
Adjustments to reconcile net income to net operating cash:			
Goodwill & long-lived asset impairment	—	6,881	—
Depreciation and amortization	29,972	26,316	23,965
Depreciation and accretion included in other costs	6,978	6,577	6,123
Deferred income taxes, net	20,520	22,235	14,860
Realized gain on sale of assets/investments	(340)	(7,293)	(854)
Unrealized loss (gain) on investments/commodity contracts	96	501	(706)
Employee benefits and compensation	1,235	684	1,119
Share-based compensation	1,937	1,958	1,631
Other, net	47	3	(28)
Changes in assets and liabilities:			
Accounts receivable and accrued revenue	17,097	20,683	(21,244)
Propane inventory, storage gas and other inventory	1,527	4,177	(4,492)
Regulatory assets/liabilities, net	3,883	(11,014)	2,328
Prepaid expenses and other current assets	(759)	(699)	(1,064)
Accounts payable and other accrued liabilities	(10,897)	(8,047)	18,824
Income taxes receivable	(4,967)	(15,936)	2,311
Customer deposits and refunds	1,976	(927)	(3,362)
Accrued compensation	(331)	37	837
Other assets and liabilities, net	(3,972)	(2,944)	(104)
Net cash provided by operating activities	105,142	79,284	72,931
Investing Activities			
Property, plant and equipment expenditures	(144,618)	(97,164)	(97,120)
Change in intangibles	—	14	—
Proceeds from sale of assets	164	10,797	199
Proceeds from sale of investments	—	—	2,300
Acquisitions, net of cash acquired	(20,930)	—	(20,201)
Environmental expenditures	(174)	(233)	41
Net cash used by investing activities	(165,558)	(86,586)	(114,781)
Financing Activities			
Common stock dividends	(15,924)	(13,887)	(13,081)
Issuance (Purchase) of stock for Dividend Reinvestment Plan	813	(165)	(1,342)
Change in cash overdrafts due to outstanding checks	2,450	(921)	(1,666)
Net borrowing (repayment) under line of credit agreements	82,178	(16,513)	46,133
Proceeds from issuance of long-term debt	—	49,975	26,766
Repayment of long-term debt and capital lease obligation	(10,820)	(9,969)	(14,957)
Other	—	—	(8)
Net cash provided by financing activities	58,697	8,520	41,845
Net (Decrease) Increase in Cash and Cash Equivalents	(1,719)	1,218	(5)
Cash and Cash Equivalents — Beginning of Period	4,574	3,356	3,361
Cash and Cash Equivalents — End of Period	$ 2,855	$ 4,574	$ 3,356

Supplemental Cash Flow Disclosures (see Note 6)

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

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Chesapeake Utilities Corporation and Subsidiaries

Consolidated Statements of Stockholders' Equity

(in thousands, except shares and per share data)	Common Stock Number of Shares[1]	Common Stock Par Value	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Deferred Compensation	Treasury Stock	Total
Balance at December 31, 2012	14,396,248	$ 4,671	$ 150,750	$ 106,239	$ (5,062)	$ 982	$ (982)	$ 256,598
Net Income	—	—	—	32,787	—	—	—	32,787
Other comprehensive loss	—	—	—	—	2,529	—	—	2,529
Dividend declared ($1.0133 per share)	—	—	(6)	(14,752)	—	—	—	(14,758)
Conversion of Debentures	26,075	8	287	—	—	—	—	295
Share-based compensation and tax benefit [2][3]	35,022	12	1,310	—	—	—	—	1,322
Treasury stock activities[1]	—	—	—	—	—	142	(142)	—
Balance at December 31, 2013	14,457,345	4,691	152,341	124,274	(2,533)	1,124	(1,124)	278,773
Net Income	—	—	—	36,092	—	—	—	36,092
Other comprehensive income	—	—	—	—	(3,143)	—	—	(3,143)
Dividend declared ($1.0667per share)	—	—	—	(15,675)	—	—	—	(15,675)
Retirement savings plan and dividend reinvestment plan	43,367	16	1,844	—	—	—	—	1,860
Conversion of Debentures	47,313	15	520	—	—	—	—	535
Share-based compensation and tax benefit [2][3]	40,686	13	1,876	—	—	—	—	1,889
Stock split in the form of stock dividend	—	2,365	—	(2,374)	—	—	—	(9)
Treasury stock activities[1]	—	—	—	—	—	134	(134)	—
Balance at December 31, 2014	14,588,711	7,100	156,581	142,317	(5,676)	1,258	(1,258)	300,322
Net Income	—	—	—	41,140	—	—	—	41,140
Other comprehensive loss	—	—	—	—	(164)	—	—	(164)
Dividend declared ($1.1325 per share)	—	—	—	(17,222)	—	—	—	(17,222)
Retirement savings plan and dividend reinvestment plan	43,275	21	2,214	—	—	—	—	2,235
Common stock issued in acquisition	592,970	289	29,876	—	—	—	—	30,165
Share-based compensation and tax benefit [2][3]	45,703	22	1,640	—	—	—	—	1,662
Treasury stock activities[1]	—	—	—	—	—	625	(625)	—
Balance at December 31, 2015	15,270,659	$ 7,432	$ 190,311	$ 166,235	$ (5,840)	$ 1,883	$ (1,883)	$ 358,138

(1) Includes 70,631, 57,382 and 51,743 shares at December 31, 2015, 2014 and 2013, respectively, held in a Rabbi Trust related to our Non-Qualified Deferred Compensation Plan.
(2) Includes amounts for shares issued for directors' compensation.
(3) The shares issued under the SICP are net of shares withheld for employee taxes. For 2015, 2014 and 2013, we withheld 12,620, 12,687 and 15,617 shares, respectively, for taxes.

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

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1. Organization and Basis of Presentation

Chesapeake Utilities, incorporated in 1947 in Delaware, is a diversified energy company engaged in regulated and unregulated energy businesses. Our regulated energy businesses consist of: (a) regulated natural gas distribution operations in central and southern Delaware, Maryland's eastern shore and Florida; (b) regulated natural gas transmission operations on the Delmarva Peninsula, in Pennsylvania and in Florida; and (c) regulated electric distribution operations serving customers in northeast and northwest Florida. Our unregulated energy businesses primarily include: (a) propane distribution operations in Delaware, Maryland and the eastern shore of Virginia, southeastern Pennsylvania and Florida; (b) our propane wholesale marketing operation, which markets propane to major independent oil and petrochemical companies, wholesale resellers and retail propane companies located primarily in the southeastern United States; (c) our natural gas marketing operation providing natural gas supplies directly to commercial and industrial customers in Florida, Delaware and Maryland and other states; and (d) our natural gas supply, gathering and processing operation in central and eastern Ohio.

Our consolidated financial statements as of December 31, 2015 and 2014 and for the years ended December 31, 2015, 2014 and 2013 have been prepared in compliance with the rules and regulations of the SEC and GAAP. Our consolidated financial statements include the accounts of Chesapeake Utilities and its wholly-owned subsidiaries. We do not have any ownership interest in investments accounted for using the equity method or any interest in a variable interest entity. All intercompany accounts and transactions have been eliminated in consolidation. We have assessed and reported on subsequent events through the date of issuance of these consolidated financial statements.

We reclassified certain amounts in the consolidated balance sheet as of December 31, 2014 and consolidated statements of cash flows for the years ended December 31, 2014 and 2013 to conform to the current year's presentation. These reclassifications are considered immaterial to the overall presentation of our consolidated financial statements.

2. Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates in measuring assets and liabilities and related revenues and expenses. These estimates involve judgments with respect to, among other things, various future economic factors that are difficult to predict and are beyond our control; therefore, actual results could differ from these estimates.

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Property, Plant and Equipment

Property, plant and equipment are stated at original cost less accumulated depreciation or fair value, if impaired. Costs include direct labor, materials and third-party construction contractor costs, AFUDC, and certain indirect costs related to equipment and employees engaged in construction. The costs of repairs and minor replacements are charged against income as incurred, and the costs of major renewals and betterments are capitalized. Upon retirement or disposition of property owned by the unregulated businesses, the gain or loss, net of salvage value, is charged to income. Upon retirement or disposition of property within the regulated businesses, the gain or loss, net of salvage value, is charged to accumulated depreciation. A summary of property, plant and equipment by classification as of December 31, 2015 and 2014 is provided in the following table:

(in thousands)	As of December 31, 2015	As of December 31, 2014
Property, plant and equipment		
Regulated Energy		
Natural gas distribution – Delmarva	**$ 207,127**	$ 193,071
Natural gas distribution – Florida	**286,538**	234,344
Natural gas transmission – Delmarva	**249,274**	243,560
Natural gas transmission – Florida	**20,291**	18,240
Electric distribution – Florida	**79,526**	77,640
Unregulated Energy		
Propane distribution – Delmarva	**66,403**	61,390
Propane distribution – Florida	**24,589**	23,142
Other unregulated natural gas services – Ohio	**54,607**	—
Other unregulated energy	**135**	241
Other	**18,999**	18,497
Total property, plant and equipment	**1,007,489**	870,125
Less: Accumulated depreciation and amortization	**(215,313)**	(193,369)
Plus: Construction work in progress	**62,774**	13,006
Net property, plant and equipment	**$ 854,950**	$ 689,762

Contributions or Advances in Aid of Construction

Customer contributions or advances in aid of construction reduce property, plant and equipment, unless the amounts are refundable to customers. Contributions or advances may be refundable to customers after a number of years based on the amount of revenues generated from the customers or the duration of the service provided to the customers. Refundable contributions or advances are recorded initially as liabilities. The amounts that are determined to be non-refundable reduce property, plant and equipment at the time of such determination. During the years ended December 31, 2015 and 2014, there were $1.7 million and $813,000, respectively, of non-refunded contributions or advances reducing property, plant and equipment.

Allowance for Funds Used During Construction

Some of the additions to our regulated property, plant and equipment include AFUDC, which represents the estimated cost of funds, from both debt and equity sources, used to finance the construction of major projects. AFUDC is capitalized in the applicable rate base for rate making purposes when the completed projects are placed in service. During the years ended December 31, 2015, 2014, and 2013, we recorded $38,000, $58,000, and $131,000, respectively, of AFUDC, all of which were related to short-term debt and reflected as a reduction of interest charges.

Asset Used in Leases

Property, plant and equipment for the Florida natural gas transmission operation included $1.4 million of assets, at December 31, 2015 and 2014, consisting primarily of mains, measuring equipment and regulation station equipment used by Peninsula Pipeline to provide natural gas transmission service pursuant to a contract with a third party. This contract is accounted for as an operating lease due to the exclusive use of the assets by the customer. The service under this contract commenced in January 2009 and generates $264,000 in annual revenue for a term of 20 years. Accumulated depreciation for these assets totaled $507,000 and $435,000, at December 31, 2015 and 2014, respectively.

Capital Lease Asset

Property, plant and equipment for our Delmarva natural gas distribution operation included a capital lease asset of $4.8 million and $6.1 million, net of amortization, at December 31, 2015 and 2014, respectively, related to Sandpiper's capacity, supply and operating agreement. See Note 20, *Other Commitments and Contingencies* for additional information. At December 31, 2015 and 2014, accumulated amortization for this capital lease asset was $2.3 million and $996,000, respectively. For the years ended December 31, 2015 and 2014, we recorded $1.3 million and $848,000, respectively, in amortization of this capital lease asset, which was included in our fuel cost recovery mechanisms.

Jointly-owned Pipeline

Property, plant and equipment for the Florida natural gas transmission operation also included $6.7 million of assets, at December 31, 2015 and 2014, which consists of the 16-mile pipeline from the Duval/Nassau County line to Amelia Island in Nassau County, Florida, jointly owned by Peninsula Pipeline and Peoples Gas. The amount included in property, plant and equipment represents Peninsula Pipeline's 45-percent ownership of this pipeline. This 16-mile pipeline was placed in service in December 2012. Accumulated depreciation for this pipeline totaled $806,000 and $584,000, at December 31, 2015 and 2014, respectively.

Other Asset Impairment Evaluations

We periodically evaluate whether events or circumstances have occurred which indicate that other long-lived assets may not be fully recoverable. When such events or circumstances are present, we record an impairment loss equal to the excess of the assets' carrying value over its fair value, if any.

On May 29, 2015, we entered into a settlement agreement with a vendor related to the implementation of a customer billing system. Pursuant to the agreement, we received $1.5 million in cash, which is reflected as "Gain from a settlement" in the accompanying consolidated statements of income. Previously, at December 31, 2014, we recorded a $6.5 million pre-tax, non-cash impairment loss related to the same billing system implementation. We recorded $6.4 million of this impairment loss in the Regulated Energy segment, with the remaining $19,000 included in the Unregulated Energy segment. We may also receive $750,000 in additional cash and discounts from future services; however, the receipt or retention of additional cash and future discounts is contingent upon engaging this vendor to provide agreed-upon services over the next five years.

Depreciation and Accretion Included in Operations Expenses

We compute depreciation expense for our regulated operations by applying composite, annual rates, as approved by the respective regulatory bodies. The following table shows the average depreciation rates used during the years ended December 31, 2015, 2014 and 2013:

	2015	2014	2013
Natural gas distribution – Delmarva	**2.4%**	2.5%	2.5%
Natural gas distribution – Florida	**2.9%**	2.9%	3.4%
Natural gas transmission – Delmarva	**2.7%**	2.7%	2.7%
Natural gas transmission – Florida	**4.0%**	4.0%	4.8%
Electric distribution – Florida	**3.5%**	3.8%	3.6%

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During 2015, the Florida PSC approved new depreciation rates for our Florida electric distribution operations (see Note 18, *Rates and Other Regulatory Activities*, for additional information), which lowered its depreciation rates effective January 1, 2015.

For our unregulated operations, we compute depreciation expense on a straight line basis over the following estimated useful lives of the assets:

Asset Description	Useful Life
Propane distribution mains	10-37 years
Propane bulk plants and tanks	10-40 years
Propane equipment	5-33 years
Meters and meter installations	5-33 years
Measuring and regulating station equipment	5-37 years
Natural gas pipelines	45 years
Natural gas right of ways	Perpetual
Natural gas processing equipment	20-25 years
Office furniture and equipment	3-10 years
Transportation equipment	4-20 years
Structures and improvements	5-45 years
Other	Various

We report certain depreciation and accretion in operations expense, rather than as a depreciation and amortization expense, in the accompanying consolidated statements of income in accordance with industry practice and regulatory requirements. Depreciation and accretion included in operations expense consists of the accretion of the costs of removal for future retirements of utility assets, vehicle depreciation, computer software and hardware depreciation, and other minor amounts of depreciation expense. For the years ended December 31, 2015, 2014 and 2013, we reported $7.0 million, $6.6 million and $6.1 million, respectively, of depreciation and accretion in operations expenses.

Regulated Operations

We account for our regulated operations in accordance with ASC Topic 980, *Regulated Operations*, which includes accounting principles for companies whose rates are determined by independent third-party regulators. When setting rates, regulators often make decisions, the economics of which require companies to defer costs or revenues in different periods than may be appropriate for unregulated enterprises. When this situation occurs, a regulated company defers the associated costs as regulatory assets on the balance sheet and records them as expense on the income statement as it collects revenues. Further, regulators can also impose liabilities upon a regulated company for amounts previously collected from customers and for recovery of costs that are expected to be incurred in the future as regulatory liabilities. If we were required to terminate the application of these regulatory provisions to our regulated operations, all such deferred amounts would be recognized in the statement of income at that time, which could have a material impact on our financial position, results of operations and cash flows.

At December 31, 2015 and 2014, the regulated utility operations had recorded the following regulatory assets and liabilities included in our consolidated balance sheets. These assets and liabilities will be recognized as revenues and expenses in future periods as they are reflected in customers' rates.

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(in thousands)	As of December 31, 2015	2014
Regulatory Assets		
Under-recovered purchased fuel and conservation cost recovery [1]	$ 4,598	$ 6,865
Under-recovered GRIP revenue [1]	3,091	1,491
Deferred post retirement benefits [2]	19,479	19,762
Deferred conversion and development costs [1]	5,729	3,745
Environmental regulatory assets and expenditures [3]	4,158	4,452
Acquisition adjustment [4]	43,735	45,607
Loss on reacquired debt [5]	1,259	1,372
Other	3,738	3,809
Total Regulatory Assets	$ 85,787	$ 87,103
Regulatory Liabilities		
Self insurance [6]	$ 1,031	$ 1,003
Over-recovered purchased fuel and conservation cost recovery [1]	6,994	2,936
Storm reserve [6]	2,973	2,982
Accrued asset removal cost [7]	39,206	39,583
Other	225	183
Total Regulatory Liabilities	$ 50,429	$ 46,687

(1) We are allowed to recover the asset or are required to pay the liability in rates. We do not earn an overall rate of return on these assets.

(2) The Florida PSC allowed FPU to treat as a regulatory asset the portion of the unrecognized costs pursuant to ASC Topic 715, *Compensation - Retirement Benefits*, related to its regulated operations. See Note 16, *Employee Benefit Plans*, for additional information.

(3) All of our environmental expenditures incurred to date and our current estimate of future environmental expenditures have been approved by various PSCs for recovery. See Note 19, *Environmental Commitments and Contingencies*, for additional information on our environmental contingencies.

(4) We are allowed to include the premiums paid in various natural gas utility acquisitions in Florida in our rate bases and recover them over a specific time period pursuant to the Florida PSC approvals. Included in these amounts are $1.3 million of the premium paid by FPU, $34.2 million of the premium paid by us in 2009, including the gross up of the amount for income tax, because it is not tax deductible, and $746,000 of the premium paid by FPU in 2010.

(5) Gains and losses resulting from the reacquisition of long-term debt are amortized over future periods as adjustments to interest expense in accordance with established regulatory practice.

(6) We have self-insurance and storm reserves that allow us to collect through rates amounts to be used against general claims, storm restoration costs and other losses as they are incurred.

(7) In accordance with typical regulatory policy, our depreciation rates are comprised of two components: historical cost and the estimated cost of removal, net of estimated salvage, of certain regulated properties. We collect these costs in base rates through depreciation expense with a corresponding credit to accumulated depreciation. Because the accumulated estimated removal costs meet the requirements of authoritative guidance related to regulated operations, we have accounted for them as a regulatory liability and have reclassified them from accumulated depreciation to accumulated removal costs in our consolidated balance sheets.

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

Operating Revenues

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

For regulated deliveries of natural gas and electricity, we read meters and bill customers on monthly cycles that do not coincide with the accounting periods used for financial reporting purposes. We accrue unbilled revenues for natural gas and electricity that have been delivered, but not yet billed, at the end of an accounting period to the extent that they do not coincide. We estimate the amount of the unbilled revenue by jurisdiction and customer class. A similar computation is made to accrue unbilled revenues for

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propane customers with meters and natural gas marketing customers, whose billing cycles do not coincide with our accounting periods.

Our Ohio natural gas supply operation recognizes revenues based on actual volumes of natural gas shipped using contractual rates, which are based upon index prices that are published monthly.

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

All of our natural gas and electric distribution operations, except for two utilities that do not sell natural gas to end-use customers as a result of deregulation, have fuel cost recovery mechanisms. These mechanisms provide a method of adjusting the billing rates to reflect changes in the cost of purchased fuel. The difference between the current cost of fuel purchased and the cost of fuel recovered in billed rates is deferred and accounted for as either unrecovered fuel cost or amounts payable to customers. Generally, these deferred amounts are recovered or refunded within one year. Chesapeake Utilities' Florida natural gas distribution division and FPU's Indiantown division provide unbundled delivery service to their customers, whereby the customers are permitted to purchase their gas requirements directly from competitive natural gas marketers.

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

We report revenue taxes, such as gross receipts taxes, franchise taxes, and sales taxes, on a net basis.

Cost of Sales

Cost of sales includes the direct costs attributable to the products sold or services provided to our customers. These costs include primarily the variable cost of natural gas, electricity and propane commodities, pipeline capacity costs needed to transport and store natural gas, transmission costs for electricity, gathering and processing gas costs for Aspire Energy, transportation costs to transport propane purchases to our storage facilities and, for the period prior to the sale of BravePoint, the direct cost of labor for our former advanced information services subsidiary. Depreciation expense is not included in our cost of sales.

Operations and Maintenance Expenses

Operations and maintenance expenses include operations and maintenance salaries and benefits, materials and supplies, usage of vehicles, tools and equipment, payments to contractors, utility plant maintenance, customer service, professional fees and other outside services, insurance expense, minor amounts of depreciation, accretion of cost of removal for future retirements of utility assets, and other administrative expenses.

Cash and Cash Equivalents

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

Accounts Receivable and Allowance for Doubtful Accounts

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

Inventories

We use the average cost method to value propane, materials and supplies, and other merchandise inventory. If market prices drop below cost, inventory balances that are subject to price risk are adjusted to market values. At December 31, 2014, we reduced our propane inventory value by $681,000 to reflect the lower-of-cost-or-market adjustment. There was no lower-of-cost-or-market adjustment during 2015.

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Goodwill and Other Intangible Assets

Goodwill is not amortized but is tested for impairment at least annually. In addition, goodwill of a reporting unit is tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value. Other intangible assets are amortized on a straight-line basis over their estimated economic useful lives. Please refer to Note 10, *Goodwill and Other Intangible Assets*, for additional discussion of this subject.

We test goodwill for impairment at least annually in December of each year. The testing of goodwill for 2015 indicated no goodwill impairment. There was a $237,000 goodwill impairment loss associated with the Austin Cox acquisition for 2014. Additionally, in 2014, we recorded a $175,000 impairment loss on an intangible asset related to a non-compete agreement associated with Austin Cox.

Other Deferred Charges

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

Pension and Other Postretirement Plans

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

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

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

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

The mortality assumption used for our pension and postretirement plans is based on the actuarial table that is most reflective of the expected mortality of the plan participants and reviewed periodically.

Actual changes in the fair value of plan assets and the differences between the actual and expected return on plan assets could have a material effect on the amount of pension and postretirement benefit costs that we ultimately recognize. A 0.25 percent decrease in the discount rate could increase our annual pension and postretirement costs by approximately $19,000, and a 0.25 percent increase could decrease our annual pension and postretirement costs by approximately $19,000. A 0.25 percent change in the rate of return could change our annual pension cost by approximately $126,000 and would not have an impact on the postretirement and supplemental executive retirement plans because these plans are not funded.

Income Taxes, Investment Tax Credit Adjustments and Tax-related contingency

Deferred tax assets and liabilities are recorded for the income tax effect of temporary differences between the financial statement basis and tax basis of assets and liabilities and are measured using the enacted income tax rates in effect in the years in which the differences are expected to reverse. Deferred tax assets are recorded net of any valuation allowance when it is more likely than not that such income tax benefits will be realized. Investment tax credits on utility property have been deferred and are allocated to income ratably over the lives of the subject property.

We account for uncertainty in income taxes in the financial statements only if it is more likely than not that an uncertain tax position is sustainable based on technical merits. Recognizable tax positions are then measured to determine the amount of benefit recognized in the financial statements. We recognize penalties and interest related to unrecognized tax benefits as a component of other income.

We account for contingencies associated with taxes other than income when the likelihood of a loss is both probable and estimable. In assessing the likelihood of a loss, we do not consider the existence of current inquiries, or the likelihood of future inquiries, by tax authorities as a factor. Our assessment is based solely on our application of the appropriate statutes and the likelihood of a loss assuming the proper inquiries are made by tax authorities.

Financial Instruments

Xeron engages in trading activities using forward and futures contracts, which have been accounted for using the mark-to-market method of accounting. Under mark-to-market accounting, our trading contracts are recorded at fair value as mark-to-market energy assets and liabilities. The changes in fair value of the contracts are recognized as gains or losses in revenues on the consolidated statements of income in the period of change.

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

Our propane distribution operation may enter into derivative transactions, such as swaps, put options and call options in order to mitigate the impact of wholesale price fluctuations on its inventory valuation and future purchase commitments.

Our natural gas marketing operation may also enter into cash flow hedges in order to mitigate the impact of fluctuations in its margins. PESCO enters into natural gas futures contracts associated with the purchase and sale of natural gas sales to specific customers. These transactions may be designated as fair value hedges or cash flow hedges, if they meet all of the accounting requirements pursuant to ASC Topic 815, *Derivatives and Hedging*, and we elect to designate the instruments as hedges. If designated as a fair value hedge, the value of the hedging instrument, such as a swap or put option, is recorded at fair value, with the effective portion of the gain or loss of the hedging instrument effectively reducing or increasing the value of propane inventory. If designated as a cash flow hedge, the value of the hedging instrument, such as a swap, call option or natural gas futures contract, is recorded at fair value with the effective portion of the gain or loss of the hedging instrument being recorded in comprehensive income. The ineffective portion of the gain or loss of a hedge is recorded in earnings. If the instrument is not designated as a fair value or cash flow hedge or does not meet the accounting requirements of a hedge, it is recorded at fair value with the gain or loss being recorded in earnings.

FASB Statements and Other Authoritative Pronouncements

Recent Accounting Standards Yet to be Adopted

Revenue from Contracts with Customers (ASC 606) - In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. This standard provides a single comprehensive revenue recognition model for all contracts with customers to improve comparability within industries, as well as across industries and capital markets. The standard contains principles that entities will apply to determine the measurement of revenue and when it is recognized. On July 9, 2015, the FASB affirmed its proposal to defer the implementation of this standard by one year. For public entities, this standard is effective for 2018 interim and annual financial statements. We are assessing the impact this standard may have on our financial position and results of operations.

Interest - Imputation of Interest (ASC 835-30) - In April 2015, the FASB issued ASU 2015-03, *Simplifying the Presentation of Debt Issuance Costs*. This standard requires debt issuance costs to be presented in the balance sheet as a direct deduction from the carrying value of the associated debt liability, consistent with the presentation of a debt discount. ASU 2015-03 is effective for our interim and annual financial statements issued beginning January 1, 2016. Early adoption is permitted for financial statements that have not been previously issued. As of December 31, 2015, we had $358,000 of unamortized debt issuance costs included in the accompanying consolidated balance sheets. Upon adoption of ASU 2015-03, this will be presented as a deduction from long-term debt, net of current maturities.

Customer's Accounting for Fees Paid in a Cloud Computing Arrangement (ASC 350-40) - In April 2015, the FASB issued ASU 2015-05, *Customer's Accounting for Fees Paid in a Cloud Computing Arrangement*. Under the new guidance, unless a software arrangement includes specific elements enabling customers to possess and operate software on platforms other than that offered by the cloud-based provider, the cost of such arrangements is to be accounted for as an operating expense in the period incurred. The new guidance is effective for us beginning January 1, 2016, and may be applied either prospectively or retrospectively, with early adoption permitted. We are assessing the impact this standard will have, but anticipate the adoption of this standard will not have a material impact on our financial position, or results of operations.

Inventory (ASC 330) - In July 2015, the FASB issued ASU 2015-11, *Inventory*. Under this guidance, inventories are required to be measured at the lower of cost or net realizable value. Net realizable value represents the estimated selling price less costs

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associated with completion, disposal and transportation. ASU 2015-11 will be effective for our interim and annual financial statements issued beginning January 1, 2017; however, early adoption is permitted. The standard is to be adopted on a prospective basis. We are assessing the potential effects this standard may have on our consolidated financial statements.

Debt Issuance Costs (ASC 835-30) - In August 2015, the FASB issued ASU 2015-15, *Simplifying the Presentation of Debt Issuance Costs Associated with Line-of-Credit Arrangements*. This standard clarifies treatment of debt issuance costs associated with line-of-credit arrangements that were not specifically addressed in ASU 2015-03. Issuance costs incurred in connection with line-of-credit arrangements may be treated as an asset and amortized over the term of the line-of-credit arrangement. ASU 2015-15 is effective for our interim and annual financial statements issued beginning January 1, 2016. Early adoption is permitted for financial statements that have not been previously issued. This standard is not expected to have a material impact on our financial position and results of operation.

Business Combinations (ASC 805) - In September 2015, the FASB issued ASU 2015-16, *Simplifying the Accounting for Measurement-Period Adjustments*. The standard eliminates the requirement to restate prior period financial statements for measurement period adjustments. The new guidance requires that the cumulative impact of a measurement period adjustment (including the impact of prior periods) be recognized in the reporting period in which the adjustment is identified. ASU 2015-16 will be effective for our interim and annual financial statements issued beginning January 1, 2016 and is to be adopted on a prospective basis. Early adoption is permitted for financial statements that have not been previously issued. We are assessing the impact this standard may have on our financial position and results of operation.

Balance Sheet Classification of Deferred Taxes (ASC 740) - In November 2015, the FASB issued ASU 2015-17, *Balance Sheet Classification of Deferred Taxes,* which requires all deferred assets and liabilities along with any related valuation allowance to be classified as noncurrent on the balance sheet. ASU 2015-17 will be effective for our annual financial statements beginning January 1, 2017 and for our interim financial statements beginning January 1, 2018; however, early adoption is permitted. As these are changes in the balance sheet classification only, there will no impact on our financial position or results of operation.

3. Earnings Per Share

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

	For the Year Ended December 31,		
	2015	2014	2013
(in thousands, except shares and per share data)			
Calculation of Basic Earnings Per Share:			
Net Income	$ 41,140	$ 36,092	$ 32,787
Weighted average shares outstanding	15,094,423	14,551,308	14,430,962
Basic Earnings Per Share	$ 2.73	$ 2.48	$ 2.27
Calculation of Diluted Earnings Per Share:			
Reconciliation of Numerator:			
Net Income	$ 41,140	$ 36,092	$ 32,787
Effect of 8.25% Convertible debentures	—	—	43
Adjusted numerator — Diluted	$ 41,140	$ 36,092	$ 32,830
Reconciliation of Denominator:			
Weighted shares outstanding — Basic	15,094,423	14,551,308	14,430,962
Effect of dilutive securities:			
Share-based Compensation	48,950	53,636	37,866
8.25% Convertible debentures [(1)]	—	—	74,618
Adjusted denominator — Diluted	15,143,373	14,604,944	14,543,446
Diluted Earnings Per Share	$ 2.72	$ 2.47	$ 2.26

[(1)] As of March 1, 2014, we no longer have any outstanding convertible debentures.

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Previously reported share and per share amounts have been restated in the accompanying consolidated financial statements and related notes to reflect the stock split effected in the form of a stock dividend in September 2014.

4. ACQUISITIONS AND DISPOSITION

Gatherco Acquisition

On April 1, 2015, we completed the merger with Gatherco, in which Gatherco merged with and into Aspire Energy, our then newly formed, wholly-owned subsidiary. Aspire Energy is an unregulated natural gas infrastructure company with approximately 2,500 miles of pipeline systems in 40 counties throughout Ohio. The majority of Aspire Energy's margin is derived from long-term supply agreements with Columbia Gas of Ohio and Consumers Gas Cooperative which together serve more than 20,000 end-use customers. Aspire Energy primarily sources gas from 300 conventional producers and provides gathering and processing services necessary to maintain quality and reliability to its wholesale markets.

At closing, we issued 592,970 shares of our common stock, valued at $30.2 million based on the closing price of our common stock as reported on the NYSE on April 1, 2015. In addition, we paid $27.5 million in cash and assumed $1.7 million of existing outstanding debt, which we paid off on the same date. We also acquired $6.8 million of cash on hand at closing.

(in thousands)		Net Purchase Price
Chesapeake Utilities common stock issued	$	30,164
Cash		27,494
Acquired debt		1,696
Aggregate amount paid in the acquisition		59,354
Less: cash acquired		(6,806)
Net amount paid in the acquisition	$	52,548

The merger agreement provides for additional contingent cash consideration to Gatherco's shareholders of up to $15.0 million based on a percentage of revenue generated from potential new gathering opportunities over the next five years.

We incurred $1.3 million in transaction costs associated with this merger, $514,000 of which was expensed during the year ended December 31, 2015. Transaction costs are included in operations expense in the accompanying consolidated statements of income. The revenue and net income from this acquisition for the year ended December 31, 2015, included in our consolidated statements of income, were $16.7 million and $312,000, respectively. The 2015 financial results of Aspire Energy have had a minimal impact on our earnings per share in 2015, because the merger was completed after the first quarter of 2015, and Ohio experienced warmer than normal weather during the fourth quarter of 2015. The first and fourth quarters include key winter months, which have historically produced a significant portion of Gatherco's annual earnings. This acquisition is expected to be accretive to our earnings in the first full year of operations, which will include the first quarter of 2016.

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The purchase price allocation of the Gatherco acquisition is as follows:

(in thousands)	Purchase Price Allocation
Purchase price	$ 57,658
Property plant and equipment	53,202
Cash	6,806
Accounts receivable	3,629
Income taxes receivable	3,012
Other assets	247
Total assets acquired	66,896
Long-term debt	1,696
Deferred income taxes	12,987
Accounts payable	3,837
Other current liabilities	314
Total liabilities assumed	18,834
Net identifiable assets acquired	48,062
Goodwill	$ 9,596

The excess of the purchase price over the estimated fair values of the assets acquired and the liabilities assumed was recognized as goodwill at the acquisition date. The goodwill reflects the value paid primarily for opportunities for growth in a new and strategic geographic area. All of the goodwill from this acquisition was recorded in the Unregulated Energy segment and is not expected to be deductible for income tax purposes. We will complete the final purchase price allocation as soon as practicable, but no later than one year from the purchase of the assets.

In December 2015, we adjusted the allocation of the purchase price based on additional information available. The adjustments resulted in a change in the fair value of property, plant and equipment and deferred income tax liabilities. Goodwill from the merger decreased from $11.1 million to $9.6 million after incorporating these adjustments. The valuation of additional contingent cash consideration may be adjusted as additional information becomes available.

Other acquisitions

On May 7, 2015, we purchased certain propane distribution assets from Anderson Gas used to serve 253 customers in Citrus County, Florida for approximately $242,000. In connection with this acquisition, we recorded $186,000 in intangible assets related to a non-compete agreement and the customer list to be amortized over six years and 10 years, respectively. The remaining purchase price was allocated to property, plant and equipment and accounts receivable. The revenue and net income from this acquisition that were included in our consolidated statements of income for the year ended December 31, 2015 were not material.

Disposition of BravePoint

On October 1, 2014, we completed the sale of BravePoint, our former advanced information services subsidiary, for approximately $12.0 million in cash. We reinvested the proceeds from this sale in our regulated and unregulated energy businesses. We recorded a pre-tax gain of $6.7 million (approximately $4.0 million after-tax) from this sale, which included the effect of certain costs and expenses associated with the sale. Our consolidated statements of income for the years ended December 31, 2014 and 2013, included $15.1 million and $19.1 million of revenue, respectively, and $232,000 and $155,000 of net loss, respectively, from BravePoint's operations.

5. Segment Information

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

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- *Regulated Energy*. The Regulated Energy segment includes natural gas distribution, natural gas transmission and electric distribution operations. All operations in this segment are regulated, as to their rates and services, by the PSC having jurisdiction in each operating territory or by the FERC in the case of Eastern Shore.
- *Unregulated Energy*. The Unregulated Energy segment includes propane distribution and wholesale marketing operations, and natural gas marketing operations, which are unregulated as to their rates and services. Effective April 1, 2015, this segment includes Aspire Energy, whose services include natural gas gathering, processing, transportation and supply (See Note 4, *Acquisitions and Dispositions*, regarding the acquisition of Gatherco). Also included in this segment are other unregulated energy services, such as energy-related merchandise sales and heating, ventilation and air conditioning, plumbing and electrical services.

We had previously identified "Other" as a separate reportable segment, which consisted primarily of our former advanced information services subsidiary. As a result of the sale of that subsidiary on October 1, 2014, "Other" is no longer a separate reportable segment.

The following table presents information about our reportable segments.

	For the Year Ended December 31,		
	2015	2014	2013
(in thousands)			
Operating Revenues, Unaffiliated Customers			
Regulated Energy	$ 300,674	$ 299,345	$ 263,573
Unregulated Energy	158,570	184,557	161,760
Other businesses and eliminations	—	14,932	18,973
Total operating revenues, unaffiliated customers	$ 459,244	$ 498,834	$ 444,306
Intersegment Revenues [1]			
Regulated Energy	$ 1,228	$ 1,097	$ 1,064
Unregulated Energy	3,537	404	4,963
Other businesses	880	979	1,017
Total intersegment revenues	$ 5,645	$ 2,480	$ 7,044
Operating Income			
Regulated Energy	$ 60,985	$ 50,451	$ 50,084
Unregulated Energy	16,355	11,723	12,353
Other businesses and eliminations	418	105	297
Operating Income	77,758	62,279	62,734
Gains from sales of businesses	—	7,139	—
Other income, net of other expenses	293	101	372
Interest charges	10,006	9,482	8,234
Income Before Income taxes	68,045	60,037	54,872
Income taxes	26,905	23,945	22,085
Net Income	$ 41,140	$ 36,092	$ 32,787
Depreciation and Amortization			
Regulated Energy	$ 24,195	$ 21,915	$ 19,822
Unregulated Energy	5,679	3,994	3,686
Other businesses and eliminations	98	407	457
Total depreciation and amortization	$ 29,972	$ 26,316	$ 23,965
Capital Expenditures			
Regulated Energy	$ 98,372	$ 84,959	$ 95,944
Unregulated Energy	38,347	9,648	4,829
Other businesses	5,994	3,450	7,266
Total capital expenditures	$ 142,713	$ 98,057	$ 108,039

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

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	As of December 31,			
	2015		2014	
Identifiable Assets				
Regulated Energy	$	**870,559**	$	796,021
Unregulated Energy		**172,803**		84,732
Other businesses		**25,224**		23,716
Total identifiable assets	$	**1,068,586**	$	904,469

Our operations are now entirely domestic. Previously, BravePoint had infrequent transactions in foreign countries, which were denominated and paid primarily in U.S. dollars. These transactions were immaterial to our consolidated revenues.

6. Supplemental Cash Flow Disclosures

Cash paid for interest and income taxes during the years ended December 31, 2015, 2014 and 2013 were as follows:

	For the Year Ended December 31,					
	2015		2014		2013	
(in thousands)						
Cash paid for interest	$	**9,497**	$	8,870	$	7,837
Cash paid for income taxes, net of refunds	$	**11,076**	$	17,588	$	4,993

Non-cash investing and financing activities during the years ended December 31, 2015, 2014, and 2013 were as follows:

	For the Year Ended December 31,					
	2015		2014		2013	
(in thousands)						
Capital property and equipment acquired on account, but not paid as of December 31	$	**2,668**	$	459	$	341
Common stock issued for the Retirement Savings Plan	$	**690**	$	602		—
Common stock issued for the conversion of debentures	$	**—**	$	535	$	295
Common stock issued under the SICP	$	**1,594**	$	1,533	$	850
Capital lease obligation	$	**4,824**	$	6,130	$	7,126
Common stock issued in acquisition	$	**30,164**	$	—	$	—

7. Derivative Instruments

We use derivative and non-derivative contracts to engage in trading activities and manage risks related to obtaining adequate supplies and the price fluctuations of natural gas, electricity and propane. Our natural gas, electric and propane distribution operations have entered into agreements with suppliers to purchase natural gas, electricity and propane for resale to their customers. Aspire Energy has entered into contracts with producers to secure natural gas to meet its obligations. Purchases under these contracts typically either do not meet the definition of derivatives or are considered "normal purchases and sales" and are accounted for on an accrual basis. Our propane distribution and natural gas marketing operations may also enter into fair value hedges of its inventory or cash flow hedges of its future purchase commitments in order to mitigate the impact of wholesale price fluctuations. As of December 31, 2015, our natural gas and electric distribution operations did not have any outstanding derivative contracts.

Hedging Activities in 2015
In October 2015, PESCO entered into natural gas futures contracts associated with the purchase and sale of natural gas sales to specific customers. These contracts all expire within two years and we accounted for them as cash flow hedges. There is no ineffective portion of these hedges. At December 31, 2015, PESCO had a total of 1,410 Dts/d hedged under natural gas futures contracts, with a fair value of $109,000. The changes in fair value of the contracts are recognized as gains or losses in revenues on the consolidated statements of income in the period of change.

In March, May and June 2015, Sharp paid a total of $143,000 to purchase put options to protect against a decline in propane prices and related potential inventory losses associated with 2.5 million gallons for the propane price cap program in the 2015-2016

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heating season. The put options are exercised if propane prices fall below the strike prices of $0.4950, $0.4888 and $0.4500 per gallon in December 2015 through February 2016 and $0.4200 per gallon in January through March 2016. If exercised, we will receive the difference between the market price and the strike price during those months. We accounted for the put options as fair value hedges, and there is no ineffective portion of these hedges. As of December 31, 2015, the put options had a fair value of $152,000. The change in fair value of the put options effectively reduced our propane inventory balance.

In March, May and June 2015, Sharp entered into swap agreements to mitigate the risk of fluctuations in wholesale propane index prices associated with 2.5 million gallons expected to be purchased for the 2015-2016 heating season. Under these swap agreements, Sharp receives the difference between the index prices (Mont Belvieu prices in December 2015 through March 2016) and the swap prices, which range from $0.5200 to $0.5950 per gallon, for each swap agreement, to the extent the index prices exceed the swap prices. If the index prices are lower than the swap prices, Sharp will pay the difference. These swap agreements essentially fix the price of the 2.5 million gallons that we expect to purchase for the upcoming heating season. We accounted for the swap agreements as cash flow hedges, and there is no ineffective portion of these hedges. At December 31, 2015, the swap agreements had a liability fair value of $323,000. The changes in fair value of the swap agreements are recognized as gains or losses in revenues on the consolidated statements of income in the period of change.

Hedging Activities in 2014

In August and October 2014, Sharp entered into call options to protect against an increase in propane prices associated with 1.3 million gallons purchased at market-based prices to supply the demands of our propane price cap program customers. The retail price that we charged those customers during the heating season was capped at a pre-determined level. We would have exercised the call options if the propane prices had risen above the strike price of $1.0875 per gallon in December 2014 through February of 2015, and $1.0650 per gallon in January through March 2015. We paid $98,000 to purchase the call options, which expired without exercise as the market prices were below the strike prices. We accounted for the call options as cash flow hedges.

In May 2014, Sharp entered into swap agreements to mitigate the risk of fluctuations in wholesale propane index prices associated with 630,000 gallons purchased in December 2014 through February 2015. Under these swap agreements, Sharp would have received the difference between the index prices (Mont Belvieu prices in December 2014 through February 2015) and the swap prices of $1.1350, $1.0975 and $1.0475 per gallon for each swap agreement, to the extent the index prices exceeded the swap prices. If the index prices were lower than the swap prices, Sharp would pay the difference. These swap agreements essentially fixed the price of the 630,000 gallons purchased during this period. We had initially accounted for them as cash flow hedges as the swap agreements met all the requirements. We paid $1.1 million, representing the difference between the market prices and strike prices during those months for the swap agreements. At December 31, 2014, we elected to discontinue hedge accounting on the swap agreements and reclassified $735,000 of unrealized loss from other comprehensive loss to propane cost of sales. Subsequently, we accounted for them as derivative instruments on a mark-to-market basis with the change in fair value reflected in current period earnings.

In May 2014, Sharp entered into put options to protect against declines in propane prices and related potential inventory losses associated with 630,000 gallons purchased for the propane price cap program in December 2014 through February 2015. We exercised the put options because the propane prices fell below the strike prices of $1.0350, $0.9975 and $0.9475 per gallon, for each option agreement in December 2014 through February 2015, respectively. We paid $128,000 to purchase the put options and received $868,000 from the exercise of the options, representing the difference between the market prices and strike prices during those months. We accounted for them as fair value hedges.

Hedging Activities in 2013

In June 2013, Sharp entered into put options to protect against the decline in propane prices and related potential inventory losses associated with 1.3 million gallons purchased for the propane price cap program during the heating season. If exercised, we would have received the difference between the market price and the strike price if propane prices had fallen below the strike prices of $0.830 per gallon in December 2013 through February of 2014 and $0.860 per gallon in January through March 2014. We accounted for those options as fair value hedges, and there was no ineffective portion of those hedges. We paid $120,000 to purchase the put options, which expired without exercise as the market prices exceeded the strike prices.

In May 2013, Sharp entered into a call option to protect against an increase in propane prices associated with 630,000 gallons we expected to purchase at market-based prices to supply the demands of our propane price cap program customers. The program capped the retail price at a pre-determined level that we could charge to those customers during the 2013-2014 heating season. The call option was exercised because propane prices rose above the strike price of $0.975 per gallon in January through March of 2014. We accounted for this call option as a derivative instrument on a mark-to-market basis with any change in its fair value being reflected in current period earnings. We paid $72,000 to purchase the call option. In January through March of 2014, we received $209,000, representing the difference between the market price and the strike price during those months.

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Commodity Contracts for Trading Activities
Xeron engages in trading activities using forward and futures contracts. These contracts are considered derivatives and have been accounted for using the mark-to-market method of accounting. Under the mark-to-market method of accounting, the trading contracts are recorded at fair value, and the changes in fair value of those contracts are recognized as unrealized gains or losses in the consolidated statements of income in the period of change. As of December 31, 2015, we did not have outstanding trading contracts. As of December 31, 2014, we had the following outstanding trading contracts, which we accounted for as derivatives:

At December 31, 2014	Quantity in Gallons	Estimated Market Prices	Weighted Average Contract Prices
Forward Contracts			
Sale	4,200,000	$0.5400 - $0.7900	$ 0.6714
Purchase	4,201,000	$0.4700 - $1.3176	$ 0.6416

Estimated market prices and weighted average contract prices are in dollars per gallon. All contracts expired during the first quarter of 2014.

Xeron entered into master netting agreements with two counterparties to mitigate exposure to counterparty credit risk. The master netting agreements enable Xeron to net these two counterparties' outstanding accounts receivable and payable, which are presented on a gross basis in the accompanying consolidated balance sheets. At December 31, 2015, Xeron had a right to offset $431,000 of accounts payable with these two counterparties. At December 31, 2015, Xeron did not have outstanding accounts receivable with these two counterparties. At December 31, 2014, Xeron had a right to offset $1.6 million and $1.2 million of accounts receivable and accounts payable, respectively, with these two counterparties.

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

Fair values of the derivative contracts recorded in the consolidated balance sheets as of December 31, 2015 and 2014, are as follows:

	Asset Derivatives		
		Fair Value As Of	
(in thousands)	Balance Sheet Location	December 31, 2015	December 31, 2014
Derivatives not designated as hedging instruments			
Forward contracts	Mark-to-market energy assets	$ 1	$ 407
Derivatives designated as fair value hedges			
Put options	Mark-to-market energy assets	152	622
Derivatives designated as cash flow hedges			
Call options	Mark-to-market energy assets	—	26
Total asset derivatives		$ 153	$ 1,055

	Liability Derivatives		
		Fair Value As Of	
(in thousands)	Balance Sheet Location	December 31, 2015	December 31, 2014
Derivatives not designated as hedging instruments			
Forward contracts	Mark-to-market energy liabilities	$ 1	$ 283
Propane swap agreements	Mark-to-market energy liabilities	—	735
Derivatives designated as cash flow hedges			
Propane swap agreements	Mark-to-market energy liabilities	323	—
Natural gas futures contracts	Mark-to-market energy liabilities	109	—
Total liability derivatives		$ 433	$ 1,018

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The effects of gains and losses from derivative instruments are as follows:

(in thousands)	Location of Gain (Loss) on Derivatives	Amount of Gain (Loss) on Derivatives: For the Year Ended December 31, 2015	2014	2013
Derivatives not designated as hedging instruments:				
Realized gain on forward contracts and options [1]	Revenue	$ 426	$ 1,423	$ 1,127
Unrealized gain (loss) on forward contracts [1]	Revenue	(126)	57	217
Call options	Cost of Sales	—	—	97
Propane swap agreements	Cost of Sales	18	(735)	—
Derivatives designated as fair value hedges:				
Put/Call option	Cost of Sales	528	235	(28)
Put/Call option [2]	Propane Inventory	43	517	(100)
Derivatives designated as cash flow hedges				
Propane swap agreements	Cost of Sales	(120)	(341)	—
Propane swap agreements	Other Comprehensive Loss	(323)	—	—
Call options	Cost of Sales	(81)	(17)	—
Call options	Other Comprehensive Loss	—	(55)	—
Natural gas futures contracts	Other Comprehensive Income	109	—	—
Total		$ 474	$ 1,084	$ 1,313

(1) All of the realized and unrealized gain (loss) on forward contracts represents the effect of trading activities on our consolidated statements of income.
(2) As a fair value hedge with no ineffective portion, the unrealized gains and losses associated with this call option are recorded in cost of sales, offset by the corresponding change in the value of propane inventory (hedged item), which is also recorded in cost of sales. The amounts in cost of sales offset to zero and the unrealized gains and losses of this call option effectively changed the value of propane inventory.

8. Fair Value of Financial Instruments

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

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

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

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

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Financial Assets and Liabilities Measured at Fair Value

The following tables summarize our financial assets and liabilities that are measured at fair value on a recurring basis and the fair value measurements, by level, within the fair value hierarchy as of December 31, 2015 and 2014, respectively:

As of December 31, 2015 (in thousands)	Fair Value	Fair Value Measurements Using: Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Investments—equity securities	$ 18	$ 18	$ —	$ —
Investments—guaranteed income fund	$ 279	$ —	$ —	$ 279
Investments—mutual funds and other	$ 3,347	$ 3,347	$ —	$ —
Mark-to-market energy assets, including put options	$ 153	$ —	$ 153	$ —
Liabilities:				
Mark-to-market energy liabilities, including swap agreements and natural gas futures contracts	$ 433	$ —	$ 433	$ —

As of December 31, 2014 (in thousands)	Fair Value	Fair Value Measurements Using: Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Investments—guaranteed income fund	$ 287	$ —	$ —	$ 287
Investments—mutual funds and other	$ 3,391	$ 3,391	$ —	$ —
Mark-to-market energy assets, including put and call options	$ 1,055	$ —	$ 1,055	$ —
Liabilities:				
Mark-to-market energy liabilities including swap agreements	$ 1,018	$ —	$ 1,018	$ —

The following valuation techniques were used to measure fair value assets in the tables above on a recurring basis as of December 31, 2015 and 2014:

Level 1 Fair Value Measurements:

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

Investments - mutual funds and other — The fair values of these investments, comprised of money market and mutual funds, are recorded at fair value based on quoted net asset values of the shares.

Level 2 Fair Value Measurements:

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

Propane put/call options, swap agreements and natural gas futures contracts – The fair value of the propane put/call options, swap agreements and natural gas futures contracts are measured using market transactions for similar assets and liabilities in either the listed or OTC markets.

Level 3 Fair Value Measurements:

Investments - guaranteed income fund — The fair values of these investments are recorded at the contract value, which approximates their fair value.

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The following table sets forth the summary of the changes in the fair value of Level 3 investments for the years ended December 31, 2015 and 2014:

	For the Year Ended December 31,	
	2015	2014
(in thousands)		
Beginning Balance	$ 287	$ 458
Purchases and adjustments	69	76
Transfers/Disbursements	(82)	(253)
Investment income	5	6
Ending Balance	$ 279	$ 287

Investment income from the Level 3 investments is reflected in other income (loss) in the accompanying consolidated statements of income.

At December 31, 2015 and 2014, there were no non-financial assets or liabilities required to be reported at fair value. We review our non-financial assets for impairment at least on an annual basis, as required.

Other Financial Assets and Liabilities

Financial assets with carrying values approximating fair value include cash and cash equivalents and accounts receivable. Financial liabilities with carrying values approximating fair value include accounts payable and other accrued liabilities and short-term debt. The fair value of cash and cash equivalents is measured using the comparable value in the active market and approximates its carrying value (Level 1 measurement). The fair value of short-term debt approximates the carrying value due to its short maturities and because interest rates approximate current market rates (Level 3 measurement).

At December 31, 2015, long-term debt, which includes the current maturities but excludes a capital lease obligation, had a carrying value of $153.7 million, compared to a fair value of $165.1 million, using a discounted cash flow methodology that incorporates a market interest rate based on published corporate borrowing rates for debt instruments with similar terms and average maturities, adjusted for duration, optionality and risk profile. At December 31, 2014, long-term debt, which includes the current maturities of long-term debt, had a carrying value of $161.5 million, compared to the estimated fair value of $180.7 million. The valuation technique used to estimate the fair value of long-term debt would be considered a Level 3 measurement.

Note 16, *Employee Benefit Plans,* provides the fair value measurement information for our pension plan assets.

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9. INVESTMENTS

The investment balances at December 31, 2015 and 2014, consisted of the following:

(in thousands)	December 31, 2015	December 31, 2014
Rabbi trust (associated with the Non-qualified Deferred Compensation Plan)	$ 3,626	$ 3,678
Investments in equity securities	18	—
Total	$ 3,644	$ 3,678

We classify these investments as trading securities and report them at their fair value. For the years ended December 31, 2015, 2014 and 2013, we recorded net unrealized gains of $7,000, $237,000 and $489,000, respectively, in other income in the consolidated statements of income related to these investments. We have also recorded an associated liability, which is included in other pension and benefit costs in the consolidated balance sheets and is adjusted each month for the gains and losses incurred by the Rabbi Trusts. During 2013, we sold our investments in equity securities at that time and recorded $702,000 of realized gain, $438,000 of which was previously recorded as unrealized gain ($135,000 in 2012 and $304,000 prior to 2012).

10. GOODWILL AND OTHER INTANGIBLE ASSETS

The carrying value of goodwill as of December 31, 2015 and 2014 was as follows:

(in thousands)	As of December 31, 2015	As of December 31, 2014
Regulated Energy	$ 3,353	$ 3,354
Unregulated Energy	11,195	1,598
Total	$ 14,548	$ 4,952

As of December 31, 2015, goodwill in our Regulated Energy segment is comprised of approximately $2.5 million from the FPU merger in October 2009, $170,000 from the purchase of operating assets from IGC in August 2010 and $714,000 from the purchase of Fort Meade in December 2013. As of December 31, 2015, goodwill in our Unregulated Energy segment is comprised of $9.6 million from the acquisition of Gatherco in April 2015, $724,000 from the purchase of the operating assets of Glades Gas Co., Inc. in February 2013, $200,000 from the purchase of the operating assets from Crescent Propane, Inc. in December 2011 and $674,000 related to the premium paid by Sharp from its acquisitions in the late 1980s and 1990s.

The annual impairment testing for 2015 indicated no impairment of goodwill. As discussed in Note 2, *Summary of Significant Accounting Policies,* at December 31, 2014, we recorded an impairment loss of $237,000 associated with the goodwill resulting from the Austin Cox acquisition in 2013. The impairment loss represents all of the goodwill recorded from the Austin Cox acquisition.

The carrying value and accumulated amortization of intangible assets subject to amortization as of December 31, 2015 and 2014 are as follows:

	As of December 31,			
	2015		2014	
(in thousands)	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Customer lists	$ 4,012	$ 2,048	$ 3,993	$ 1,719
Non-Compete agreements	270	103	103	72
Other	270	179	270	171
Total	$ 4,552	$ 2,330	$ 4,366	$ 1,962

The customer lists acquired in the purchases of the operating assets of Anderson Gas in May 2015, Glades in February 2013, Virginia LP Gas, Inc. in February 2010 and the FPU merger in October 2009 are being amortized over seven to 12 years. The non-

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compete agreements acquired in the purchase of the operating assets of Anderson Gas in May 2015 and Virginia LP Gas, Inc. in February 2010 are being amortized over a six-year and seven-year period, respectively. The other intangible assets consist of acquisition costs from our propane distribution acquisitions in the late 1980s and 1990s and are being amortized over 40 years. As discussed in Note 2, *Summary of Significant Accounting Policies*, at December 31, 2014, we recorded an impairment loss of $175,000 for an intangible asset associated with the non-compete agreements acquired in the Austin Cox acquisition in 2013. The impairment loss represents all of the remaining intangible asset from the Austin Cox acquisition.

For the years ended December 31, 2015, 2014 and 2013, amortization expense of intangible assets was $367,000, $396,000, and $373,000, respectively. Amortization expense of intangible assets is expected to be: $355,000 for 2016, $351,000 for 2017, $353,000 for 2018, $353,000 for 2019 and $353,000 for 2020.

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11. INCOME TAXES

We file a consolidated federal income tax return. Income tax expense allocated to our subsidiaries is based upon their respective taxable incomes and tax credits. State income tax returns are filed on a separate company basis in most states where we have operations and/or are required to file. Our returns for tax years after 2012 are subject to examination.

The IRS performed its examination of Chesapeake Utilities' consolidated federal income tax return for 2009 and FPU's consolidated federal income tax return for 2008 and the period from January 1, 2009 to October 28, 2009 (the pre-merger period in 2009, during which FPU was required to file a separate federal income tax return). Both of the IRS examinations were completed in 2012 without any material findings.

The State of Florida performed its examination of Chesapeake Utilities' state income tax returns for 2008, 2009 and 2010 and completed its examination in 2012 without any material findings.

The State of Texas performed its examination of Chesapeake Utilities' amended state tax return for 2007. We amended the 2007 Texas state tax return due to a change in the methodology used to calculate gross receipts for determining Texas apportionment. This new methodology was used in Chesapeake Utilities' Texas tax returns for all years after 2006. As a result of this change in methodology and the uncertainty of the examination's outcome, we recorded a liability of $300,000 in 2012 associated with unrecognized tax benefits. As of December 31, 2015 and 2014, the balance of the liability was $50,000 and $100,000, respectively, which was based on the findings of the examination. This unrecognized tax benefit liability was recorded in income taxes payable, which reduced income taxes receivable in the accompanying balance sheets at December 31, 2015 and 2014.

We did not have net operating losses for federal income tax purposes as of December 31, 2015 and 2014. We had state net operating losses of $25.7 million in various states as of December 31, 2015, almost all of which will expire in 2034. We have recorded a deferred tax asset of $884,000 and $1.2 million related to net operating loss carry-forwards at December 31, 2015 and 2014, respectively. We have not recorded a valuation allowance to reduce the future benefit of the tax net operating losses because we believe they will be fully utilized.

The following tables provide: (a) the components of income tax expense in 2015, 2014, and 2013; (b) the reconciliation between the statutory federal income tax rate and the effective income tax rate for 2015, 2014, and 2013; and (c) the components of accumulated deferred income tax assets and liabilities at December 31, 2015 and 2014.

	For the Year Ended December 31,		
	2015	2014	2013
(in thousands)			
Current Income Tax Expense			
Federal	$ **4,875**	$ 434	$ 4,882
State	**1,533**	1,311	2,382
Other	**(23)**	(35)	(39)
Total current income tax expense	**6,385**	1,710	7,225
Deferred Income Tax Expense [1]			
Property, plant and equipment	**21,205**	20,382	16,758
Deferred gas costs	**(1,539)**	1,614	(209)
Pensions and other employee benefits	**(84)**	537	(335)
FPU merger related premium cost and deferred gain	**(556)**	(802)	(686)
Net operating loss carryforwards	**2,078**	(112)	62
Other	**(584)**	616	(730)
Total deferred income tax expense	**20,520**	22,235	14,860
Total Income Tax Expense	$ **26,905**	$ 23,945	$ 22,085

[1] Includes $2.1 million, $2.6 million, and $2.1 million of deferred state income taxes for the years 2015, 2014 and 2013, respectively.

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(in thousands)	For the Year Ended December 31, 2015	2014	2013
Reconciliation of Effective Income Tax Rates			
Continuing Operations			
Federal income tax expense [1]	$ 23,865	$ 21,121	$ 19,205
State income taxes, net of federal benefit	3,062	2,946	3,105
ESOP dividend deduction	(263)	(267)	(256)
Other	241	145	31
Total Income Tax Expense	$ 26,905	$ 23,945	$ 22,085
Effective Income Tax Rate	39.54%	39.88%	40.25%

[1] Federal income taxes were recorded at 35% for each year represented.

(in thousands)	As of December 31, 2015	2014
Deferred Income Taxes		
Deferred income tax liabilities:		
Property, plant and equipment	$ 185,448	$ 152,877
Acquisition adjustment	15,490	16,140
Loss on reacquired debt	485	529
Deferred gas costs	683	2,222
Other	5,961	4,507
Total deferred income tax liabilities	208,067	176,275
Deferred income tax assets:		
Pension and other employee benefits	6,570	6,532
Environmental costs	2,445	2,313
Net operating loss carryforwards	943	1,186
Self insurance	278	275
Storm reserve liability	1,153	1,150
Other	4,078	3,755
Total deferred income tax assets	15,467	15,211
Deferred Income Taxes Per Consolidated Balance Sheets	$ 192,600	$ 161,064

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12. LONG-TERM DEBT

Our outstanding long-term debt is shown below:

	As of December 31,	
(in thousands)	2015	2014
FPU secured first mortgage bonds:		
9.08% bond, due June 1, 2022	$ 7,973	$ 7,969
Uncollateralized Senior Notes:		
6.64% note, due October 31, 2017	5,456	8,182
5.50% note, due October 12, 2020	10,000	12,000
5.93% note, due October 31, 2023	24,000	27,000
5.68% note, due June 30, 2026	29,000	29,000
6.43% note, due May 2, 2028	7,000	7,000
3.73% note, due December 16, 2028	20,000	20,000
3.88% note, due May 15, 2029	50,000	50,000
Promissory notes	238	314
Capital lease obligation	4,824	6,130
Total long-term debt	158,491	167,595
Less: current maturities	(9,151)	(9,109)
Total long-term debt, net of current maturities	$ 149,340	$ 158,486

Annual maturities and principal repayments of consolidated long-term debt, excluding the capital lease obligation, are as follows: $9,151 for 2016; $12,099 for 2017; $9,421 for 2018; $11,245 for 2019; $15,600 for 2020 and $101,000 thereafter. See Note 14, Lease obligations for future payments related to the capital lease obligation.

Shelf Agreement

On October 8, 2015, we entered into a Shelf Agreement with Prudential. Under the terms of the Shelf Agreement, we may request that Prudential purchase, over the next three years, up to $150.0 million of our Shelf Notes at a fixed interest rate and with a maturity date not to exceed twenty years from the date of issuance. Prudential is under no obligation to purchase any of the Shelf Notes. The interest rate and terms of payment of any series of Shelf Notes will be determined at the time of purchase. We currently anticipate the proceeds from the sale of any series of Shelf Notes will be used for general corporate purposes, including refinancing of short-term borrowing and/or repayment of outstanding indebtedness and financing capital expenditures on future projects; however, actual use of such proceeds will be determined at the time of a purchase and each request for purchase with respect to a series of Shelf Notes will specify the exact use of the proceeds.

The Shelf Agreement sets forth certain business covenants to which we are subject when any Shelf Note is outstanding, including covenants that limit or restrict us and our subsidiaries from incurring indebtedness and incurring liens and encumbrances on any of our property.

Secured First Mortgage Bonds

We guaranteed FPU's secured first mortgage bonds, which are secured by a lien covering all of FPU's property. FPU's first mortgage bonds contain a restriction that limits the payment of dividends by FPU. It provides that FPU cannot make dividends or other restricted payments in excess of the sum of $2.5 million plus FPU's consolidated net income accrued on and after January 1, 1992. As of December 31, 2015, FPU's cumulative net income base was $116.3 million, offset by restricted payments of $37.6 million, leaving $78.7 million of cumulative net income for FPU free of restrictions pursuant to this covenant.

The dividend restrictions by FPU's first mortgage bonds resulted in approximately $47.1 million of the net assets of our consolidated subsidiaries being restricted at December 31, 2015. This represents approximately 13 percent of our consolidated net assets. Other than the dividend restrictions by FPU's first mortgage bonds, there are no legal, contractual or regulatory restrictions on the net assets of our subsidiaries.

Uncollateralized Senior Notes

In September 2013, we entered into the Note Agreement to issue $70.0 million in aggregate Senior Notes to the Note Holders. In December 2013, we issued Series A Notes, with an aggregate principal amount of $20.0 million, at an interest rate of 3.73 percent. On May 15, 2014, we issued Series B Notes, with an aggregate principal amount of $50.0 million, at an interest rate of 3.88 percent. The proceeds received from the issuances of the Series A and Series B Notes were used to reduce our short-term borrowings under our lines of credit and to fund capital expenditures.

In June 2010, we entered into an agreement with Metropolitan Life Insurance Company and New England Life Insurance Company to issue up to $36.0 million of Chesapeake Utilities' Senior Notes. In June 2011, we issued $29.0 million of 5.68 percent Senior Notes to permanently finance the redemption of two series of FPU first mortgage bonds in 2010. On May 2, 2013, we issued an additional $7.0 million of 6.43 percent Senior Notes under the same agreement.

All of our uncollateralized Senior Notes require periodic principal and interest payments as specified in each note. They also contain various restrictions. The most stringent restrictions state that we must maintain equity of at least 40 percent of total capitalization, and the fixed charge coverage ratio must be at least 1.2 times. The most recent Senior Notes issued in December 2013 also contain a restriction that we must maintain an aggregate net book value in our regulated business assets of at least 50 percent of our consolidated total assets. Failure to comply with those covenants could result in accelerated due dates and/or termination of the Senior Note agreements. As of December 31, 2015, we are in compliance with all of our debt covenants.

Most of Chesapeake Utilities' uncollateralized Senior Notes contain a "restricted payments" covenant as defined in the respective note agreements. The most restrictive covenants of this type are included within the 6.64 percent, 5.50 percent and 5.93 percent Senior Notes, due October 31, 2017, October 12, 2020 and October 31, 2023, respectively. The covenant provides that we cannot pay or declare any dividends or make any other restricted payments in excess of the sum of $10.0 million, plus our consolidated net income accrued on and after January 1, 2003. As of December 31, 2015, the cumulative consolidated net income base was $285.0 million, offset by restricted payments of $138.4 million, leaving $146.6 million of cumulative net income free of restrictions.

13. Short-term Borrowings

At December 31, 2015 and 2014, we had $173.4 million and $88.2 million, respectively, of short-term borrowings outstanding. On October 8, 2015, we entered into a Credit Agreement with the Lenders for a $150.0 million Revolver for a term of five years subject to the terms and conditions as specified. On October 31, 2015, two credit facilities available under uncommitted lines of credit, totaling $40.0 million expired and were not renewed. As a result, we now have four unsecured bank credit facilities with three financial institutions with $170.0 million in total available credit and a Revolver with five participating Lenders totaling $150.0 million. The annual weighted average interest rates on our short-term borrowings were 1.30 percent and 1.15 percent for 2015 and 2014, respectively. We incurred commitment fees of $106,000 and $87,000 in 2015 and 2014, respectively.

(in thousands)	Total Facility	Interest Rate	Expiration Date	Outstanding borrowings at December 31, 2015	Outstanding borrowings at December 31, 2014	Available at December 31, 2015
Bank Credit Facility						
Committed revolving credit facility A	$ 55,000	LIBOR plus 1.25 percent	October 31, 2016	$ 30,000	$ 20,000	$ 25,000
Committed revolving credit facility B	30,000	LIBOR plus 1.25 percent (1)	October 31, 2016	23,757	16,040	6,243
Committed revolving credit facility C	35,000	LIBOR plus 0.85 percent	December 20, 2016	30,000	—	5,000
Committed revolving credit facility D	150,000	LIBOR plus 1.25 percent (2)	October 8, 2020	35,000	—	115,000
Short-term revolving credit Note E	50,000	LIBOR plus 0.80 percent (3)	October 31, 2016	50,000	50,000	—
Total short term credit facilities	$ 320,000			$ 168,757	$ 86,040	$ 151,243
Book overdrafts(4)				4,640	2,191	
Total short-term borrowing				$ 173,397	$ 88,231	

(1) This facility bears interest at LIBOR for the applicable period plus up to 1.25 percent, if requested three days prior to the advance date. If requested and advanced on the same day, this facility bears interest at a base rate plus up to 1.25 percent.

(2) This facility bears interest at LIBOR for the applicable period plus 1.25 percent or less, based on Total Indebtedness as a percentage of Total Capitalization.

(3) At our discretion, the borrowings under this facility can bear interest at the lender's base rate plus 0.80 percent.

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(4) If presented, these book overdrafts would be funded through the bank revolving credit facilities.

These bank credit facilities are available to provide funds for our short-term cash needs to meet seasonal working capital requirements and to temporarily fund portions of our capital expenditures. We were previously authorized by our Board of Directors to borrow up to $200.0 million of short-term debt, as required, from these short-term lines of credit. In February 2016, the Board of Directors, authorized an increase which allows us to borrow up to $275.0 million of short-term debt.

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

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

We are in compliance with all of our debt covenants.

14. Lease Obligations

We have entered into several operating lease arrangements for office space, equipment and pipeline facilities. Rent expense related to these leases for 2015, 2014 and 2013 was $1.7 million, $1.8 million and $1.6 million, respectively. Future minimum payments under our current lease agreements for the years 2016 through 2020 are $1.3 million, $649,000, $484,000, $424,000, and $273,000, respectively, and approximately $2.2 million thereafter, with an aggregate total of approximately $5.3 million.

For the years ended December 31, 2015 and 2014, we paid $1.5 million and $1.1 million, respectively, for a capital lease arrangement related to Sandpiper's capacity, supply and operating agreement. Future minimum payments under this lease arrangement are $1.5 million for 2016 through 2018 and $625,000 in 2019, with an aggregate total of $5.1 million.

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15. Accumulated Other Comprehensive Income (Loss)

Defined benefit pension and postretirement plan items, unrealized gains (losses) of our propane swap agreements, call options and natural gas futures contracts, designated as commodity contracts cash flow hedges, are the components of our accumulated comprehensive income (loss). The following table presents the changes in the balance of accumulated other comprehensive loss for the years ended December 31, 2015 and 2014. All amounts in the following table are presented net of tax.

(in thousands)	Defined Benefit Pension and Postretirement Plan Items	Commodity Contracts Cash Flow Hedges	Total
As of December 31, 2014	$ (5,643)	$ (33)	$ (5,676)
Other comprehensive loss before reclassifications	(286)	(350)	(636)
Amounts reclassified from accumulated other comprehensive loss	349	123	472
Net current-period other comprehensive gain/(loss)	63	(227)	(164)
As of December 31, 2015	$ (5,580)	$ (260)	$ (5,840)

(in thousands)	Defined Benefit Pension and Postretirement Plan Items	Commodity Contracts Cash Flow Hedges	Total
As of December 31, 2013	$ (2,533)	$ —	$ (2,533)
Other comprehensive loss before reclassifications	(3,242)	(482)	(3,724)
Amounts reclassified from accumulated other comprehensive loss	132	449	581
Net current-period other comprehensive loss	(3,110)	(33)	(3,143)
As of December 31, 2014	$ (5,643)	$ (33)	$ (5,676)

The following table presents amounts reclassified out of accumulated other comprehensive loss for the years ended December 31, 2015 and 2014. Deferred gains and losses of our commodity contracts cash flow hedges are recognized in earnings upon settlement.

For the Year Ended December 31, (in thousands)	2015	2014
Amortization of defined benefit pension and postretirement plan items:		
Prior service cost [1]	$ 68	$ 58
Net gain [1]	(650)	(279)
Total before income taxes	(582)	(221)
Income tax benefit	233	89
Net of tax	$ (349)	$ (132)
Gains and losses on commodity contracts cash flow hedges		
Propane swap agreements [2]	$ (120)	$ (735)
Call options [2]	(55)	(17)
Natural gas futures [2]	(31)	—
Total before income taxes	(206)	(752)
Income tax benefit	83	303
Net of tax	$ (123)	$ (449)
Total reclassifications for the period	$ (472)	$ (581)

(1) These amounts are included in the computation of net periodic benefits. See Note 16, *Employee Benefit Plans*, for additional details.
(2) These amounts are included in the effects of gains and losses from derivative instruments. See Note 7, *Derivative Instruments*, for additional details.

Amortization of defined benefit pension and postretirement plan items is included in operations expense and gains and losses on propane swap agreements, call options and natural gas futures contracts are included in cost of sales in the accompanying consolidated statements of income. The income tax benefit is included in income tax expense in the accompanying consolidated statements of income.

16. Employee Benefit Plans

We measure the assets and obligations of the defined benefit pension plans and other postretirement benefits plans to determine the plans' funded status as of the end of the year as an asset or a liability on our consolidated balance sheets. We record as a component of other comprehensive income/loss or a regulatory asset the changes in funded status that occurred during the year that are not recognized as part of net periodic benefit costs.

Defined Benefit Pension Plans

We sponsor three defined benefit pension plans: the Chesapeake Pension Plan, the FPU Pension Plan and the Chesapeake SERP.

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

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

The Chesapeake SERP was frozen with respect to additional years of service and additional compensation as of December 31, 2004. Benefits under the Chesapeake SERP were based on each participant's years of service and highest average compensation, prior to the freezing of the plan. Active participants on the date the date the Plan was frozen were credited with two additional years of service.

In January 2011, a former executive officer retired and received a lump-sum pension distribution from the Chesapeake Pension Plan. Based upon the funding status of the Chesapeake Pension Plan at the time, which did not meet or exceed 110 percent of the benefit obligation as required per the Department of Labor regulations, our former executive officer was required to deposit property equal to 125 percent of the restricted portion of his lump-sum distribution into an escrow. Each year, an amount equal to the value of payments that would have been paid to him if he had elected the life annuity form of distribution becomes unrestricted. Property equal to the life annuity amount is returned to him from the escrow account. These same regulations will apply to the top 20 highest compensated employees taking lump-sum distributions from the Chesapeake Pension Plan.

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The following schedule sets forth the funded status at December 31, 2015 and 2014 and the net periodic cost for the years ended December 31, 2015, 2014 and 2013 for the Chesapeake and FPU Pension Plans:

At December 31,	Chesapeake Pension Plan 2015	Chesapeake Pension Plan 2014	FPU Pension Plan 2015	FPU Pension Plan 2014
(in thousands)				
Change in benefit obligation:				
Benefit obligation — beginning of year	$ 11,981	$ 10,268	$ 68,173	$ 55,876
Interest cost	407	425	2,504	2,613
Actuarial loss (gain)	(401)	1,891	(3,374)	12,785
Benefits paid	(486)	(603)	(2,868)	(3,101)
Benefit obligation — end of year	11,501	11,981	64,435	68,173
Change in plan assets:				
Fair value of plan assets — beginning of year	9,078	8,743	45,077	44,337
Actual return on plan assets	(289)	305	(1,464)	1,485
Employer contributions	449	633	1,462	2,356
Benefits paid	(486)	(603)	(2,868)	(3,101)
Fair value of plan assets — end of year	8,752	9,078	42,207	45,077
Reconciliation:				
Funded status	(2,749)	(2,903)	(22,228)	(23,096)
Accrued pension cost	$ (2,749)	$ (2,903)	$ (22,228)	$ (23,096)
Assumptions:				
Discount rate	3.75%	3.50%	4.00%	3.75%
Expected return on plan assets	6.00%	6.00%	7.00%	7.00%

For the Years Ended December 31,	Chesapeake Pension Plan 2015	Chesapeake Pension Plan 2014	Chesapeake Pension Plan 2013	FPU Pension Plan 2015	FPU Pension Plan 2014	FPU Pension Plan 2013
(in thousands)						
Components of net periodic pension cost:						
Interest cost	$ 407	$ 425	$ 405	$ 2,504	$ 2,613	$ 2,367
Expected return on assets	(530)	(516)	(486)	(3,107)	(3,089)	(2,866)
Amortization of prior service cost	—	—	(1)	—	—	—
Amortization of actuarial loss	392	176	322	456	8	330
Net periodic pension cost	269	85	240	(147)	(468)	(169)
Amortization of pre-merger regulatory asset	—	—	—	761	761	761
Total periodic cost	$ 269	$ 85	$ 240	$ 614	$ 293	$ 592
Assumptions:						
Discount rate	3.50%	4.25%	3.50%	3.75%	4.75%	3.75%
Expected return on plan assets	6.00%	6.00%	6.00%	7.00%	7.00%	7.00%

Included in the net periodic costs for the FPU Pension Plan is continued amortization of the FPU pension regulatory asset, which represents the portion attributable to FPU's regulated operations for the changes in funded status that occurred but was not recognized as part of net periodic cost prior to the merger with Chesapeake Utilities in October 2009. This was previously deferred as a regulatory asset by FPU prior to the merger to be recovered through rates pursuant to an order by the Florida PSC. The unamortized balance of this regulatory asset was $2.8 million and $3.6 million at December 31, 2015 and 2014, respectively.

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The following sets forth the funded status at December 31, 2015 and 2014 and the net periodic cost for the years ended December 31, 2015, 2014 and 2013 for the Chesapeake SERP:

At December 31,	2015	2014
(in thousands)		
Change in benefit obligation:		
Benefit obligation — beginning of year	$ 2,650	$ 2,210
Interest cost	91	92
Actuarial loss (gain)	(85)	437
Benefits paid	(146)	(89)
Benefit obligation — end of year	2,510	2,650
Change in plan assets:		
Fair value of plan assets — beginning of year	—	—
Employer contributions	146	89
Benefits paid	(146)	(89)
Fair value of plan assets — end of year	—	—
Reconciliation:		
Funded status	(2,510)	(2,650)
Accrued pension cost	$ (2,510)	$ (2,650)
Assumptions:		
Discount rate	3.75%	3.50%

For the Years Ended December 31,	2015	2014	2013
(in thousands)			
Components of net periodic pension cost:			
Interest cost	$ 91	$ 92	$ 81
Amortization of prior service cost	9	19	19
Amortization of actuarial loss	99	47	64
Net periodic pension cost	$ 199	$ 158	$ 164
Assumptions:			
Discount rate	3.50%	4.25%	3.50%

Our funding policy provides that payments to the trustee of each qualified plan shall be equal to at least the minimum funding requirements of the Employee Retirement Income Security Act of 1974. The following schedule summarizes the assets of the Chesapeake Pension Plan and the FPU Pension Plan, by investment type, at December 31, 2015, 2014 and 2013:

	Chesapeake Pension Plan			FPU Pension Plan		
At December 31,	2015	2014	2013	2015	2014	2013
Asset Category						
Equity securities	48.01%	51.42%	54.40%	48.56%	52.62%	55.02%
Debt securities	39.62%	37.31%	36.54%	41.74%	37.69%	36.54%
Other	12.37%	11.27%	9.06%	9.70%	9.69%	8.44%
Total	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

The investment policy of both the Chesapeake and FPU Pension Plans is designed to provide the capital assets necessary to meet the financial obligations of the plans. The investment goals and objectives are to achieve investment returns that, together with contributions, will provide funds adequate to pay promised benefits to present and future beneficiaries of the plans, earn a long-term investment return in excess of the growth of the Plans' retirement liabilities, minimize pension expense and cumulative contributions resulting from liability measurement and asset performance, and maintain a diversified portfolio to reduce the risk of large losses.

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The following allocation range of asset classes is intended to produce a rate of return sufficient to meet the Plans' goals and objectives:

Asset Allocation Strategy

Asset Class	Minimum Allocation Percentage	Maximum Allocation Percentage
Domestic Equities (Large Cap, Mid Cap and Small Cap)	14%	32%
Foreign Equities (Developed and Emerging Markets)	13%	25%
Fixed Income (Inflation Bond and Taxable Fixed)	26%	40%
Alternative Strategies (Long/Short Equity and Hedge Fund of Funds)	6%	14%
Diversifying Assets (High Yield Fixed Income, Commodities, and Real Estate)	7%	19%
Cash	0%	5%

Due to periodic contributions and different asset classes producing varying returns, the actual asset values may temporarily move outside of the intended ranges. The investments are monitored on a quarterly basis, at a minimum, for asset allocation and performance.

At December 31, 2015, the assets of the Chesapeake Pension Plan and the FPU Pension Plan were comprised of the following investments:

Asset Category	Fair Value Measurement Hierarchy			
	Level 1	Level 2	Level 3	Total
(in thousands)				
Equity securities				
U.S. Large Cap (1)	$ 3,641	$ 4,030	$ —	$ 7,671
U.S. Mid Cap (1)	1,577	1,609	—	3,186
U.S. Small Cap (1)	865	818	—	1,683
International (2)	9,416	—	—	9,416
Alternative Strategies (3)	2,737	—	—	2,737
	18,236	6,457	—	24,693
Debt securities				
Fixed income (4)	18,565	—	—	18,565
High Yield (4)	2,521	—	—	2,521
	21,086	—	—	21,086
Other				
Commodities (5)	1,365	—	—	1,365
Real Estate (6)	2,529	—	—	2,529
Guaranteed deposit (7)	—	—	1,286	1,286
	3,894	—	1,286	5,180
Total Pension Plan Assets	$ 43,216	$ 6,457	$ 1,286	$ 50,959

(1) Includes funds that invest primarily in United States common stocks.
(2) Includes funds that invest primarily in foreign equities and emerging markets equities.
(3) Includes funds that actively invest in both equity and debt securities, funds that sell short securities and funds that provide long-term capital appreciation. The funds may invest in debt securities below investment grade.
(4) Includes funds that invest in investment grade and fixed income securities.
(5) Includes funds that invest primarily in commodity-linked derivative instruments and fixed income securities.
(6) Includes funds that invest primarily in real estate.
(7) Includes investment in a group annuity product issued by an insurance company.

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At December 31, 2014, the assets of the Chesapeake Pension Plan and the FPU Pension Plan were comprised of the following investments:

Asset Category	Fair Value Measurement Hierarchy			
	Level 1	Level 2	Level 3	Total
(in thousands)				
Equity securities				
U.S. Large Cap [1]	$ 4,069	$ 4,028	$ —	$ 8,097
U.S. Mid Cap [1]	1,733	1,714	—	3,447
U.S. Small Cap [1]	873	821	—	1,694
International [2]	9,621	—	—	9,621
Alternative Strategies [3]	5,531	—	—	5,531
	21,827	6,563	—	28,390
Debt securities				
Fixed income [4]	17,717	—	—	17,717
High Yield [4]	2,658	—	—	2,658
	20,375	—	—	20,375
Other				
Commodities [5]	1,819	—	—	1,819
Real Estate [6]	2,427	—	—	2,427
Guaranteed deposit [7]	—	—	1,144	1,144
	4,246	—	1,144	5,390
Total Pension Plan Assets	$ 46,448	$ 6,563	$ 1,144	$ 54,155

(1) Includes funds that invest primarily in United States common stocks.
(2) Includes funds that invest primarily in foreign equities and emerging markets equities.
(3) Includes funds that actively invest in both equity and debt securities, funds that sell short securities and funds that provide long-term capital appreciation. The funds may invest in debt securities below investment grade.
(4) Includes funds that invest in investment grade and fixed income securities.
(5) Includes funds that invest primarily in commodity-linked derivative instruments and fixed income securities.
(6) Includes funds that invest primarily in real estate.
(7) Includes investment in a group annuity product issued by an insurance company.

At December 31, 2015 and 2014, all of the investments classified under Level 1 of the fair value measurement hierarchy were recorded at fair value based on unadjusted quoted prices in active markets for identical investments. The Level 2 investments were recorded at fair value based on net asset value per unit of the investments, which used significant observable inputs although those investments were not traded publicly and did not have quoted market prices in active markets. The Level 3 investments were recorded at fair value based on the contract value of annuity products underlining guaranteed deposit accounts, which was calculated using discounted cash flow models. The contract value of these products represented deposits made to the contract, plus earnings at guaranteed crediting rates, less withdrawals and fees.

The following table sets forth the summary of the changes in the fair value of Level 3 investments for the years ended December 31, 2015 and 2014:

	For the Year Ended December 31,	
	2015	2014
(in thousands)		
Balance, beginning of year	**$ 1,144**	$ 602
Purchases	**1,926**	1,811
Transfers in	**1,900**	2,390
Disbursements	**(3,688)**	(3,704)
Investment income	**4**	45
Balance, end of year	**$ 1,286**	$ 1,144

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Other Postretirement Benefits Plans

We sponsor two defined benefit plans: the Chesapeake Postretirement Plan and the FPU Medical Plan. The following table sets forth the funded status at December 31, 2015 and 2014 and the net periodic cost for the years ended December 31, 2015, 2014, and 2013:

	Chesapeake Postretirement Plan		FPU Medical Plan	
At December 31,	**2015**	**2014**	**2015**	**2014**
(in thousands)				
Change in benefit obligation:				
Benefit obligation — beginning of year	$ **1,238**	$ 1,262	$ **1,712**	$ 1,519
Interest cost	**42**	39	**57**	69
Plan participants contributions	**108**	106	**75**	97
Actuarial loss (gain)	**(58)**	6	**(132)**	375
Benefits paid	**(177)**	(175)	**(268)**	(348)
Benefit obligation — end of year	**1,153**	1,238	**1,444**	1,712
Change in plan assets:				
Fair value of plan assets — beginning of year	**—**	—	**—**	—
Employer contributions[1]	**69**	69	**193**	251
Plan participants contributions	**108**	106	**75**	97
Benefits paid	**(177)**	(175)	**(268)**	(348)
Fair value of plan assets — end of year	**—**	—	**—**	—
Reconciliation:				
Funded status	**(1,153)**	(1,238)	**(1,444)**	(1,712)
Accrued postretirement cost	$ **(1,153)**	$ (1,238)	$ **(1,444)**	$ (1,712)
Assumptions:				
Discount rate	**3.75%**	3.50%	**4.00%**	3.75%

(1) The Chesapeake Postretirement Plan does not receive a Medicare Part-D subsidy. The FPU Medical Plan did not receive a significant subsidy for the post-merger period.

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Net periodic postretirement benefit costs for 2015, 2014, and 2013 include the following components:

For the Years Ended December 31,	Chesapeake Postretirement Plan 2015	2014	2013	FPU Medical Plan 2015	2014	2013
(in thousands)						
Components of net periodic postretirement cost:						
Interest cost	$ 42	$ 39	$ 47	$ 57	$ 69	$ 63
Amortization of:						
Actuarial loss	72	55	74	—	—	—
Prior service cost	(77)	(77)	(77)	—	—	—
Net periodic cost	37	17	44	57	69	63
Amortization of pre-merger regulatory asset	—	—	—	8	8	8
Net periodic cost	$ 37	$ 17	$ 44	$ 65	$ 77	$ 71
Assumptions						
Discount rate	3.50%	4.25%	3.50%	3.75%	4.75%	3.75%

Similar to the FPU Pension Plan, continued amortization of the FPU postretirement benefit regulatory asset related to the unrecognized cost prior to the merger with Chesapeake Utilities was included in the net periodic cost. The unamortized balance of this regulatory asset was $38,000 and $46,000 at December 31, 2015 and 2014, respectively.

The following table presents the amounts not yet reflected in net periodic benefit cost and included in accumulated other comprehensive income/loss or as a regulatory asset as of December 31, 2015:

(in thousands)	Chesapeake Pension Plan	FPU Pension Plan	Chesapeake SERP	Chesapeake Postretirement Plan	FPU Medical Plan	Total
Prior service cost (credit)	$ —	$ —	$ —	$ (755)	$ —	$ (755)
Net loss	4,434	20,410	866	793	99	26,602
Total	$ 4,434	$ 20,410	$ 866	$ 38	$ 99	$ 25,847
Accumulated other comprehensive loss pre-tax[(1)]	$ 4,434	$ 3,878	$ 866	$ 38	$ 19	$ 9,235
Post-merger regulatory asset	—	16,532	—	—	80	16,612
Subtotal	4,434	20,410	866	38	99	25,847
Pre-merger regulatory asset	—	2,826	—	—	38	2,864
Total unrecognized cost	$ 4,434	$ 23,236	$ 866	$ 38	$ 137	$ 28,711

(1) The total amount of accumulated other comprehensive loss recorded on our consolidated balance sheet as of December 31, 2015 is net of income tax benefits of $3.7 million.

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Pursuant to a Florida PSC order, FPU continues to record as a regulatory asset a portion of the unrecognized pension and postretirement benefit costs after the merger with Chesapeake Utilities related to its regulated operations, which is included in the above table as a post-merger regulatory asset. FPU also continues to maintain and amortize a portion of the unrecognized pension and postretirement benefit costs prior to the merger with Chesapeake Utilities related to its regulated operations, which is shown as a pre-merger regulatory asset.

The amounts in accumulated other comprehensive income/loss and recorded as a regulatory asset for our pension and postretirement benefits plans that are expected to be recognized as a component of net benefit cost in 2016 are set forth in the following table:

(in thousands)	Chesapeake Pension Plan	FPU Pension Plan	Chesapeake SERP	Chesapeake Postretirement Plan	FPU Medical Plan	Total
Prior service cost (credit)	$ —	$ —	$ —	$ (77)	$ —	$ (77)
Net loss	$ 412	$ 512	$ 87	$ 67	$ —	$ 1,078
Amortization of pre-merger regulatory asset	$ —	$ 761	$ —	$ —	$ 8	$ 769

Assumptions

The assumptions used for the discount rate to calculate the benefit obligations of all the plans were based on the interest rates of high-quality bonds in 2015, reflecting the expected lives of the plans. In determining the average expected return on plan assets for each applicable plan, various factors, such as historical long-term return experience, investment policy and current and expected allocation, were considered. Since Chesapeake Utilities' plans and FPU's plans have different expected plan lives, particularly in light of the lump-sum-payment option provided in the Chesapeake Pension Plan, different assumptions regarding discount rate and expected return on plan assets were selected for Chesapeake Utilities' and FPU's plans. Since both pension plans are frozen with respect to additional years of service and compensation, the rate of assumed compensation increases is not applicable. We adopted a new mortality table (RP 2014), which was developed by the Society of Actuaries and published during 2014. In December of 2015, we adopted an updated mortality table (RP 2014 with Scale MP-2015).

The health care inflation rate for 2015 used to calculate the benefit obligation is 5.0 percent for medical and 6.0 percent for prescription drugs for the Chesapeake Postretirement Plan; and 5.0 percent for both medical and prescription drugs for the FPU Medical Plan. A one–percentage point increase in the health care inflation rate from the assumed rate would increase the accumulated postretirement benefit obligation by approximately $335,000 as of December 31, 2015, and would increase the aggregate of the service cost and interest cost components of the net periodic postretirement benefit cost for 2015 by approximately $13,000. A one-percentage point decrease in the health care inflation rate from the assumed rate would decrease the accumulated postretirement benefit obligation by approximately $268,000 as of December 31, 2015, and would decrease the aggregate of the service cost and interest cost components of the net periodic postretirement benefit cost for 2015 by approximately $10,000.

Estimated Future Benefit Payments

In 2016, we expect to contribute $505,000 and $1.6 million to the Chesapeake Pension Plan and FPU Pension Plan, respectively, and $151,000 to the Chesapeake SERP. We also expect to contribute $82,000 and $149,000 to the Chesapeake Postretirement Plan and FPU Medical Plan, respectively, in 2016. The schedule below shows the estimated future benefit payments for each of the plans previously described:

(in thousands)	Chesapeake Pension Plan(1)	FPU Pension Plan(1)	Chesapeake SERP(2)	Chesapeake Postretirement Plan(2)	FPU Medical Plan(2)
2016	$ 591	$ 2,980	$ 151	$ 82	$ 149
2017	$ 717	$ 3,000	$ 150	$ 80	$ 130
2018	$ 640	$ 3,047	$ 150	$ 79	$ 93
2019	$ 686	$ 3,129	$ 148	$ 79	$ 100
2020	$ 646	$ 3,218	$ 147	$ 73	$ 94
Years 2021 through 2025	$ 4,706	$ 17,469	$ 960	$ 322	$ 424

(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 our general funds.

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Retirement Savings Plan

For the years ended December 31, 2015, 2014 and 2013, we sponsored a Retirement Savings Plan. Prior to January 1, 2014, we also sponsored a 401(k) SERP non-qualified supplemental executive retirement savings plan. That plan was merged with the Deferred Compensation Plan on January 1, 2014 to form the Non-Qualified Deferred Compensation Plan, which is described in the following section.

Our 401(k) plan is offered to all eligible employees who have completed three months of service, except for employees represented by a collective bargaining agreement that does not specifically provide for participation in the plan, non-resident aliens with no U.S. source income and individuals classified as consultants, independent contractors or leased employees. Effective January 1, 2011, we match 100 percent of eligible participants' pre-tax contributions to the Retirement Savings Plan up to a maximum of six percent of eligible compensation. In addition, we may make a discretionary supplemental contribution to participants in the plan, without regard to whether or not they make pre-tax contributions. Beginning January 1, 2011, the employer matching contribution is made in cash and is invested based on a participant's investment directions. Any supplemental employer contribution is generally made in our common stock. With respect to the employer match and supplemental employer contribution, employees are 100 percent vested after two years of service or upon reaching 55 years of age while still employed by us. Employees with one year of service are 20 percent vested and will become 100 percent vested after two years of service. Employees who do not make an election to contribute or do not opt out of the Retirement Savings Plan will be automatically enrolled at a deferral rate of three percent, and the automatic deferral rate will increase by one percent per year up to a maximum of six percent. All contributions and matched funds can be invested among the mutual funds available for investment.

Contributions to all of our retirement savings plans totaled \$4.1 million, \$4.1 million and \$3.7 million for the years ended December 31, 2015, 2014 and 2013, respectively. As of December 31, 2015, there are 843,037 shares of our common stock reserved to fund future contributions to the Retirement Savings Plan.

Non-Qualified Deferred Compensation Plan

Effective January 1, 2014, our 401(k) SERP was amended, restated and renamed as the Chesapeake Utilities Corporation Non-Qualified Deferred Compensation Plan. In addition, the Deferred Compensation Plan was consolidated into this plan. As a result of these actions, the 401(k) SERP and the Deferred Compensation Plan are now administered as a single plan.

Members of our Board of Directors and executive officers designated by the Compensation Committee are eligible to participate in the Non-Qualified Deferred Compensation Plan. Directors can elect to defer any portion of their cash or stock compensation. Executive officers can defer up to 80 percent of their base compensation, cash bonuses or any amount of their stock bonuses (net of required withholdings). Executive officers may receive a matching contribution on their cash compensation deferrals up to six percent of their compensation, provided it does not duplicate a match they receive in the qualified 401(k) plan. Stock bonuses are not eligible for matching contributions. Participants are able to elect the payment of benefits to begin on a specified future date after the election is made in the form of a lump sum or annual installments for two to 15 years.

All obligations arising under the Non-Qualified Deferred Compensation Plan are payable from our general assets, although we have established a Rabbi Trust to informally fund the plan. Deferrals of cash compensation may be invested by the participants in various mutual funds (the same options that are available in the qualified plan). The participants are credited with gains or losses on those investments. Deferred stock compensation may not be diversified. The participants are credited with dividends on our common stock in the same amount that is received by all other stockholders. Such dividends are assumed to be reinvested into our common stock. Assets held in the Rabbi Trust had a fair value of \$3.6 million and \$3.7 million at December 31, 2015 and 2014, respectively. (See *Note 9, Investments*, for further details). The assets of the Rabbi Trust are at all times subject to the claims of our general creditors.

Deferrals of executive base compensation and bonuses and directors' retainers and fees are paid in cash. All deferrals of executive performance shares, which represent deferred stock units, and directors' stock retainers are paid in shares of our common stock, except that cash is paid in lieu of fractional shares. The value of our stock held in the Rabbi Trust is classified within the stockholders' equity section of the consolidated balance sheet and has been accounted for in a manner similar to treasury stock. The amounts recorded under the Deferred Compensation Plan totaled \$1.9 million and \$1.3 million at December 31, 2015 and 2014, respectively.

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17. SHARE-BASED COMPENSATION PLANS

Our non-employee directors and key employees have been granted share-based awards through our SICP. We record these share-based awards as compensation costs over the respective service period for which services are received in exchange for an award of equity or equity-based compensation. The compensation cost is based primarily on the fair value of the shares awarded, using the estimated fair value of each share on the date it was granted and the number of shares to be issued at the end of the service period. We have 575,473 shares reserved for issuance under the SICP.

The table below presents the amounts included in net income related to share-based compensation expense for the awards granted under the SICP for the years ended December 31, 2015, 2014 and 2013:

	For the Year Ended December 31,		
(in thousands)	2015	2014	2013
Awards to non-employee directors	$ 640	$ 540	$ 478
Awards to key employees	1,297	1,418	1,153
Total compensation expense	1,937	1,958	1,631
Less: tax benefit	(780)	(790)	(657)
Share-Based Compensation amounts included in net income	$ 1,157	$ 1,168	$ 974

Stock Options

We did not have any stock options outstanding at December 31, 2015, or 2014, nor were any stock options issued during 2015, 2014 and 2013.

Non-employee Directors

Shares granted to non-employee directors are issued in advance of the directors' service periods and are fully vested as of the date of the grant. We record a prepaid expense equal to the fair value of the shares issued and amortize the expense equally over a service period of one year. In May 2015, each of our non-employee directors received an annual retainer of 1,207 shares of common stock under the SICP for board service through the 2016 Annual Meeting of Stockholders. A summary of stock activity for our non-employee directors for the years ended December 31, 2015, 2014 and 2013 is presented below:

	Number of Shares	Weighted Average Grant Date Fair Value
Outstanding — December 31, 2013	—	$ —
Granted [1]	13,827	$ 41.60
Vested [1]	(13,827)	$ 41.60
Outstanding — December 31, 2014	—	$ —
Granted	14,484	$ 45.54
Vested	(14,484)	$ 45.54
Outstanding — December 31, 2015	—	$ —

[1] In November 2014, we added a new member to our Board of Directors. The number of shares granted to the director for his annual retainer was prorated.

The weighted average grant date fair value of shares granted to our non-employee directors during 2015, 2014 and 2013 was $45.54, $41.60 and $34.99 per share, respectively. The intrinsic values of the shares granted to our non-employee directors are equal to the fair value of these awards on the date of grant. At December 31, 2015, there was $220,000 of unrecognized compensation expense related to these awards. This expense will be fully recognized by April 2016, which approximates the expected remaining service period of those directors.

Key Employees

Our Compensation Committee is authorized to grant our key employees the right to receive awards of shares of our common stock, contingent upon the achievement of established performance goals. These awards are subject to certain post-vesting transfer restrictions.

We currently have multi-year performance plans, which are based upon the successful achievement of long-term goals, growth and financial results, which comprise both market-based and performance-based conditions or targets. The fair value of each share of stock tied to a performance-based condition or target is equal to the market price of our common stock on the date of the grant.

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For the market-based conditions, we used the Black-Scholes pricing model to estimate the fair value of each share of market-based award granted.

The table below presents the summary of the stock activity for awards to key employees:

	Number of Shares	Weighted Average Fair Value
Outstanding — December 31, 2013	121,142	$ 28.20
Granted	41,442	$ 39.99
Vested	(39,546)	$ 26.87
Outstanding — December 31, 2014	123,038	$ 32.60
Granted	33,719	$ 47.65
Vested	(43,839)	$ 28.01
Expired	(2,520)	$ 28.83
Outstanding — December 31, 2015	110,398	$ 38.34

In 2015, 2014 and 2013, we withheld shares with value at least equivalent to the employees' minimum statutory obligation for the applicable income and other employment taxes, and remitted the cash to the appropriate taxing authorities with the executives electing to receive the net shares. The total number of shares withheld of 12,620, 12,687 and 15,617 for 2015, 2014 and 2013, respectively, was based on the value of the shares on their award date, determined by the average of the high and low prices of our common stock. Total payments for the employees' tax obligations to the taxing authorities were approximately $592,000, $503,000 and $519,000, in 2015, 2014 and 2013, respectively. The tax benefits associated with these obligations for 2015, 2014 and 2013 are $297,000, $398,000, and $202,000, respectively, and is included in additional paid-in capital in the consolidated statements of stockholders' equity.

The weighted average grant-date fair value of shares awards granted to key employees during 2015, 2014 and 2013 was $47.65, $39.99 and $29.90 per share, respectively. The intrinsic value of these awards was $6.3 million, $6.1 million and $4.8 million for 2015, 2014 and 2013, respectively. At December 31, 2015, there was $1.4 million of unrecognized compensation cost related to these awards, which is expected to be recognized during 2016 and 2017.

18. Rates and Other Regulatory Activit ies

Our natural gas and electric distribution operations in Delaware, Maryland and Florida are subject to regulation by their respective PSC; Eastern Shore, our natural gas transmission subsidiary, is subject to regulation by the FERC; and Peninsula Pipeline, our intrastate pipeline subsidiary, is subject to regulation by the Florida PSC. Chesapeake Utilities' Florida natural gas distribution division and FPU's natural gas and electric distribution operations continue to be subject to regulation by the Florida PSC as separate entities.

Delaware

Rate Case Filing: On December 21, 2015, our Delaware division filed an application with the Delaware PSC for a base rate increase and certain other changes to its tariff. Delaware division proposed a base rate increase of $4.7 million or nearly 10 percent of existing revenues based on the test period ending March 31, 2016. Included in the application are new service offerings to promote growth and a revenue decoupling mechanism for residential and small commercial customers. A decision on the application is expected during the third quarter of 2016. Pending the decision, the Delaware division proposed to increase rates on an interim basis by $2.5 million beginning February 19, 2016. These rates, which are subject to refund, represent a five percent increase over current rates.

Maryland

Ocean City SIR Filing: On July 2, 2015, Sandpiper filed an application with the Maryland PSC, to establish an SIR to further fund system expansion within the city limits of Ocean City, Maryland. The proposed SIR, which would only be charged to customers located within city limits, was supported by Ocean City's local government. On August 5, 2015, the Maryland PSC approved the application.

Sandpiper Rate Case Filing: On December 1, 2015, Sandpiper filed an application with the Maryland PSC for a base rate increase and certain other changes to its tariff. Sandpiper proposed a base rate increase of $950,000, which represents five percent over existing revenues based on the test period ended December 31, 2015. A decision on the application is expected during the second

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quarter of 2016. Included in this application is a stratification of rate classes to further match the cost of service, and a revenue decoupling mechanism for residential and small commercial customers.

Florida

On January 16, 2015, Chesapeake Utilities' Florida natural gas distribution division filed a petition with the Florida PSC for approval of a contract with its affiliate, Peninsula Pipeline, for additional natural gas transportation services in the vicinity of Haines City, located in Polk County, Florida. This petition was approved by the Florida PSC at its Agenda Conference on May 5, 2015.

On July 1, 2015, FPU's electric division filed an electric depreciation study with the Florida PSC, which approved new depreciation rates at its Agenda Conference on December 3, 2015. New rates became effective retroactive to January 1, 2015 and resulted in a reduction of approximately $229,000 in annual depreciation expense.

On September 1, 2015, FPU's electric division filed to recover the cost of the proposed Florida Power & Light Company interconnect project through the annual Fuel and Purchased Power Cost Recovery Clause filing. The project will enable FPU's electric division to negotiate a new power purchase agreement that will mitigate fuel costs for its Northeast division. This action was approved by the Florida PSC at its Agenda Conference held on December 3, 2015. On January 22, 2016, the Office of Public Counsel filed an appeal with the Florida Supreme Court opposing the decision on this action.

On September 1, 2015, FPU's Fort Meade division filed a petition with the Florida PSC for approval to implement GRIP. On October 27, 2015, the petition was amended to allow Fort Meade to commence the replacement of steel tubing services in January 2016, although the collection of GRIP surcharges from customers will be delayed until January 2017, pursuant to the terms and conditions of the purchase agreement with the City of Fort Meade. This action was approved by the Florida PSC at its Agenda Conference on December 3, 2015.

Eastern Shore

White Oak Mainline Expansion Project: On November 21, 2014, Eastern Shore submitted an application to the FERC seeking authorization to construct, own and operate certain expansion facilities designed to provide 45,000 Dts/d of firm transportation service to an industrial customer in Kent County, Delaware. Eastern Shore proposes to construct approximately 7.2 miles of 16-inch diameter pipeline looping in Chester County, Pennsylvania and 3,550 horsepower of additional compression at Eastern Shore's existing Delaware City Compressor Station in New Castle County, Delaware. The estimated cost of the project is between $32.0 million and $35.0 million. On January 22, 2015, the FERC issued a Notice of Intent to Prepare an Environmental Assessment for this project. In February, April and May 2015, Eastern Shore filed environmental data in response to comments regarding evaluation of alternate routes for a segment of the pipeline route in the vicinity of the Kemblesville Historic District. On June 2, 2015, a field meeting was conducted to review the proposed route and alternate routes. In response to comments received from the National Park Service and other stakeholders, the FERC requested that Eastern Shore conduct an additional investigation in relation to Eastern Shore's existing right-of-way. On July 9, 2015, the FERC issued a 30-day public scoping notice in advance of issuing an Environmental Assessment in order to solicit comments from the public regarding construction of the Kemblesville loop. On August 18, 2015, Eastern Shore submitted supplemental information to the FERC regarding the results of its investigation of the Kemblesville loop.

On November 18, 2015, Eastern Shore filed an amendment to this application, which indicated the preferred pipeline route. Eastern Shore has responded to the FERC Staff's environmental data requests. On February 10, 2016 the FERC issued a notice to prepare an environmental assessment and will combine both the White Oak Mainline Expansion project and System Reliability Project into a single assessment. The environmental assessment is scheduled to be issued on April 12, 2016, with the FERC's 90-day authorization decision to be issued on July 11, 2016.

System Reliability Project: On May 22, 2015, Eastern Shore submitted an application to the FERC seeking authorization to construct, own and operate approximately 10.1 miles of 16-inch pipeline looping and auxiliary facilities in New Castle and Kent Counties, Delaware and a new compressor at its existing Bridgeville compressor station in Sussex County, Delaware. Eastern Shore further proposes to reinforce critical points on its pipeline system. The total project will benefit all of Eastern Shore's customers by modifying the pipeline system to respond to severe operational conditions experienced during actual winter peak days in 2014 and 2015. The estimated cost of the project is $32.1 million. Since the project is intended to improve system reliability, Eastern Shore requested a predetermination of rolled-in rate treatment for the costs of the project.

On June 8, 2015, the FERC filed a notice of the application, and the comment period ended on June 29, 2015. Two interested parties filed comments and protests with the FERC. Eastern Shore has filed answers with the FERC in response to the comments and protests from the two parties.

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On September 4, 2015, the FERC issued a notice of intent to prepare an environmental assessment and Eastern Shore has responded to the FERC Staff's environmental data requests. On February 10, 2016 the FERC issued a notice to prepare an environmental assessment and will combine both the System Reliability Project and White Oak Mainline Expansion project into a single assessment. The environmental assessment is scheduled to be issued on April 12, 2016, with the FERC's 90-day authorization decision to be issued on July 11, 2016.

TETLP Capacity Expansion Project: On October 13, 2015, Eastern Shore submitted an application to the FERC to make certain measurement and related improvements at its TETLP interconnect facilities, which will enable Eastern Shore to increase natural gas receipts from TETLP by 53,000 Dts/d, for a total capacity of 160,000 Dts/d. On December 22, 2015, the FERC authorized Eastern Shore to proceed with the project.

19. Environmental Commitments and Contingencies

We are subject to federal, state and local laws and regulations governing environmental quality and pollution control. These laws and regulations require us to remove or remediate at current and former operating sites the effect on the environment of the disposal or release of specified substances.

MGP Sites

We have participated in the investigation, assessment or remediation, and have exposures at seven former MGP sites. Those sites are located in Salisbury, Maryland, Seaford, Delaware and Winter Haven, Key West, Pensacola, Sanford and West Palm Beach, Florida. We have also been in discussions with the MDE regarding another former MGP site located in Cambridge, Maryland.

As of December 31, 2015, we had accrued approximately $10.0 million in environmental liabilities related to all of FPU's MGP sites in Florida, which include the Key West, Pensacola, Sanford and West Palm Beach sites, FPU has approval to recover, from insurance and from customers through rates, up to $14.0 million of its environmental costs related to all of its MGP sites, approximately $10.1 million of which has been recovered as of December 31, 2015, leaving approximately $3.9 million in regulatory assets for future recovery of environmental costs from FPU's customers.

In addition to the FPU MGP sites, we had recorded $375,000 in environmental liabilities at December 31, 2015, related to Chesapeake Utilities' MGP sites in Salisbury, Maryland and Winter Haven, Florida, representing our estimate of future costs associated with these sites. As of December 31, 2015, we had recorded approximately $87,000 in regulatory and other assets for future recovery through Chesapeake Utilities' rates.

During the first quarter of 2015, we established $273,000 in environmental liabilities related to Chesapeake Utilities' MGP site in Seaford, Delaware, representing our estimate of future costs associated with this site, and recorded a regulatory asset for the same amount for probable future recovery through Chesapeake Utilities' rates via our environmental rider. On October 29, 2015, we filed an application with the Delaware PSC for recovery of its incurred environmental expenses associated with the Seaford site between October 1, 2014 and September 30, 2015. A final decision is anticipated by the end of the first quarter of 2016. As of December 31, 2015, we had accrued approximately $223,000 in environmental liabilities and $273,000 in regulatory and other assets related to this site.

Environmental liabilities for all of our MGP sites are recorded on an undiscounted basis based on the estimate of future costs provided by independent consultants. We continue to expect that all costs related to environmental remediation and related activities, including any potential future remediation costs for which we do not currently have approval for regulatory recovery, will be recoverable from customers through rates.

West Palm Beach, Florida

Remedial options are being evaluated to respond to environmental impacts to soil and groundwater at and in the immediate vicinity of a parcel of property owned by FPU in West Palm Beach, Florida, where FPU previously operated a MGP. FPU is implementing a remedial plan approved by the FDEP for the east parcel of the West Palm Beach site, which includes installation of monitoring test wells, sparging of air into the groundwater system and extraction of vapors from the subsurface. The Start-Up and Monitoring Report, dated November 30, 2015, was submitted for review and comment. It is anticipated that comments will be received from FDEP and that a facility inspection will be conducted with FDEP during the first quarter of 2016.

We expect that similar remedial actions will ultimately be implemented for other portions of the site. Estimated costs of remediation for the West Palm Beach site range from approximately $4.5 million to $15.4 million, including costs associated with the relocation of FPU's operations at this site, which is necessary to implement the remedial plan, and any potential costs associated with future

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redevelopment of the properties. We continue to expect that all costs related to these activities will be recoverable from customers through rates.

Sanford, Florida

FPU is the current owner of property in Sanford, Florida, which was a former MGP site that was operated by several other entities before FPU acquired the property. FPU was never an owner or an operator of the MGP at this site. In January 2007, FPU and the Sanford Group signed a Third Participation Agreement, which provides for the funding of the final remedy approved by the EPA for the site. FPU's share of remediation costs under the Third Participation Agreement is set at five percent of a maximum of $13.0 million, or $650,000. As of December 31, 2015, FPU has paid $650,000 to the Sanford Group escrow account for its entire share of the funding requirements.

In December 2014, the EPA issued a preliminary close-out report, documenting the completion of all physical remedial construction activities at the Sanford site. Groundwater monitoring and statutory five-year reviews to ensure performance of the approved remedy will continue on this site. The total cost of the final remedy is estimated to be over $20.0 million, which includes long-term monitoring and the settlement of claims asserted by two adjacent property owners to resolve damages that the property owners allege they have incurred and will incur as a result of the implementation of the EPA-approved remediation. In settlement of these claims, members of the Sanford Group, which in this instance does not include FPU, have agreed to pay specified sums of money to the parties. FPU has refused to participate in the funding of the third-party settlement agreements based on its contention that it did not contribute to the release of hazardous substances at the site giving rise to the third-party claims. FPU has advised the other members of the Sanford Group that it is unwilling at this time to agree to pay any sum in excess of the $650,000 committed by FPU in the Third Participation Agreement.

As of December 31, 2015, FPU's remaining remediation expenses, including attorneys' fees and costs, are estimated to be $24,000. However, we are unable to determine, to a reasonable degree of certainty, whether the other members of the Sanford Group will accept FPU's asserted defense to liability for costs exceeding $13.0 million to implement the final remedy for this site, as provided in the Third Participation Agreement, or will pursue a claim against FPU for a sum in excess of the $650,000 that FPU has paid under the Third Participation Agreement. No such claims have been made as of December 31, 2015.

Key West, Florida

FPU formerly owned and operated a MGP in Key West, Florida. Field investigations performed in the 1990s identified limited environmental impacts at the site, which is currently owned by an unrelated third party. In 2010, after 17 years of regulatory inactivity, FDEP observed that some soil and groundwater standards were exceeded and requested implementation of additional soil and groundwater fieldwork. The scope of work is limited to the installation of two additional monitoring wells and periodic monitoring of the new and existing wells. The two additional monitoring wells were installed in November 2011, and groundwater monitoring began in December 2011. The first semi-annual report from the monitoring program was issued in May 2012. The data from the June 2012 and September 2012 monitoring events were submitted to the FDEP on October 4, 2012. FDEP responded on October 9, 2012 that, based on the data, NAM appears to be an appropriate remedy for the site.

In October 2012, FDEP issued a RAP approval order, which requires a limited semi-annual monitoring program. The most recent groundwater-monitoring event was conducted on September 15, 2015. Natural Attenuation Default criteria were met at all locations sampled. The next semi-annual sampling event is scheduled for March of 2016.

Although the duration of the FDEP-required limited NAM cannot be determined with certainty, we anticipate that total costs to complete the remedial action will not exceed $50,000. The annual cost to conduct the limited NAM program is not expected to exceed $8,000.

Pensacola, Florida

FPU formerly owned and operated a MGP in Pensacola, Florida, which was subsequently owned by Gulf Power. Portions of the site are now owned by the City of Pensacola and the FDOT. In October 2009, FDEP informed Gulf Power that it would approve a conditional No Further Action determination for the site with the requirement for institutional and engineering controls. On June 16, 2014, FDEP issued a draft memorandum of understanding between FDOT and FDEP to implement site closure with approved institutional and engineering controls for the site. We anticipate that FPU's share of remaining legal and cleanup costs will not exceed $5,000.

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Winter Haven, Florida

The Winter Haven site is located on the eastern shoreline of Lake Shipp, in Winter Haven, Florida. Pursuant to a consent order entered into with FDEP, we are obligated to assess and remediate environmental impacts at this former MGP site. Groundwater monitoring results have shown a continuing reduction in contaminant concentrations from the sparging system, which has been in operation since 2002. On September 12, 2014, FDEP issued a letter approving shutdown of the sparging operations on the northern portion of the site, contingent upon continued semi-annual monitoring.

Groundwater monitoring results on the southern portion of this site indicate that natural attenuation default criteria continue to be exceeded. Plans to modify the monitoring network on the southern portion of the site in order to collect additional data to support the development of a remedial plan were specified in a letter to FDEP, dated October 17, 2014. The well installation and abandonment program was implemented in October 2014, and documentation was reported in the next semi-annual RAP implementation status report, submitted on January 8, 2015. FDEP approved the plan to expand the bio-sparging operations in the southern portion of the site, and that work is anticipated to occur during the first quarter of 2016.

Although specific remedial actions for the site have not yet been identified, we estimate that future remediation costs for the subsurface soils and groundwater at the site should not exceed $443,000, which includes an estimate of $100,000 to implement additional actions, such as institutional controls, at the site. We continue to believe that the entire amount will be recoverable from customers through rates.

FDEP previously indicated that we could also be required to remediate sediments along the shoreline of Lake Shipp, immediately west of the site. Based on studies performed to date, and our recent meeting with FDEP, we believe that corrective measures for lake sediments are not warranted and will not be required by FDEP. We therefore have not recorded a liability for sediment remediation.

Salisbury, Maryland

We have substantially completed remediation of a site in Salisbury, Maryland, where it was determined that a former MGP caused localized groundwater contamination. In February 2002, the MDE granted permission to permanently decommission the systems used for remediation and to discontinue all on-site and off-site well monitoring, except for one well, which is being maintained for periodic product monitoring and recovery. We anticipate that the remaining costs of the one remaining monitoring well will not exceed $5,000 annually. We cannot predict at this time when the MDE will grant permission to permanently decommission the one remaining monitoring well.

Seaford, Delaware

In a letter dated December 5, 2013, the DNREC notified us that it would be conducting a facility evaluation of a former MGP site in Seaford, Delaware. In a report issued in January 2015, DNREC provided the evaluation, which found several compounds within the groundwater and soil that require further investigation. In September 17, 2015, the DNREC approved our application to enter this site into the voluntary cleanup program. A remedial investigation was conducted in December 2015, and we anticipate that the remedial investigation report will be submitted to DNREC in the first quarter of 2016. We estimate the cost of potential remedial actions, based on the findings of the DNREC report, to be between $273,000 and $465,000.

Cambridge, Maryland

We are discussing with the MDE a former MGP site located in Cambridge, Maryland. The outcome of this matter cannot be determined at this time; therefore, we have not recorded an environmental liability for this location.

Ohio

We have also completed the investigation, assessment and remediation of eight natural gas pipeline facilities in Ohio that Aspire Energy acquired from Gatherco pursuant to the merger. The costs incurred to date associated with remediation activities for these facilities, is approximately $1.0 million. Pursuant to the merger agreement, an escrow was established to fund certain claims by Chesapeake Utilities and Aspire Energy for indemnification by Gatherco, including environmental claims. Gatherco's indemnification obligations for environmental matters apply to remediation costs in excess of $431,250 and are capped at $1.65 million. We expect to be reimbursed for substantially all remediation costs we have incurred to date associated with these pipeline facilities in excess of $431,250.

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20. Other Commitments and Contingencies

Natural Gas, Electric and Propane Supply

Our natural gas, electric and propane distribution operations have entered into contractual commitments to purchase natural gas, electricity and propane from various suppliers. The contracts have various expiration dates. For our Delaware and Maryland natural gas distribution divisions, we had a contract with an unaffiliated energy marketing and risk management company to manage a portion of their natural gas transportation and storage capacity, which expired on March 31, 2013. On April 1, 2013, we entered into a new contract with a different company to perform similar asset management functions. The new contract expires on March 31, 2017.

In May 2013, Sandpiper entered into a capacity, supply and operating agreement with EGWIC to purchase propane over a six -year term. Approximately three years remain under this contract. Sandpiper's current annual commitment is estimated at approximately 6.5 million gallons. Sandpiper has the option to enter into either a fixed per-gallon price for some or all of the propane purchases or a market-based price utilizing one of two local propane pricing indices.

Also in May 2013, Sharp entered into a separate supply and operating agreement with EGWIC. Under this agreement, Sharp has a commitment to supply propane to EGWIC over a six-year term. Sharp's current annual commitment is estimated at approximately 6.5 million gallons. The agreement between Sharp and EGWIC is separate from the agreement between Sandpiper and EGWIC, and neither agreement permits the parties to set off the rights and obligations specified in one agreement against those specified in the other agreement.

Chesapeake Utilities' Florida natural gas distribution division has firm transportation service contracts with FGT and Gulfstream. Pursuant to a capacity release program approved by the Florida PSC, all of the capacity under these agreements has been released to various third parties, including PESCO. Under the terms of these capacity release agreements, Chesapeake Utilities is contingently liable to FGT and Gulfstream, should any party that acquired the capacity through release fail to pay the capacity charge.

In May 2015, PESCO renewed contracts to purchase natural gas from various suppliers for a one-year term. The total monthly purchase commitment ranges from 9,982 to 13,423 Dts/d for a one year term.

FPU's electric fuel supply contracts require FPU to maintain an acceptable standard of creditworthiness based on specific financial ratios. FPU's agreement with JEA requires FPU to comply with the following ratios based on the results of the prior 12 months: (a) total liabilities to tangible net worth less than 3.75 times, and (b) fixed charge coverage ratio greater than 1.5 times. If either ratio is not met by FPU, it has 30 days to cure the default or provide an irrevocable letter of credit if the default is not cured. FPU's electric fuel supply agreement with Gulf Power requires FPU to meet the following ratios based on the average of the prior nine quarters: (a) funds from operations interest coverage ratio (minimum of 2 times), and (b) total debt to total capital (maximum of 65 percent). If FPU fails to meet the requirements, it has to provide the supplier a written explanation of actions taken, or proposed to be taken, to become compliant. Failure to comply with the ratios specified in the Gulf Power agreement could result in FPU providing an irrevocable letter of credit. As of December 31, 2015, FPU was in compliance with all of the requirements of its fuel supply contracts.

The total purchase obligations for natural gas, electric and propane supplies are approximately $72.3 million for 2016, $96.8 million for 2017-2018, $64.4 million for 2019-2020 and $100.8 million thereafter.

Corporate Guarantees

The Board of Directors has authorized the Company to issue corporate guarantees securing obligations of our subsidiaries and to obtain letters of credit securing our obligations, including the obligations of our subsidiaries. Prior to February 24, 2016, the maximum authorized liability under such guarantees and letters of credit was $50.0 million. On February 24, 2016, the maximum authorized liability was increased by the Board of Directors to $65.0 million.

We have issued corporate guarantees to certain vendors of our subsidiaries, the largest of which are for Xeron and PESCO. These corporate guarantees provide for the payment of propane and natural gas purchases in the event that PESCO or Xeron defaults. Neither subsidiary has ever defaulted on its obligations to pay its suppliers. The liabilities for these purchases are recorded when incurred. The aggregate amount guaranteed at December 31, 2015 was $45.6 million, with the guarantees expiring on various dates through December 2016.

Chesapeake Utilities also guarantees the payment of FPU's first mortgage bonds. The maximum exposure under the guarantee is the outstanding principal plus accrued interest balances. The outstanding principal balances of FPU's first mortgage bonds approximate their carrying values (see Note 12, *Long-Term Debt*, for further details).

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We issued letters of credit totaling $5.6 million related to the electric transmission services for FPU's northwest electric division, firm transportation service agreement between TETLP and our Delaware and Maryland divisions and to our current and previous primary insurance carriers. These letters of credit have varying expiration dates extending through October 31, 2016. There have been no draws on these letters of credit as of December 31, 2015. We do not anticipate that the letters of credit will be drawn upon by the counterparties, and we expect that the letters of credit will be renewed to the extent necessary in the future.

Tax-related Contingencies

We are subject to various audits and reviews by the federal, state and local and other regulatory authorities regarding income taxes and taxes other than income. As of December 31, 2015, we maintained a liability of $50,000 related to unrecognized income tax benefits and $310,000 related to contingencies for taxes other than income. As of December 31, 2014, we maintained a liability of $100,000 related to unrecognized income tax benefits and $724,000 related to contingencies for taxes other than income.

Other

We are involved in certain other legal actions and claims arising in the normal course of business. We are 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 our consolidated financial position, results of operations or cash flows.

21. Quarterly Financial Data (Unaudited)

In our opinion, 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 our business, there are substantial variations in operations reported on a quarterly basis.

	For the Quarters Ended			
	March 31	June 30	September 30	December 31
(in thousands except per share amounts)				
2015 [(1)]				
Operating Revenues	$ **170,081**	$ **92,682**	$ **91,913**	$ **104,567**
Operating Income	$ **37,508**	$ **13,170**	$ **10,909**	$ **16,171**
Net Income	$ **21,109**	$ **6,294**	$ **5,119**	$ **8,619**
Earnings per share:				
Basic	$ **1.45**	$ **0.41**	$ **0.34**	$ **0.56**
Diluted	$ **1.44**	$ **0.41**	$ **0.33**	$ **0.56**
2014 [(1)]				
Operating Revenues	$ 186,337	$ 100,497	$ 91,619	$ 120,380
Operating Income	$ 31,623	$ 10,457	$ 7,792	$ 12,408
Net Income	$ 17,681	$ 5,134	$ 3,180	$ 10,097
Earnings per share:				
Basic	$ 1.22	$ 0.35	$ 0.22	$ 0.69
Diluted	$ 1.21	$ 0.35	$ 0.22	$ 0.69

(1) The sum of the four quarters does not equal the total year due to rounding.

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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

Our Chief Executive Officer and Chief Financial Officer, with the participation of other Company officials, have evaluated our "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, 2015. Based upon their evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2015.

CHANGE IN INTERNAL CONTROLS

There has been no change in internal control over financial reporting (as such term is defined in Exchange Act Rule 13a-15(f)) that occurred during the quarter ended December 31, 2015, that materially affected, or is reasonably likely to materially affect, internal control over financial reporting.

CEO AND CFO CERTIFICATIONS

Our Chief Executive Officer and Chief Financial Officer have filed with the SEC the certifications required by Section 302 of the Sarbanes-Oxley Act of 2002 as Exhibits 31.1 and 31.2 to our Annual Report on Form 10-K for the fiscal year ended December 31, 2015. In addition, on May 20, 2015, our Chief Executive Officer certified to the NYSE that he was not aware of any violation by us of the NYSE corporate governance listing standards.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

Under the supervision and with the participation of management, including the principal executive officer and principal financial officer, our management conducted an evaluation of the effectiveness of its internal control over financial reporting based on the criteria established in an updated report entitled "Internal Control — Integrated Framework," issued in May 2013 by the Committee of Sponsoring Organizations of the Treadway Commission. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

On April 1, 2015, the previously announced merger between Chesapeake Utilities and Aspire Energy was consummated. Chesapeake Utilities is in the process of integrating Aspire Energy's operations and has not included Aspire Energy's activity in its evaluation of internal control over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act of 2002. See "Notes to the Consolidated Financial Statements — Note 4, *Acquisitions and Dispositions,* for additional information relating to the Aspire Energy merger. Aspire Energy's operations constituted approximately six percent of total assets (excluding goodwill and other intangible assets) as of December 31, 2015, and approximately four percent of operating revenues for the year then ended. Aspire Energy's operations will be included in Chesapeake Utilities' assessment as of December 31, 2016.

Our management has evaluated and concluded that our internal control over financial reporting was effective as of December 31, 2015.

Our independent auditors, Baker Tilly Virchow Krause, LLP, have audited and issued their report on effectiveness of our internal control over financial reporting. That report appears on the following page.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Chesapeake Utilities Corporation

We have audited Chesapeake Utilities Corporation's (the "Company") internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") (2013 framework). 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, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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

As indicated in the accompanying Management's Report on Internal Control Over Financial Reporting, the Company completed a merger with Gatherco, Inc. ("Gatherco"), in which Gatherco merged with and into Aspire Energy of Ohio, LLC ("Aspire Energy") in 2015. As permitted by the Securities and Exchange Commission, management excluded the non-integrated Aspire Energy operations from its assessment of internal control over financial reporting as of December 31, 2015. Non-integrated Aspire Energy operations constituted approximately 6 percent of total assets (excluding goodwill and other intangible assets) as of December 31, 2015, and 4 percent of operating revenue for the year then ended. Our audit of internal control over financial reporting of the Company as of December 31, 2015, did not include an evaluation of the internal controls over financial reporting of the non-integrated operations of Aspire Energy.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control-Integrated Framework issued by COSO (2013 framework).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows of the Company and our report dated February 26, 2016 expressed an unqualified opinion.

/s/ Baker Tilly Virchow Krause, LLP

Philadelphia, Pennsylvania
February 26, 2016

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ITEM 9B. OTHER INFORMATION.

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS OF THE REGISTRANT AND CORPORATE GOVERNANACE.

The information required by this Item is incorporated herein by reference to the portions of the Proxy Statement, captioned "Election of Directors (Proposal 1)," "Information Concerning Nominees and Continuing Directors," "Corporate Governance," "Committees of the Board – Audit Committee" and "Section 16(a) Beneficial Ownership Reporting Compliance," to be filed no later than March 31, 2016, in connection with our Annual Meeting to be held on or about May 6, 2016.

The information required by this Item with respect to executive officers is, pursuant to instruction 3 of paragraph (b) of Item 401 of Regulation S-K, set forth in this report following Item 3, as *Item 4A Executive Officers of the Registrant*.

We have adopted a Code of Ethics for Financial Officers, which applies to our principal executive officer, president, principal financial officer, principal accounting officer or controller, or persons performing similar functions. The information set forth under Item 1 hereof concerning the Code of Ethics for Financial Officers is filed herewith.

ITEM 11. EXECUTIVE COMPENSATION.

The information required by this Item is incorporated herein by reference to the portions of the Proxy Statement, captioned "Director Compensation," "Executive Compensation" and "Compensation Discussion and Analysis" in the Proxy Statement to be filed no later than March 31, 2016, in connection with our Annual Meeting to be held on or about May 6, 2016.

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

The information required by this Item is incorporated herein by reference to the portion of the Proxy Statement, captioned "Security Ownership of Certain Beneficial Owners and Management" to be filed no later than March 31, 2016, in connection with our Annual Meeting to be held on or about May 6, 2016.

The following table sets forth information, as of December 31, 2015, with respect to our SICP, under which shares of Chesapeake Utilities 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	—	—	575,473
Equity compensation plans not approved by security holders	—	—	—
Total	—	—	575,473

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.

The information required by this Item is incorporated herein by reference to the portion of the Proxy Statement captioned, "Corporate Governance," to be filed no later than March 31, 2016 in connection with our Annual Meeting to be held on or about May 6, 2016.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.

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The information required by this Item is incorporated herein by reference to the portion of the Proxy Statement, captioned "Fees and Services of Independent Registered Public Accounting Firm," to be filed no later than March 31, 2016, in connection with our Annual Meeting to be held on or about May 6, 2016.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES.

The following documents are filed as part of this report:

(a)(1) All of the financial statements, reports and notes to the financial statements included in Item 8 of Part II of this Annual Report on Form 10-K.

(a)(2) Report of Independent Registered Public Accounting Firm; and Schedule II—Valuation and Qualifying Accounts.

(a)(3) The Exhibits below.

• Exhibit 3.1	Amended and Restated Certificate of Incorporation of Chesapeake Utilities Corporation is incorporated herein by reference to Exhibit 3.1 of our Quarterly Report on Form 10-Q for the period ended June 30, 2010, File No. 001-11590.
• Exhibit 3.2	Amended and Restated Bylaws of Chesapeake Utilities Corporation, effective December 4, 2012, are incorporated herein by reference to Exhibit 3 of our Current Report on Form 8-K, filed December 7, 2012, File No. 001-11590.
• Exhibit 3.3	First Amendment to the Amended and Restated Bylaws of Chesapeake Utilities Corporation, effective December 3, 2014, is incorporated herein by reference to Exhibit 3.3 of our Annual Report on Form 10-K for the year ended December 31, 2014.
• Exhibit 4.1	Form of Indenture between Chesapeake Utilities Corporation and Boatmen's Trust Company, as Trustee, relating to its 8 1/4% Convertible Debentures, is incorporated herein by reference to Exhibit 4.2 of our Registration Statement on Form S-2, Reg. No. 33-26582, filed on January 13, 1989.
• Exhibit 4.2	Note Purchase Agreement dated December 27, 2000, between Chesapeake Utilities Corporation, as issuer, and Pacific Life Insurance Company, relating to the private placement of Chesapeake Utilities Corporation's 7.83% Senior Notes. †
• Exhibit 4.3	Note Agreement dated October 31, 2002, between Chesapeake Utilities Corporation, as issuer, and Massachusetts Mutual Life Insurance Company, C.M. Life Insurance Company, American United Life Insurance Company, Pioneer Mutual Life Insurance Company and The State Life Insurance Company, relating to the private placement of Chesapeake Utilities Corporation's 6.64% Senior Notes due 2017, is incorporated herein by reference to Exhibit 2 of our Current Report on Form 8-K, filed November 6, 2002, File No. 001-11590.
• Exhibit 4.4	Note Agreement dated October 18, 2005, between Chesapeake Utilities Corporation, as issuer, and Prudential Investment Management, Inc., relating to the private placement of Chesapeake Utilities Corporation's 5.5% Senior Notes due 2020, is incorporated herein by reference to Exhibit 4.1 of our Annual Report on Form 10-K for the year ended December 31, 2005, File No. 001-11590.
• Exhibit 4.5	Note Agreement dated October 31, 2008, among Chesapeake Utilities Corporation, as issuer, General American Life Insurance Company and New England Life Insurance Company, relating to the private placement of Chesapeake Utilities Corporation's 5.93% Senior Notes due 2023.†
• Exhibit 4.6	Note Agreement dated June 29, 2010, among Chesapeake Utilities Corporation, as issuer, Metropolitan Life Insurance Company and New England Life Insurance Company, relating to the private placement of Chesapeake Utilities Corporation's 5.68% Senior Notes due 2026 and Chesapeake Utilities Corporation's 6.43% Senior Notes due 2028.†
• Exhibit 4.7	Note Agreement dated September 5, 2013, among Chesapeake Utilities Corporation, as issuer, and certain note holders, relating to the private placement of Chesapeake Utilities Corporation's 3.73% Senior Notes due 2028 and Chesapeake Utilities Corporation's 3.88% Senior Notes due 2029.†

- Exhibit 4.8 — Form of Indenture of Mortgage and Deed of Trust dated September 1, 1942, between Florida Public Utilities Company and the trustee, for the First Mortgage Bonds, is incorporated herein by reference to Exhibit 7-A of Florida Public Utilities Company's Registration No. 2-6087.
- Exhibit 4.9 — Seventeenth Supplemental Indenture dated April 12, 2011, between Chesapeake Utilities Corporation and Florida Public Utilities Company, pursuant to which Chesapeake Utilities Corporation guarantees the payment and performance obligations of Florida Public Utilities Company under the Indenture, is incorporated herein by reference to Exhibit 4.1 of our Quarterly Report on Form 10-Q for the period ended March 31, 2011, File No. 001-11590.
- Exhibit 4.10 — Sixteenth Supplemental Indenture dated December 1, 2009, between Chesapeake Utilities Corporation and Florida Public Utilities Company, pursuant to which Chesapeake Utilities Corporation guaranteed the secured First Mortgage Bonds of Florida Public Utilities Company under the Merger Agreement, is incorporated herein by reference to Exhibit 4.9 of our Annual Report on Form 10-K for the year ended December 31, 2010, File No. 001-11590.
- Exhibit 4.11 — Thirteenth Supplemental Indenture dated June 1, 1992, pursuant to which Florida Public Utilities, on May 1, 1992, privately placed $8,000,000 of its 9.08% First Mortgage Bonds, is incorporated herein by reference to Exhibit 4 to Florida Public Utilities Company's Quarterly Report on Form 10-Q for the period ended June 30, 1992.
- Exhibit 4.12 — Private Shelf Agreement dated October 8, 2015, between Chesapeake Utilities Corporation, as issuer, and Prudential Investment Management Inc., relating to the purchase of Chesapeake Utilities Corporation unsecured Senior Notes, is incorporated herein by reference to Exhibit 4.1 of our Quarterly Report on Form 10-Q for the period ended September 30, 2015, File No. 001-11590.
- Exhibit 10.1* — Chesapeake Utilities Corporation Cash Bonus Incentive Plan, dated January 1, 2005, is incorporated herein by reference to Exhibit 10.3 of our Annual Report on Form 10-K for the year ended December 31, 2004, File No. 001-11590.
- Exhibit 10.2* — Chesapeake Utilities Corporation Cash Bonus Incentive Plan, effective January 1, 2015, is incorporated herein by reference to our Proxy Statement dated March 31, 2015, in connection with our Annual Meeting held on May 6, 2015, File No. 001-11590.
- Exhibit 10.3* — Chesapeake Utilities Corporation Directors Stock Compensation Plan, effective May 5, 2005, is incorporated herein by reference to our Proxy Statement dated March 28, 2005, in connection with our Annual Meeting held on May 5, 2005, File No. 001-11590.
- Exhibit 10.4* — Chesapeake Utilities Corporation Employee Stock Award Plan, effective May 5, 2005, is incorporated herein by reference to our Proxy Statement dated March 28, 2005, in connection with our Annual Meeting held on May 5, 2005, File No. 001-11590.
- Exhibit 10.5* — Chesapeake Utilities Corporation Performance Incentive Plan, effective May 5, 2005, is incorporated herein by reference to our Proxy Statement dated March 28, 2005, in connection with our Annual Meeting held on May 5, 2005, File No. 001-11590.
- Exhibit 10.6* — Chesapeake Utilities Corporation 2013 Stock and Incentive Compensation Plan, effective May 2, 2013 is incorporated herein by reference to our Proxy Statement dated March 29, 2013 in connection with our Annual Meeting held on May 2, 2013, File No. 001-11590.
- Exhibit 10.7* — Non-Qualified Deferred Compensation Plan, effective January 1, 2014, is incorporated herein by reference to Exhibit 10.8 of our Annual Report on Form 10-K for the year ended December 31, 2013, File No. 001-11590.
- Exhibit 10.8* — Consulting Agreement dated January 2, 2013, between Chesapeake Utilities Corporation and John R. Schimkaitis, is incorporated herein by reference to Exhibit 10.7 of our Annual Report on Form 10-K for the year ended December 31, 2012, File No. 001-11590.
- Exhibit 10.9* — Executive Employment Agreement dated January 14, 2011, between Chesapeake Utilities Corporation and Michael P. McMasters, is incorporated herein by reference to Exhibit 10.1 of our Current Report on Form 8-K, filed January 21, 2011, File No. 001-11590.
- Exhibit 10.10* — Amendment to Executive Employment Agreement effective January 1, 2014, between Chesapeake Utilities Corporation and Michael P. McMasters, is incorporated herein by reference to Exhibit 10.1 of our Current Report on Form 8-K filed January 14, 2014, File No. 001-11590.

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• Exhibit 10.11*	Executive Employment Agreement dated January 9, 2013, between Chesapeake Utilities Corporation and Stephen C. Thompson, is incorporated herein by reference to Exhibit 10.9 of our Annual Report on Form 10-K for the year ended December 31, 2012, File No. 001-11590.
• Exhibit 10.12*	Executive Employment Agreement dated January 9, 2013, between Chesapeake Utilities Corporation and Beth W. Cooper, is incorporated herein by reference to Exhibit 10.10 of our Annual Report on Form 10-K for the year ended December 31, 2012, File No. 001-11590.
• Exhibit 10.13*	Executive Employment Agreement dated January 9, 2013, between Chesapeake Utilities Corporation and Elaine B. Bittner, incorporated herein by reference to Exhibit 10.11 of our Annual Report on Form 10-K for the year ended December 31, 2012, File No. 001-11590.
• Exhibit 10.14*	Executive Employment Agreement dated January 1, 2015, between Chesapeake Utilities Corporation and Jeffry M. Householder, is incorporated herein by reference to Exhibit 10.15 of our Annual Report on Form 10-K for the year ended December 31, 2014, File No. 001-11590.
• Exhibit 10.15*	Form of Performance Share Agreement, effective January 8, 2013 for the period 2013 to 2015, pursuant to Chesapeake Utilities Corporation Performance Incentive Plan by and between Chesapeake Utilities Corporation and each of Michael P. McMasters, Beth W. Cooper, Stephen C. Thompson and Elaine B. Bittner, is incorporated herein by reference to Exhibit 10.15 of our Annual Report on Form 10-K for the year ended December 31, 2012, File No. 001-11590.
• Exhibit 10.16*	Form of Performance Share Agreement, effective January 7, 2014 for the period 2014 to 2016, pursuant to Chesapeake Utilities Corporation 2013 Stock and Incentive Compensation Plan by and between Chesapeake Utilities Corporation and each of Michael P. McMasters, Beth W. Cooper, Stephen C. Thompson, Elaine B. Bittner, and Jeffry M. Householder is incorporated herein by reference to Exhibit 10.18 of our Annual Report on Form 10-K for the year ended December 31, 2013, File No. 001-11590.
• Exhibit 10.17*	Form of Performance Share Agreement, effective January 13, 2015 for the period 2015 to 2017, pursuant to Chesapeake Utilities Corporation 2013 Stock and Incentive Compensation Plan by and between Chesapeake Utilities Corporation and each of Michael P. McMasters, Beth W. Cooper, Stephen C. Thompson, Elaine B. Bittner and Jeffry M. Householder, is incorporated herein by reference to Exhibit 10.19 of our Annual Report on Form 10-K for the year ended December 31, 2014, File No. 001-11590.
• Exhibit 10.18*	Form of Performance Share Agreement, dated March 6, 2015 for the period 2015 to 2017, pursuant to Chesapeake Utilities Corporation 2013 Stock and Incentive Compensation Plan by and between Chesapeake Utilities Corporation and James F. Moriarty is incorporated herein by reference to Exhibit 10.2 to our Quarterly Report on Form 10-Q for the period ended September 30, 2015, File No. 001-11590.
• Exhibit 10.19*	Form of Performance Share Agreement, dated January 12, 2016 for the period 2016 to 2018, pursuant to Chesapeake Utilities Corporation 2013 Stock and Incentive Compensation Plan by and between Chesapeake Utilities Corporation and each of Michael P. McMasters, Beth W. Cooper, Stephen C. Thompson, Elaine B. Bittner, Jeffry M. Householder and James F. Moriarty, is filed herewith.
• Exhibit 10.20*	Chesapeake Utilities Corporation Supplemental Executive Retirement Plan, as amended and restated effective January 1, 2009, is incorporated herein by reference to Exhibit 10.27 of our Annual Report on Form 10-K for the year ended December 31, 2008, File No. 001-11590.
• Exhibit 10.21*	First Amendment to the Chesapeake Utilities Corporation Supplemental Executive Retirement Plan as amended and restated effective January 1, 2009, is incorporated herein by reference to Exhibit 10.30 of our Annual Report on Form 10-K for the year ended December 31, 2010, File No. 001-11590.
• Exhibit 10.22	Revolving Credit Agreement dated December 29, 2014, between Chesapeake Utilities Corporation and Citizens Bank, National Association, as lender, is incorporated herein by reference to Exhibit 10.25 of our Annual Report on Form 10-K for the year ended December 31, 2014, File No. 001-11590.
• Exhibit 10.23	Revolving Credit Agreement dated October 8, 2015, between Chesapeake Utilities Corporation and PNC Bank, National Association, Bank of America, N.A., Citizens Bank N.A., Royal Bank of Canada and Wells Fargo Bank, National Association as lenders, is incorporated herein by reference to Exhibit 10.1 of our Quarterly Report on Form 10-Q for the period ended September 30, 2015, File No. 001-11590.

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• Exhibit 10.24	First Amendment dated February 25, 2016 to the Revolving Credit Agreement dated October 8, 2015, between Chesapeake Utilities Corporation and PNC Bank, National Association, Bank of America, N.A., Citizens Bank N.A., Royal Bank of Canada and Wells Fargo Bank, National Association as lenders, is filed herewith.
• Exhibit 10.25	Promissory Note, contained as an exhibit to the Revolving Credit Agreement dated December 29, 2014, between Chesapeake Utilities Corporation and Citizens Bank, National Association, as lender, is incorporated herein by reference to Exhibit 10.26 of our Annual Report on Form 10-K for the year ended December 31, 2014, File No. 001-11590.
• Exhibit 12	Computation of Ratio of Earning to Fixed Charges is filed herewith.
• Exhibit 14.1	Code of Ethics for Financial Officers is filed herewith.
• Exhibit 14.2	Business Code of Ethics and Conduct is filed herewith.
• Exhibit 21	Subsidiaries of the Registrant is filed herewith.
• Exhibit 23.1	Consent of Independent Registered Public Accounting Firm is filed herewith.
• Exhibit 31.1	Certificate of Chief Executive Officer of Chesapeake Utilities Corporation pursuant to Exchange Act Rule 13a-14(a) and 15d – 14(a), dated February 26, 2016, is filed herewith.
• Exhibit 31.2	Certificate of Chief Financial Officer of Chesapeake Utilities Corporation pursuant to Exchange Act Rule 13a-14(a) and 15d – 14(a), dated February 26, 2016, is filed herewith.
• Exhibit 32.1	Certificate of Chief Executive Officer of Chesapeake Utilities Corporation pursuant to 18 U.S.C. Section 1350, dated February 26, 2016 is filed herewith.
• Exhibit 32.2	Certificate of Chief Financial Officer of Chesapeake Utilities Corporation pursuant to 18 U.S.C. Section 1350, dated February 26, 2016, is filed herewith.

- Exhibit 101.INS XBRL Instance Document is filed herewith.
- Exhibit 101.SCH XBRL Taxonomy Extension Schema Document is filed herewith.
- Exhibit 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document is filed herewith.
- Exhibit 101.DEF XBRL Taxonomy Extension Definition Linkbase Document is filed herewith.
- Exhibit 101.LAB XBRL Taxonomy Extension Label Linkbase Document is filed herewith.
- Exhibit 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document is filed herewith.

* Management contract or compensatory plan or agreement.

† These agreements have not been filed herewith pursuant to Item 601(b)(4)(v) of Regulation S-K under the Securities Act of 1933, as amended. We hereby agree to furnish copies to the SEC upon request.

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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/ MICHAEL P. MCMASTERS
Michael P. McMasters,
President and Chief Executive Officer
Date: February 26, 2016

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/ JOHN R. SCHIMKAITIS
John R. Schimkaitis
Chair of the Board and Director
Date: February 26, 2016

/s/ RALPH J. ADKINS
Ralph J. Adkins,
Chair Emeritus and Director
Date: February 26, 2016

/s/ MICHAEL P. MCMASTERS
Michael P. McMasters,
President, Chief Executive Officer and Director
Date: February 26, 2016

/s/ BETH W. COOPER
Beth W. Cooper, Senior Vice President
and Chief Financial Officer
(Principal Financial and Accounting Officer)
Date: February 26, 2016

/s/ EUGENE H. BAYARD,ESQ
Eugene H. Bayard, Esq., Director
Date: February 26, 2016

/s/ RICHARD BERNSTEIN
Richard Bernstein, Director
Date: February 26, 2016

/s/ THOMAS J. BRESNAN
Thomas J. Bresnan, Director
Date: February 26, 2016

/s/ RONALD G. FORSYTHE, JR.
Dr. Ronald G. Forsythe, Jr., Director
Date: February 26, 2016

/s/ THOMAS P. HILL, JR.
Thomas P. Hill, Jr., Director
Date: February 26, 2016

/s/ DENNIS S. HUDSON, III
Dennis S. Hudson, III, Director
Date: February 26, 2016

/s/ PAUL L. MADDOCK, JR.
Paul L. Maddock, Jr., Director
Date: February 26, 2016

/S/ JOSEPH E. MOORE, ESQ
Joseph E. Moore, Esq., Director
Date: February 26, 2016

/s/ CALVERT A. MORGAN, JR.
Calvert A. Morgan, Jr., Director
Date: February 26, 2016

/s/ DIANNA F. MORGAN
Dianna F. Morgan, Director
Date: February 26, 2016

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Chesapeake Utilities Corporation

The audit referred to in our report dated February 26, 2016 relating to the consolidated financial statements of Chesapeake Utilities Corporation (the "Company") as of December 31, 2015 and 2014 and for each of the years in the three-year period ended December 31, 2015, which is contained in Item 8 of this Form 10-K, also included the audits of the financial statement schedule listed in Item 15(a)2. This financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statement schedule based on our audits.

In our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ Baker Tilly Virchow Krause, LLP

Philadelphia, Pennsylvania
February 26, 2016

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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
(In thousands)						
Reserve Deducted From Related Assets						
Reserve for Uncollectible Accounts						
	2015	**$ 1,120**	**$ 979**	**$ 246**	**(1,436)**	**$ 909**
	2014	$ 1,635	$ 1,073	$ 85	(1,673)	$ 1,120
	2013	$ 826	$ 1,796	$ 249	(1,236)	$ 1,635

[1] Recoveries.
[2] Uncollectible accounts charged off.

EX-10.19 2 cpk12312015ex1019.htm EXHIBIT 10.19

PERFORMANCE STOCK AWARD AGREEMENT

pursuant to the

CHESAPEAKE UTILITIES CORPORATION
2013 STOCK AND INCENTIVE COMPENSATION PLAN

On January 12, 2016, (the "Grant Date"), Chesapeake Utilities Corporation, a Delaware corporation (the "Company"), has granted to ___________________(the "Grantee"), who resides at ______________________, a Performance Stock Award on the terms and subject to the conditions of this Performance Stock Award Agreement.

Recitals

WHEREAS, the Chesapeake Utilities Corporation 2013 Stock and Incentive Compensation Plan (the "Plan") has been duly adopted by action of the Company's Board of Directors (the "Board") on March 6, 2013 and approved by the Shareholders of the Company at a meeting held on May 2, 2013; and

WHEREAS, the Committee of the Board of Directors of the Company referred to in the Plan (the "Committee") has determined that it is in the best interests of the Company to grant the Performance Stock Award described herein pursuant to the Plan; and

WHEREAS, the shares of the Common Stock of the Company ("Shares") that are subject to this Agreement, when added to the other shares of Common Stock that are subject to awards granted under the Plan, do not exceed the total number of shares of Common Stock with respect to which awards are authorized to be granted under the Plan or the total number of shares of Common Stock that may be granted to an individual in a single calendar year.

Agreement

It is hereby covenanted and agreed by and between the Company and the Grantee as follows:

Section 1. Performance Stock Award and Performance Period

The Company hereby grants to the Grantee a Performance Stock Award as of the Grant Date. As more fully described herein, the Grantee may earn up to ________ Shares upon the Company's achievement of the performance criteria set forth in Section 2 (the "Performance Shares") over the performance period from January 1, 2016 to December 31, 2018 (the "Performance Period"). This Award has been granted pursuant to the Plan; capitalized terms used in this agreement which are not specifically defined herein shall have the meanings ascribed to such terms in the Plan.

Section 2. Performance Criteria and Terms of Stock Award

(a) The Committee selected and established in writing performance criteria for the Performance Period, which, if met, may entitle the Grantee to some or all of the Performance Shares under this Award. If this Award is intended by the Committee to comply

Initials

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with the exception from Code Section 162(m) for qualified performance-based compensation for Grantees who are "Covered Employees" as defined in Code Section 162(m), the performance criteria established shall be based on one or more Qualifying Performance Criteria selected by the Committee in writing within 90 days following the first day of the Performance Period (or, if earlier, before 25% of that period has elapsed), and at a time when the outcome relative to the attainment of the performance criteria is not substantially certain. As soon as practicable after the Company's independent auditors have certified the Company's financial statements for each fiscal year of the Company in the Performance Period, the Committee shall determine for purposes of this Agreement the Company's (1) total shareholder return, defined as the cumulative total return to shareholders ("Shareholder Value"), (2) growth in long-term earnings, defined as the growth in total capital expenditures as a percentage of total capitalization ("Growth") and (3) earnings performance, defined as average return on equity ("RoE"), in accordance with procedures established by the Committee. The Shareholder Value, Growth and RoE (each a "Performance Metric" and collectively, the "Performance Metrics") shall be determined by the Committee in accordance with the terms of the Plan and this Agreement based on financial results reported to shareholders in the Company's annual reports and may be subject to adjustment by the Committee for extraordinary events during the Performance Period, as applicable. Both the Shareholder Value and the Growth Performance Metrics will be compared to the performance of the following companies: Atmos Energy Corp., Delta Natural Gas Company, Inc., Laclede Group, Inc., New Jersey Resources Corp., Northwest Natural Gas Company, NiSource Inc., ONE Gas, Inc., RGC Resources, Inc., South Jersey Industries, Inc. and WGL Holdings, Inc. (collectively referred to as the "Peer Group") for the Performance Period and Awards will be determined according to the schedule in subsection (b) below. For Shareholder Value, the calculation of total shareholder return will utilize the average closing stock price from November 1 through December 31 immediately preceding the beginning and at the end of the performance period. For the average RoE Performance Metric, the Company's performance will be compared to pre-determined RoE thresholds established by the Committee. At the end of the Performance Period, the Committee shall certify in writing the extent to which the Performance Goals were met during the Performance Period for Awards for Covered Employees. If the Performance Goals for the Performance Period are met, Covered Employees shall be entitled to the Award, subject to the Committee's exercise of discretion to reduce any Award to a Covered Employee based on business objectives established for that Covered Employee or other factors as determined by the Committee in its sole discretion. The Committee shall promptly notify the Grantee of its determination.

(b) The Grantee may earn ____ percent or more of the target award of ________ Performance Shares (the "Target Award") up to a maximum number of Performance Shares set forth in Section 1 above (the "Maximum Award") based upon achievement of threshold and target levels of performance against the Performance Metrics established for the Performance Period . The Committee shall confirm the level of Award attained for the Performance Period after the Company's independent auditors have certified the Company's financial statements for each fiscal year of the Company in the Performance Period.

(c) Once established, the performance criteria identified above normally shall not be changed during the Performance Period. However, if any of the companies in the Peer Group cease to be publically traded, they will automatically be deleted from the Peer Group. In addition, if the Committee determines that external changes or other unanticipated business conditions have materially affected the fairness of the goals, or that a change in the business, operations, corporate

Initials

structure or capital structure of the Company, or the manner in which it conducts its business, or acquisitions or divestitures of subsidiaries or business units, or other events or circumstances materially affect the performance criteria or render the performance criteria unsuitable, then the Committee may approve appropriate adjustments to the performance criteria (either up or down) during the Performance Period. Notwithstanding the foregoing, no changes shall be made to an Award intended to satisfy the requirements of Code Section 162(m) if such changes would affect the qualification of the Award as performance-based compensation within the meaning of Code Section 162(m).

(d) Performance Shares that are earned by the Grantee pursuant to this Section 2 shall be issued promptly, without payment of consideration by the Grantee, within 2 ½ months of the end of the Performance Period. The Grantee shall have the right to vote the Performance Shares and to receive the dividends distributable with respect to such Shares on and after, but not before, the date on which the Grantee is recorded on the Company's ledger as holder of record of the Performance Shares (the "Issue Date"). If, however, the Grantee receives Shares as part of any dividend or other distribution with respect to the Performance Shares, such Shares shall be treated as if they are Performance Shares, and such Shares shall be subject to all of the terms and conditions imposed by this Section 2. Notwithstanding the foregoing, the Grantee shall be entitled to receive an amount in cash, equivalent to the dividends that would have been paid on the awarded Performance Shares from the Grant Date to the Issue Date for those Performance Shares actually earned by the Grantee during the applicable Performance Period. Such dividend equivalents shall be payable at the time such Performance Shares are issued.

(e) The Performance Shares will not be registered for resale under the Securities Act of 1933 or the laws of any state except when and to the extent determined by the Board pursuant to a resolution. Until a registration statement is filed and becomes effective, however, transfer of the Performance Shares shall require the availability of an exemption from such registration, and prior to the issuance of new certificates, the Company shall be entitled to take such measures as it deems appropriate (including but not limited to obtaining from the Grantee an investment representation letter and/or further legending the new certificates) to ensure that the Performance Shares are not transferred in the absence of such exemption.

(f) In the event of a Change in Control, as defined in the Plan, during the Performance Period, the Grantee shall earn the Target Award of Performance Shares set forth in this Section 2, as if all performance criteria were satisfied, without any pro ration based on the proportion of the Performance Period that has expired as of the date of such Change in Control.

(g) If, during the Performance Period, the Grantee has a Termination of Employment, Performance Shares shall be deemed earned or forfeited as follows:

(1) Upon voluntary Termination of Employment by the Grantee or termination by the Company for failure of job performance or other just cause as determined by the Committee, all unearned Performance Shares shall be forfeited immediately; and

(2) If the Grantee has a Termination of Employment by reason of death or Disability or Retirement (as such terms are defined in the Plan), the number of Performance Shares that would otherwise have been earned at the end of the Performance Period shall be reduced by pro rating such Performance Shares based on the proportion of the Performance Period during which the Grantee was employed by the Company (based upon

Initials

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the full months of the Performance Period elapsed as of the end of the month in which the Termination of Employment occurred over the total number of months in the Performance Period), unless the Committee determines that the Performance Shares shall not be so reduced.

(a) The Grantee shall be solely responsible for any federal, state and local taxes of any kind imposed in connection with the vesting or delivery of the Performance Shares. Prior to the transfer of any Performance Shares to the Grantee, the Grantee shall remit to the Company an amount sufficient to satisfy any federal, state, local and other withholding tax requirements. The Grantee may elect to have all or part of any withholding tax obligation satisfied by having the Company withhold Shares otherwise deliverable to the Grantee as Performance Shares, unless the Committee determines otherwise by resolution. If the Grantee fails to make such payments or election, the Company and its subsidiaries shall, to the extent permitted by law, have the right to deduct from any payments of any kind otherwise due to the Grantee any taxes required by law to be withheld with respect to the Performance Shares. In the case of any amounts withheld for taxes pursuant to this provision in the form of Shares, the amount withheld shall not exceed the minimum required by applicable law and regulations.

(i) Notwithstanding any other provision of this Agreement, if any payment or distribution (a "Payment") by the Company or any other person or entity to or for the benefit of the Grantee is determined to be an "excess parachute payment" (within the meaning of Code Section 280G(b)(1) or any successor provision of similar effect), whether paid or payable or distributed or distributable pursuant to this Agreement or otherwise, then the Grantee's benefits under this Agreement may, unless the Grantee elects otherwise pursuant to his employment agreement, be reduced by the amount necessary so that the Grantee's total "parachute payment" as defined in Code Section 280G(b)(2)(A) under this and all other agreements will be $1.00 less than the amount that would be a "parachute payment". The payment of any "excess parachute payment" pursuant to this paragraph shall also comply with the terms of the Grantee's employment agreement, if any.

Section 3. Additional Conditions to Issuance of Shares

Each transfer of Performance Shares shall be subject to the condition that if at any time the Committee shall determine, in its sole discretion, that it is necessary or desirable as a condition of, or in connection with, the transfer of Performance Shares (i) to satisfy withholding tax or other withholding liabilities, (ii) to effect the listing, registration or qualification on any securities exchange or under any state or federal law of any Shares deliverable in connection with such exercise, or (iii) to obtain the consent or approval of any regulatory body, then in any such event such transfer shall not be effective unless such withholding, listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Company.

Section 4. Adjustment of Shares

(a) If the Company shall become involved in a merger, consolidation or other reorganization, whether or not the Company is the surviving corporation, any right to earn Performance Shares shall be deemed a right to earn or to elect to receive the consideration into which the Shares represented by the Performance Shares would have been converted under the terms of the merger, consolidation or other reorganization. If the Company is not the surviving corporation, the surviving corporation (the "Successor") shall succeed to the rights and obligations of the Company under this Agreement.

(b) If any subdivision or combination of Shares or any stock dividend, capital reorganization or recapitalization occurs after the adoption of the Plan, the Committee shall make such proportionate adjustments as are appropriate to the number of Performance Shares to be earned in order to prevent the dilution or enlargement of the rights of the Grantee.

Section 5. No Right to Employment

Nothing contained in this Agreement shall be deemed by implication or otherwise to confer upon the Grantee any right to continued employment by the Company or any affiliate of the Company or to limit the right of the Company to terminate the Grantee's employment for any reason or for no reason.

Section 6. Notice

Any notice to be given hereunder by the Grantee shall be sent by mail addressed to Chesapeake Utilities Corporation, 909 Silver Lake Boulevard, Dover, Delaware 19904, for the attention of the Committee, c/o the Corporate Secretary, and any notice by the Company to the Grantee shall be sent by mail addressed to the Grantee at the address of the Grantee shown on the first page hereof. Either party may, by notice given to the other in accordance with the provisions of this Section, change the address to which subsequent notices shall be sent.

Section 7. Beneficiary Designation

Grantee may designate a beneficiary to receive any Performance Shares to which Grantee is entitled which vest as a result of Grantee's death. Grantee acknowledges that the Company may exercise all rights under this Agreement and the Plan against Grantee and Grantee's estate, heirs, lineal descendants and personal representatives and shall not be limited to exercising its rights against Grantee's beneficiary.

Section 8. Assumption of Risk

It is expressly understood and agreed that the Grantee assumes all risks incident to any change hereafter in the applicable laws or regulations or incident to any change in the market value of the Performance Shares.

Section 9. Terms of Plan and Employment Agreement

This Agreement is entered into pursuant to the Plan (a summary of which has been delivered to the Grantee). This Agreement is subject to all of the terms and provisions of the Plan, which are incorporated into this Agreement by reference, and the actions taken by the Committee pursuant to the Plan. In the event of a conflict between this Agreement and the Plan, the provisions of the Plan shall govern. In addition, this Award is subject to applicable provisions of the Grantee's employment agreement, including provisions requiring the Company to recover some or all of the Performance Shares awarded hereunder in the circumstances described in such agreement or as otherwise required by applicable law. All determinations by the Committee shall be in its sole discretion and shall be binding on the Company and the Grantee.

Initials

Section 10. Governing Law; Amendment

This Agreement shall be governed by, and shall be construed and administered in accordance with, the laws of the State of Delaware (without regard to its choice of law rules) and the requirements of any applicable federal law. This Agreement may be modified or amended only by a writing signed by the parties hereto.

Section 11. Action by the Committee

The parties agree that the interpretation of this Agreement shall rest exclusively and completely within the sole discretion of the Committee. The parties agree to be bound by the decisions of the Committee with regard to the interpretation of this Agreement and with regard to any and all matters set forth in this Agreement. The Committee may delegate its functions under this Agreement to an officer of the Company designated by the Committee (hereinafter the "Designee"). In fulfilling its responsibilities hereunder, the Committee or its Designee may rely upon documents, written statements of the parties or such other material as the Committee or its Designee deems appropriate. The parties agree that there is no right to be heard or to appear before the Committee or its Designee and that any decision of the Committee or its Designee relating to this Agreement shall be final and binding unless such decision is arbitrary and capricious.

Section 12. Terms of Agreement

This Agreement shall remain in full force and effect and shall be binding on the parties hereto for so long as any Performance Shares issued to the Grantee under this Agreement continue to be held by the Grantee.

IN WITNESS WHEREOF, the Company has caused this Agreement to be executed in its corporate name, and the Grantee has executed the same in evidence of the Grantee's acceptance hereof, upon the terms and conditions herein set forth, as of the day and year first above written.

CHESAPEAKE UTILITIES CORPORATION

By:

Its:

Grantee:

EX-10.24 3 cpk12312015ex1024.htm EXHIBIT 10.24

FIRST AMENDMENT TO CREDIT AGREEMENT

This **FIRST AMENDMENT TO CREDIT AGREEMENT** (this "Amendment") dated as of February 25, 2016, is made among **CHESAPEAKE UTILITIES CORPORATION**, a Delaware corporation (the "Borrower"), **PNC BANK, NATIONAL ASSOCIATION**, in its capacity as administrative agent for the Lenders (as defined in the Credit Agreement described below) (in such capacity, the "Administrative Agent"), and each of the Lenders signatory hereto. Each capitalized term used and not otherwise defined in this Amendment has the definition specified in the Credit Agreement described below.

RECITALS:

A. The Borrower, the Administrative Agent and the Lenders have entered into that certain Credit Agreement dated as of October 8, 2015 (as amended, restated, supplemented or otherwise modified from time to time, the "Credit Agreement"), pursuant to which the Lenders have made available to the Borrower a revolving credit facility, including therein a Swing Loan subfacility and a Letter of Credit subfacility.

B. The Borrower has requested that the Administrative Agent and the Lenders amend the Credit Agreement to amend the definition of "Change of Control" therein.

C. The Administrative Agent and each Lender signatory hereto are willing to so amend the Credit Agreement on the terms and conditions set forth herein.

In consideration of the premises and further valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

1. Amendment to Credit Agreement. Subject to the terms and conditions set forth herein, and in reliance upon the representations and warranties of the Borrower made herein, the definition of "Change of Control, in Section 1.1, Certain Definitions, of the Credit Agreement is hereby amended and restated in its entirety to read as follows:
   "Change of Control" shall mean any "person" or "group" (as such terms are used in Sections 13(d) and 14 (d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")), shall become, or obtain rights (whether by means or warrants, options or otherwise) to become, the "beneficial owner" (as defined in Rules 13(d)-3 and 13(d)-5 under the Exchange Act), directly or indirectly, of more than 50% of the Equity Interests of the Borrower.

2. Effectiveness; Conditions Precedent. This Amendment, and the amendments contained herein, shall not be effective until the satisfaction of each of the following conditions precedent:
   (a) The Administrative Agent shall have received one or more counterparts of this Amendment, duly executed by the Borrower, the Administrative Agent and the Required Lenders;

(b) The Administrative Agent shall have received such other documents in connection with this Amendment as the Administrative Agent or its counsel may reasonably request; and

(c) All fees and expenses payable to the Administrative Agent (including the fees and expenses of counsel to the Administrative Agent estimated to date) shall have been paid in full (without prejudice to final settling of accounts for such fees and expenses).

3. Representations and Warranties. In order to induce the Administrative Agent and the Lenders to enter into this Amendment, the Borrower represents and warrants to the Administrative Agent and such Lenders as follows:

(a) The representations and warranties of the Borrower are true and correct in all material respects (unless qualified by materiality or reference to the absence of a Material Adverse Change, in which event they are true and correct), except to the extent that such representations and warranties specifically refer to an earlier date, in which case they are true and correct as of such earlier date, and except that the representations and warranties contained in Section 6.6 of the Credit Agreement shall be deemed to refer to the most recent statements furnished pursuant to Section 8.11 of the Credit Agreement;

(b) No Event of Default or Potential Default has occurred and is continuing or would result after giving effect to this Amendment;

(c) No Material Adverse Change has occurred since the date of the last audited financial statements of the Borrower delivered to the Administrative Agent;

(d) This Amendment has been duly authorized, executed and delivered by the Borrower and constitutes a legal, valid and binding obligation of the Borrower, enforceable against the Borrower in accordance with its terms;

(e) The Borrower is in compliance with each of the covenants and conditions set forth in the Credit Agreement;

(f) There has been no material adverse change from any certificate, report, statement, agreement or other document or other written information previously supplied to the Administrative Agent or the Lenders furnished by or on behalf of the Borrower in connection with the transactions contemplated by this Amendment or the other Loan Documents; and

(g) All material consents, licenses and approvals required for the delivery and performance by the Borrower of this Amendment and the other Loan Documents and the enforceability of this Amendment and the other Loan Documents against the Borrower is in full force and effect and none other is so required or necessary.

4. Entire Agreement. This Amendment, together with all the Loan Documents (collectively, the "Relevant Documents"), sets forth the entire understanding and agreement of the parties hereto in relation to the subject matter hereof and supersedes any prior negotiations and agreements among the parties relating to such subject matter. No promise, condition, representation or warranty, express or implied, not set forth in the Relevant Documents shall bind any party hereto, and no such party has relied on any such promise, condition, representation or warranty. Each of the parties hereto acknowledges that, except as otherwise expressly stated in the Relevant Documents, no representations, warranties or commitments, express or implied, have been made by any party to the other in relation to the subject matter hereof or thereof. None of the terms or conditions of this Amendment may be changed,

modified, waived or canceled orally or otherwise, except in writing and in accordance with Section 12.1 of the Credit Agreement.

5. Full Force and Effect of Agreement. Except as hereby specifically amended, modified or supplemented, the Credit Agreement and all other Loan Documents are hereby confirmed and ratified in all respects and shall be and remain in full force and effect according to their respective terms. The parties hereto acknowledge and agree that the amendments contained herein do not constitute a novation of the Credit Agreement, the other Loan Documents or the Indebtedness described therein and shall not affect, diminish or abrogate any Borrower's liability under the Credit Agreement or any other Loan Document.

6. Counterparts. This Amendment may be executed in any number of counterparts, each of which shall be deemed an original as against any party whose signature appears thereon, and all of which shall together constitute one and the same instrument. Delivery of an executed counterpart of a signature page of this Amendment by telecopy or other electronic imaging means (i.e., in ".pdf" or ".tif" format) shall be effective as delivery of a manually executed counterpart of this Amendment.

7. Governing Law; Jurisdiction, Etc. THIS AMENDMENT SHALL IN ALL RESPECTS BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK APPLICABLE TO CONTRACTS EXECUTED AND TO BE PERFORMED ENTIRELY WITHIN SUCH STATE, AND SHALL BE FURTHER SUBJECT TO THE PROVISIONS OF SECTION 12.12 OF THE CREDIT AGREEMENT.

8. Enforceability. Should any one or more of the provisions of this Amendment be determined to be illegal or unenforceable as to one or more of the parties hereto, all other provisions nevertheless shall remain effective and binding on the parties hereto.

9. Ratification and Confirmation of Loan Documents. Borrower hereby consents to, acknowledges and agrees to the amendments set forth herein and hereby confirms and ratifies in all respects the Loan Documents (including, without limitation, the continuation of Borrower's payment and performance obligations thereunder) and the enforceability of each Loan Document against Borrower in accordance with its terms, in each case upon and after the effectiveness of this Amendment and the amendments contemplated hereby.

10. References. All references in any of the Loan Documents to the "Credit Agreement" shall mean the Credit Agreement, as amended hereby.

11. Successors and Assigns. This Amendment shall be binding upon and inure to the benefit of the Borrower the Administrative Agent and each Lender, and their respective successors and assignees to the extent such assignees are permitted assignees as provided in Section 12.9 of the Credit Agreement.

[Signature pages follow]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be made, executed and delivered by their duly authorized officers as of the day and year first above written.

BORROWER:

CHESAPEAKE UTILITIES CORPORATION

By:____________ Name: Beth W. Cooper
Title: Senior Vice President and
Chief Financial Officer

PNC BANK, NATIONAL ASSOCIATION,

as Administrative Agent and a Lender

By:____________
Name:____________ Title:____________

BANK OF AMERICA, N.A., as a Lender

By:____________
Name:____________ Title:____________

CITIZENS BANK, N.A., as a Lender

By:_____________
Name:_____________ Title:_____________

ROYAL BANK OF CANADA, as a Lender

By:____________
Name:____________ Title:____________

WELLS FARGO BANK, NATIONAL ASSOCIATION, as a Lender

By:____________
Name:____________ Title:____________

EX-21 5 cpk12312015ex-21.htm EXHIBIT 21

EXHIBIT 21

Chesapeake Utilities Corporation
Subsidiaries of the Registrant

Subsidiaries	**State Incorporated**
Eastern Shore Natural Gas Company	Delaware
Sharp Energy, Inc.	Delaware
Chesapeake Service Company	Delaware
Xeron, Inc.	Mississippi
Chesapeake OnSight Services, LLC	Delaware
Peninsula Energy Services Company, Inc.	Delaware
Peninsula Pipeline Company, Inc.	Delaware
Florida Public Utilities Company	Florida
Sandpiper Energy, Inc.	Delaware
Grove Energy, Inc.	Delaware
Austin Cox Home Services, Inc.	Delaware
Aspire Energy of Ohio, LLC	Delaware

Subsidiary of Sharp Energy, Inc.	**State Incorporated**
Sharpgas, Inc.	Delaware

Subsidiary of Florida Public Utilities Company	**State Incorporated**
Flo-Gas Corporation	Florida

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

Subsidiary of Chesapeake OnSight Services, LLC	**State Incorporated**
Eight Flags Energy, LLC	Delaware

EX-12 4 cpk12312015ex-12.htm EXHIBIT 12

EXHIBIT 12

Chesapeake Utilities Corporation
Ratio of Earnings to Fixed Charges

	For the Year Ended December 31,				
	2015	2014	2013	2012	2011
(in thousands, except ratio of earnings to fixed charges)					
Income from continuing operations	**$ 41,140**	$ 36,092	$ 28,863	$ 27,622	$ 26,056
Add:					
Income taxes	**26,905**	23,945	19,296	17,989	16,923
Portion of rents representative of interest factor	**565**	588	464	363	356
Interest on indebtedness	**9,933**	9,439	8,707	8,954	9,090
Amortization of debt discount and expense	**74**	42	40	46	56
Capitalized interest (allowed funds used during construction)	**38**	58	111	25	1
Earnings as adjusted	**$ 78,655**	$ 70,164	$ 57,481	$ 54,999	$ 52,482
Fixed Charges					
Portion of rents representative of interest factor	**$ 565**	$ 588	$ 464	$ 363	$ 356
Interest on indebtedness	**9,933**	9,439	8,707	8,954	9,090
Amortization of debt discount and expense	**74**	42	40	46	56
Capitalized interest (allowed funds used during construction)	**38**	58	111	25	1
Fixed Charges	**$ 10,610**	$ 10,127	$ 9,322	$ 9,388	$ 9,503
Ratio of Earnings to Fixed Charges	**7.41**	6.93	6.17	5.86	5.52

EX-31.1 7 cpk12302015ex-311.htm EXHIBIT 31.1

EXHIBIT 31.1

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 annual report on Form 10-K for the year ended December 31, 2015 of Chesapeake Utilities Corporation;

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

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

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

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

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

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

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

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

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

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

Date: February 26, 2016

/S/ MICHAEL P. MCMASTERS

Michael P. McMasters
President and Chief Executive Officer

EX-31.2 8 cpk12312015ex-312.htm EXHIBIT 31.2

EXHIBIT 31.2

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

I, Beth W. Cooper, certify that:

1. I have reviewed this annual report on Form 10-K for the year ended December 31, 2015 of Chesapeake Utilities Corporation;

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

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

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

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

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

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

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

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

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

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

Date: February 26, 2016

/S/ BETH W. COOPER

Beth W. Cooper
Senior Vice President and Chief Financial Officer

EX-32.2 10 cpk12312015ex-322.htm EXHIBIT 32.2

EXHIBIT 32.2

Certificate of Chief Financial Officer

of

Chesapeake Utilities Corporation

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

I, Beth W. Cooper, Senior Vice President and Chief Financial Officer of Chesapeake Utilities Corporation, certify that, to the best of my knowledge, the Annual Report on Form 10-K of Chesapeake Utilities Corporation for the year ended December 31, 2015, 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 Utilities Corporation.

/S/ BETH W. COOPER

Beth W. Cooper
February 26, 2016

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.

- **Regulated Energy**
  - **Natural Gas Distribution**
    - **Delaware**
      - Chesapeake - Delaware Division
    - **Maryland**
      - Chesapeake - Maryland Division
      - Sandpiper
    - **Florida**
      - Chesapeake - Florida Division
      - FPU
      - FPU - Indiantown Division
      - FPU - Fort Meade Division
  - **Natural Gas Transmission**
    - Eastern Shore - Interstate Pipeline
    - Peninsula Pipeline - Florida Intrastate Pipeline
  - **Electric Distribution**
    - FPU
- **Unregulated Energy**
  - **Propane Distribution**
    - **Delmarva Peninsula, Maryland and Pennsylvania**
      - Sharp/ Sharpgas
    - **Florida**
      - FPU/ Flo-gas
  - **Propane Wholesale Marketing**
    - Xeron
  - **Natural Gas Marketing**
    - PESCO
  - **Unregulated Natural Gas Services**
    - Aspire Energy of Ohio
  - **Other**
    - FPU
    - Eight Flags
- **Other Businesses**
  - **Intercompany Real Estate and Other**
    - Skipjack
    - ESRE
    - CIC

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

FORM
10-Q

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

For the quarterly period ended: June 30, 2016

OR

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

For the transition period from _________ to _________

Commission File Number: 001-11590

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

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

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

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐

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

Common Stock, par value $0.4867 — 15,323,102 shares outstanding as of July 31, 2016.

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GLOSSARY OF DEFINITIONS

ASC: Accounting Standards Codification

ASU: Accounting Standards Update

Aspire Energy: Aspire Energy of Ohio, LLC, a wholly-owned subsidiary of Chesapeake Utilities into which Gatherco merged on April 1, 2015

CDD: Cooling degree-day, which is the measure of the variation in weather based on the extent to which the daily average temperature (from 10:00 am to 10:00 am) is above 65 degrees Fahrenheit

Chesapeake or Chesapeake Utilities: Chesapeake Utilities Corporation, its divisions and its subsidiaries, as appropriate in the context of the disclosure

Chesapeake Pension Plan: A defined benefit pension plan sponsored by Chesapeake Utilities

Chesapeake Postretirement Plan: An unfunded postretirement health care and life insurance plan sponsored by Chesapeake Utilities

Chesapeake SERP: An unfunded supplemental executive retirement pension plan sponsored by Chesapeake Utilities

CHP: A combined heat and power plant constructed by Eight Flags in Nassau County, Florida

Columbia Gas: Columbia Gas of Ohio

Company: Chesapeake Utilities Corporation, its divisions and its subsidiaries, as appropriate in the context of the disclosure

Credit Agreement: An agreement between Chesapeake Utilities and the lenders related to the Revolver

Deferred Compensation Plan: A non-qualified, deferred compensation arrangement under which certain of our executives and members of the Board of Directors are able to defer payment of all or a part of certain specified types of compensation, including executive cash bonuses, executive performance shares, and directors' retainers

Delmarva Peninsula: A peninsula on the east coast of the United States of America occupied by Delaware and portions of Maryland and Virginia

DNREC: Delaware Department of Natural Resources and Environmental Control

Dts/d: Dekatherms per day

Eastern Shore: Eastern Shore Natural Gas Company, a wholly-owned natural gas transmission subsidiary of Chesapeake Utilities

EGWIC: Eastern Gas & Water Investment Company, LLC, an affiliate of ESG

Eight Flags: Eight Flags Energy, LLC, a subsidiary of Chesapeake OnSight Services, LLC

EPA: United States Environmental Protection Agency

ESG: Eastern Shore Gas Company and its affiliates

FASB: Financial Accounting Standards Board

FERC: Federal Energy Regulatory Commission, an independent agency of the United States government that regulates the interstate transmission of electricity, natural gas, and oil

FDEP: Florida Department of Environmental Protection

FDOT: Florida Department of Transportation

FGT: Florida Gas Transmission Company

FPU: Florida Public Utilities Company, a wholly-owned subsidiary of Chesapeake Utilities

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FPU Medical Plan: A separate unfunded postretirement medical plan for FPU sponsored by Chesapeake Utilities

FPU Pension Plan: A separate defined benefit pension plan for FPU sponsored by Chesapeake Utilities

GAAP: Accounting principles generally accepted in the United States of America

Gatherco: Gatherco, Inc.

GRIP: The Gas Reliability Infrastructure Program is a natural gas pipeline replacement program in Florida, pursuant to which we collect a surcharge from certain of our Florida customers to recover capital and other program-related costs associated with the replacement of qualifying distribution mains and services in Florida

Gulf Power: Gulf Power Company

Gulfstream: Gulfstream Natural Gas System, LLC

HDD: Heating degree-day, which is a measure of the variation in weather based on the extent to which the daily average temperature (from 10:00 am to 10:00 am) is below 65 degrees Fahrenheit

JEA: The community-owned utility located in Jacksonville, Florida, formerly known as Jacksonville Electric Authority

Lenders: PNC, Bank of America N.A., Citizens Bank N.A., Royal Bank of Canada, and Wells Fargo Bank, National Association, which are collectively the lenders that entered into the Credit Agreement with Chesapeake Utilities on October 8, 2015

MDE: Maryland Department of Environment

MGP: Manufactured gas plant, which is a site where coal was previously used to manufacture gaseous fuel for industrial, commercial and residential use

NAM: Natural Attenuation Monitoring

NYSE: New York Stock Exchange

OPT ≤ 90 Service: Off Peak ≤ 90 Firm Transportation Service, an Eastern Shore firm transportation service that allows Eastern Shore not to schedule service for up to 90 days during the peak months of November through April

OTC: Over-the-counter

Peninsula Pipeline: Peninsula Pipeline Company, Inc., our wholly-owned Florida intrastate pipeline subsidiary

PESCO: Peninsula Energy Services Company, Inc., our wholly-owned natural gas marketing subsidiary

PNC: PNC Bank, National Association, the administrative agent and primary lender for our Revolver

Prudential: Prudential Investment Management Inc., an institutional investment management firm, with which we have entered into the Shelf Agreement for the potential future purchase of our Shelf Notes

PSC: Public Service Commission, which is the state agency that regulates the rates and services provided by Chesapeake Utilities' natural gas and electric distribution operations in Delaware, Maryland and Florida and Peninsula Pipeline in Florida

RAP: Remedial Action Plan, which is a plan that outlines the procedures taken or being considered in removing contaminants from a MGP formerly owned by Chesapeake Utilities or FPU

Revolver: The unsecured revolving credit facility issued to us by the Lenders

Sandpiper: Sandpiper Energy, Inc., a wholly-owned subsidiary of Chesapeake Utilities providing a tariff-based distribution service to customers in Worcester County, Maryland

Sanford Group: FPU and other responsible parties involved with the Sanford environmental site

SCO supplier agreement: Standard Choice Offer (SCO) supplier agreement between PESCO and Columbia Gas

SEC: Securities and Exchange Commission

Sharp: Sharp Energy, Inc., our wholly-owned propane distribution subsidiary

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Shelf Agreement: An agreement entered into by Chesapeake Utilities and Prudential pursuant to which Chesapeake Utilities may request that Prudential purchase, by October 8, 2018, up to $150.0 million of Shelf Notes at a fixed interest rate and with a maturity date not to exceed twenty years from the date of issuance

Shelf Notes: Unsecured senior promissory notes that we may request Prudential to purchase under the Shelf Agreement

SICP: 2013 Stock and Incentive Compensation Plan

TETLP: Texas Eastern Transmission, LP

Xeron: Xeron, Inc., our propane wholesale marketing subsidiary, based in Houston, Texas

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PART I—FINANCIAL INFORMATION

Item 1. Financial Statements

Chesapeake Utilities Corporation and Subsidiaries

Condensed Consolidated Statements of Income (Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
(in thousands, except shares and per share data)				
Operating Revenues				
Regulated Energy	$ **67,395**	$ 62,060	$ **156,611**	$ 171,642
Unregulated Energy and other	**34,947**	30,622	**92,027**	91,121
Total Operating Revenues	**102,342**	92,682	**248,638**	262,763
Operating Expenses				
Regulated Energy cost of sales	**21,635**	21,124	**56,540**	78,253
Unregulated Energy and other cost of sales	**22,934**	20,272	**56,958**	55,507
Operations	**28,087**	26,190	**55,246**	53,133
Maintenance	**2,904**	2,727	**5,383**	5,431
Gain from a settlement	**(130)**	(1,500)	**(130)**	(1,500)
Depreciation and amortization	**7,780**	7,543	**15,283**	14,518
Other taxes	**3,390**	3,156	**7,236**	6,743
Total Operating Expenses	**86,600**	79,512	**196,516**	212,085
Operating Income	**15,742**	13,170	**52,122**	50,678
Other Expense, net	**(8)**	(171)	**(42)**	(38)
Interest charges	**2,624**	2,485	**5,274**	4,933
Income Before Income Taxes	**13,110**	10,514	**46,806**	45,707
Income taxes	**5,081**	4,220	**18,410**	18,304
Net Income	$ **8,029**	$ 6,294	$ **28,396**	$ 27,403
Weighted Average Common Shares Outstanding:				
Basic	**15,315,020**	15,235,860	**15,300,931**	14,922,094
Diluted	**15,352,702**	15,280,657	**15,342,287**	14,970,190
Earnings Per Share of Common Stock:				
Basic	$ **0.52**	$ 0.41	$ **1.86**	$ 1.84
Diluted	$ **0.52**	$ 0.41	$ **1.85**	$ 1.83
Cash Dividends Declared Per Share of Common Stock	$ **0.3050**	$ 0.2875	$ **0.5925**	$ 0.5575

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

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Chesapeake Utilities Corporation and Subsidiaries

Condensed Consolidated Statements of Comprehensive Income (Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	**2015**	**2016**	**2015**
(in thousands)				
Net Income	**$ 8,029**	$ 6,294	**$ 28,396**	$ 27,403
Other Comprehensive Income (Loss), net of tax:				
Employee Benefits, net of tax:				
Amortization of prior service cost, net of tax of $(8), $(7), $(16) and $(14), respectively	**(12)**	(10)	**(24)**	(20)
Net gain, net of tax of $67, $62, $133 and $125, respectively	**99**	93	**200**	185
Cash Flow Hedges, net of tax:				
Unrealized gain on commodity contract cash flow hedges, net of tax of $313, $4, $322 and $21, respectively	**496**	6	**496**	32
Total Other Comprehensive Income	**583**	89	**672**	197
Comprehensive Income	**$ 8,612**	$ 6,383	**$ 29,068**	$ 27,600

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

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Chesapeake Utilities Corporation and Subsidiaries

Condensed Consolidated Balance Sheets (Unaudited)

Assets	June 30, 2016	December 31, 2015
(in thousands, except shares and per share data)		
Property, Plant and Equipment		
Regulated Energy	$ 868,016	$ 842,756
Unregulated Energy	189,034	145,734
Other businesses and eliminations	19,608	18,999
Total property, plant and equipment	1,076,658	1,007,489
Less: Accumulated depreciation and amortization	(229,826)	(215,313)
Plus: Construction work in progress	61,975	62,774
Net property, plant and equipment	908,807	854,950
Current Assets		
Cash and cash equivalents	3,266	2,855
Accounts receivable (less allowance for uncollectible accounts of $631 and $909, respectively)	41,851	41,007
Accrued revenue	8,658	12,452
Propane inventory, at average cost	4,285	6,619
Other inventory, at average cost	4,025	3,803
Regulatory assets	7,042	8,268
Storage gas prepayments	5,014	3,410
Income taxes receivable	7,395	24,950
Prepaid expenses	4,184	7,146
Mark-to-market energy assets	405	153
Other current assets	771	1,044
Total current assets	86,896	111,707
Deferred Charges and Other Assets		
Goodwill	15,070	14,548
Other intangible assets, net	2,033	2,222
Investments, at fair value	4,325	3,644
Regulatory assets	76,563	77,519
Receivables and other deferred charges	3,353	2,831
Total deferred charges and other assets	101,344	100,764
Total Assets	$ 1,097,047	$ 1,067,421

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

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Chesapeake Utilities Corporation and Subsidiaries

Condensed Consolidated Balance Sheets (Unaudited)

Capitalization and Liabilities	June 30, 2016	December 31, 2015
(in thousands, except shares and per share data)		
Capitalization		
Stockholders' equity		
Common stock, par value $0.4867 per share (authorized 25,000,000 shares)	$ 7,456	$ 7,432
Additional paid-in capital	191,776	190,311
Retained earnings	185,490	166,235
Accumulated other comprehensive loss	(5,168)	(5,840)
Deferred compensation obligation	2,452	1,883
Treasury stock	(2,452)	(1,883)
Total stockholders' equity	379,554	358,138
Long-term debt, net of current maturities	143,865	149,006
Total capitalization	523,419	507,144
Current Liabilities		
Current portion of long-term debt	12,075	9,151
Short-term borrowing	180,042	173,397
Accounts payable	35,496	39,300
Customer deposits and refunds	27,572	27,173
Accrued interest	1,250	1,311
Dividends payable	4,673	4,390
Accrued compensation	6,742	10,014
Regulatory liabilities	6,808	7,365
Mark-to-market energy liabilities	256	433
Other accrued liabilities	8,978	7,059
Total current liabilities	283,892	279,593
Deferred Credits and Other Liabilities		
Deferred income taxes	199,623	192,600
Regulatory liabilities	43,093	43,064
Environmental liabilities	8,765	8,942
Other pension and benefit costs	32,695	33,481
Deferred investment tax credits and other liabilities	5,560	2,597
Total deferred credits and other liabilities	289,736	280,684
Environmental and other commitments and contingencies (Note 5 and 6)		
Total Capitalization and Liabilities	$ 1,097,047	$ 1,067,421

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

Chesapeake Utilities Corporation and Subsidiaries

Condensed Consolidated Statements of Cash Flows (Unaudited)

	Six Months Ended June 30,	
(in thousands)	**2016**	**2015**
Operating Activities		
Net income	**$ 28,396**	$ 27,403
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**15,283**	14,518
Depreciation and accretion included in other costs	**3,436**	3,486
Deferred income taxes, net	**6,162**	(1,366)
Realized (gain) loss on commodity contracts/sale of assets/investments	**664**	(686)
Unrealized gain on investments/commodity contracts	**(42)**	(187)
Employee benefits and compensation	**760**	601
Share-based compensation	**1,264**	947
Other, net	**24**	8
Changes in assets and liabilities:		
Accounts receivable and accrued revenue	**2,264**	20,194
Propane inventory, storage gas and other inventory	**663**	4,405
Regulatory assets/liabilities, net	**519**	12,728
Prepaid expenses and other current assets	**2,878**	3,261
Accounts payable and other accrued liabilities	**(4,069)**	(16,359)
Income taxes receivable	**20,680**	19,300
Customer deposits and refunds	**399**	(3,748)
Accrued compensation	**(3,340)**	(3,788)
Other assets and liabilities, net	**(1,786)**	(315)
Net cash provided by operating activities	**74,155**	80,402
Investing Activities		
Property, plant and equipment expenditures	**(70,045)**	(57,350)
Proceeds from sales of assets	**89**	49
Acquisitions, net of cash acquired	**—**	(20,930)
Environmental expenditures	**(177)**	(73)
Net cash used in investing activities	**(70,133)**	(78,304)
Financing Activities		
Common stock dividends	**(8,453)**	(7,532)
Issuance of stock for Dividend Reinvestment Plan	**429**	417
Change in cash overdrafts due to outstanding checks	**1,473**	2,367
Net borrowing (repayment) under line of credit agreements	**5,166**	4,114
Repayment of long-term debt and capital lease obligation	**(2,226)**	(3,934)
Net cash used in financing activities	**(3,611)**	(4,568)
Net Increase (Decrease) in Cash and Cash Equivalents	**411**	(2,470)
Cash and Cash Equivalents—Beginning of Period	**2,855**	4,574
Cash and Cash Equivalents—End of Period	**$ 3,266**	$ 2,104

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

Chesapeake Utilities Corporation and Subsidiaries

Condensed Consolidated Statements of Stockholders' Equity (Unaudited)

(in thousands, except shares and per share data)	Common Stock: Number of Shares[(1)]	Common Stock: Par Value	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Deferred Compensation	Treasury Stock	Total
Balance at December 31, 2014	**14,588,711**	**$ 7,100**	**$ 156,581**	**$ 142,317**	**$ (5,676)**	**$ 1,258**	**$ (1,258)**	**$ 300,322**
Net income		—	—	41,140	—	—	—	41,140
Other comprehensive loss	—	—	—	—	(164)	—	—	(164)
Dividend declared ($1.1325 per share)	—	—	—	(17,222)	—	—	—	(17,222)
Retirement savings plan and dividend reinvestment plan	43,275	21	2,214	—	—	—	—	2,235
Common stock issued in acquisition	592,970	289	29,876					30,165
Share-based compensation and tax benefit [(2)(3)]	45,703	22	1,640	—	—	—	—	1,662
Treasury stock activities	—	—	—	—	—	625	(625)	—
Balance at December 31, 2015	**15,270,659**	**7,432**	**190,311**	**166,235**	**(5,840)**	**1,883**	**(1,883)**	**358,138**
Net income	—	—	—	28,396	—	—	—	28,396
Other comprehensive income	—	—	—	—	672	—	—	672
Dividend declared ($0.5925 per share) and dividend reinvestment plan	13,120	6	759	(9,141)	—	—	—	(8,376)
Share-based compensation and tax benefit [(2)(3)]	36,099	18	706	—	—	—	—	724
Treasury stock activities	—	—	—	—	—	569	(569)	—
Balance at June 30, 2016	**15,319,878**	**$ 7,456**	**$ 191,776**	**$ 185,490**	**$ (5,168)**	**$ 2,452**	**$ (2,452)**	**$ 379,554**

(1) Includes 79,658 and 70,631 shares at June 30, 2016 and December 31, 2015, respectively, held in a Rabbi Trust related to our Deferred Compensation Plan.

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

(3) The shares issued under the SICP are net of shares withheld for employee taxes. For the six months ended June 30, 2016, and for the year ended December 31, 2015, we withheld 12,031 and 12,620 shares, respectively, for taxes.

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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. Summary of Accounting Policies

Basis of Presentation

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

The accompanying unaudited condensed consolidated financial statements have been prepared in compliance with the rules and regulations of the SEC and GAAP. In accordance with these rules and regulations, certain information and disclosures normally required for audited financial statements have been condensed or omitted. These financial statements should be read in conjunction with the consolidated financial statements and notes thereto, included in our latest Annual Report on Form 10-K for the year ended December 31, 2015. In the opinion of management, these financial statements reflect normal recurring adjustments that are necessary for a fair presentation of our results of operations, financial position and cash flows for the interim periods presented.

Due to the seasonality of our business, results for interim periods are not necessarily indicative of results for the entire fiscal year. Revenue and earnings are typically greater during the first and fourth quarters, when consumption of energy is highest due to colder temperatures.

We reclassified certain amounts in the condensed consolidated balance sheet as of December 31, 2015. We have revised the condensed consolidated statement of cash flows for the six months ended June 30, 2015 to reflect only property, plant and equipment expenditures paid in cash within the Investing Activities section. The non-cash expenditures previously included in that section have now been included in the change in accounts payable and other accrued liabilities amount within the Operating Activities section. These reclassifications are considered immaterial to the overall presentation of our condensed consolidated financial statements.

FASB Statements and Other Authoritative Pronouncements

Recently Adopted Accounting Standards

Interest - Imputation of Interest (ASC 835-30) - In April 2015, the FASB issued ASU 2015-03, *Simplifying the Presentation of Debt Issuance Costs*. This standard requires debt issuance costs to be presented in the balance sheet as a direct deduction from the carrying value of the associated debt liability, consistent with the presentation of a debt discount. ASU 2015-03 became effective for us on January 1, 2016, and we applied the provisions of this standard on a retrospective basis. As a result of the adoption of this standard, debt issuance costs totaling $312,000 and $333,000 at June 30, 2016 and December 31, 2015, respectively, previously presented as other deferred charges, a non-current asset, are now presented as a deduction from long-term debt, net of current maturities in our condensed consolidated balance sheets.

Customer's Accounting for Fees Paid in a Cloud Computing Arrangement (ASC 350-40) - In April 2015, the FASB issued ASU 2015-05, *Customer's Accounting for Fees Paid in a Cloud Computing Arrangement.* Under the new standard, unless a software arrangement includes specific elements enabling customers to possess and operate software on platforms other than that offered by the cloud-based provider, the cost of such arrangements is to be accounted for as an operating expense in the period incurred. ASU 2015-05 became effective for us on January 1, 2016, and has been applied on a prospective basis. The standard did not have a material impact on our financial position or results of operations for the quarter.

Debt Issuance Costs (ASC 835-30) - In August 2015, the FASB issued ASU 2015-15, *Simplifying the Presentation of Debt Issuance Costs Associated with Line-of-Credit Arrangements*. This standard clarifies treatment of debt issuance costs associated with line-of-credit arrangements that were not specifically addressed in ASU 2015-03. Issuance costs incurred in connection with line-of-credit arrangements may be treated as an asset and amortized over the term of the line-of-credit arrangement. ASU 2015-15 became effective for us on January 1, 2016. The standard did not have a material impact on our financial position and results of operations.

Business Combinations (ASC 805) - In September 2015, the FASB issued ASU 2015-16, *Simplifying the Accounting for Measurement-Period Adjustments*. The standard eliminates the requirement to restate prior period financial statements for measurement period adjustments. The guidance requires that the cumulative impact of a measurement-period adjustment (including the impact of prior periods) be recognized in the reporting period in which the adjustment is identified. ASU

2015-16 was effective for our interim and annual financial statements issued after January 1, 2016 and was adopted on a prospective basis. Adoption of this standard did not have a material impact on our financial position and results of operations.

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Balance Sheet Classification of Deferred Taxes (ASC 740) - In November 2015, the FASB issued ASU 2015-17, *Balance Sheet Classification of Deferred Taxes,* which requires all deferred assets and liabilities along with any related valuation allowance to be classified as noncurrent on the balance sheet for our annual financial statements beginning January 1, 2017 and for our interim financial statements beginning January 1, 2018; however, early adoption is permitted. We adopted this standard in the first quarter of 2016 on a retrospective basis and adjusted the December 31, 2015 balance sheet by eliminating the current deferred income taxes asset and decreasing the noncurrent deferred income taxes liability by $831,000.

Recent Accounting Standards Yet to be Adopted

Revenue from Contracts with Customers (ASC 606) - In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. This standard provides a single comprehensive revenue recognition model for all contracts with customers to improve comparability within industries, as well as across industries and capital markets. The standard contains principles that entities will apply to determine the measurement of revenue and when it is recognized. On July 9, 2015, the FASB affirmed its proposal to defer the implementation of this standard by one year. For public entities, this standard is effective for 2018 interim and annual financial statements. We are assessing the impact this standard may have on our financial position and results of operations.

Inventory (ASC 330) - In July 2015, the FASB issued ASU 2015-11, *Inventory.* Under this guidance, inventories are required to be measured at the lower of cost or net realizable value. Net realizable value represents the estimated selling price less costs associated with completion, disposal and transportation. ASU 2015-11 will be effective for our interim and annual financial statements issued beginning January 1, 2017; however, early adoption is permitted. The standard is to be adopted on a prospective basis. We are assessing the impact this standard may have on our financial position and results of operations.

Leases (ASC 842) - In February 2016, the FASB issued ASU 2016-02, *Leases,* which provides updated guidance regarding accounting for leases. This update requires a lessee to recognize a lease liability and a lease asset for all leases, including operating leases, with a term greater than 12 months on its balance sheet. The update also expands the required quantitative and qualitative disclosures surrounding leases. ASU 2016-02 will be effective for our annual and interim financial statements beginning January 1, 2019, although early adoption is permitted. This update will be applied using a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. We are evaluating the effect of this update on our financial position and results of operations.

Compensation (ASC 718) - In March 2016, the FASB issued ASU 2016-09, *Improvements to Employee Share-Based Payment Accounting,* which simplifies several aspects of accounting for employee share-based payment transactions, including accounting for income taxes, forfeitures, and statutory tax withholding requirements, and classification in the statement of cash flows. ASU 2016-09 will be effective for our annual and interim financial statements beginning January 1, 2017, although early adoption is permitted. The amendments included in this update are to be applied prospectively except for changes impacting the presentation of the cash flow statement that can be applied prospectively or retrospectively. We are evaluating the effect of this update on our financial position and results of operations.

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2. Calculation of Earnings Per Share

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
(in thousands, except shares and per share data)				
Calculation of Basic Earnings Per Share:				
Net Income	$ **8,029**	$ 6,294	$ **28,396**	$ 27,403
Weighted average shares outstanding	**15,315,020**	15,235,860	**15,300,931**	14,922,094
Basic Earnings Per Share	$ **0.52**	$ 0.41	$ **1.86**	$ 1.84
Calculation of Diluted Earnings Per Share:				
Reconciliation of Numerator:				
Net Income	$ **8,029**	$ 6,294	**28,396**	27,403
Reconciliation of Denominator:				
Weighted shares outstanding—Basic	**15,315,020**	15,235,860	**15,300,931**	14,922,094
Effect of dilutive securities:				
Share-based compensation	**37,682**	44,797	**41,356**	48,096
Adjusted denominator—Diluted	**15,352,702**	15,280,657	**15,342,287**	14,970,190
Diluted Earnings Per Share	$ **0.52**	$ 0.41	$ **1.85**	$ 1.83

3. Acquisitions

Gatherco Merger

On April 1, 2015, we completed the merger in which Gatherco merged with and into Aspire Energy, our then newly formed, wholly-owned subsidiary. Aspire Energy is an unregulated natural gas infrastructure company with approximately 2,500 miles of pipeline systems in 40 counties throughout Ohio. The majority of Aspire Energy's margin is derived from long-term supply agreements with Columbia Gas of Ohio and Consumers Gas Cooperative, which together serve more than 20,000 end-use customers. Aspire Energy sources gas primarily from 300 conventional producers. Aspire Energy also provides gathering and processing services necessary to maintain quality and reliability to its wholesale markets.

At closing, we issued 592,970 shares of our common stock, valued at $30.2 million, based on the closing price of our common stock as reported on the NYSE on April 1, 2015. In addition, we paid $27.5 million in cash and assumed $1.7 million of existing outstanding debt, which we paid off on the same date. We also acquired $6.8 million of cash on hand at closing.

(in thousands)	Net Purchase Price
Chesapeake Utilities common stock	$ 30,164
Cash	27,494
Acquired debt	1,696
Aggregate amount paid in the acquisition	59,354
Less: cash acquired	(6,806)
Net amount paid in the acquisition	$ 52,548

The merger agreement provided for additional contingent cash consideration to Gatherco's shareholders of up to $15.0 million based on a percentage of revenue generated from potential new gathering opportunities during the five-year period following the closing. As of June 30, 2016, there have been no related gathering opportunities developed; therefore, no contingent consideration liability has been recorded. Based on the absence of related gathering opportunities being developed as of June 30, 2016, we are unable to estimate the range of undiscounted contingent liability outcomes at this time.

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We incurred $1.3 million in transaction costs associated with this merger, $786,000 of which we incurred in 2014, and the remaining $514,000 we incurred during 2015. Transaction costs were included in operations expense in the accompanying condensed consolidated statements of income. The revenue and net income from this merger for the three months ended June 30, 2016, included in our condensed consolidated statements of income, were $4.8 million and $28,000, respectively. The revenue and net income from this merger for the six months ended June 30, 2016, included in our condensed consolidated statements of income, were $12.8 million and $1.7 million, respectively. This merger was accretive to earnings per share in the first full year of operations, generating $0.03 in additional earnings per share.

The purchase price allocation of the Gatherco merger was as follows:

(in thousands)	Purchase price Allocation
Purchase price	$ 57,658
Property plant and equipment	53,203
Cash	6,806
Accounts receivable	3,629
Income taxes receivable	3,163
Other assets	425
Total assets acquired	67,226
Long-term debt	1,696
Deferred income taxes	13,409
Accounts payable	3,837
Other current liabilities	745
Total liabilities assumed	19,687
Net identifiable assets acquired	47,539
Goodwill	$ 10,119

The excess of the purchase price over the estimated fair values of the assets acquired and the liabilities assumed was recognized as goodwill at the merger date. The goodwill reflects the value paid primarily for opportunities for growth in a new, strategic geographic area. All of the goodwill from this merger was recorded in the Unregulated Energy segment and is not expected to be deductible for income tax purposes.

In December 2015 and during the first quarter of 2016, we adjusted the allocation of the purchase price based on additional information available. The adjustments resulted in a change in the fair value of property, plant and equipment, deferred income tax liabilities, inventory, income taxes receivable and other current liabilities. Goodwill from the merger decreased from $11.1 million to $10.1 million after incorporating these adjustments. The allocation of the purchase price and valuation of assets are final. The valuation of additional contingent cash consideration may be adjusted as additional information becomes available.

4. Rates and Other Regulatory Activities

Our natural gas and electric distribution operations in Delaware, Maryland and Florida are subject to regulation by their respective PSC; Eastern Shore, our natural gas transmission subsidiary, is subject to regulation by the FERC; and Peninsula Pipeline, our intrastate pipeline subsidiary, is subject to regulation by the Florida PSC. Chesapeake Utilities' Florida natural gas distribution division and FPU's natural gas and electric distribution operations continue to be subject to regulation by the Florida PSC as separate entities.

Delaware

Rate Case Filing: On December 21, 2015, our Delaware division filed an application with the Delaware PSC for a base rate increase and certain other changes to its tariff. We proposed an increase of approximately $4.7 million, or nearly ten percent, in our revenue requirement based on the test period ending March 31, 2016. We also proposed new service offerings to promote growth and a revenue normalization mechanism for residential and small commercial customers. We expect a decision on the application during the first quarter of 2017. Pending the decision, our Delaware division increased rates on an interim basis based on the $2.5 million annualized interim rates approved by the Delaware PSC,

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effective February 19, 2016. We recognized incremental revenue of approximately $555,000 ($332,000 net of tax) and $878,000 ($526,000 net of tax) for the three and six months ended June 30, 2016, respectively. In addition, our Delaware division requested and received approval on July 26, 2016 from the Delaware PSC to implement revised interim rates of $4.7 million annualized for usage on and after August 1, 2016. Revenue collected prior to a final Delaware PSC decision is subject to refund. Although the final decision is expected during the first quarter of 2017, we cannot predict the revenue requirement the Delaware PSC will ultimately authorize or forecast the timing of a final decision. These rates, which are subject to refund, represent a five percent increase over current rates.

Maryland

Sandpiper Rate Case Filing: On December 1, 2015, Sandpiper filed an application with the Maryland PSC for a base rate increase and certain other changes to its tariff. We proposed an increase of $950,000, or approximately five percent, in our revenue requirement, based on the test period ended December 31, 2015. We also proposed a stratification of rate classes, based on cost of service, and a revenue normalization mechanism for residential and small commercial customers. The procedural schedule was suspended in early May 2016 to allow for the continuation of settlement discussions between Sandpiper, Maryland PSC Staff and Maryland Office of People's Counsel. We expect a decision on the application during the third quarter of 2016.

Florida

On September 1, 2015, FPU's electric division filed to recover the cost of the proposed Florida Power & Light Company interconnect project through FPU's annual Fuel and Purchased Power Cost Recovery Clause filing. The interconnect project will enable FPU's electric division to negotiate a new power purchase agreement that will mitigate fuel costs for its Northeast division. This action was approved by the Florida PSC at its Agenda Conference held on December 3, 2015. On January 22, 2016, the Office of Public Counsel filed an appeal of the Florida PSC's decision with the Florida Supreme Court. Legal briefs have been filed, but no decision has been reached at this time.

On February 2, 2016, FPU's natural gas division filed a petition with the Florida PSC for approval of an amendment to its existing transportation agreement with the City of Lake Worth, located in Palm Beach County, Florida. The amendment allows the city to resell natural gas distributed by FPU to the city's compressed natural gas station. The city will then resell the natural gas, after compression, to its customers. The amendment to the transportation agreement was approved by the Florida PSC at its Agenda Conference held April 5, 2016.

On April 11, 2016, FPU's natural gas divisions and Chesapeake Utilities' Florida division filed a joint petition for approval to allow FPU and Chesapeake Utilities to expand the cost allocation of the intrastate and unreleased capacity-related components currently embedded in the purchased gas adjustment and operational balancing account, which is currently allocated to a limited number of customers. The proposed new allocation of these costs would include additional customers, primarily transportation customers, benefiting from these costs but not currently paying for them. We expect the petition to be approved by the Florida PSC in late 2016.

Eastern Shore

White Oak Mainline Expansion Project: On November 21, 2014, Eastern Shore submitted an application to the FERC seeking authorization to construct, own and operate certain expansion facilities designed to provide 45,000 Dts/d of firm transportation service to an electric power generator in Kent County, Delaware. Eastern Shore proposes to construct approximately 7.2 miles of 16-inch diameter pipeline looping in Chester County, Pennsylvania and 3,550 horsepower of additional compression at Eastern Shore's existing Delaware City compressor station in New Castle County, Delaware.

On January 22, 2015, the FERC issued a notice of intent to prepare an environmental assessment for this project. In February, April and May 2015, Eastern Shore filed environmental data in response to comments regarding the evaluation of alternate routes for a segment of the pipeline route in the vicinity of the Historic District of Kemblesville, Pennsylvania. On June 2, 2015, a field meeting was conducted to review the proposed route and alternate routes. In response to comments received from the National Park Service and other stakeholders, the FERC requested that Eastern Shore conduct an additional investigation in relation to Eastern Shore's existing right-of-way. On July 9, 2015, the FERC issued a 30-day public scoping notice, in advance of issuing an environmental assessment, in order to solicit comments from the public regarding construction of the Kemblesville loop. On August 18, 2015, Eastern Shore submitted supplemental information to the FERC regarding the results of its investigation of the Kemblesville loop.

On November 18, 2015, Eastern Shore filed an amendment to this application, which indicated the preferred pipeline route and shortened the total miles of the proposed pipeline to 5.4 miles. On February 10, 2016, the FERC issued a notice combining the White Oak Mainline Expansion Project and the System Reliability Project into a single environmental assessment. On March 2, 2016, the FERC issued a revised notice, rescheduling the issuance of the combined environmental assessment to April 25, 2016, with a 90-day authorization decision to be issued no later than July 24, 2016.

On March 28, 2016, subsequent to the issuance of the schedule, the FERC issued another environmental data request concerning the United States Department of Agriculture and an agricultural conservation easement on a tract of land where the White Oak Mainline Project would install a portion of the pipeline in its existing right-of way. On April 4, 2016, Eastern Shore responded to the data request. Subsequently, Eastern Shore revised the construction workspace configuration to mutual agreement of both parties.

On July 21, 2016, the FERC issued a certificate of public convenience and necessity authorizing Eastern Shore to construct and operate the proposed White Oak Mainline Project. The FERC denied Eastern Shore's request for a pre-determination of rolled-in rate treatment and requires Eastern Shore to comply with 19 environmental conditions.

System Reliability Project: On May 22, 2015, Eastern Shore submitted an application to the FERC seeking authorization to construct, own and operate approximately 10.1 miles of 16-inch pipeline looping and auxiliary facilities in New Castle and Kent Counties, Delaware and a new compressor at its existing Bridgeville compressor station in Sussex County, Delaware. Eastern Shore further proposes to reinforce critical points on its pipeline system. The total project will benefit all of Eastern Shore's customers by modifying the pipeline system to respond to severe operational conditions experienced during actual winter peak days in 2014 and 2015. Since the project is intended to improve system reliability, Eastern Shore requested a predetermination of rolled-in rate treatment for the costs of the project.

On June 8, 2015, the FERC filed a notice of the application, and the comment period ended on June 29, 2015. Two interested parties filed comments and protests with the FERC. Eastern Shore has filed answers to the comments and protests from the two parties.

On September 4, 2015, the FERC issued a notice of intent to prepare an environmental assessment, and Eastern Shore responded to the FERC Staff's environmental data requests. On February 10, 2016, the FERC issued a notice combining the System Reliability Project and White Oak Mainline Expansion project into a single environmental assessment. On March 2, 2016, the FERC issued a revised notice rescheduling the issuance of the combined environmental assessment to April 25, 2016, with the 90-day authorization decision to be issued no later than July 24, 2016. On July 21, 2016, the FERC issued a certificate of public convenience and necessity authorizing Eastern Shore to construct and operate the proposed System Reliability Project. The FERC granted Eastern Shore's request for a pre-determination of rolled-in rate treatment in its next rate base proceeding and requires Eastern Shore to comply with 19 environmental conditions.

TETLP Capacity Expansion Project: On October 13, 2015, Eastern Shore submitted an application to the FERC to make certain measurement and related improvements at its TETLP interconnect facilities, which would enable Eastern Shore to increase natural gas receipts from TETLP by 53,000 Dts/d, for a total capacity of 160,000 Dts/d. On December 22, 2015, the FERC authorized Eastern Shore to proceed with the project. On March 11, 2016, the capacity expansion project was placed into service.

2017 Expansion Project: On May 12, 2016, Eastern Shore submitted a request to the FERC to initiate the FERC's pre-filing review procedures for Eastern Shore's 2017 expansion project. The expansion project consists of approximately 33 miles of pipeline looping in Pennsylvania, Maryland and Delaware; upgrades to existing metering facilities in Lancaster County, Pennsylvania; installation of an additional 3,550 horsepower compressor unit at Eastern Shore's existing Daleville compressor station in Chester County, Pennsylvania; and approximately 17 miles of new mainline extension and two pressure control stations in Sussex County, Delaware. The expansion project is necessary to provide up to 86,437 Dts/d of additional firm natural gas transportation capacity to meet anticipated market demand. On May 17, 2016, the FERC approved Eastern Shore's request to commence the pre-filing review process. Eastern Shore is currently working through the pre-filing process and anticipates filing a certificate of public convenience and necessity seeking authorization to construct the project in November 2016.

2017 Rate Case Filing
In January 2017, Eastern Shore intends to file a base rate proceeding with the FERC as required by the terms of its 2012 settlement agreement.

5. Environmental Commitments and Contingencies

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We are subject to federal, state and local laws and regulations governing environmental quality and pollution control. These laws and regulations require us to remove or remediate, at current and former operating sites, the effect on the environment of the disposal or release of specified substances.

MGP Sites

We have participated in the investigation, assessment or remediation of, and have exposures at, seven former MGP sites. Those sites are located in Salisbury, Maryland, Seaford, Delaware and Winter Haven, Key West, Pensacola, Sanford and West Palm Beach, Florida. We have also been in discussions with the MDE regarding another former MGP site located in Cambridge, Maryland.

As of June 30, 2016, we had approximately $9.9 million in environmental liabilities, representing our estimate of the future costs associated with all of FPU's MGP sites in Florida, which include the Key West, Pensacola, Sanford and West Palm Beach sites. FPU has approval to recover, from insurance and from customers through rates, up to $14.0 million of its environmental costs related to all of its MGP sites, approximately $10.3 million of which has been recovered as of June 30, 2016, leaving approximately $3.7 million in regulatory assets for future recovery of environmental costs from FPU's customers.

In addition to the FPU MGP sites, we had $314,000 in environmental liabilities at June 30, 2016 related to Chesapeake Utilities' MGP sites in Salisbury, Maryland and Winter Haven, Florida, representing our estimate of future costs associated with these sites. As of June 30, 2016, we had approximately $29,000 in regulatory and other assets for future recovery through Chesapeake Utilities' rates.

During the first quarter of 2015, we established $273,000 in environmental liabilities related to Chesapeake Utilities' MGP site in Seaford, Delaware, representing our estimate of future costs associated with this site, and recorded a regulatory asset for the same amount for probable future recovery through Chesapeake Utilities' rates via our environmental rider. On February 23, 2016, the Delaware PSC approved an environmental surcharge for the recovery of Chesapeake Utilities' environmental expenses associated with the Seaford site for the period of October 1, 2014 through September 30, 2015. Chesapeake Utilities will file for recovery of its expenses incurred between October 1, 2015 and September 30, 2016 by October 31, 2016. As of June 30, 2016, we had approximately $177,000 in environmental liabilities and $268,000 in regulatory and other assets related to this site.

Environmental liabilities for all of our MGP sites are recorded on an undiscounted basis based on the estimate of future costs provided by independent consultants. We continue to expect that all costs related to environmental remediation and related activities, including any potential future remediation costs for which we do not currently have approval for regulatory recovery, will be recoverable from customers through rates.

West Palm Beach, Florida

Remedial options are being evaluated to respond to environmental impacts to soil and groundwater at and in the immediate vicinity of a parcel of property owned by FPU in West Palm Beach, Florida, where FPU previously operated a MGP. FPU is implementing a remedial plan approved by the FDEP for the east parcel of the West Palm Beach site, which includes installation of monitoring test wells, sparging of air into the groundwater system and extraction of vapors from the subsurface. The Start-Up and Monitoring Report, dated November 30, 2015, was submitted for review and comment. We received a letter dated January 6, 2016 from FDEP, which provided minor comments. On January 12, 2016, FDEP conducted a facility inspection and found no problems or deficiencies.

We expect that similar remedial actions will ultimately be implemented for other portions of the site. Estimated costs of remediation for the West Palm Beach site range from approximately $4.5 million to $15.4 million, including costs associated with the relocation of FPU's operations at this site, which is necessary to implement the remedial plan, and any potential costs associated with future redevelopment of the properties. We continue to expect that all costs related to these activities will be recoverable from customers through rates.

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Sanford, Florida

FPU is the current owner of property in Sanford, Florida, which was a former MGP site that was operated by several other entities before FPU acquired the property. FPU was never an owner or an operator of this former MGP site. In January 2007, FPU and the Sanford Group signed a Third Participation Agreement, which provides for the funding of the final remedy approved by the EPA for the site. FPU's share of remediation costs under the Third Participation Agreement is set at five percent of a maximum of $13.0 million, or $650,000. As of June 30, 2016, FPU has paid $650,000 to the Sanford Group escrow account for its entire share of the funding requirements.

In December 2014, the EPA issued a preliminary close-out report, documenting the completion of all physical remedial construction activities at the Sanford site. Groundwater monitoring and statutory five-year reviews to ensure performance of the approved remedy will continue on this site. The total cost of the final remedy is estimated to be over $20.0 million, which includes long-term monitoring and the settlement of claims asserted by two adjacent property owners to resolve damages that the property owners allege they have incurred and will incur as a result of the implementation of the EPA-approved remediation.

In settlement of these claims, members of the Sanford Group, which in this instance does not include FPU, have agreed to pay specified sums of money to the parties. FPU has refused to participate in the funding of the third-party settlement agreements based on its contention that it did not contribute to the release of hazardous substances at the site giving rise to the third-party claims. FPU advised the other members of the Sanford Group that it is unwilling to pay any sum in excess of the $650,000 committed by FPU in the Third Participation Agreement. The Sanford Group has not requested that FPU contribute to costs beyond the originally agreed upon $650,000 contribution.

As of June 30, 2016, FPU's remaining remediation expenses, including attorneys' fees and costs, are estimated to be $24,000. We are unable to determine, to a reasonable degree of certainty, whether the other members of the Sanford Group will accept FPU's asserted defense as to its limited liability for future costs exceeding $13.0 million to implement the final remedy for this site, as provided for in the Third Participation Agreement, or whether the other members of the Sanford Group will pursue a claim against FPU for a sum in excess of the $650,000 that FPU has paid pursuant to the Third Participation Agreement. No such claims have been made as of June 30, 2016.

Key West, Florida

FPU formerly owned and operated a MGP in Key West, Florida. Field investigations performed in the 1990s identified limited environmental impacts at the site, which is currently owned by an unrelated third party. In 2010, after 17 years of regulatory inactivity, FDEP observed that some soil and groundwater standards were exceeded and requested implementation of additional soil and groundwater fieldwork. The scope of work is limited to the installation of two additional monitoring wells and periodic monitoring of the new and existing wells. The two additional monitoring wells were installed in November 2011, and groundwater monitoring began in December 2011. The first semi-annual report from the monitoring program was issued in May 2012. The data from the June 2012 and September 2012 monitoring events were submitted to the FDEP on October, 2012. FDEP responded on October 9, 2012 that, based on the data, NAM appears to be an appropriate remedy for the site.

In October 2012, FDEP issued a RAP approval order, which requires a limited semi-annual NAM. The most recent groundwater-monitoring event was conducted in March 2016. Natural attenuation default criteria were met at all locations sampled and the semi-annual report was submitted on April 18, 2016. FDEP responded with an acceptance letter on April 22, 2016, concurring with FPU's consultant's recommendation that semi-annual monitoring should continue at this facility, with the next semi-annual NAM scheduled for the third quarter of 2016.

Although the duration of the FDEP-required limited NAM cannot be determined with certainty, we anticipate that total costs to complete the remedial action will not exceed $50,000. The annual cost to conduct the limited NAM program is not expected to exceed $8,000.

Pensacola, Florida

FPU formerly owned and operated a MGP in Pensacola, Florida, which was subsequently owned by Gulf Power. Portions of the site are now owned by the City of Pensacola and the FDOT. In October 2009, FDEP informed Gulf Power that it would approve a conditional No Further Action determination for the site with the requirement for institutional and engineering controls. On June 16, 2014, FDEP issued a draft memorandum of understanding between FDOT and FDEP to implement site closure with approved institutional and engineering controls for the site. We anticipate that FPU's share of remaining legal and cleanup costs will not exceed $5,000.

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Winter Haven, Florida

The Winter Haven site is located on the eastern shoreline of Lake Shipp, in Winter Haven, Florida. Pursuant to a consent order entered into with FDEP, we are obligated to assess and remediate environmental impacts at this former MGP site. Groundwater monitoring results have shown a continuing reduction in contaminant concentrations from the sparging system, which has been in operation since 2002. On September 12, 2014, FDEP issued a letter approving shutdown of the sparging operations on the northern portion of the site, contingent upon continued semi-annual monitoring.

Groundwater monitoring results on the southern portion of this site indicate that natural attenuation default criteria continue to be exceeded. Plans to modify the monitoring network on the southern portion of the site in order to collect additional data to support the development of a remedial plan were specified in a letter to FDEP, dated October 17, 2014. The well installation and abandonment program was implemented in October 2014, and documentation was reported in the next semi-annual RAP implementation status report, submitted on January 8, 2015. FDEP approved the plan to expand the bio-sparging operations in the southern portion of the site, and additional sparge points were installed and connected to the operating system in the first quarter of 2016.

Although specific remedial actions for the site have not yet been identified, we estimate that future remediation costs for the subsurface soils and groundwater at the site should not exceed $425,000, which includes an estimate of $100,000 to implement additional actions, such as institutional controls, at the site. We continue to believe that the entire amount will be recoverable from customers through rates.

FDEP previously indicated that we could also be required to remediate sediments along the shoreline of Lake Shipp, immediately west of the site. Based on studies performed to date, and our recent meeting with FDEP, we believe that corrective measures for lake sediments are not warranted and will not be required by FDEP. Therefore, we have not recorded a liability for sediment remediation.

Salisbury, Maryland

We have substantially completed remediation of a site in Salisbury, Maryland, where it was determined that a former MGP caused localized groundwater contamination. In February 2002, the MDE granted permission to permanently decommission the systems used for remediation and to discontinue all on-site and off-site well monitoring, except for one well, which is being maintained for periodic product monitoring and recovery. We anticipate that the remaining costs of the one remaining monitoring well will not exceed $5,000 annually. We cannot predict at this time when the MDE will grant permission to permanently decommission the one remaining monitoring well.

Seaford, Delaware

In a letter dated December 5, 2013, DNREC notified us that it would be conducting a facility evaluation of a former MGP site in Seaford, Delaware. In a report issued in January 2015, DNREC provided the evaluation, which found several compounds within the groundwater and soil that require further investigation. On September 17, 2015, DNREC approved our application to enter this site into the voluntary cleanup program. A remedial investigation was conducted in December 2015, and the resulting remedial investigation report was submitted to DNREC in May 2016. Based on findings from the remedial investigation, DNREC requested additional investigative work be performed prior to approval of potential remedial actions. We anticipate completing this additional investigative work by the end of 2016. We estimate the cost of potential remedial actions, based on the findings of the DNREC report, to be between $273,000 and $465,000. We also believe these costs will be recoverable from customers through rates.

Cambridge, Maryland

We are discussing with the MDE a former MGP site located in Cambridge, Maryland. The outcome of this matter cannot be determined at this time; therefore, we have not recorded an environmental liability for this location.

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Ohio

We have completed the investigation, assessment and remediation of eight natural gas pipeline facilities in Ohio that Aspire Energy acquired from Gatherco pursuant to the merger. Gatherco's indemnification obligations for environmental matters apply to remediation costs in excess of a $431,250 deductible and are capped at $1.7 million. Pursuant to the merger agreement, an escrow was established to fund certain claims by Chesapeake Utilities and Aspire Energy for indemnification by Gatherco, including environmental claims. The costs incurred to date associated with remediation activities for these eight facilities is approximately $1.6 million. We have recorded a receivable for the costs incurred, net of the deductible amount, and have submitted our request for reimbursement to the escrow agent. Negotiations are currently underway.

6. Other Commitments and Contingencies

Natural Gas, Electric and Propane Supply

Our natural gas, electric and propane distribution operations have entered into contractual commitments to purchase natural gas, electricity and propane from various suppliers. The contracts have various expiration dates. For our Delaware and Maryland natural gas distribution divisions, we have a contract with an unaffiliated energy marketing and risk management company to manage a portion of their natural gas transportation and storage capacity, which expires on March 31, 2017.

In May 2013, Sandpiper entered into a capacity, supply and operating agreement with EGWIC to purchase propane over a six-year term, or until May 2019. Sandpiper's current annual commitment is estimated at approximately 6.5 million gallons. Sandpiper has the option to enter into either a fixed per-gallon price for some or all of the propane purchases or a market-based price utilizing one of two local propane pricing indices.

Also in May 2013, Sharp entered into a separate supply and operating agreement with EGWIC. Under this agreement, Sharp has a commitment to supply propane to EGWIC over a six-year term, or until May 2019. Sharp's current annual commitment is estimated at approximately 6.5 million gallons. The agreement between Sharp and EGWIC is separate from the agreement between Sandpiper and EGWIC, and neither agreement permits the parties to set off the rights and obligations specified in one agreement against those specified in the other agreement.

Chesapeake Utilities' Florida natural gas distribution division has firm transportation service contracts with FGT and Gulfstream. Pursuant to a capacity release program approved by the Florida PSC, all of the capacity under these agreements has been released to various third parties, including PESCO. Under the terms of these capacity release agreements, Chesapeake Utilities is contingently liable to FGT and Gulfstream should any party that acquired the capacity through release fail to pay the capacity charge.

In May 2015, PESCO renewed contracts to purchase natural gas from various suppliers for a one-year term, expiring May 2016, with the total monthly purchase commitment ranging from 9,982 to 13,423 Dts/d. PESCO has renewed these contracts for an additional six-month term, expiring October 2016.

FPU's electric fuel supply contracts require FPU to maintain an acceptable standard of creditworthiness based on specific financial ratios. FPU's agreement with JEA requires FPU to comply with the following ratios based on the results of the prior 12 months: (a) total liabilities to tangible net worth less than 3.75 times and (b) a fixed charge coverage ratio greater than 1.5 times. If FPU fails to comply with either of these ratios, it has 30 days to cure the default or, if the default is not cured, to provide an irrevocable letter of credit. FPU's electric fuel supply agreement with Gulf Power requires FPU to meet the following ratios based on the average of the prior six quarters: (a) funds from operations interest coverage ratio (minimum of 2 times) and (b) total debt to total capital (maximum of 65 percent). If FPU fails to meet either of these ratios, it has to provide the supplier a written explanation of actions taken, or proposed to be taken, to become compliant. Failure to comply with the ratios specified in the Gulf Power agreement could also result in FPU having to provide an irrevocable letter of credit. As of June 30, 2016, FPU was in compliance with all of the requirements of its fuel supply contracts.

Corporate Guarantees

The Board of Directors has authorized the Company to issue corporate guarantees and to obtain letters of credit securing our subsidiaries' obligations. The maximum authorized liability under such guarantees and letters of credit is $65.0 million.

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We have issued corporate guarantees to certain of our subsidiaries' vendors, the largest of which are for Xeron and PESCO. These corporate guarantees provide for the payment of propane and natural gas purchases in the event that Xeron or PESCO defaults. Neither subsidiary has ever defaulted on its obligations to pay its suppliers. The liabilities for these purchases are recorded when incurred. The aggregate amount guaranteed at June 30, 2016 was approximately $53.6 million, with the guarantees expiring on various dates through June 2017.

Chesapeake Utilities also guarantees the payment of FPU's first mortgage bonds. The maximum exposure under this guarantee is the outstanding principal plus accrued interest balances. The outstanding principal balances of FPU's first mortgage bonds approximate their carrying values (see Note 14, *Long-Term Debt*, for further details).

We issued letters of credit totaling approximately $8.1 million related to the electric transmission services for FPU's northwest electric division, the firm transportation service agreement between TETLP and our Delaware and Maryland divisions, and to our current and previous primary insurance carriers. These letters of credit have various expiration dates through March 2017. There have been no draws on these letters of credit as of June 30, 2016. We do not anticipate that the letters of credit will be drawn upon by the counterparties, and we expect that the letters of credit will be renewed to the extent necessary in the future.

Tax-related Contingencies

We are subject to various audits and reviews by the federal, state, local and other governmental authorities regarding income taxes and taxes other than income. As of June 30, 2016, we maintained a liability of approximately $50,000 related to unrecognized income tax benefits and approximately $72,000 related to contingencies for taxes other than income. As of December 31, 2015, we maintained a liability of approximately $50,000 related to unrecognized income tax benefits and approximately $310,000 related to contingencies for taxes other than income.

Other

We are involved in certain other legal actions and claims arising in the normal course of business. We are 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 our consolidated financial position, results of operations or cash flows.

7. Segment Information

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

- *Regulated Energy*. The Regulated Energy segment includes natural gas distribution, natural gas transmission and electric distribution operations. All operations in this segment are regulated, as to their rates and services, by the PSC having jurisdiction in each operating territory or by the FERC in the case of Eastern Shore.
- *Unregulated Energy*. The Unregulated Energy segment includes propane distribution and wholesale marketing operations, and natural gas marketing operations, which are unregulated as to their rates and services. Effective April 1, 2015, this segment includes Aspire Energy, whose services include natural gas gathering, processing, transportation and supply (See Note 3, *Acquisitions*, regarding the merger with Gatherco). Also included in this segment are other unregulated energy services, such as energy-related merchandise sales and heating, ventilation and air conditioning, plumbing and electrical services.

The remainder of our operations is presented as "Other businesses and eliminations", which consists of unregulated subsidiaries that own real estate leased to Chesapeake Utilities, as well as certain corporate costs not allocated to other operations.

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The following table presents financial information about our reportable segments:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
(in thousands)				
Operating Revenues, Unaffiliated Customers				
Regulated Energy segment	**$ 66,590**	$ 61,790	**$ 155,483**	$ 171,082
Unregulated Energy segment	**35,752**	30,892	**93,155**	91,681
Total operating revenues, unaffiliated customers	**$ 102,342**	$ 92,682	**$ 248,638**	$ 262,763
Intersegment Revenues [1]				
Regulated Energy segment	**$ 805**	$ 270	**$ 1,128**	$ 560
Unregulated Energy segment	**1,052**	1,666	**1,165**	1,873
Other businesses	**240**	220	**466**	440
Total intersegment revenues	**$ 2,097**	$ 2,156	**$ 2,759**	$ 2,873
Operating Income				
Regulated Energy segment	**$ 15,226**	$ 13,605	**$ 39,545**	$ 35,788
Unregulated Energy segment	**412**	(540)	**12,347**	14,689
Other businesses and eliminations	**104**	105	**230**	201
Total operating income	**15,742**	13,170	**52,122**	50,678
Other Expense, net	**(8)**	(171)	**(42)**	(38)
Interest	**2,624**	2,485	**5,274**	4,933
Income before Income Taxes	**13,110**	10,514	**46,806**	45,707
Income taxes	**5,081**	4,220	**18,410**	18,304
Net Income	**$ 8,029**	$ 6,294	**$ 28,396**	$ 27,403

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

(in thousands)	June 30, 2016	December 31, 2015
Identifiable Assets		
Regulated Energy segment	**$ 892,513**	$ 872,065
Unregulated Energy segment	**192,654**	171,840
Other businesses and eliminations	**11,880**	23,516
Total identifiable assets	**$ 1,097,047**	$ 1,067,421

Our operations are entirely domestic.

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8. Accumulated Other Comprehensive Loss

Defined benefit pension and postretirement plan items, unrealized gains (losses) of our propane swap agreements, call options and natural gas futures contracts, designated as commodity contracts cash flow hedges, are the components of our accumulated comprehensive income (loss). The following tables present the changes in the balance of accumulated other comprehensive loss for the six months ended June 30, 2016 and 2015. All amounts are presented net of tax.

(in thousands)	**Defined Benefit Pension and Postretirement Plan Items**	**Commodity Contracts Cash Flow Hedges**	**Total**
As of December 31, 2015	**$ (5,580)**	**$ (260)**	**$ (5,840)**
Other comprehensive gain before reclassifications	**—**	**525**	**525**
Amounts reclassified from accumulated other comprehensive loss	**176**	**(29)**	**147**
Net current-period other comprehensive income	**176**	**496**	**672**
As of June 30, 2016	**$ (5,404)**	**$ 236**	**$ (5,168)**

(in thousands)	**Defined Benefit Pension and Postretirement Plan Items**	**Commodity Contracts Cash Flow Hedges**	**Total**
As of December 31, 2014	$ (5,643)	$ (33)	$ (5,676)
Other comprehensive loss before reclassifications	—	(1)	(1)
Amounts reclassified from accumulated other comprehensive loss	165	33	198
Net prior-period other comprehensive income	165	32	197
As of June 30, 2015	$ (5,478)	$ (1)	$ (5,479)

The following table presents amounts reclassified out of accumulated other comprehensive loss for the three and six months ended June 30, 2016 and 2015. Deferred gains or losses for our commodity contracts cash flow hedges are recognized in earnings upon settlement.

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(in thousands)	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Amortization of defined benefit pension and postretirement plan items:				
Prior service cost [1]	$ 20	$ 17	$ 40	$ 34
Net loss [1]	(166)	(155)	(333)	(310)
Total before income taxes	(146)	(138)	(293)	(276)
Income tax benefit	58	55	117	111
Net of tax	$ (88)	$ (83)	$ (176)	$ (165)
Gains and losses on commodity contracts cash flow hedges				
Propane swap agreements [2]	$ —	$ (10)	$ (322)	$ 2
Call options [2]	—	—	—	(55)
Natural gas futures [2]	211	—	359	—
Total before income taxes	211	(10)	37	(53)
Income tax benefit (expense)	(81)	4	(8)	21
Net of tax	130	(6)	29	(32)
Total reclassifications for the period	$ 42	$ (89)	$ (147)	$ (197)

[1] These amounts are included in the computation of net periodic costs (benefits). See Note 9, *Employee Benefit Plans*, for additional details.
[2] These amounts are included in the effects of gains and losses from derivative instruments. See Note 12, *Derivative Instruments*, for additional details.

Amortization of defined benefit pension and postretirement plan items is included in operations expense, and gains and losses on propane swap agreements and call options are included in cost of sales in the accompanying condensed consolidated statements of income. The income tax benefit is included in income tax expense in the accompanying condensed consolidated statements of income.

9. Employee Benefit Plans

Net periodic benefit costs for our pension and post-retirement benefits plans for the three and six months ended June 30, 2016 and 2015 are set forth in the following table:

	Chesapeake Pension Plan		FPU Pension Plan		Chesapeake SERP		Chesapeake Postretirement Plan		FPU Medical Plan	
For the Three Months Ended June 30,	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
(in thousands)										
Interest cost	$ 105	$ 102	$ 630	$ 626	$ 23	$ 23	$ 11	$ 11	$ 14	$ 15
Expected return on plan assets	(131)	(135)	(701)	(777)	—	—	—	—	—	—
Amortization of prior service cost	—	—	—	—	—	2	(20)	(19)	—	—
Amortization of net loss	103	91	128	114	22	25	17	17	—	2
Net periodic cost (benefit)	77	58	57	(37)	45	50	8	9	14	17
Amortization of pre-merger regulatory asset	—	—	191	191	—	—	—	—	2	2
Total periodic cost	$ 77	$ 58	$ 248	$ 154	$ 45	$ 50	$ 8	$ 9	$ 16	$ 19

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For the Six Months Ended June 30,	Chesapeake Pension Plan 2016	Chesapeake Pension Plan 2015	FPU Pension Plan 2016	FPU Pension Plan 2015	Chesapeake SERP 2016	Chesapeake SERP 2015	Chesapeake Postretirement Plan 2016	Chesapeake Postretirement Plan 2015	FPU Medical Plan 2016	FPU Medical Plan 2015
(in thousands)										
Interest cost	**$ 210**	$ 204	**$ 1,259**	$ 1,251	**$ 46**	$ 46	**$ 21**	$ 22	**$ 28**	$ 30
Expected return on plan assets	**(261)**	(270)	**(1,402)**	(1,554)	**—**	—	**—**	—	**—**	—
Amortization of prior service cost	**—**	—	**—**	—	**—**	5	**(40)**	(39)	**—**	—
Amortization of net loss	**206**	181	**257**	227	**44**	50	**34**	35	**—**	3
Net periodic cost (benefit)	**155**	115	**114**	(76)	**90**	101	**15**	18	**28**	33
Amortization of pre-merger regulatory asset	**—**	—	**381**	381	**—**	—	**—**	—	**4**	4
Total periodic cost	**$ 155**	$ 115	**$ 495**	$ 305	**$ 90**	$ 101	**$ 15**	$ 18	**$ 32**	$ 37

We expect to record pension and postretirement benefit costs of approximately $1.6 million for 2016. Included in these costs is approximately $769,000 related to continued amortization of the FPU pension regulatory asset, which represents the portion attributable to FPU's regulated energy operations for the changes in funded status that occurred, but were not recognized, as part of net periodic benefit costs prior to the FPU merger in 2009. This was deferred as a regulatory asset by FPU prior to the merger, to be recovered through rates pursuant to a previous order by the Florida PSC. The unamortized balance of this regulatory asset was approximately $2.5 million and approximately $2.9 million at June 30, 2016 and December 31, 2015, respectively. The amortization included in pension expense is also being added to a net periodic loss of approximately $802,000, which will increase our total expected benefit costs to approximately $1.6 million.

Pursuant to a Florida PSC order, FPU continues to record as a regulatory asset a portion of the unrecognized pension and postretirement benefit costs related to its regulated operations after the FPU merger. The portion of the unrecognized pension and postretirement benefit costs related to FPU's unregulated operations and Chesapeake Utilities' operations is recorded to accumulated other comprehensive loss. The following table presents the amounts included in the regulatory asset and accumulated other comprehensive loss that were recognized as components of net periodic benefit cost during the three and six months ended June 30, 2016 and 2015:

For the Three Months Ended June 30, 2016	Chesapeake Pension Plan	FPU Pension Plan	Chesapeake SERP	Chesapeake Postretirement Plan	FPU Medical Plan	Total
(in thousands)						
Prior service credit	$ —	$ —	$ —	$ (20)	$ —	$ (20)
Net loss	103	128	22	17	—	270
Total recognized in net periodic benefit cost	$ 103	$ 128	$ 22	$ (3)	$ —	$ 250
Recognized from accumulated other comprehensive loss [(1)]	$ 103	$ 24	$ 22	$ (3)	$ —	$ 146
Recognized from regulatory asset	—	104	—	—	—	104
Total	$ 103	$ 128	$ 22	$ (3)	$ —	$ 250

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For the Three Months Ended June 30, 2015 (in thousands)	Chesapeake Pension Plan	FPU Pension Plan	Chesapeake SERP	Chesapeake Postretirement Plan	FPU Medical Plan	Total
Prior service cost (credit)	$ —	$ —	$ 2	$ (19)	$ —	$ (17)
Net loss	91	114	25	17	2	249
Total recognized in net periodic benefit cost	$ 91	$ 114	$ 27	$ (2)	$ 2	$ 232
Recognized from accumulated other comprehensive loss [1]	$ 91	$ 22	$ 27	$ (2)	$ —	$ 138
Recognized from regulatory asset	—	92	—	—	2	94
Total	$ 91	$ 114	$ 27	$ (2)	$ 2	$ 232

For the Six Months Ended June 30, 2016 (in thousands)	Chesapeake Pension Plan	FPU Pension Plan	Chesapeake SERP	Chesapeake Postretirement Plan	FPU Medical Plan	Total
Prior service credit	$ —	$ —	$ —	$ (40)	$ —	$ (40)
Net loss	206	257	44	34	—	$ 541
Total recognized in net periodic benefit cost	$ 206	$ 257	$ 44	$ (6)	$ —	$ 501
Recognized from accumulated other comprehensive loss [1]	$ 206	$ 49	$ 44	$ (6)	$ —	$ 293
Recognized from regulatory asset	—	208	—	—	—	208
Total	$ 206	$ 257	$ 44	$ (6)	$ —	$ 501

For the Six Months Ended June 30, 2015 (in thousands)	Chesapeake Pension Plan	FPU Pension Plan	Chesapeake SERP	Chesapeake Postretirement Plan	FPU Medical Plan	Total
Prior service cost (credit)	$ —	$ —	$ 5	$ (39)	$ —	$ (34)
Net loss	181	227	50	35	3	496
Total recognized in net periodic benefit cost	$ 181	$ 227	$ 55	$ (4)	$ 3	$ 462
Recognized from accumulated other comprehensive loss [1]	$ 181	$ 43	$ 55	$ (4)	$ 1	$ 276
Recognized from regulatory asset	—	184	—	—	2	186
Total	$ 181	$ 227	$ 55	$ (4)	$ 3	$ 462

(1) See Note 8, *Accumulated Other Comprehensive Loss.*

During the three and six months ended June 30, 2016, we contributed approximately $170,000 and $274,000, respectively, to the Chesapeake Pension Plan and approximately $548,000 and approximately $885,000, respectively, to the FPU Pension Plan. We expect to contribute a total of approximately $508,000 and approximately $1.6 million to the Chesapeake Pension Plan and FPU Pension Plan, respectively, during 2016, which represent the minimum annual contribution payments required.

The Chesapeake SERP, the Chesapeake Postretirement Plan and the FPU Medical Plan are unfunded and are expected to be paid out of our general funds. Cash benefits paid under the Chesapeake SERP for the three and six months ended June 30, 2016, were approximately $38,000 and approximately $76,000, respectively. We expect to pay total cash benefits of approximately $151,000 under the Chesapeake Pension SERP in 2016. Cash benefits paid under the Chesapeake Postretirement Plan, primarily for medical claims for the three and six months ended

June 30, 2016, were approximately $15,000 and approximately $36,000, respectively. We estimate that approximately $82,000 will be paid for such benefits under the Chesapeake Postretirement Plan in 2016. Cash benefits paid under the FPU Medical Plan, primarily for medical claims for the three and six months ended June 30, 2016, were approximately $27,000 and approximately $67,000,

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respectively. We estimate that approximately $149,000 will be paid for such benefits under the FPU Medical Plan in 2016.

10. Investments

The investment balances at June 30, 2016 and December 31, 2015, consisted of the following:

(in thousands)	June 30, 2016	December 31, 2015
Rabbi trust (associated with the Deferred Compensation Plan)	$ 4,304	$ 3,626
Investments in equity securities	21	18
Total	$ 4,325	$ 3,644

We classify these investments as trading securities and report them at their fair value. For the three months ended June 30, 2016 and 2015, we recorded a net unrealized gain of approximately $71,000 and approximately $4,000, respectively, in other income in the condensed consolidated statements of income related to these investments. For the six months ended June 30, 2016 and 2015, we recorded an unrealized gain of approximately $53,000 and approximately $107,000, respectively, in other income in the condensed consolidated statements of income related to these investments. For the investment in the Rabbi Trust, we also have recorded an associated liability, which is included in other pension and benefit costs in the condensed consolidated balance sheets and is adjusted each month for the gains and losses incurred by the investments in the Rabbi Trust.

11. Share-Based Compensation

Our non-employee directors and key employees are granted share-based awards through our SICP. We record these share-based awards as compensation costs over the respective service period for which services are received in exchange for an award of equity or equity-based compensation. The compensation cost is based primarily on the fair value of the shares awarded, using the estimated fair value of each share on the date it was granted and the number of shares to be issued at the end of the service period.

The table below presents the amounts included in net income related to share-based compensation expense for the three and six months ended June 30, 2016 and 2015:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
(in thousands)				
Awards to non-employee directors	$ 145	$ 160	$ 310	$ 311
Awards to key employees	470	250	954	636
Total compensation expense	615	410	1,264	947
Less: tax benefit	(248)	(165)	(509)	(381)
Share-based compensation amounts included in net income	$ 367	$ 245	$ 755	$ 566

Non-employee Directors

Shares granted to non-employee directors are issued in advance of the directors' service periods and are fully vested as of the grant date. We record a prepaid expense equal to the fair value of the shares issued and amortize the expense equally over a service period of one year. In May 2016, each of our non-employee directors received an annual retainer of 953 shares of common stock under the SICP for service as a director through the 2017 Annual Meeting of Stockholders.

A summary of the stock activity for our non-employee directors during the six months ended June 30, 2016 is presented below:

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	Number of Shares	Weighted Average Fair Value
Outstanding— December 31, 2015	—	$ —
Granted	8,577	$ 62.90
Vested	(8,577)	$ 62.90
Outstanding— June 30, 2016	—	$ —

At June 30, 2016, there was approximately $450,000 of unrecognized compensation expense related to these awards. This expense will be recognized over the directors' remaining service period ending April 30, 2017.

Key Employees

The table below presents the summary of the stock activity for awards to key employees for the six months ended June 30, 2016:

	Number of Shares	Weighted Average Fair Value
Outstanding— December 31, 2015	110,398	$ 38.34
Granted	46,571	$ 67.90
Vested	(39,553)	$ 31.79
Expired	(2,325)	$ 42.25
Outstanding— June 30, 2016	115,091	$ 51.85

In February 2016, our Board of Directors granted awards of 46,571 shares of common stock to key employees under the SICP. The shares granted in February 2016 are multi-year awards that will vest at the end of the three-year service period ending December 31, 2018. All of these stock awards are earned based upon the successful achievement of long-term goals, growth and financial results, which comprise both market-based and performance-based conditions or targets. The fair value of each performance-based condition or target is equal to the market price of our common stock on the grant date of each award. For the market-based conditions, we used the Black-Scholes pricing model to estimate the fair value of each market-based award granted.

At June 30, 2016, the aggregate intrinsic value of the SICP awards granted to key employees was approximately $7.6 million. At June 30, 2016, there was approximately $3.2 million of unrecognized compensation cost related to these awards, which is expected to be recognized from 2016 through 2018.

12. Derivative Instruments

We use derivative and non-derivative contracts to engage in trading activities and manage risks related to obtaining adequate supplies and the price fluctuations of natural gas, electricity and propane. Our natural gas, electric and propane distribution operations have entered into agreements with suppliers to purchase natural gas, electricity and propane for resale to their customers. Aspire Energy has entered into contracts with producers to secure natural gas to meet its obligations. Purchases under these contracts typically either do not meet the definition of derivatives or are considered "normal purchases and normal sales" and are accounted for on an accrual basis. Our propane distribution and natural gas marketing operations may also enter into fair value hedges of their inventory or cash flow hedges of their future purchase commitments in order to mitigate the impact of wholesale price fluctuations. As of June 30, 2016, our natural gas and electric distribution operations did not have any outstanding derivative contracts.

Hedging Activities in 2016

In June 2016, Sharp entered into a swap agreement to mitigate the risk of fluctuations in wholesale propane index prices associated with 630,000 gallons expected to be purchased for the upcoming heating season. Under the swap agreement, Sharp will receive the difference between the index prices (Mont Belvieu prices in December 2016 through February 2017) and the swap price of $0.5525 per gallon, to the extent the index prices exceed the swap price. If the index prices are lower than the swap price, Sharp will pay the difference. The swap agreement essentially fixes the price of the 630,000 gallons that we expect to purchase for the upcoming heating season. We accounted for the swap agreement as a cash flow

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hedge, and there is no ineffective portion of this hedge. At June 30, 2016, the swap agreement had a fair value of approximately $23,000. The change in the fair value of the swap agreement is recorded as unrealized gain/loss in other comprehensive income (loss).

In January 2016, PESCO entered into a SCO supplier agreement with Columbia Gas to provide natural gas supply for Columbia Gas to service one of its local distribution customer tranches. PESCO also assumed the obligation to store natural gas inventory to satisfy its obligations under the SCO supplier agreement, which terminates on March 31, 2017.

In conjunction with the SCO supplier agreement, PESCO entered into natural gas futures contracts during the second quarter of 2016 in order to protect its natural gas inventory against market price fluctuations. The contracts expire within one year. We have accounted for these contracts as fair value hedges, and any ineffective portion is reported directly in earnings. We believe these contracts are highly effective at hedging inventory. At June 30, 2016, PESCO had a total of 1,065,000 Dts/d hedged under natural gas futures contracts, with a liability fair value of approximately $233,000. The change in fair value of the natural gas futures contracts is recorded as unrealized gain (loss) in earnings and is offset by any associated gain (loss) in the value of the inventory being hedged.

Beginning in October 2015, PESCO entered into natural gas futures contracts associated with the purchase and sale of natural gas to other specific customers. These contracts expire within two years, and we have accounted for them as cash flow hedges. There is no ineffective portion of these hedges. At June 30, 2016, PESCO had a total of 6,090,000 Dts/d hedged under natural gas futures contracts, with an asset fair value of approximately $357,000. The change in fair value of the natural gas futures contracts is recorded as unrealized gain (loss) in other comprehensive income (loss).

Fair Value Hedges

The impact of our natural gas futures commodity contracts designated as fair value hedges and the related hedged item on our condensed consolidated income statement for the three and six months ended June 30, 2016 is presented below:

(in thousands)	Three Months Ended June 30, 2016[1]	Six Months Ended June 30, 2016[1]
Commodity contracts	$ (233)	$ (233)
Fair value adjustment for natural gas inventory designated as the hedged item	681	681
Total increase in purchased gas cost	$ 448	$ 448
The increase in purchased gas cost is comprised of the following:		
Basis ineffectiveness	$ (83)	$ (83)
Timing ineffectiveness	531	531
Total ineffectiveness	$ 448	$ 448

[1] There were no natural gas futures commodity contracts designated as fair value hedges in 2015.

Basis ineffectiveness arises from natural gas market price differences between the locations of the hedged inventory and the delivery location specified in the hedging instruments. Timing ineffectiveness arises due to changes in the difference between the spot price and the futures price, as well as the difference between the timing of the settlement of the futures and the valuation of the underlying physical commodity. As the commodity contract nears the settlement date, spot-to-forward price differences should converge, which should reduce or eliminate the impact of this ineffectiveness on purchased gas cost. To the extent that our natural gas inventory does not qualify as a hedged item in a fair-value hedge, or has not been designated as such, the natural gas inventory is valued at the lower of cost or market.

Hedging Activities in 2015

In March, May and June 2015, Sharp paid a total of approximately $143,000 to purchase put options to protect against a decline in propane prices and related potential inventory losses associated with 2.5 million gallons for the propane price cap program in the 2015-2016 heating season. We exercised the put options as propane prices fell below the strike prices of $0.4950, $0.4888 and $0.4500 per gallon in December 2015 through February 2016 and $0.4200 per gallon in January through March 2016. We received approximately $239,000, which represents the difference between the market prices and the strike prices during those months. We accounted for the put options as fair value hedges.

In March, May and June 2015, Sharp entered into swap agreements to mitigate the risk of fluctuations in wholesale propane index prices associated with 2.5 million gallons purchased in December 2015 through March 2016. Under these swap agreements, Sharp would have received the difference between the index prices (Mont Belvieu prices in December 2015 through March 2016) and the swap prices, which ranged from $0.5200 to $0.5950 per gallon, for each swap agreement, to the extent the index prices exceeded the swap prices. If the index prices were lower than the swap prices, Sharp would pay the difference. These swap agreements essentially fixed the price of the 2.5 million gallons that we purchased during this period. We accounted for the swap agreements as cash flow hedges. Sharp paid approximately $484,000, which represents the difference between the index prices and swap prices during those months of the swap agreements.

Commodity Contracts for Trading Activities

Xeron engages in trading activities using forward and futures contracts for propane and crude oil. These contracts are considered derivatives and have been accounted for using the mark-to-market method of accounting. Under this method, the trading contracts are recorded at fair value, and the changes in fair value of those contracts are recognized as unrealized gains or losses in the statements of income for the period of change. As of June 30, 2016, we had the following outstanding propane and crude oil trading contracts, which we accounted for as derivatives:

At June 30, 2016	Quantity in Gallons	Estimated Market Prices	Weighted Average Contract Prices
Forward Contracts - Propane			
Purchase	421,000	$ 0.5375	$ 0.5388

At June 30, 2016	Quantity in Barrels	Estimated Market Prices	Weighted Average Contract Prices
Futures Contracts - Crude Oil			
Purchase	20,000	$ 48.3300	$ 47.9000

Estimated market prices and weighted average contract prices are in dollars per gallon and barrel. All contracts expire by the end of the third quarter of 2016.

Xeron entered into master netting agreements with two counterparties to mitigate exposure to counterparty credit risk. The master netting agreements enable Xeron to net these two counterparties' outstanding accounts receivable and payable, which are presented on a gross basis in the accompanying condensed consolidated balance sheets. At June 30, 2016, Xeron had no accounts receivable or accounts payable balances to offset with these two counterparties. At December 31, 2015, Xeron had a right to offset $431,000 of accounts payable with these two counterparties. At December 31, 2015, Xeron did not have outstanding accounts receivable with these two counterparties.

The following tables present information about the fair value and related gains and losses of our derivative contracts. We did not have any derivative contracts with a credit-risk-related contingency. The fair values of the derivative contracts recorded in the condensed consolidated balance sheets as of June 30, 2016 and December 31, 2015, are as follows:

	Asset Derivatives		
		Fair Value As Of	
(in thousands)	Balance Sheet Location	June 30, 2016	December 31, 2015
Derivatives not designated as hedging instruments			
Forward & Future contracts	Mark-to-market energy assets	$ **25**	$ 1
Derivatives designated as fair value hedges			
Put options	Mark-to-market energy assets	—	152

Derivatives designated as cash flow hedges			
Natural gas futures contracts	Mark-to-market energy assets	**357**	—
Propane swap agreements	Mark-to-market energy assets	**23**	—
Total asset derivatives		**$ 405**	$ 153

(in thousands)	Liability Derivatives		
		Fair Value As Of	
	Balance Sheet Location	June 30, 2016	December 31, 2015
Derivatives not designated as hedging instruments			
Forward contracts	Mark-to-market energy liabilities	$ **23**	$ 1
Derivatives designated as fair value hedges			
Natural gas futures contracts	Mark-to-market energy liabilities	**233**	—
Derivatives designated as cash flow hedges			
Propane swap agreements	Mark-to-market energy liabilities	**—**	323
Natural gas futures contracts	Mark-to-market energy liabilities	**—**	109
Total liability derivatives		$ **256**	$ 433

The effects of gains and losses from derivative instruments on the condensed consolidated financial statements are as follows:

(in thousands)	Location of Gain (Loss) on Derivatives	Amount of Gain (Loss) on Derivatives:			
		For the Three Months Ended June 30,		For the Six Months Ended June 30,	
		2016	2015	2016	2015
Derivatives not designated as hedging instruments					
Realized gain on forward contracts (1)	Revenue	$ **88**	$ (71)	**275**	206
Unrealized gain (loss) on forward contracts (1)	Revenue	**1**	203	**2**	78
Propane swap agreements	Cost of sales	**—**	—	**—**	18
Derivatives designated as fair value hedges					
Put /Call options	Cost of sales	**—**	—	**73**	506
Put /Call options (2)	Propane Inventory	**—**	(30)		(34)
Natural gas futures contracts	Natural Gas Inventory	**(233)**	—	**(233)**	—
Derivatives designated as cash flow hedges					
Propane swap agreements	Cost of sales	**—**	—	**(364)**	—
Propane swap agreements	Other Comprehensive Gain (Loss)	**23**	10	**23**	(2)
Call options	Cost of sales	**—**	—	**—**	(81)
Natural gas futures contracts	Cost of sales	**211**	—	**359**	—
Natural gas futures contracts		**786**	—	**472**	—

	Other Comprehensive Gain				
Total		**$ 876**	$ 112	**$ 607**	$ 691

(1) All of the realized and unrealized gain (loss) on forward contracts represents the effect of trading activities on our condensed consolidated statements of income.

(2) As a fair value hedge with no ineffective portion, the unrealized gains and losses associated with this call option are recorded in cost of sales, offset by the corresponding change in the value of propane inventory (hedged item), which is also recorded in cost of sales. The amounts in cost of sales offset to zero, and the unrealized gains and losses of this put option effectively changed the value of propane inventory.

13. Fair Value of Financial Instruments

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

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

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

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

Financial Assets and Liabilities Measured at Fair Value

The following table summarizes our financial assets and liabilities that are measured at fair value on a recurring basis and the fair value measurements, by level, within the fair value hierarchy as of June 30, 2016 and December 31, 2015:

		Fair Value Measurements Using:		
As of June 30, 2016 *(in thousands)*	**Fair Value**	**Quoted-Prices- in Active Markets (Level 1)**	**Significant-Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Assets:				
Investments—equity securities	$ 21	$ 21	$ —	$ —
Investments—guaranteed income fund	$ 475	$ —	$ —	$ 475
Investments—mutual funds and other	$ 3,829	$ 3,829	$ —	$ —
Mark-to-market energy assets, incl. put options and swap agreements	$ 405	$ —	$ 405	$ —
Liabilities:				
Mark-to-market energy liabilities incl. swap agreements	$ 256	$ —	$ 256	$ —

		Fair Value Measurements Using:		
As of December 31, 2015 *(in thousands)*	**Fair Value**	**Quoted-Prices- in Active Markets (Level 1)**	**Significant-Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Assets:				
Investments—equity securities	$ 18	$ 18	$ —	$ —
Investments—guaranteed income fund	$ 279	$ —	$ —	$ 279
Investments—mutual funds and other	$ 3,347	$ 3,347	$ —	$ —
Mark-to-market energy assets, incl. put/call options	$ 153	$ —	$ 153	$ —
Liabilities:				
Mark-to-market energy liabilities, incl. swap agreements	$ 433	$ —	$ 433	$ —

The following valuation techniques were used to measure fair value assets in the tables above on a recurring basis as of June 30, 2016 and December 31, 2015:

Level 1 Fair Value Measurements:

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

Investments - mutual funds and other — The fair values of these investments, comprised of money market and mutual funds, are recorded at fair value based on quoted net asset values of the shares.

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Level 2 Fair Value Measurements:

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

Propane put/call options, swap agreements and natural gas futures contracts – The fair value of the propane put/call options, swap agreements and natural gas futures contracts are measured using market transactions for similar assets and liabilities in either the listed or OTC markets.

Level 3 Fair Value Measurements:

Investments- guaranteed income fund — The fair values of these investments are recorded at the contract value, which approximates their fair value.

The following table sets forth the summary of the changes in the fair value of Level 3 investments for the six months ended June 30, 2016 and 2015:

	Six Months Ended June 30,	
	2016	**2015**
(in thousands)		
Beginning Balance	**$ 279**	$ 287
Purchases and adjustments	**112**	49
Transfers	**88**	(3)
Distribution	**(8)**	—
Investment income	**4**	2
Ending Balance	**$ 475**	$ 335

Investment income from the Level 3 investments is reflected in other income (expense) in the accompanying condensed consolidated statements of income.

At June 30, 2016, there were no non-financial assets or liabilities required to be reported at fair value. We review our non-financial assets for impairment at least on an annual basis, as required.

Other Financial Assets and Liabilities

Financial assets with carrying values approximating fair value include cash and cash equivalents and accounts receivable. Financial liabilities with carrying values approximating fair value include accounts payable and other accrued liabilities and short-term debt. The fair value of cash and cash equivalents is measured using the comparable value in the active market and approximates its carrying value (Level 1 measurement). The fair value of short-term debt approximates the carrying value due to its short maturities and because interest rates approximate current market rates (Level 3 measurement).

At June 30, 2016, long-term debt, including current maturities but excluding a capital lease obligation, had a carrying value of approximately $151.8 million. This compares to a fair value of approximately $174.3 million, using a discounted cash flow methodology that incorporates a market interest rate based on published corporate borrowing rates for debt instruments with similar terms and average maturities, and with adjustments for duration, optionality, and risk profile. At December 31, 2015, long-term debt, including the current maturities but excluding a capital lease obligation, had a carrying value of approximately $153.7 million, compared to the estimated fair value of approximately $165.1 million. The valuation technique used to estimate the fair value of long-term debt would be considered a Level 3 measurement.

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14. Long-Term Debt

Our outstanding long-term debt is shown below:

(in thousands)	June 30, 2016	December 31, 2015
FPU secured first mortgage bonds [1]:		
9.08% bond, due June 1, 2022	$ **7,976**	$ 7,973
Uncollateralized senior notes:		
6.64% note, due October 31, 2017	**5,455**	5,455
5.50% note, due October 12, 2020	**10,000**	10,000
5.93% note, due October 31, 2023	**22,500**	24,000
5.68% note, due June 30, 2026	**29,000**	29,000
6.43% note, due May 2, 2028	**7,000**	7,000
3.73% note, due December 16, 2028	**20,000**	20,000
3.88% note, due May 15, 2029	**50,000**	50,000
Promissory notes	**168**	238
Capital lease obligation	**4,153**	4,824
Total long-term debt	**156,252**	158,490
Less: current maturities	**(12,075)**	(9,151)
Less: debt issuance costs	**(312)**	(333)
Total long-term debt, net of current maturities	$ **143,865**	$ 149,006

[1] *FPU secured first mortgage bonds are guaranteed by Chesapeake Utilities.*

Shelf Agreement

On October 8, 2015, we entered into a Shelf Agreement with Prudential. Under the terms of the Shelf Agreement, we may request that Prudential purchase, over the next three years, up to $150.0 million of our Shelf Notes at a fixed interest rate and with a maturity date not to exceed 20 years from the date of issuance. Prudential is under no obligation to purchase any of the Shelf Notes. The interest rate and terms of payment of any series of Shelf Notes will be determined at the time of purchase. We currently anticipate the proceeds from the sale of any series of Shelf Notes will be used for general corporate purposes, including refinancing of short-term borrowing and/or repayment of outstanding indebtedness and financing capital expenditures on future projects; however, actual use of such proceeds will be determined at the time of a purchase, and each request for purchase with respect to a series of Shelf Notes will specify the exact use of the proceeds.

On May 13, 2016, we formally requested that Prudential purchase $70.0 million of 3.25 percent Shelf Notes under the Shelf Agreement. On May 20, 2016, Prudential formally accepted and confirmed our request. The closing of the sale and issuance of the Shelf Notes is expected to occur on or before April 28, 2017.

The Shelf Agreement sets forth certain business covenants to which we are subject when any Shelf Note is outstanding, including covenants that limit or restrict our ability, and the ability of our subsidiaries, to incur indebtedness or incur liens and encumbrances on any of our property or the property of our subsidiaries.

15. Short-Term Borrowing

On October 8, 2015, we entered into the Credit Agreement with the Lenders for a $150.0 million Revolver for a term of five years, subject to the terms and conditions of the Credit Agreement. Borrowings under the Revolver will be used for general corporate purposes, including repayments of short-term borrowings, working capital requirements and capital expenditures.

Borrowings under the Revolver will bear interest at: (i) the LIBOR Rate plus an applicable margin of 1.25 percent or less, with such margin based on total indebtedness as a percentage of total capitalization, both as defined by the Credit Agreement, or (ii) the base rate plus 0.25 percent or less. Interest will be payable quarterly, and the Revolver is subject to a commitment fee on the unused portion of the facility. We may extend the expiration date for up to two years on any anniversary date of the Revolver, with such extension subject to the Lenders' approval. We may also request the Lenders to increase the Revolver to $200.0 million, with any increase at the sole discretion of each Lender. At June 30, 2016 and December 31, 2015, we had borrowed $40.0 million and $35.0 million, respectively, under the Revolver.

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

Management's Discussion and Analysis of Financial Condition and Results of Operations is designed to provide a reader of the financial statements with a narrative report on our financial condition, results of operations and liquidity. This discussion and analysis should be read in conjunction with the attached unaudited condensed consolidated financial statements and notes thereto and our Annual Report on Form 10-K for the year ended December 31, 2015, including the audited consolidated financial statements and notes thereto.

Safe Harbor for Forward-Looking Statements

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

- state and federal legislative and regulatory initiatives (including deregulation) that affect cost and investment recovery, have an impact on rate structures and affect the speed at, and the degree to, which competition enters the electric and natural gas industries;
- the outcomes of regulatory, tax, environmental and legal matters, including whether pending matters are resolved within current estimates and whether the costs associated with such matters are adequately covered by insurance or recoverable in rates;
- the timing of certification authorizations;
- the loss of customers due to a government-mandated sale of our utility distribution facilities;
- industrial, commercial and residential growth or contraction in our markets or service territories;
- the weather and other natural phenomena, including the economic, operational and other effects of hurricanes, ice storms and other damaging weather events;
- the timing and extent of changes in commodity prices and interest rates;
- general economic conditions, including any potential effects arising from terrorist attacks and any hostilities or other external factors over which we have no control;
- changes in environmental and other laws and regulations to which we are subject and environmental conditions of property that we now or may in the future own or operate;
- the capital-intensive nature of our regulated energy businesses;
- the results of financing efforts, including our ability to obtain financing on favorable terms, which can be affected by various factors, including credit ratings and general economic conditions;
- the impact on our cost and funding obligations under our pension and other post-retirement benefit plans of potential downturns in the financial markets, lower discount rates, and costs associated with the Patient Protection and Affordable Care Act;
- the creditworthiness of counterparties with which we are engaged in transactions;
- the extent of our success in connecting natural gas and electric supplies to transmission systems and in expanding natural gas and electric markets;
- the ability to continue to hire, train and retain appropriately qualified personnel;
- conditions of the capital markets and equity markets during the periods covered by the forward-looking statements;
- the ability to successfully execute, manage and integrate merger, acquisition or divestiture plans; regulatory or other limitations imposed as a result of a merger, acquisition or divestiture, and the success of the business following a merger, acquisition or divestiture;
- the ability to establish and maintain new key supply sources;
- the effect of spot, forward and future market prices on our various energy businesses;

- the effect of competition on our businesses;
- the ability to construct facilities at or below estimated costs;
- possible increased federal, state and local regulation of the safety of our operations;
- the inherent hazards and risks involved in our energy businesses;

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- the effect of accounting pronouncements issued periodically by accounting standard-setting bodies; and
- risks related to cyber-attacks that could disrupt our business operations or result in failure of information technology systems.

Introduction

We are a diversified energy company engaged, directly or through our operating divisions and subsidiaries, in various energy and other businesses.

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

- executing a capital investment program in pursuit of organic growth opportunities that generate returns equal to or greater than our cost of capital;
- expanding the regulated energy distribution and transmission businesses into new geographic areas and providing new services in our current service territories;
- expanding the propane distribution business in existing and new markets through leveraging our community gas system services, our vehicular fuel offerings and our bulk delivery capabilities;
- expanding both our regulated and unregulated energy businesses through strategic acquisitions;
- utilizing our expertise across our various businesses to improve overall performance;
- pursuing and entering new unregulated energy markets and business lines that will complement our existing strategy and operating units;
- enhancing marketing channels to attract new customers;
- providing reliable and responsive customer service to existing customers so they become our best promoters;
- engaging our customers through a distinctive service excellence initiative;
- developing and retaining a high-performing team that advances our goals;
- empowering and engaging our employees at all levels to live our brand and vision;
- demonstrating community leadership and engaging our local communities and governments in a cooperative and mutually beneficial way;
- maintaining a capital structure that enables us to access capital as needed;
- continuing to build a branded culture that drives a shared mission, vision, and values;
- maintaining a consistent and competitive dividend for stockholders; and
- creating and maintaining a diversified customer base, energy portfolio and utility foundation.

Due to the seasonality of our business, results for interim periods are not necessarily indicative of results for the entire fiscal year. Revenue and earnings are typically greater during the first and fourth quarters, when consumption of energy is normally highest due to colder temperatures.

The following discussions and those elsewhere in the document on operating income and segment results include the 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 fuel cost for natural gas, electricity and propane and the cost of labor spent on direct revenue-producing activities. Gross margin should not be considered an alternative to operating income or net income, which are determined in accordance with GAAP. Chesapeake Utilities believes that gross margin, although a non-GAAP measure, is meaningful in the Company's regulated operations because the cost of natural gas and electricity are passed through and changes in commodity prices can cause revenue to go up and down in ways that are not indicative of volumes sold or tied to profitability. Gross margin 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 Utilities' 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.*

Unless otherwise noted, earnings per share information is presented on a diluted basis.

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Results of Operations for the Three and Six Months ended June 30, 2016

Overview and Highlights

Our net income for the quarter ended June 30, 2016 was $8.0 million, or $0.52 per share. This represents an increase of $1.7 million, or $0.11 per share, compared to net income of $6.3 million, or $0.41 per share, as reported for the same quarter in 2015. Excluding the non-recurring gain associated with the billing system settlement, operating income increased $3.9 million for the three months ended June 30, 2016.

	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Increase (decrease)
(in thousands except per share)			
Business Segment:			
Regulated Energy segment	**$ 15,226**	$ 13,605	$ 1,621
Unregulated Energy segment	**412**	(540)	952
Other businesses and eliminations	**104**	105	(1)
Operating Income	**$ 15,742**	$ 13,170	$ 2,572
Other Expense, net	**(8)**	(171)	163
Interest Charges	**2,624**	2,485	139
Pre-tax Income	**13,110**	10,514	2,596
Income Taxes	**5,081**	4,220	861
Net Income	**$ 8,029**	$ 6,294	$ 1,735
Earnings Per Share of Common Stock			
Basic	**$ 0.52**	$ 0.41	$ 0.11
Diluted	**$ 0.52**	$ 0.41	$ 0.11

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Key variances included:

(in thousands, except per share data)	Pre-tax Income	Net Income	Earnings Per Share
Second Quarter of 2015 Reported Results	$10,514	$ 6,294	$ 0.41
Adjusting for Unusual Items:			
Net gain from settlement agreement associated with customer billing system	(1,370)	(820)	(0.05)
	(1,370)	(820)	(0.05)
Increased (Decreased) Gross Margins:			
Service expansions (See Major Projects and Initiatives table)	1,992	1,192	0.08
GRIP	1,040	623	0.04
Natural gas growth (excluding service expansions)	820	491	0.03
Aspire Energy	708	424	0.03
Implementation of Delaware division interim rates	555	332	0.02
Eight Flags	551	330	0.02
Natural gas marketing	464	278	0.02
Increase in customer consumption	345	207	0.01
	6,475	3,877	0.25
Decreased (Increased) Other Operating Expenses:			
Higher payroll and benefit costs	(1,100)	(658)	(0.04)
Higher service contractor costs	(786)	(470)	(0.03)
Higher depreciation, asset removal, amortization and property tax costs due to recent capital investments	(493)	(295)	(0.02)
	(2,379)	(1,423)	(0.09)
Interest Charges	(139)	(83)	(0.01)
Net Other Changes	9	184	0.01
Second Quarter of 2016 Reported Results	$13,110	$ 8,029	$ 0.52

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Our net income for the six months ended June 30, 2016 was $28.4 million, or $1.85 per share. This represents an increase of $993,000, or $0.02 per share, compared to net income of $27.4 million, or $1.83 per share, as reported for the same period in 2015. Excluding the non-recurring gain associated with the billing system settlement, operating income increased by $2.8 million for the six months ended June 30, 2016.

	Six Months Ended June 30,		Increase (decrease)
	2016	**2015**	
(in thousands except per share)			
Business Segment:			
Regulated Energy segment	**$ 39,545**	$ 35,788	$ 3,757
Unregulated Energy segment	**12,347**	14,689	(2,342)
Other businesses and eliminations	**230**	201	29
Operating Income	**$ 52,122**	$ 50,678	1,444
Other Expense, net	**(42)**	(38)	(4)
Interest Charges	**5,274**	4,933	341
Pre-tax Income	**46,806**	45,707	1,099
Income Taxes	**18,410**	18,304	106
Net Income	**$ 28,396**	$ 27,403	$ 993
Earnings Per Share of Common Stock			
Basic	**$ 1.86**	$ 1.84	$ 0.02
Diluted	**$ 1.85**	$ 1.83	$ 0.02

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(in thousands, except per share data)	Pre-tax Income	Net Income	Earnings Per Share
Six months ended June 30, 2015 Reported Results	$45,707	$27,403	$ 1.83
Adjusting for Unusual Items:			
Weather impact, primarily in the first quarter	(6,596)	(3,954)	(0.26)
Net gain from settlement agreement associated with customer billing system	(1,370)	(821)	(0.05)
	(7,966)	(4,775)	(0.31)
Increased (Decreased) Gross Margins:			
Service expansions (See Major Projects and Initiatives table)	3,939	2,361	0.16
GRIP	2,148	1,288	0.09
Lower retail propane margins	(1,737)	(1,041)	(0.07)
Natural gas growth (excluding service expansions)	1,579	947	0.06
Natural gas marketing	905	543	0.04
Implementation of Delaware division interim rates	878	526	0.03
Eight Flags	551	330	0.02
	8,263	4,954	0.33
Decreased (Increased) Other Operating Expenses:			
Higher payroll and benefit costs	(1,339)	(803)	(0.05)
Higher depreciation, asset removal and property tax costs due to recent capital investments	(1,253)	(751)	(0.05)
Lower bad debt, sales and advertising	482	289	0.02
Decreased incentive compensation	466	279	0.02
	(1,644)	(986)	(0.06)
Net contribution from Aspire Energy, including impact of shares issued	2,978	1,892	0.09
Interest Charges	(341)	(204)	(0.01)
Net Other Changes	(191)	112	(0.02)
Six months ended June 30, 2016 Reported Results	$46,806	$28,396	$ 1.85

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Summary of Key Factors

Major Projects and Initiatives

The following table summarizes gross margin for our existing and future major projects and initiatives. Gross margin reflects operating revenue less cost of sales, excluding depreciation, amortization and accretion (dollars in thousands):

	Gross Margin for the Period							
	Three Months Ended June 30,		Six Months Ended June 30,		Total 2015	Estimate for		
	2016	2015	2016	2015	Margin	2016	2017	2018
Completed major projects and initiatives effected since 2014	$ 10,487	$ 5,642	$ 22,256	$ 9,791	$ 25,270	$ 47,769	$ 53,991	$ 54,646
Major projects and initiatives underway (1)	—	—	—	—	—	—	2,250	4,500
	$ 10,487	$ 5,642	$ 22,256	$ 9,791	$ 25,270	$ 47,769	$ 56,241	$ 59,146

(1) This represents gross margin for the 2017 System Reliability Project.

Completed Major Projects and Initiatives

The following table summarizes gross margin generated by our major projects and initiatives completed since 2014 (dollars in thousands):

	Gross Margin for the Period									
	Three Months Ended June 30,			Six Months Ended June 30,			Total 2015	Estimate for		
	2016	2015	Variance	2016	2015	Variance	Margin	2016	2017	2018
Acquisition:										
Aspire Energy	$ 2,331	$ 1,624	$ 707	$ 6,573	$ 1,624	$ 4,949	$ 6,324	$12,824	$14,198	$15,415
Natural Gas Transmission Expansions and Contracts:										
Short-term contracts										
New Castle County, Delaware	$ 616	$ 523	$ 93	$ 1,375	$ 1,491	$ (116)	$ 2,682	$ 2,707	$ 1,885	$ 677
Kent County, Delaware (1)	2,032	398	1,634	3,815	398	3,417	$ 2,270	7,965	1,534	—
Total short-term contracts	$ 2,648	$ 921	$ 1,727	$ 5,190	$ 1,889	$ 3,301	$ 4,952	$10,672	$ 3,419	$ 677
Long-term contracts										
Kent County, Delaware	$ 455	$ 463	$ (8)	$ 911	$ 926	$ (15)	$ 1,844	$ 1,815	$ 7,629	$ 7,605
Polk County, Florida	407	134	273	814	161	653	908	1,627	1,627	1,627
Total long-term contracts	$ 862	$ 597	$ 265	$ 1,725	$ 1,087	$ 638	$ 2,752	$ 3,442	$ 9,256	$ 9,232
Total Expansions & Contracts	$ 3,510	$ 1,518	$ 1,992	$ 6,915	$ 2,976	$ 3,939	$ 7,704	$14,114	$12,675	$ 9,909
Florida GRIP	$ 2,809	$ 1,769	$ 1,040	$ 5,396	$ 3,248	$ 2,148	$ 7,508	$11,405	$13,756	$15,960
Florida Electric Rate Case	$ 731	$ 731	$ —	$ 1,943	$ 1,943	$ —	$ 3,734	$ 3,562	$ 3,562	$ 3,562

Delaware Division Rate Case [2]	$ 555	$ —	$ 555	$ 878	$ —	$ 878	$ —	$ 2,164	$ 2,500	$ 2,500
Eight Flags CHP Plant [3]	$ 551	$ —	$ 551	$ 551	$ —	$ 551	$ —	$ 3,700	$ 7,300	$ 7,300
Total Completed Major Projects and Initiatives	$10,487	$ 5,642	$ 4,845	$22,256	$ 9,791	$ 12,465	$25,270	$47,769	$53,991	$54,646

[1] In April 2015, Eastern Shore commenced interruptible service to an electric power generator in Kent County, Delaware. The interruptible service concluded in December 2015 and was replaced by a short-term OPT ≤ 90 Service. The short-term OPT ≤ 90 Service is expected to be replaced by a 20-year contract for OPT ≤ 90 Service in the first quarter of 2017.

[2] In December 2015, our Delaware division submitted a rate case filing with the Delaware PSC. A decision on this application is expected during the first quarter of 2017. Pending the decision, our Delaware division implemented interim rates effective February 19, 2016. These rates are subject to refund. We cannot predict the revenue requirement the Delaware PSC will ultimately authorize or forecast timing of the decision.

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[3] This amount includes gross margin of $432,000 for the three and six months ended June 30, 2016, attributed to natural gas distribution and transportation services provided by our affiliates.

Aspire Energy
On April 1, 2015, we completed the merger of Gatherco with and into Aspire Energy, a then newly-formed, wholly-owned subsidiary of Chesapeake Utilities. Aspire Energy is an unregulated natural gas infrastructure company with approximately 2,500 miles of pipeline systems in 40 counties throughout Ohio. The majority of Aspire Energy's margin is derived from long-term sales agreements with Columbia Gas and Consumers Gas Cooperative, which together serve more than 20,000 end-use customers. Aspire Energy sources gas primarily from 300 conventional producers in Ohio. Aspire Energy also provides gathering and processing services necessary to maintain quality and reliability to its wholesale markets.

Aspire Energy generated $707,000 and $4.9 million in additional gross margin for the three and six months ended June 30, 2016, and incurred $363,000 and $2.0 million in other operating expenses for the same periods, respectively. As projected, this merger was accretive to our earnings per share in the first full year of operations, generating $0.03 in additional earnings per share.

Service Expansions
On January 16, 2015, the Florida PSC approved a firm transportation agreement between Peninsula Pipeline and our Florida natural gas distribution division. Under this agreement, Peninsula Pipeline provides natural gas transmission service to support our expansion of natural gas distribution service in Polk County, Florida. Peninsula Pipeline began the initial phase of its service to Chesapeake Utilities' Florida natural gas distribution division in March 2015. This new service generated $273,000 and $653,000 of additional gross margin for the three and six months ended June 30, 2016, respectively, compared to the same periods in 2015. When all phases of this service are complete, this expansion will generate an estimated annual gross margin of $1.6 million.

In April 2015, Eastern Shore commenced interruptible service to an electric power generator in Kent County, Delaware. The interruptible service concluded in December 2015 and was replaced by a short-term OPT ≤ 90 Service, which generated additional gross margin of $1.6 million and $3.4 million during the three and six months ended June 30, 2016, respectively. The short-term OPT ≤ 90 Service is expected to be replaced by a 20-year contract for OPT ≤ 90 Service in the first quarter of 2017.

On October 13, 2015, Eastern Shore submitted an application to the FERC to make certain measurement and related improvements at its TETLP interconnect facilities, which will enable Eastern Shore to increase natural gas receipts from TETLP by 53,000 Dts/d, for a total capacity of 160,000 Dts/d. In December 2015, the FERC authorized Eastern Shore to proceed with this project, which was completed and placed in service in March 2016. Approximately, 80 percent of the increased capacity has been subscribed on a short-term firm service basis. This service generated an additional gross margin of $108,000 and $128,000 for the three and six months ended June 30, 2016, respectively, and will generate approximately $1.4 million in additional gross margin through 2016. The remaining capacity is available for firm or interruptible service.

GRIP
GRIP is a natural gas pipe replacement program approved by the Florida PSC, designed to expedite the replacement of qualifying distribution mains and services (any material other than coated steel or plastic) to enhance reliability and integrity of the Florida natural gas distribution systems. This program allows recovery, through regulated rates, of capital and other program-related costs, inclusive of a return on investment, associated with the replacement of the mains and services. Since the program's inception in August 2012, we have invested $91.5 million to replace 191 miles of qualifying distribution mains, including $14.7 million during the first six months of 2016. We expect to invest an additional $6.4 million in this program during the remainder of 2016. The increased investment in GRIP generated additional gross margin of $1.0 million and $2.1 million for the three and six months ended June 30, 2016, respectively, compared to the same periods in 2015.

Eight Flags
In June 2016, Eight Flags, one of our unregulated energy subsidiaries, substantially completed construction of a CHP plant in Nassau County, Florida. This CHP plant, which consists of a natural-gas-fired turbine and associated electric generator, can produce approximately 20 megawatts of base load power and includes a heat recovery steam generator capable of

providing approximately 75,000 pounds per hour of unfired steam. Beginning June 13, 2016, Eight Flags began selling power generated from the CHP plant to FPU, our wholly-owned subsidiary, for distribution to its retail electric customers pursuant to a 20-year power purchase agreement. On July 1, 2016, it also started selling steam to an industrial customer pursuant to a separate 20-year contract. FPU will be transporting natural gas through its distribution system to Eight Flags' CHP plant, which will be used to power the CHP plant. Eight Flags and other affiliates of Chesapeake Utilities generated $551,000 in additional gross margin as a result of these new services, including natural gas and distribution services, for the three and six months ended June 30, 2016. On a consolidated basis, this project is expected to generate approximately $7.3 million in annual gross margin, which could fluctuate based upon various factors, including, but not limited to, the quantity of steam delivered and the CHP plant's hours of operations.

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Major Projects and Initiatives Underway

White Oak Mainline Expansion Project: In December 2014, Eastern Shore entered into a precedent agreement with an electric power generator in Kent County, Delaware, to provide a 20-year natural gas transmission service for 45,000 Dts/d for the customer's facility, upon the satisfaction of certain conditions. This new service will be provided as a long-term OPT ≤ 90 Service and is expected to generate at least $5.8 million in annual gross margin. In November 2014, Eastern Shore requested authorization by the FERC to construct 5.4 miles of 16-inch pipeline looping and 3,550 horsepower of new compression in Delaware to provide this service. As previously discussed, during the three and six months ended June 30, 2016, we generated $1.6 million and $3.4 million, respectively, in additional gross margin by providing interruptible service and short-term OPT ≤ 90 Service to this customer. The estimated annual gross margin contribution from this project, once it is placed in service, is approximately $5.8 million. On July 21, 2016, the FERC issued a certificate of public convenience and necessity authorizing Eastern Shore to construct and operate the proposed White Oak Mainline Project.

System Reliability Project: On May 22, 2015, Eastern Shore submitted an application to the FERC seeking authorization to construct, own and operate approximately 10.1 miles of 16-inch pipeline looping and auxiliary facilities in New Castle and Kent Counties, Delaware and a new compressor at its existing Bridgeville compressor station in Sussex County, Delaware. Eastern Shore further proposes to reinforce critical points on its pipeline system. The total project will benefit all of Eastern Shore's customers by modifying the pipeline system to respond to severe operational conditions experienced during actual winter peak days. Since the project is intended to improve system reliability, Eastern Shore requested a predetermination of rolled-in rate treatment for the costs of the project and an order granting the requested authorization. This project will be included in Eastern Shore's upcoming 2017 rate case filing. The estimated annual gross margin associated with this project, assuming recovery in the 2017 rate case, is approximately $4.5 million. On July 21, 2016, the FERC issued a certificate of public convenience and necessity authorizing Eastern Shore to construct and operate the proposed System Reliability Project.

2017 Expansion Project: On May 12, 2016, Eastern Shore submitted a request to the FERC to initiate the FERC's pre-filing procedures for its proposed 2017 expansion project. The 2017 expansion project consists of approximately 33 miles of pipeline looping in Pennsylvania, Maryland and Delaware; upgrades to existing facilities; installation of an additional 3,550 horsepower compressor unit at the existing Daleville compressor station in Chester County, Pennsylvania; approximately 17 miles of new mainline extension; and the addition of two pressure control stations in Sussex County, Delaware. The proposed 2017 expansion project would provide up to 86,437 Dts/d of additional firm natural gas transportation capacity to meet anticipated market demand. Eastern Shore is currently negotiating precedent agreements with customers who have expressed an interest in this service.

Other factors influencing gross margin

Weather and Consumption

Weather was not a significant factor in the second quarter. Temperatures on the Delmarva Peninsula and in Florida during the first quarter of 2016 were significantly warmer than the first quarter of 2015, which negatively affected the Company's year-to-date results in 2016. Lower customer consumption, directly attributable to warmer than normal temperatures during the six months ended June 30, 2016, reduced gross margin by $6.6 million compared to the same period in 2015. The following tables summarize the HDD and CDD information for the three and six months ended June 30, 2016 and 2015 resulting from weather fluctuations in those periods.

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HDD and CDD Information

	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Variance	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015	Variance
Delmarva						
Actual HDD	**485**	386	99	**2,579**	3,208	(629)
10-Year Average HDD ("Delmarva Normal")	**452**	443	9	**2,854**	2,843	11
Variance from Delmarva Normal	**33**	(57)		**(275)**	365	
Florida						
Actual HDD	**49**	—	49	**646**	501	145
10-Year Average HDD ("Florida Normal")	**19**	24	(5)	**553**	557	(4)
Variance from Florida Normal	**30**	(24)		**93**	(56)	
Ohio						
Actual HDD	**830**	632	198	**3,683**	4,413	(730)
10-Year Average HDD ("Ohio Normal")	**666**	669	(3)	**3,842**	3,778	64
Variance from Ohio Normal	**164**	(37)		**(159)**	635	
Florida						
Actual CDD	**1,028**	1,114	(86)	**1,214**	1,236	(22)
10-Year Average CDD ("Florida CDD Normal")	**948**	909	39	**1,025**	982	43
Variance from Florida CDD Normal	**80**	205		**189**	254	

Propane prices

For the quarter ended June 30, 2016, retail propane margins per gallon generated additional gross margin of $185,000, compared to the same period last year. For the six months ended June 30, 2016, compared to the same period in 2015, margins per retail gallon returned to more normal levels, which resulted in a year-to-date decline in gross margin of $1.9 million, driven principally by lower propane prices and local market conditions. The level of retail margins per gallon generated during 2015 were not expected to be sustained over the long term; accordingly, the Company has assumed more normal levels of margins in its long-term financial plans and forecasts.

In Florida, higher retail propane margins per gallon, resulting from local market conditions, generated $6,000 and $131,000 of additional gross margin for the three and six months ended June 30, 2016, respectively, compared to the same periods in 2015.

These market conditions, which are influenced by competition with other propane suppliers as well as the availability and price of alternative energy sources, may fluctuate based on changes in demand, supply and other energy commodity prices.

Other Natural Gas Growth - Distribution Operations

In addition to service expansions, the natural gas distribution operations on the Delmarva Peninsula generated $509,000 and $854,000 in additional gross margin for the three and six months ended June 30, 2016, respectively, compared to the same periods in 2015, due to an increase in residential, commercial and industrial customers served. The average number of residential customers on the Delmarva Peninsula during the three and six months ended June 30, 2016, increased by 3.8

percent and 3.2 percent, respectively, compared to the same periods in 2015. The natural gas distribution operations in Florida generated $406,000 and $652,000 in additional gross margin for the three and six months ended June 30, 2016, respectively, compared to the same periods in 2015, due primarily to an increase in commercial and industrial customers in Florida.

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Delaware division rate case

On December 21, 2015, our Delaware division filed an application with the Delaware PSC for a base rate increase and certain other changes to its tariff. We proposed an increase of approximately $4.7 million, or nearly ten percent, in our revenue requirement based on the test period ending March 31, 2016. See *Note 4, Rates and Other Regulatory Activities*, to the condensed consolidated financial statements for additional details. We expect a decision on the application during the first quarter of 2017. Pending the decision, our Delaware division increased rates on an interim basis based on the $2.5 million annualized interim rates approved by the Delaware PSC, effective February 19, 2016. We generated additional gross margin of approximately $555,000 ($332,000 net of tax) and $878,000 ($526,000 net of tax) for the three and six months ended June 30, 2016, respectively, from the implementation of interim rates. In addition, the Company's Delaware division requested and received approval on July 26, 2016 from the Delaware PSC to implement revised interim rates of $4.7 million annualized for usage on and after August 1, 2016. These rates, are subject to refund. Although a final decision is expected during the first quarter of 2017, we cannot predict the revenue requirement the Delaware PSC will ultimately authorize or forecast the timing of a final decision.

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Regulated Energy Segment

For the quarter ended June 30, 2016 compared to the quarter ended June 30, 2015

	Three Months Ended June 30,		Increase
	2016	**2015**	**(decrease)**
(in thousands)			
Revenue	**$ 67,395**	$ 62,060	$ 5,335
Cost of sales	**21,635**	21,124	511
Gross margin	**45,760**	40,936	4,824
Operations & maintenance	**21,301**	18,484	2,817
Depreciation & amortization	**6,267**	6,080	187
Other taxes	**2,966**	2,767	199
Other operating expenses	**30,534**	27,331	3,203
Operating income	**$ 15,226**	$ 13,605	$ 1,621

Operating income for the Regulated Energy segment for the quarter ended June 30, 2016 was $15.2 million, an increase of $1.6 million, or 11.9 percent, compared to the same quarter in 2015. The increased operating income was primarily due to an increase in gross margin of $4.8 million, partially offset by an increase in operating expenses of $3.2 million.

Gross Margin

Items contributing to the quarter-over-quarter increase of $4.8 million, or 11.8 percent, in gross margin are listed in the following table:

(in thousands)	
Gross margin for the three months ended June 30, 2015	$ 40,936
Factors contributing to the gross margin increase for the three months ended June 30, 2016:	
Service expansions	1,992
Additional revenue from GRIP in Florida	1,040
Natural gas growth (excluding service expansions)	820
Implementation of Delaware division interim rates	555
Eight Flags	432
Other	(15)
Gross margin for the three months ended June 30, 2016	$ 45,760

The following is a narrative discussion of the significant items, which we believe is necessary to understand the information disclosed in the foregoing table.

Service Expansions

Increased gross margin from natural gas service expansions was generated primarily from the following:

- $1.6 million from the short-term OPT ≤ 90 Service that commenced in December 2015 to an electric power generator in Kent County, Delaware following the conclusion of an interruptible service Eastern Shore had provided this customer. The short-term OPT ≤ 90 Service is expected to be replaced by a 20-year OPT ≤ 90 Service in the first quarter of 2017.
- $273,000 from natural gas transmission service as part of the major expansion initiative in Polk County, Florida.

Additional Revenue from GRIP in Florida

Additional GRIP investments during 2015 and 2016 by our Florida natural gas distribution operations generated $1.0 million in additional gross margin

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Natural Gas Growth (excluding service expansions)

Increased gross margin from other growth in natural gas (excluding service expansions) was generated primarily from the following:

- $509,000 from a 3.8 percent increase in the average number of residential customers in the Delmarva natural gas distribution operations, as well as growth in the number of commercial and industrial customers; and
- $406,000 from Florida natural gas customer growth due primarily to new services to commercial and industrial customers.

Implementation of Delaware Division Interim Rates

Delaware division generated additional gross margin of $555,000 from the implementation of interim rates as a result of its rate case filing. See *Note 4, Rates and Other Regulatory Activities*, to the condensed consolidated financial statements for additional details.

Eight Flags

We generated additional gross margin of $432,000 during the quarter, from new natural gas transmission and distribution services provided to or by Eight Flags' CHP plant.

Other Operating Expenses

Other operating expenses increased by $3.2 million. The significant components of the increase in other operating expenses included:

- The absence of a $1.5 million gain from a customer billing system settlement, recorded in 2015, which was partially offset by an associated gain of $130,000 during the second quarter of 2016, representing an additional current portion of the settlement recovery;
- $724,000 in higher payroll and benefits costs for additional personnel to support growth;
- $722,000 in higher service contractor and consulting costs; and
- $385,000 in higher depreciation, asset removal and property tax costs associated with recent capital investments.

For the six months ended June 30, 2016 compared to the six months ended June 30, 2015

	Six Months Ended June 30,		Increase
	2016	**2015**	**(decrease)**
(in thousands)			
Revenue	**$ 156,611**	$ 171,642	$ (15,031)
Cost of sales	**56,540**	78,253	(21,713)
Gross margin	**100,071**	93,389	6,682
Operations & maintenance	**41,761**	39,768	1,993
Depreciation & amortization	**12,563**	11,979	584
Other taxes	**6,202**	5,854	348
Other operating expenses	**60,526**	57,601	2,925
Operating income	**$ 39,545**	$ 35,788	$ 3,757

Operating income for the Regulated Energy segment for the six months ended June 30, 2016 was $39.5 million, an increase of $3.8 million, or, 10.5 percent, compared to the same period in 2015. The increased operating income was due primarily to an increase in gross margin of $6.7 million partially offset by a $2.9 million increase in operating expenses.

Gross Margin

Items contributing to the period-over-period increase of $6.7 million, or 7.2 percent, in gross margin are listed in the following table:

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(in thousands)	
Gross margin for the six months ended June 30, 2015	$ 93,389
Factors contributing to the gross margin increase for the six months ended June 30, 2016:	
Service expansions	3,939
Decreased customer consumption - weather and other	(2,456)
Additional revenue from GRIP in Florida	2,148
Natural Gas Growth (excluding service expansions)	1,579
Implementation of Delaware division interim rates	878
Eight Flags	432
Other	162
Gross margin for the six months ended June 30, 2016	$ 100,071

The following is a narrative discussion of the significant items, which we believe is necessary to understand the information disclosed in the foregoing table.

Service Expansions

Increased gross margin from natural gas service expansions was generated primarily from the following:

- $3.4 million from the short-term OPT ≤ 90 Service that commenced in December 2015 to an electric power generator in Kent County, Delaware following the conclusion of an interruptible service Eastern Shore had provided this customer. The short-term OPT ≤ 90 Service is expected to be replaced by a 20-year OPT ≤ 90 Service in the first quarter of 2017; and
- $653,000 from natural gas transmission service as part of the major expansion initiative in Polk County, Florida.

Decreased Customer Consumption—Weather and Other

In the first six months of 2016, customer consumption of natural gas and electricity decreased primarily due to significantly warmer weather on the Delmarva Peninsula, which reduced gross margin by approximately $2.5 million.

Additional Revenue from GRIP in Florida

Additional GRIP investments during 2015 and 2016 by our Florida natural gas distribution operations generated $2.1 million in additional gross margin.

Natural Gas Growth (excluding service expansions)

Increased gross margin from other growth in natural gas (excluding service expansions) was generated primarily from the following:

- $854,000 from a 3.2 percent increase in the average number of residential customers in the Delmarva natural gas distribution operations, as well as growth in the number of commercial and industrial customers; and
- $652,000 from Florida natural gas customer growth due primarily to new services to commercial and industrial customers.

Implementation of Delaware Division Interim Rates

Delaware division generated additional gross margin of $878,000 from the implementation of interim rates as a result of its rate case filing. See *Note 4, Rates and Other Regulatory Activities*, to the condensed consolidated financial statements for additional details.

Eight Flags

We generated additional gross margin of $432,000 from new natural gas transmission and distribution services provided to or by Eight Flags' CHP plant, commencing in June of 2016.

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Other Operating Expenses

Other operating expenses increased by $2.9 million. The significant components of the increase in other operating expenses included:

- The absence of a $1.5 million gain from a customer billing system settlement, recorded in 2015, which was partially offset by an associated gain of $130,000 during the second quarter of 2016, representing an additional current portion of the settlement recovery;
- $1.0 million in higher depreciation, asset removal and property tax costs associated with recent capital investments; and
- $565,000 in higher payroll and benefits costs for additional personnel to support growth.

Unregulated Energy Segment

For the quarter ended June 30, 2016 compared to the quarter ended June 30, 2015

	Three Months Ended June 30,		Increase
	2016	**2015**	**(decrease)**
(in thousands)			
Revenue	**$ 36,803**	$ 32,559	$ 4,244
Cost of sales	**24,726**	22,156	2,570
Gross margin	**12,077**	10,403	1,674
Operations & maintenance	**9,771**	9,130	641
Depreciation & amortization	**1,490**	1,439	51
Other taxes	**404**	374	30
Other operating expenses	**11,665**	10,943	722
Operating Income	**$ 412**	$ (540)	$ 952

Operating income for the Unregulated Energy segment increased by $952,000 to $412,000 in the second quarter of 2016, compared to an operating loss of $540,000 in the same quarter of 2015. The results for the second quarter include an increase in gross margin of $708,000 and other operating expenses of $363,000 from Aspire Energy. Excluding these impacts from Aspire Energy, gross margin increased by $966,000, offset by a $359,000 increase in other operating expenses.

Gross Margin

Items contributing to the quarter-over-quarter increase of $1.7 million, or 16.1 percent, in gross margin are listed in the following table:

(in thousands)	
Gross margin for the three months ended June 30, 2015	$ 10,403
Factors contributing to the gross margin increase for the three months ended June 30, 2016:	
Aspire Energy	708
Natural gas marketing	464
Increased customer consumption - weather and other	370
Other	132
Gross margin for the three months ended June 30, 2016	$ 12,077

The following is a discussion of the significant items, which we believe is necessary to understand the information disclosed in the foregoing table.

Aspire Energy

Aspire Energy generated $708,000 in additional gross margin for the quarter ended June 30, 2016 as a result of additional margins generated by pricing amendments to long-term sales agreements, the elimination of gas retainage volume credits associated with shrinkage for gas processing activities, and the optimization of gathering system receipts and deliveries through improved management and monitoring of system volumes and imbalance positions.

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Natural Gas Marketing

PESCO generated $464,000 in additional gross margin due primarily to customer growth, which includes a new SCO supplier agreement with Columbia Gas, and the positive impact from favorable supply management and hedging activities, which generated additional gross margin as a result of a decrease in inventory costs. The increase in gross margin as a result of favorable supply management and hedging activities is not predictable and, therefore, is not included in our long-term financial plans or forecasts.

Increased Customer Consumption - Weather and Other

Gross margin increased by $370,000 due to increased deliveries of propane as a result of weather and the timing of bulk deliveries.

Other Operating Expenses

The increase in other operating expenses was due primarily to $481,000 in higher payroll and benefits costs for additional personnel to support growth.

For the six months ended June 30, 2016 compared to the six months ended June 30, 2015

	Six Months Ended June 30,		Increase
	2016	**2015**	**(decrease)**
(in thousands)			
Revenue	$ **94,319**	93,555	$ 764
Cost of sales	**59,141**	57,833	1,308
Gross margin	**35,178**	35,722	(544)
Operations & maintenance	**19,162**	17,687	1,475
Depreciation & amortization	**2,672**	2,490	182
Other taxes	**997**	856	141
Other operating expenses	**22,831**	21,033	1,798
Operating Income	$ **12,347**	$ 14,689	$ (2,342)

Operating income for the Unregulated Energy segment decreased by $2.4 million, to $12.3 million, in the first six months of 2016, compared to $14.7 million in the same period of 2015. The results for the first six months include an increase in gross margin of $4.9 million and other operating expenses of $2.0 million from Aspire Energy. Excluding these impacts from Aspire Energy, gross margin and other operating expenses decreased by $5.5 million, and $174,000, respectively.

Gross Margin

Items contributing to the period-over-period decrease of $544,000 or 1.5 percent, in gross margin are listed in the following table:

(in thousands)	
Gross margin for the six months ended June 30, 2015	$ 35,722
Factors contributing to the gross margin decrease for the six months ended June 30, 2016:	
Aspire Energy	4,949
Decreased customer consumption - weather and other	(3,867)
Decrease in retail propane margins	(1,737)
Natural gas marketing	905
Propane wholesale sales	(452)

Other	(342)
Gross margin for the six months ended June 30, 2016	$ 35,178

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The following is a discussion of the significant items, which we believe is necessary to understand the information disclosed in the foregoing table.

Aspire Energy

Aspire Energy generated $6.6 million in gross margin compared to $1.6 million in the same period of 2015. Results for the first six months of 2015 reflect only three months of margin for Aspire Energy, which became a wholly-owned subsidiary of Chesapeake Utilities on April 1, 2015. In addition, Aspire Energy generated additional margins as a result of pricing amendments to long-term gas sales agreements, the elimination of gas retainage volume credits associated with shrinkage for gas processing activities, and the optimization of gathering system receipts and deliveries through improved management and monitoring of system volumes and imbalance positions.

Decreased Customer Consumption - Weather and Other

Gross margin decreased by $3.9 million due to lower customer consumption of propane. The decrease was driven mainly by weather as a result of warmer temperatures on the Delmarva Peninsula during the first six months of 2016 compared to significantly colder temperatures during the first six months of 2015.

Decrease in Retail Propane Margins

Lower retail propane margins for our Delmarva propane distribution operation decreased gross margin by $1.9 million, as margins per retail gallon returned to more normal levels. The decline in margin was driven principally by lower propane prices and local market conditions. The level of retail margins per gallon generated during 2015 were not expected to be sustained over the long term; accordingly, we have assumed more normal levels of margins in our long-term financial plans and forecasts.

This decrease was partially offset by $131,000 in higher retail propane margins per gallon for our Florida propane distribution operation as a result of local market conditions.

Natural Gas Marketing

PESCO generated $905,000 in additional gross margin due to customer growth, which includes its SCO supplier agreement with Columbia Gas, and the positive impact from favorable supply management and hedging activities, which generated additional gross margin as a result of a decrease in inventory costs. The increase in gross margin as a result of favorable supply management and hedging activities is not predictable and, therefore, is not included in our long-term financial plans or forecasts.

Propane wholesale sales

Gross margin decreased by $452,000 as a result of lower propane wholesale sales associated with the sales agreement with an affiliate of ESG, that has a propane supply agreement with Sandpiper Energy. The lower sales are expected as more customers in Ocean City, Maryland and surrounding areas are converted from propane to natural gas. Lower sales due to significantly warmer weather in the first six months of 2016 compared to the same period in 2015, also contributed to this decrease.

Other Operating Expenses

The increase in other operating expenses was due primarily to $2.0 million in other operating expenses incurred by Aspire Energy, given the additional quarter's results included in 2016, compared to only three months of results in the six months ended June 30, 2015. This increase in expenses was partially offset by $161,000 in lower accruals for incentive compensation as a result of the lower financial results, due to the impact of significantly warmer weather on financial results.

Interest Charges

For the quarter ended June 30, 2016 compared to the quarter ended June 30, 2015

Interest charges for the three months ended June 30, 2016 increased slightly by approximately $139,000, compared to the same quarter in 2015.

For the six months ended June 30, 2016 compared to the six months ended June 30, 2015
Interest charges for the six months ended June 30, 2016 increased slightly by approximately $341,000, compared to the same period in 2015.

Income Taxes

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For the quarter ended June 30, 2016 compared to the quarter ended June 30, 2015

Income tax expense was $5.1 million in the second quarter of 2016, compared to $4.2 million in the same quarter in 2015. The increase in income tax expense was due primarily to higher taxable income. Our effective income tax rate was 38.8 percent and 40.1 percent, for the second quarter of 2016 and 2015, respectively.

For the six months ended June 30, 2016 compared to the six months ended June 30, 2015

Income tax expense was $18.4 million in the six months ended June 30, 2016, compared to $18.3 million in the same period in 2015. The decrease in income tax expense was due primarily to lower taxable income. Our effective income tax rate was 39.3 percent and 40.0 percent, for the first six months of 2016 and 2015, respectively.

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Financial Position, Liquidity and Capital Resources

Our capital requirements reflect the capital-intensive and seasonal nature of our business and are principally attributable to investment in new plant and equipment, retirement of outstanding debt and seasonal variability in working capital. We rely on cash generated from operations, short-term borrowings, and other sources to meet normal working capital requirements and to temporarily finance capital expenditures. We may also issue long-term debt and equity to fund capital expenditures and to more closely align our capital structure to target.

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

Our capital expenditures for the six months ended June 30, 2016 were approximately $70.3 million. We currently project capital expenditures of $179.3 million in 2016. Our current forecast by segment and business line is shown below:

(dollars in thousands)		
Regulated Energy:		
Natural gas distribution	$	73,285
Natural gas transmission		66,938
Electric distribution		7,566
Total Regulated Energy		147,789
Unregulated Energy:		
Propane distribution		11,141
Other unregulated energy		13,504
Total Unregulated Energy		24,645
Other		6,871
Total 2016 capital expenditures	$	179,305

The 2016 forecast includes expenditures for the following projects: Eight Flags' CHP plant; anticipated new facilities to serve an electric power generator in Kent County, Delaware under the OPT ≤ 90 Service; Eastern Shore's system reliability project; additional expansions of our natural gas distribution and transmission systems; continued natural gas infrastructure improvement activities; expenditures for continued replacement under the Florida GRIP; replacement of several facilities and systems; and other strategic initiatives and investments. In addition, we included $30.0 million in the 2016 forecast for projects that are in the early development stage.

Actual capital requirements may vary from the above estimates due to a number of factors, including changing economic conditions, customer growth in existing areas, regulation, new growth or acquisition opportunities and availability of capital. Historically, actual capital expenditures have typically lagged behind the budgeted amounts.

The timing of capital expenditures can vary based on securing environmental approvals and other permits. The regulatory application and approval process has lengthened, and we expect this trend to continue.

Capital Structure

We are committed to maintaining a sound capital structure and strong credit ratings to provide the financial flexibility needed to access capital markets when required. This commitment, along with adequate and timely rate relief for our regulated operations, is intended to ensure our ability to attract capital from outside sources at a reasonable cost. We believe that the achievement of these objectives will provide benefits to our customers, creditors and investors. The following table presents our capitalization, excluding and including short-term borrowings, as of June 30, 2016 and December 31, 2015:

	June 30, 2016		December 31, 2015	
(in thousands)				
Long-term debt, net of current maturities	**$ 143,865**	**27%**	$ 149,006	29%
Stockholders' equity	**379,554**	**73%**	358,138	71%
Total capitalization, excluding short-term debt	**$ 523,419**	**100%**	$ 507,144	100%
	June 30, 2016		**December 31, 2015**	
(in thousands)				
Short-term debt	**$ 180,042**	**25%**	$ 173,397	25%
Long-term debt, including current maturities	**155,940**	**22%**	158,157	23%
Stockholders' equity	**379,554**	**53%**	358,138	52%
Total capitalization, including short-term debt	**$ 715,536**	**100%**	$ 689,692	100%

Included in the long-term debt balances at June 30, 2016 and December 31, 2015, was a capital lease obligation associated with Sandpiper's capacity, supply and operating agreement ($2.8 million and $3.5 million, respectively, net of current maturities, and $4.2 million and $4.8 million, respectively, including current maturities). Sandpiper entered into this six-year agreement at the closing of the ESG acquisition in May 2013. The capacity portion of this agreement is accounted for as a capital lease.

Our target ratio of equity to total capitalization, including short-term borrowings, is between 50 and 60 percent. We have maintained a ratio of equity to total capitalization, including short-term borrowings, between 52 percent and 54 percent during the past three years. Our equity as a percent of total capitalization declined in 2015 as we financed several large revenue generating capital projects with short-term borrowings. As we continue to construct these projects in 2016, the ratio of equity to total capitalization, including short-term borrowings, will further decline temporarily.

As described below under "Short-term Borrowings," we entered into a new Revolver with the Lenders on October 8, 2015, which increased our borrowing capacity by $150.0 million. To facilitate the refinancing of a portion of the short-term borrowings into long-term debt, as appropriate, we also entered into a long-term private placement Shelf Agreement with Prudential that is further described below under the heading "Shelf Agreement."

For larger capital projects, we will seek to align, as much as feasible, any such long-term debt or equity issuance(s) with the earnings associated with the commencement of long-term service for larger revenue-generating capital projects. The exact timing of any long-term debt or equity issuance(s) will be based on market conditions.

Short-term Borrowings

Our outstanding short-term borrowings at June 30, 2016 and December 31, 2015 were $180.0 million and $173.4 million, respectively. The weighted average interest rates for our short-term borrowings were 1.39 percent and 1.08 percent, for the six months ended June 30, 2016 and 2015, respectively.

We utilize bank lines of credit to provide funds for our short-term cash needs to meet seasonal working capital requirements and to temporarily fund portions of the capital expenditure program. As of June 30, 2016, we had four unsecured bank credit facilities with three financial institutions totaling $170.0 million in total available credit. In addition, since October 2015, we have $150.0 million of additional short-term debt capacity available under a Revolver with five participating Lenders. The terms of the Revolver are described in further detail below. We also had access to two credit facilities, which totaled $40.0 million; however, these credit facilities expired on October 31, 2015 and were not renewed given the addition of the new Revolver. None of the unsecured bank lines of credit requires compensating balances. We are currently authorized by our Board of Directors to borrow up to $275.0 million of short-term borrowing.

The $150.0 million Revolver has a five-year term and is subject to the terms and conditions set forth in the Credit Agreement. Borrowings under the Revolver will be used for general corporate purposes, including repayments of short-term borrowings, working capital requirements and capital expenditures. Borrowings under the Revolver will bear interest at: (i) the LIBOR Rate plus an applicable margin of 1.25 percent or less, with such margin based on total indebtedness as a percentage of total capitalization,

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both as defined by the Credit Agreement, or (ii) the base rate plus 0.25% or less. Interest is payable quarterly, and the Revolver is subject to a commitment fee on the unused portion of the facility. We may extend the expiration date for up to two years on any anniversary date of the Revolver, with such extension subject to the Lenders' approval. We may also request the Lenders to increase the Revolver to $200.0 million, with any increase at the sole discretion of each Lender. At June 30, 2016 and December 31, 2015, we had borrowed $40.0 million and $35.0 million, respectively, under the Revolver.

Shelf Agreement

On October 8, 2015, we entered into a committed Shelf Agreement with Prudential and other purchasers that may become a party to the Shelf Agreement. Under the terms of the Shelf Agreement, we may request that Prudential purchase, over the next three years, up to $150.0 million of our Shelf Notes at a fixed interest rate and with a maturity date not to exceed twenty years from the date of issuance. Prudential and its affiliates are under no obligation to purchase any of the Shelf Notes. The interest rate and terms of payment of any series of Shelf Notes will be determined at the time of purchase. We currently anticipate that the proceeds from the sale of any series of Shelf Notes will be used for general corporate purposes, including refinancing of short-term borrowings and/or repayment of outstanding indebtedness and financing of capital expenditures on future projects; however, actual use of such proceeds will be determined at the time of a purchase, and each request for purchase with respect to a series of Shelf Notes will specify the use of the proceeds.

On May 13, 2016, we formally requested that Prudential purchase $70.0 million of 3.25 percent Shelf Notes under the Shelf Agreement. On May 20, 2016, Prudential formally accepted and confirmed our request. The closing of the sale and issuance of our Shelf Notes is expected to occur on or before April 28, 2017.

The Shelf Agreement sets forth certain business covenants to which we are subject when any Shelf Note is outstanding, including covenants that limit or restrict us and our subsidiaries from incurring indebtedness and incurring liens and encumbrances on any of our property.

Cash Flows

The following table provides a summary of our operating, investing and financing cash flows for the six months ended June 30, 2016 and 2015:

	Six Months Ended June 30,	
	2016	**2015**
(in thousands)		
Net cash provided by (used in):		
Operating activities	**$ 74,155**	$ 80,402
Investing activities	**(70,133)**	(78,304)
Financing activities	**(3,611)**	(4,568)
Net increase (decrease) in cash and cash equivalents	**411**	(2,470)
Cash and cash equivalents—beginning of period	**2,855**	4,574
Cash and cash equivalents—end of period	**$ 3,266**	$ 2,104

Cash Flows Provided By Operating Activities

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

During the six months ended June 30, 2016 and 2015, net cash provided by operating activities was $74.2 million and $80.4 million, respectively, resulting in a decrease in cash flows of $6.2 million. Significant operating activities generating the cash flows change were as follows:

- Net income, adjusted for reconciling activities, increased cash flows by $11.2 million, due primarily to an increase in deferred income taxes as a result of the availability and utilization of bonus depreciation in the first six months of 2016, which resulted in a higher book-to-tax timing difference and higher non-cash adjustments for depreciation and amortization.

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- The changes in net regulatory assets and liabilities decreased cash flows by $12.2 million, due primarily to the change in fuel costs collected through the various fuel cost recovery mechanisms.
- The changes in net accounts receivable and payable decreased cash flows by $5.6 million, due primarily to the timing of the receipt of customer payments as well as the timing of payments to vendors.
- Changes in customer deposits and refunds increased cash flows by $4.1 million.
- Net cash flows from changes in propane, natural gas and materials inventories decreased by approximately $3.7 million.

Cash Flows Used in Investing Activities

Net cash used in investing activities totaled $70.1 million and $78.3 million during the six months ended June 30, 2016 and 2015, respectively, resulting in an increase in cash flows of $8.2 million. The decrease in net cash used in investing activities was due primarily to a decrease in cash used for acquisitions. The cash expended in 2015 was associated with the Gatherco merger.

Cash Flows Used in Financing Activities

Net cash used in financing activities totaled $3.6 million in the first six months of 2016, compared to $4.6 million in the same period in 2015, resulting in an increase in cash flows of $1.0 million.

Off-Balance Sheet Arrangements

We have issued corporate guarantees to certain vendors of our subsidiaries, primarily Xeron and PESCO, which provide for the payment of propane and natural gas purchases in the event that the subsidiary defaults. Neither subsidiary has ever defaulted on its obligations to pay its suppliers. The liabilities for these purchases are recorded in our financial statements when incurred. The aggregate amount guaranteed at June 30, 2016 was $53.6 million, with the guarantees expiring on various dates through June 2017.

We have issued letters of credit totaling $8.1 million related to the electric transmission services for FPU's northwest electric division, the firm transportation service agreement between TETLP and our Delaware and Maryland divisions, and to our current and previous primary insurance carriers. These letters of credit have various expiration dates through March 2017. There have been no draws on these letters of credit as of June 30, 2016. We do not anticipate that the letters of credit will be drawn upon by the counterparties, and we expect that they will be renewed to the extent necessary in the future. Additional information is presented in Item 1, *Financial Statements,* Note 6, *Other Commitments and Contingencies* in the Condensed Consolidated Financial Statements.

Contractual Obligations

There has been no material change in the contractual obligations presented in our 2015 Annual Report on Form 10-K, except for commodity purchase obligations and forward contracts entered into in the ordinary course of our business. The following table summarizes commodity and forward contract obligations at June 30, 2016.

	Payments Due by Period				
	Less than 1 year	**1 - 3 years**	**3 - 5 years**	**More than 5 years**	**Total**
(in thousands)					
Purchase obligations - Commodity [(1)]	$ 46,383	$ 5,903	$ —	$ —	$ 52,286
Forward purchase contracts - Propane [(2)]	227	—	—	—	227
Total	**$ 46,610**	**$ 5,903**	**$ —**	**$ —**	**$ 52,513**

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

(2)

We have also entered into forward sale contracts. See Item 3, *Quantitative and Qualitative Disclosures About Market Risk* for further information.

Rates and Regulatory Matters

Our natural gas distribution operations in Delaware, Maryland and Florida and electric distribution operation in Florida are subject to regulation by the respective state PSC; Eastern Shore is subject to regulation by the FERC; and Peninsula Pipeline is subject to regulation by the Florida PSC. At June 30, 2016, we were involved in regulatory matters in each of the jurisdictions in which we operate. Our significant regulatory matters are fully described in Note 4, *Rates and Other Regulatory Activities*, to the unaudited condensed consolidated financial statements in this Quarterly Report on Form 10-Q.

Recent Authoritative Pronouncements on Financial Reporting and Accounting

Recent accounting developments applicable to us and their impact on our financial position, results of operations and cash flows are described in Note 1, *Summary of Accounting Policies*, to the unaudited condensed consolidated financial statements in this Quarterly Report on Form 10-Q.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Market risk represents the potential loss arising from adverse changes in market rates and prices. Long-term debt is subject to potential losses based on changes in interest rates. Our long-term debt consists of fixed-rate senior notes and secured debt. All of our long-term debt, excluding a capital lease obligation, is fixed-rate debt and was not entered into for trading purposes. The carrying value of our long-term debt, including current maturities, but excluding a capital lease obligation, was $151.8 million at June 30, 2016, as compared to a fair value of $174.3 million, using a discounted cash flow methodology that incorporates a market interest rate based on published corporate borrowing rates for debt instruments with similar terms and average maturities, with adjustments for duration, optionality, credit risk, and risk profile. We evaluate whether to refinance existing debt or permanently refinance existing short-term borrowing, based in part on the fluctuation in interest rates.

Our propane distribution business is exposed to market risk as a result of our propane storage activities and entering into fixed price contracts for supply. We can store up to approximately 6.8 million gallons of propane (including leased storage and rail cars) during the winter season to meet our customers' peak requirements and to serve metered customers. Decreases in the wholesale price of propane may cause the value of stored propane to decline. To mitigate the impact of price fluctuations, we have adopted a Risk Management Policy that allows the propane distribution operation to enter into fair value hedges or other economic hedges of our inventory.

Our propane wholesale marketing operation is a party to natural gas liquids (primarily propane) forward contracts, with various third parties, which require that the propane wholesale marketing operation purchase or sell natural gas liquids at a fixed price at fixed future dates. At expiration, the contracts are typically settled financially without taking physical delivery of propane. The propane wholesale marketing operation also enters into futures contracts that are traded on the Intercontinental Exchange, Inc. In certain cases, the futures contracts are settled by the payment or receipt of a net amount equal to the difference between the current market price of the futures contract and the original contract price; however, they may also be settled by physical receipt or delivery of propane.

The forward and futures contracts are entered into for trading and wholesale marketing purposes. The propane wholesale marketing business is subject to commodity price risk on its open positions to the extent that market prices for natural gas liquids deviate from fixed contract settlement prices. Market risk associated with the trading of futures and forward contracts is monitored daily for compliance with our Risk Management Policy, which includes volumetric limits for open positions. To manage exposures to changing market prices, open positions are marked up or down to market prices and reviewed daily by our oversight officials. In addition, the Risk Management Committee reviews periodic reports on markets and the credit risk of counter-parties, approves any exceptions to the Risk Management Policy (within limits established by the Board of Directors) and authorizes the use of any new types of contracts. Quantitative information on forward and future contracts at June 30, 2016 is presented in the following table:

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At June 30, 2016	Quantity in Gallons	Estimated Market Prices	Weighted Average Contract Prices
Forward Contracts - Propane			
Purchase	421,000	$ 0.5375	$ 0.5388

At June 30, 2016	Quantity in Barrels	Estimated Market Prices	Weighted Average Contract Prices
Futures Contracts - Crude Oil			
Purchase	20,000	$ 48.33	$ 47.90

Estimated market prices and weighted average contract prices are in dollars per gallon and barrel. All contracts expire by the end of the third quarter of 2016.

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

At June 30, 2016 and December 31, 2015, we marked these forward and other contracts to market, using market transactions in either the listed or OTC markets, which resulted in the following assets and liabilities:

(in thousands)	June 30, 2016	December 31, 2015
Mark-to-market energy assets, including call options, swap agreements and futures	**$ 405**	$ 153
Mark-to-market energy liabilities, including swap agreements and futures	**$ 256**	$ 433

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Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Chief Executive Officer and Chief Financial Officer of the Company, with the participation of other Company officials, have evaluated our "disclosure controls and procedures" (as such term is defined under Rules 13a-15(e) and 15d-15(e), promulgated under the Securities Exchange Act of 1934, as amended) as of June 30, 2016. Based upon their evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of June 30, 2016.

Changes in Internal Control over Financial Reporting

During the quarter ended June 30, 2016, there was no change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II—OTHER INFORMATION

Item 1. Legal Proceedings

As disclosed in Note 6, *Other Commitments and Contingencies*, of the unaudited condensed consolidated financial statements in this Quarterly Report on Form 10-Q, we are involved in certain legal actions and claims arising in the normal course of business. We are also involved in certain legal and administrative proceedings before various governmental or regulatory agencies concerning rates and other regulatory actions. In the opinion of management, the ultimate disposition of these proceedings and claims will not have a material effect on our condensed consolidated financial position, results of operations or cash flows.

Item 1A. Risk Factors

Our business, operations, and financial condition are subject to various risks and uncertainties. The risk factors described in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K, for the year ended December 31, 2015, should be carefully considered, together with the other information contained or incorporated by reference in this Quarterly Report on Form 10-Q and in our other filings with the SEC in connection with evaluating the Company, our business and the forward-looking statements contained in this Quarterly Report on Form 10-Q. Additional risks and uncertainties not known to us at present, or that we currently deem immaterial also may affect the Company. The occurrence of any of these known or unknown risks could have a material adverse impact on our business, financial condition and results of operations.

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

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs [2]	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs [2]
April 1, 2016 through April 30, 2016 [1]	364	$ 60.00	—	—
May 1, 2016 through May 31, 2016	—	$ —	—	—
June 1, 2016 through June 30, 2016	—	$ —	—	—
Total	364	$ 60.00	—	—

(1) Chesapeake Utilities purchased shares of stock on the open market for the purpose of reinvesting the dividend on deferred stock units held in the Rabbi Trust accounts for certain Directors and Senior Executives under the Deferred Compensation Plan. The Deferred Compensation Plan is discussed in detail in Item 8 under the heading "Notes to the Consolidated Financial Statements—Note 16, *Employee Benefit Plans*" in our latest Annual Report on Form 10-K for the year ended December 31, 2015. During the quarter ended June 30, 2016, 364 shares were purchased through the reinvestment of dividends on deferred stock units.

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

Item 3. Defaults upon Senior Securities

None.

Item 5. Other Information

None.

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Item 6. Exhibits

10.1	Executive Employment Agreement dated May 10, 2016, between Chesapeake Utilities Corporation and James F. Moriarty, is filed herewith.
31.1	Certificate of Chief Executive Officer of Chesapeake Utilities Corporation pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.
31.2	Certificate of Chief Financial Officer of Chesapeake Utilities Corporation pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.
32.1	Certificate of Chief Executive Officer of Chesapeake Utilities Corporation pursuant to 18 U.S.C. Section 1350.
32.2	Certificate of Chief Financial Officer of Chesapeake Utilities Corporation pursuant to 18 U.S.C. Section 1350.
101.INS*	XBRL Instance Document.
101.SCH*	XBRL Taxonomy Extension Schema Document.
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document.

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SIGNATURES

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

CHESAPEAKE UTILITIES CORPORATION

/S/ BETH W. COOPER

Beth W. Cooper
Senior Vice President and Chief Financial Officer

Date: August 4, 2016

EX-10.1 2 cpk6302016ex-101.htm EXHIBIT 10.1

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Initials ____

EXECUTIVE EMPLOYMENT AGREEMENT

This Executive Employment Agreement (the "Agreement") dated this 10th day of May 2016, is hereby made by and between Chesapeake Utilities Corporation, a Delaware corporation (the "Company"), and James F. Moriarty (the "Executive").

Recitals

WHEREAS, the Company is currently obtaining the benefit of Executive's services as a full−time executive employee in the capacity of Vice-President, General Counsel and Corporate Secretary;

WHEREAS, the Company's Board of Directors (the "Board") has authorized the Company to provide for the Executive's continued employment pursuant to the terms of this Agreement; and

WHEREAS, Executive is willing, in consideration of the covenants and consideration hereinafter provided, to continue to be employed by the Company in the capacity of Vice-President, General Counsel and Corporate Secretary and to render services incident to such position during the term of this Agreement.

Agreement

In consideration of the mutual promises and covenants contained herein, the Company and Executive hereby agree as follows:

1. Employment. The Company agrees to employ Executive, and Executive agrees to accept employment, as an executive officer of the Company in the capacity of Vice-President, General Counsel and Corporate Secretary, with such authority, duties and responsibilities as are customarily assigned to such position, including such reasonable duties and responsibilities as may be requested of the Executive by the Board of Directors and which are consistent with the By−laws of the Company as in effect from time to time including, but not limited to, responsibility for direction of the corporate legal function, serving as the chief legal advisor on regulatory, transactional, corporate matters, and governmental relations, advising management and the Board on corporate governance matters and serving as Secretary of the Company.

2. Term.

(a) Term of Agreement. The term of this Agree-ment ("Term") shall be the Current Term (as defined in Paragraph 2(b)), and, if applicable, the Extended Term (as defined in Paragraph 2(c)).

(b) Current Term. Subject to Paragraph 2(c), the Current Term of this Agreement shall extend for two (2) years commencing on January 1, 2016. If the Current Term of this Agreement expires without there having been a Change in Control (as hereinafter defined), this Agreement may be renewed for successive one (1) year terms, as of the day following such expiration, by the Company through action of the Compensation Committee of the Board of Directors, unless, during the period beginning ninety (90) days prior and ending thirty (30) days prior to such day, either the Company or Executive shall have given notice

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to the other that this Agreement will not be renewed. If the Company determines to extend or renew this Agreement as provided under this Paragraph, the new Agreement shall be identical to this Agreement (except insofar as the Company and Executive may otherwise agree in writing) except that the date of the new Agreement shall be as of the day following the expiration of the Current Term of this Agreement or any renewal term.

(c) Extended Term. Upon the occurrence of a Change in Control (as defined in Paragraph 2(d)), the Current Term shall end and the Term of this Agreement shall thereupon automatically be extended, commencing on the date of such Change in Control, for a period of two (2) years (the "Extended Term").

(d) Change In Control. For the purposes of this Agreement, "Change in Control" shall mean a change in the control of the Company during the Term of this Agreement, which shall be deemed to have occurred upon the first of the following events:

(i) 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 fifty percent (50%) 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 fifty percent (50%) 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 Group shall not be considered to cause a Change in Control of the Company; or

(ii) any one person or Group acquires (or has acquired during the twelve (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-controlled subsidiary of the Company) possessing thirty-five percent (35%) 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

(iii) 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 twelve (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 (the "Incumbent Board"), but excluding, for purposes of determining whether a majority of the Incumbent Board has endorsed any candidate for election to the Board, any individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a person or Group other than the Company's Board; or

(iv) any one person or Group acquires (or has acquired during the twelve (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 forty percent (40%) 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, fifty percent (50%) 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 Group that owns, directly or indirectly, fifty percent (50%) or more of the total value or voting power of all the outstanding stock of the Company; or

(D) an entity, at least fifty percent (50%) of the total value or voting power of which is owned directly or indirectly, by a person described in subparagraph (d)(i), above.

However, no Change in Control shall be deemed to have occurred with respect to the Executive by reason of (1) any event involving a transaction in which the Executive or a group of persons or entities with which the Executive acts in concert, acquires, directly or indirectly, more than thirty percent (30%) of the Common Stock of the business or assets of the Company; or (2) 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), or an assignment for the benefit of creditors or an insolvency proceeding under state or local law.

3. Time. Executive agrees to devote all reasonable full time and best efforts for the benefit of the Company and any subsidiary of the Company, and not to serve any other business enterprise or organization in any capacity during the Term of this Agreement without the prior written consent of the Company, which consent shall not be unreasonably with held.

4. Office.

(a) Current Term. During the Current Term, the Executive shall serve as the Company's Vice-President, General Counsel and Corporate Secretary and the parties agree that the Company shall elect the Executive to these offices, on an annual basis if necessary, during the Current Term of this Agreement.

(b) Extended Term. During the Extended Term of this Agreement the Executive shall hold and perform an office with the responsibility, importance and scope within the Company at least equal to that of the office described and contemplated in Paragraph 1. Further, Executive's office shall be located in Dover, Delaware and Executive shall not be required, without his written consent, to change the office location or to be absent therefrom on business for more than sixty (60) working days in any year.

5. Compensation and Benefits.

(a) Base Compensation; Current Term. The Company shall compensate Executive for his services hereunder during the Current Term at a rate of $250,000 per annum, or such amount as the Board may from time to time determine ("Base Compensation"), payable in installments on the Company's regular payroll dates for salaried executives. The Base Compensation rate shall be reviewed annually and may be increased or decreased, from time to time, provided, however, that Base Compensation shall only be decreased by the Board on a good faith basis and with reasonable justification for the same, and provided further, that in the event of a Change in Control, Base Compensation shall not at any time thereafter be decreased.

(b) Base Compensation; Extended Term. During the Extended Term, the Company shall compensate Executive for his services hereun-der at a rate per annum, payable in installments on the Company's regular payroll dates for salaried executives, equal to his Base Compensation at the time the Extended Term commences, which may be increased, but not decreased by such additional amounts as the Board may determine from time to time based, in part, on an annual review of the Executive's compensation and performance.

(c) Incentive Plans. During the Term of this Agreement, Executive shall be entitled to participate in all bonus, incentive compensation and performance based compensation plans, and other similar policies, practices, programs and arrangements of the Company, now in effect or as hereafter amended or established, on a basis that is commensurate with his position and no less favorable than those generally applicable or made available to other executives of the Company. The Executive's participation shall be in accordance with the terms and provisions of such plans and programs. Participation shall include, but not be limited to:

(i) Chesapeake Utilities Corporation Long-Term Incentive Program. Executive shall be eligible for a performance incentive compensation award as determined on an annual basis by the Compensation Committee of the Board in its discretion and in accordance with and subject to the terms of the Company's 2013 Stock and Incentive Compensation Plan (the "Equity Plan") during the Term of this Agreement. The Equity Plan's Target Bonus as a percent of base salary shall be reviewed annually and may be increased or decreased, from time to time, provided, however, that Target shall only be decreased by the Board on a good faith basis and with reasonable justification for the same, and provided further, that in the event of a Change in Control, Target shall not at any time thereafter be decreased.

(ii) Chesapeake Utilities Corporation Cash Bonus Incentive Plan. Executive shall be eligible for an annual cash bonus award with a target award amount equal to thirty percent (30%) of Executive's Base Compensation, as determined on an annual basis by the Compensation Committee of the Board in its discretion and in accordance with and subject to the terms of the Company's Cash Bonus Incentive Plan during the Term of this Agreement.

(d) Recovery of Compensation. The Executive acknowledges and agrees that all or any portion of an incentive award under the above described bonus and incentive compensation plans or any future arrangement established by the Company to provide incentive or bonus compensation, whether payable in cash, Company common stock or other property, ("Award") is subject to an obligation of repayment by the Executive to the Company if the amount of the Award was calculated based upon the achievement of certain financial results (as reflected in the financial statement of the Company or otherwise) or other performance metrics that, in either case, were subsequently found to be materially inaccurate. The amount that shall be repaid by the Executive to the Company shall be based on the excess amount paid or awarded to the Executive under the Award as compared to the amount that would have been paid or awarded had the material inaccuracy not occurred. If the Compensation Committee of the Board of Directors determines that the Executive engaged in misconduct, malfeasance or gross negligence in the performance of his duties that either caused or significantly contributed to the material inaccuracy in financial statements or other performance metrics, there shall be no time limit on this right of recovery, which shall apply to all future Awards as well as to any and all pre-existing Awards that have not yet been determined and paid as of the date of this Agreement. In all other circumstances, this right of recovery shall apply to all future Awards as well as to any and all pre-existing Awards that have not yet been determined and paid as of the date of this agreement for a period not exceeding one year after the date of payment of each such Award. In addition, the Executive hereby agrees that, if he does not promptly repay the amount recoverable hereunder within thirty (30) days of a demand therefore, such amount may be withheld from compensation of any type not yet due and payable to the Executive, including, but not limited to, the cancellation of future Awards, as determined by the Compensation Committee in its sole discretion. In addition, the Compensation Committee is granted the discretionary authority to interpret and enforce this provision as it determines to be in the best interest of the Company and equitable to the parties. Notwithstanding anything herein, this provision shall not be the Company's exclusive remedy with respect to such matters. In addition, the parties agree that the Company may unilaterally amend this provision at any time to comply with applicable law or securities exchange listing rules, as the same may be in effect from time to time, during the Current Term or the Extended Term of this Agreement.

(e) Retirement Plans. During the Term of this Agreement, Executive shall be entitled to participate in all profit-sharing, savings and retirement benefit plans, plans that are supplemental to any tax-qualified savings and retirement plans, and other similar policies, practices, programs and arrangements of the Company, now in effect or as hereafter amended or established, on a basis that is commensurate with his position and no less favorable than those generally applicable or made available to other executives of the Company. The Executive's participation shall be in accordance with the terms and provisions of such plans and programs.

(f) Welfare Benefits. During the Term of this Agreement, Executive, and his family, as applicable, shall be entitled to participate in all insurance, medical, health and welfare, and similar plans and arrangements, as well as all vacation and other employee fringe benefit plans, perquisite plans, and other policies, practices, programs and arrangements of the Company, now in effect or as hereafter amended or established, on a basis that is commensurate with his position and no less favorable than those generally applicable or made available to other executives of the Company. The Executive's participation shall be in accordance with the terms and provisions of such plans.

(g) Other Benefits. During the Term of this Agreement, the Company shall furnish Executive with a suitable office, necessary administrative support and customary furniture and furnishings for such office. The Company further agrees that Executive shall have the use of a Company-owned or Company-leased and Company-maintained automobile, new every three (3) years, of a kind and model appropriate to his position with the Company.

(h) Expenses. During the Term of this Agreement, the Company shall pay all necessary and reasonable business expenses incurred by Executive on behalf of the Company in the course of his employment hereunder, including, without limitation, expenses incurred in the conduct of the Company's business while away from his domicile and properly substantiated expenses for travel, meals, lodging, entertainment and related expenses that are for the benefit of the Company. All expense reimbursements shall comply with applicable rules or guidelines of the Company in effect at the time the expense is incurred.

If any reimbursements under this or any other provision of this Agreement are taxable to the Executive, such reimbursements shall be paid on or before the end of the calendar year following the calendar year in which the reimbursable expense was incurred, and the Company shall not be obligated to pay any such reimbursement amount for which Executive fails to submit an invoice or other documented reimbursement request at least 10 business days before the end of the calendar year next following the calendar year in which the expense was incurred. Such expenses shall be reimbursable only to the extent they were incurred during the term of the Agreement. In addition, the amount of such reimbursements that the Company is obligated to pay in any given calendar year shall not affect the amount the Company is obligated to pay in any other calendar year. In addition, Executive may not liquidate or exchange the right to reimbursement of such expenses for any other benefits.

(i) Nothing in this Agreement shall preclude the Company from amending or terminating any employee benefit plan or practice, but, it being the intent of the parties that the Executive shall continue to be entitled during the Extended Term to compensation, benefits, reimbursements and perquisites as set forth in Paragraphs 5(a) through 5(c) and 5(e) through 5(h) at least equal to those attached to his position on the date of this Agreement, and nothing in this Agreement shall operate as, or be construed to authorize, a reduction during the Extended Term without Executive's written consent in the level of such compensation, benefits, reimbursements or perquisites as in effect on the date of a Change in Control. If and to the extent that such compensation, benefits, reimbursements or perquisites are not payable or provided to Executive under any such plan or practice by reason of an amendment thereto or termination thereof during the Extended Term, the Company shall nevertheless pay or provide such compensation, benefits, reimbursements or perquisites to Executive, either directly or through alternative arrangements.

6. Termination.

(a) Payment Upon Termination During Current Term. In the event that the Company terminates this Agreement during the Current Term, or elects not to renew this Agreement at the end of the Current Term, for any reason other than Cause, as defined below, or the Executive's death, the Company shall continue to pay to Executive his (or in the event of his death following such termination, his legal representative), as a severance benefit Base Compensation under Paragraph 5(a), at the rate in effect immediately prior to the date of such termination ("Termination Date"), on the regular payroll dates occurring during the period of one (1) year following the Termination Date. In addition, and notwithstanding the foregoing provisions of this Paragraph 6(a), to the extent required in order to comply with Section 409A of the Internal Revenue Code of 1986, as amended (the "Code"), Termination Date shall be determined based on the date the Executive has a "separation from service" within the meaning of Code Section 409A and regulations thereunder, using the default rule under such regulations ("Separation from Service"), and cash amounts that would otherwise be payable under this Paragraph 6(a) during the six-month period immediately following the Termination Date shall instead be paid, with interest on any delayed payment at the applicable federal rate under Code Section 7872(f)(2)(A), on the first business day after the date that is six (6) months following the Executive's Separation from Service. Payment of the severance benefit under this Paragraph is subject to the Executive's compliance with the covenants of Paragraph 9 and the execution and delivery (and non-revocation) of a release of claims (the "Release") against the Company and its officers, directors, employees and affiliates, which Release must be delivered to the Company not later than 45 days after the Termination Date. If the Executive fails to comply with any of the covenants of Paragraph 9 or fails to deliver the Release within 45 days after the Termination Date, or if the Executive revokes such Release within 7 days after its delivery to the Company, payment of the severance benefits shall cease and any unpaid amounts shall be forfeited. Payment commencement shall not be delayed, however, pending delivery of the Release.

(b) Termination for Cause. This Agreement and Executive's employment hereunder may be terminated by the Company at any time for Cause. In the event of termination for Cause, the Executive shall not be entitled to any severance benefits under this Agreement. Termination of the Executive's employment shall be deemed to have been "for Cause" only if it shall have been the result of:

(i) Executive's conviction of a felony under the laws of the United States or a state in which Executive works or resides, or a guilty or no contest plea by the Executive with respect thereto;

(ii) a willful or deliberate act or acts of dishonesty by Executive resulting or intended to result directly or indirectly in material gain to or personal enrichment of Executive at the Company's expense;

(iii) a deliberate and intentional refusal by Executive (except by reason of incapacity due to illness or accident) to comply with the provisions of Paragraph 1, provided that such breach shall have resulted in demonstrably material injury to the Company and the Executive shall have failed to remedy such breach within thirty (30) days after notice from the Secretary of the Company demanding that the Executive remedy such breach; or

(iv) conduct by Executive that is materially injurious to the Company if such conduct was undertaken without good faith and the reasonable belief that such conduct was in the best interest of the Company.

(c) Payment Upon Termination During Extended Term. In the event of a Termination Without Cause, as defined below, during the Extended Term, the Company shall pay to Executive (or, in the event of his death following the termination, his legal representative) in cash, the first business day that falls on or after the sixtieth (60th) day after the date of such termination (the "Extended Termination Date") the sum of all accrued but unpaid salary, bonus, vacation pay, expense reimbursements and any other amounts due, plus the following:

(i) an amount equal to the product of multiplying the monthly rate of Base Compensation to which Executive was entitled under Paragraph 5(a) on the day immediately prior to the Extended Termination Date by Twenty-four (24) months ("Covered Period");

(ii) an amount equal to the aggregate of the Company's contributions to the Company's savings plan (including, but not limited to, the Chesapeake Utilities Corporation Retirement Savings Plan, and any related excess benefit plans) in respect of Executive that were not vested on the day immediately prior to the Extended Termination Date but that would have been vested at the end of the Covered Period if Executive had remained employed by the Company for the duration of that period; and

(iii) an amount equal to the product of multiplying the average of the annual aggregate benefits awarded to the Executive under all annual bonus program(s) of the Company in which the Executive was a participant in each of the three (3) calendar years immediately preceding the calendar year in which the Extended Termination Date occurs by two (2) years.

Payment of the severance benefit under this Paragraph is subject to the Executive's compliance with the covenants of Paragraph 9 and the execution and delivery (and non-revocation) of a release of claims (the "Release") against the Company and its officers, directors, employees and affiliates, which Release must be delivered to the Company not later than 45 days after the Termination Date. If the Executive fails to comply with any of the covenants of Paragraph 9 or fails to deliver the Release within 45 days after the Termination Date, or if the Executive revokes such Release within 7 days after its delivery to the Company, payment of the severance benefits shall cease (if commenced) or shall not be made, and any unpaid amounts shall be forfeited.

In addition, the Company shall continue to provide medical, prescription drug, vision, dental and other Company welfare benefits to the Executive and his eligible dependents during the Covered Period as if the Executive remained an active employee of the Company (but, with respect to any such benefits provided through insurance, only if and to the extent it is permissible to extend such benefits to a former employee of the Company under the terms of the applicable plan and insurance contracts). Executive further acknowledges that the cost of the coverage afforded to Executive and his eligible dependents under self-funded medical expense reimbursement plans of the Company during the Covered Period shall be treated as additional taxable income to the Executive to the extent necessary to avoid a violation of the nondiscrimination provisions of Section 105(h) of the Code. Should the continuation of any medical or similar coverages be through fully insured plans, and should such continuation violate the nondiscrimination requirements for such plans under the Patient Protection and Affordable Care Act of 2010, then the Executive shall receive additional cash severance benefits rather than continued coverage under such plans of the Company in an amount based on the premium cost of such coverage that the Company would otherwise pay under this paragraph. In addition, the applicable period of health benefit continuation under Code Section 4980B shall begin at the end of the Covered Period.

To the extent required in order to comply with Code Section 409A, cash amounts that would otherwise be payable under this Paragraph 6(c) during the six-month period immediately following the Extended Termination Date (and which are not eligible for the exception applicable to payments due to involuntary separation under Treas. Reg. Section 1.409A-1(b)(9)(iii)) shall instead be paid, with interest on any delayed payment at the applicable federal rate under Code Section 7872(f)(2)(A), on the first business day after the date that is six (6) months following the Executive's Separation from Service. Further, any taxable welfare benefits provided to Executive pursuant to this Paragraph 6(c) that are not "disability pay" or "death benefits" within the meaning of Treas. Reg. Section 1.409A-1(a)(5) (collectively, the "Applicable Benefits") shall be subject to the following requirements in order to comply with Code Section 409A. The amount of any Applicable Benefits provided during one taxable year shall not affect the amount of the Applicable Benefits provided in any other taxable year, except that with respect to any Applicable Benefits that consist of the reimbursement of expenses referred to in Code Section 105(b), a limitation may be imposed on the amount of such reimbursements over some or all of the Covered Period, as described in Treas. Reg. Section 1.409A-3(i)(1)iv)(B). To the extent that any Applicable Benefits consist of the reimbursement of eligible expenses, such reimbursement must be made on or before the last day of the calendar year following the calendar year in which the expense was incurred. No Applicable Benefits may be liquidated or exchanged for another benefit. During the period of six (6) months immediately following Executive's Separation from Service, Executive shall be obligated to pay the Company the full cost for any Applicable Benefits that do not constitute health benefits of the type required to be provided under the health continuation coverage requirements of Code Section 4980B, and the Company shall reimburse Executive for any such payments on the first business day that is more than six (6) months after Executive's Separation from Service, together with interest on such amount from the date of Separation from Service through the date of payment at the applicable federal rate under Code Section 7872(f)(2)(A).

(d) Termination Without Cause. For purposes of Paragraph 6(c) above, "Termination Without Cause" shall mean a Separation from Service of the Executive that is either a:

(i) Termination by the Company of Executive's employment without Cause (as "Cause" is defined in Paragraph 6(b) above); or

(ii) Termination by Executive of his employ-ment following the occurrence of any of the following events:

(A) failure to elect or re-elect Execu-tive to, or removal of Executive from, the office or offices set forth in Paragraph 1, or failure to nominate Executive for election to the Board if Executive shall have been a member of the Board immedi-ately prior to a Change in Control of the Company;

(B) a significant change in the nature or scope of his authorities, powers, functions, duties or responsibilities attached to the positions contemplated in Paragraph 1 or a reduction in his compensation or in the benefits available to the Executive and his family, as provided in Para-graph 5, which change or reduction is not remedied within thirty (30) days after notice to the Company by the Executive;

(C) any other breach by the Company of any material provision of this Agreement (including, without limitation, relocation of the Executive in material violation of Paragraph 4(b)), which breach is not remedied within thirty (30) days after notice to the Company by Executive; or

(D) the consolidation or merger of the Company or transfer of all or a significant portion of its assets unless a successor or successors (by merger, consolidation or otherwise) to which all or a significant portion of its assets has been transferred shall have assumed all duties and obligations of the Company under this Agreement.

In order to effect a Termination Without Cause in any event set forth in this Paragraph 6(d)(ii), Executive must elect to terminate his employment under this Agreement upon not less than forty (40) days and not more than ninety (90) days' written notice to the Board, attention of the Chief Executive Officer, given, except in the case of a continuing breach, within three (3) calendar months after: (1) failure to be so elected, reelected, or nominated, or such removal, (2) expiration of the 30-day cure period with respect to such event, or (3) the closing date of such consolidation, merger or transfer of assets.

An election by Executive to terminate his employment under the provisions of this Paragraph shall not be deemed a voluntary termination of employment by Executive for the purpose of this Agreement or any plan or practice of the Company. Further, the death of the Executive during the Extended Term but prior to a Termination Without Cause, as defined, shall not constitute Cause or be deemed to be a Termination Without Cause.

7. Maximum Payment Upon Termination.

(a) Determination. Notwithstanding any other provision of this Agreement, if any payment or distribution (a "Payment") by the Company or any other person or entity to or for the benefit of the Executive is determined to be an "excess parachute payment" (within the meaning of Code Section 280G(b)(1) or any successor provision of similar effect), whether paid or payable or distributed or distributable pursuant to Paragraph 6(c) of this Agreement or otherwise, then the Executive's benefits under this Agreement shall be reduced by the amount necessary so that the Executive's total "parachute payment" as defined in Code Section 280G(b)(2)(A) under this and all other agreements will be $1.00 less than the amount that would be a "parachute payment". The determination concerning the application of the reduction shall be made by a nationally-recognized firm of independent accountants (together with legal counsel of its choosing) selected by the Company after consultation with the Executive (which may be the Company's independent auditors), whose determination shall be conclusive and binding on all parties. Any fees and expenses of such independent accountants and counsel (including counsel for the Executive) shall be borne by the Company.

(b) Notices. If it is determined that the benefits under this Agreement must be reduced under this Paragraph, within 10 days of the date of such determination, the Company will apprise the Executive of the amount of the reduction ("Notice of Reduction"). Within 10 days of receiving that information, the Executive may specify how (and against which benefit or payment source) the reduction is to be applied ("Notice of Application"). The Company will be required to implement these directions within 10 days of receiving the Notice of Application. If the Company has not received a Notice of Application from the Executive within 10 days of the date of the Notice of Reduction, the Company will apply this Paragraph proportionately based on the amounts otherwise payable under Paragraph 6(c). If the Company receives a Notice of Application that does not fully implement the requirements of this Paragraph, the Company will apply this Paragraph proportionately on the basis of the reductions specified in the Notice of Application first, then to any remaining reduction based on the amounts otherwise payable under Paragraph 6(c).

Notwithstanding the foregoing, if the exercise of discretion reserved to the Executive in determining the Notice of Application would violate Code Section 409A, then such discretion shall be eliminated and the amounts payable under Paragraph 6(c) shall be reduced proportionately.

8. Mitigation. Executive shall not be required to mitigate the amount of any payment provided for in this Agreement either by seeking other employment or otherwise. The amount of any payment provided for herein shall not be reduced by any remuneration that Executive may earn from employment with another employer or otherwise following his Termination Date or Extended Termination Date, as applicable.

9. Covenants.

(a) Introduction. The parties acknowledge that the provisions and covenants contained in this Paragraph 9 are ancillary and material to this Agreement and that the limitations contained herein are reasonable in geographic and temporal scope and do not impose a greater restriction or restraint than is necessary to protect the goodwill and other legitimate business interests of the Company. The parties also acknowledge and agree that the provisions of this Paragraph 9 do not adversely affect Executive's ability to earn a living in any capacity that does not violate the covenants contained herein. The parties further acknowledge and agree that the provisions of Paragraph 19 below are accurate and necessary because (i) Delaware is the headquarters state of the Company, which has operations in multiple states and a compelling interest in having its employees treated uniformly, (ii) the use of Delaware law provides certainty to the parties in any covenant litigation in the United States, and (iii) enforcement of the provisions of this Paragraph 9 would not violate any fundamental public policy of Delaware or any other jurisdiction.

(b) Confidential Information. Executive shall hold in a fiduciary capacity for the benefit of the Company, all secret or confidential information, knowledge or data relating to the Company and its businesses (including, but not limited to, any proprietary and not publicly available information concerning any processes, methods, trade secrets, costs, names of users or purchasers of the Company's products or services, business methods, financial affairs, operating procedures or programs or methods of promotion and sale) that Executive has obtained or obtains during Executive's employment by the Company and that is not public knowledge (other than as a result of Executive's violation of this Paragraph 9(b)) ("Confidential Information"). For purposes of this Paragraph 9(b), information shall not be deemed to be publicly available merely because it is embraced by general disclosures or because individual features or combinations thereof are publicly available. Executive shall not communicate, divulge or disseminate Confidential Information at any time during or after Executive's employment with the Company except:

(i) to employees or agents of the Company that need the Confidential Information to perform their duties on behalf of the Company;

(ii) in the performance of Executive's duties to the Company;

(iii) as a necessary (and only to the extent necessary) part of any undertaking by Executive to enforce Executive's rights under this Agreement; or

(iv) as otherwise required by law or legal process.

All confidential records, files, memoranda, reports, customer lists, drawings, plans, documents and the like that Executive uses, prepares or comes into contact with during the course of Executive's employment shall remain the sole property of the Company and shall be turned over to the Company upon termination of Executive's employment.

(c) Non-solicitation of Company Employees. Executive shall not, at any time during the Restricted Period (as defined below), without the prior written consent of the Company, engage in the following conduct (a "Solicitation"):

(i) directly or indirectly, contact, solicit, recruit or employ (whether as an employee, officer, director, agent, consultant or independent contractor) any person who was or is at any time during the previous six months an employee, representative, officer or director of the Company; or

(ii) take any action to encourage or induce any employee, representative, officer or director of the Company to cease his relationship with the Company for any reason. A "Solicitation" does not include any recruitment of employees for the Company.

The "Restricted Period" means the period including Executive's employment with the Company and one (1) year following the Termination Date or Extended Termination Date, as applicable, and, if the Executive has given a notice pursuant to Paragraph 6(d)(ii), for a period of fifteen (15) months following the giving of such notice.

(d) Non-solicitation of Third Parties. During the Restricted Period, the Executive shall not (either directly or indirectly or as an officer, agent, employee, partner or director of any other company or entity) solicit, service, recruit, induce, influence, or accept on behalf of any competitor of the Company the business of:

(i) any customer of the Company at the time of Executive's employment or Termination Date or Extended Termination Date, as applicable; or

(ii) any potential customer of the Company which Executive knew to be an identified, prospective purchaser of services or products of the Company.

(e) Non-competition. During the Restricted Period, Executive shall not, directly or indirectly, accept employment with, act as a consultant to, or otherwise perform services that are substantially the same or similar to those for which Executive was compensated by the Company (such comparison to be based on job-related functions and responsibilities and not job title) for any business that directly competes with any portion of the Company. This restriction applies to any parent, division, affiliate, newly formed or purchased business(es) and/or successor of a business that competes with the Company. Further, during the Restricted Period, Executive shall not assist any individual or entity other than the Company in acquiring any entity with respect to which a proposal to acquire such entity was presented to the Board during the one (1) year period beginning prior to Executive's Termination Date, Extended Termination Date or notice given by Executive pursuant to Paragraph 6 (d)(ii), as applicable.

(f) Post-Termination Cooperation. Executive agrees that during and after employment with the Company and without additional compensation (other than reimbursement for reasonable associated expenses) to cooperate with the Company in the following areas:

(i) Cooperation with the Company. Executive agrees to:

(A) be reasonably available to answer questions for the Company's officers regarding any matter, project, initiative or effort for which

Executive was responsible while employed by the Company; and

(B) cooperate with the Company during the course of all third-party proceedings arising out of the Company's business about which Executive has knowledge or information.

For purposes of this Agreement, "proceeding" includes internal investigations, administrative investigations or proceedings and lawsuits (including pre-trial discovery and trial testimony) and "cooperation" includes (1) Executive being reasonably available for interviews, meetings, depositions, hearings and/or trials without the need for a subpoena or assurances by the Company, (2) providing any and all documents in Executive's possession that relate to the proceeding, and (3) providing assistance in locating any and all relevant notes and/or documents.

(ii) Cooperation with Third Parties. Unless compelled to do so by lawfully-served subpoena or court order, Executive agrees not to communicate with, or give statements or testimony to, any attorney representing an interest opposed to the Company's interest ("Opposing Attorney"), Opposing Attorney's representative (including a private investigator) or current or former employee relating to any matter (including pending or threatened lawsuits or administrative investigations) about which Executive has knowledge or information as a result of employment with the Company. Executive also agrees to notify the Company immediately after being contacted by a third party or receiving a subpoena or court order to appear and testify with respect to any matter that may include a claim opposed to the Company's interest. However, this Paragraph 9(f)(ii) shall not apply to any effort undertaken by Executive to enforce Executive's rights under this Agreement, but only to the extent necessary for that purpose.

(iii) Cooperation with the Media. Executive agrees not to communicate with, or give statements to, any member of the media (including print, television, electronic or radio media) relating to any matter (including pending or threatened lawsuits or administrative investigations) about which Executive has knowledge or information as a result of employment with the Company. Executive also agrees to notify the Company immediately after being contacted by any member of the media with respect to any matter affected by this Paragraph.

(g) Non-Disparagement. Executive and Company shall at all times refrain from taking actions or making statements, written or verbal, that:

(i) denigrate, disparage or defame the goodwill or reputation of Executive or the Company, as the case may be, or any of its trustees, officers, security holders, partners, agents or former or current employees and directors, or

(ii) are intended to, or may be reasonably expected to, adversely affect the morale of the employees of the Company.

Executive further agrees not to make any negative statements to third parties relating to Executive's employment or any aspect of the business of the Company and not to make any statements to third parties about the circumstances of the termination of Executive's employment, or about the Company or its trustees, directors, officers, security holders, partners, agents or former or current employees and directors, except as may be required by a court or governmental body.

(h) Enforcement. The Executive acknowledges and agrees that: (i) the purpose of the foregoing covenants, including, without limitation, the nonsolicitation and noncompetition covenants of Paragraphs 9(d) and (e), is to protect the goodwill, trade secrets and other Confidential Information of the Company; (ii) because of the nature of the business in which the Company is engaged and because of the nature of the Confidential Information to which the Executive has access, the Company would suffer irreparable harm and it would be impractical and excessively difficult to determine the actual damages of the Company in the event the Executive breached any of the covenants of this Paragraph 9; and (iii) remedies at law (such as monetary damages) for any breach of the Executive's obligations under this Paragraph 9 would be inadequate. The Executive therefore agrees and consents that if the Executive commits any breach of a covenant under this Paragraph 9, or threatens to commit any such breach, the Company shall have the right (in addition to, and not in lieu of, any other right or remedy that may be available to it, including but not limited to the right to terminate and forfeit as yet unpaid severance benefits under Paragraphs 6(a) and 6(c) of this Agreement) to temporary and permanent injunctive relief from a court of competent jurisdiction, without posting any bond or other security and without the necessity of proof of actual damage, and that the arbitration provisions of Paragraph 14 shall not apply.

10. Indemnification. The Company shall indemnify Executive to the fullest extent permitted by applicable Delaware law (as may be amended from time to time), includ-ing the advance of expenses permitted herein.

11. Performance. The failure of either party to this Agreement to insist upon strict performance of any provision of this Agreement shall not constitute a waiver of its rights subse-quently to insist upon strict performance of such provision or any other provision of this Agreement.

12. Non-Assignability. Neither party shall have the right to assign this Agreement or any rights or obligations hereunder without the consent of the other party.

13. Invalidity. If any provisions of this Agreement shall be found to be invalid by any court of competent jurisdiction, such finding shall not affect the remaining provisions of this Agreement, all of which shall remain in full force and effect.

14. Arbitration and Legal Fees. In the event of any dispute regarding a refusal or failure by the Company to make payments or provide benefits hereunder for any reason, Executive shall have the right, in addition to all other rights and remedies provided by law, to arbitration of such dispute under the rules of the American Arbitration Asso-ciation, which right shall be invoked by serving upon the Company a notice to arbitrate, stating the place of arbi-tration, within ninety (90) days of receipt of notice in any form (including, without limitation, failure by the Company to respond to a notice from Executive within thirty (30) days) that the Company is withholding or proposes to withhold any payments or the provision of any benefits the Executive, in good faith, believes are called for hereunder. In the event of any such dis-pute, whether or not Executive exercises his right to arbitration, if it shall ultimately be determined that the Company's refusal or failure to make payments or provide benefits hereunder was wrongful or otherwise inconsistent with the terms of this Agreement, the Company shall indemni-fy and hold harmless Executive from and against any and all expenses incurred in connection with such determination, including reasonable legal and other fees and expenses. Accordingly, the Company agrees to pay within 30 days following the Company's receipt of an invoice from the Executive all legal fees and expenses which the Executive may reasonably incur as a result of any contest by either party of the validity or enforceability of, or liability under, any provision of this Agreement, plus, in each case interest on any delayed payment at the applicable Federal rate provided for in Section 7872(f)(2)(A) of the Code, if the Executive prevails on any material claim made by him and disputed by the Company (or its successors and assigns) under the terms of this

Agreement. Such payments shall be made in accordance with the provisions of Paragraph 20 in order to comply with Section 409A of the Code.

15. Survival of Certain Provisions. Notwithstanding any other provision of this Agreement, the termination of this Agreement for any reason shall not result in the termination of the rights and obligations of the parties under the provisions of Sections 5(d), 6, 7, 9, 10, 14 and 16 hereof, which shall survive any such termination. The right of recovery provisions of Section 5(d) shall cease to apply during the Extended Term and shall be automatically terminated upon a Change in Control of the Company (as defined in Paragraph 2(d)) except with respect to any right of recovery that has been asserted prior to such Change in Control.

16. Successors. This Agreement shall be binding upon and inure to the benefit of the Executive (and his personal representative), the Company and any successor organization or organizations that shall succeed to substantially all of the business and property of the Company and assume the Company's obligations hereunder, whether by means of merger, consolidation, acquisition of substantially all of the assets of the Company, or operation of law. The Company shall require any successor organization or organizations to agree to assume the obligations of this Agreement.

17. Set–off. The Company shall have no right of set–off or counterclaim in respect of any claim, debt or obligation against any payments or benefits provided for in this Agreement except as otherwise provided herein.

18. Amendments. No Amendment to this Agreement shall be effective unless in writing and signed by both the Company and Executive. Notwithstanding the foregoing, if any compensation or benefits provided by this Agreement may result in the application of Code Section 409A, the Company shall, in consultation with the Executive, modify the Agreement in the least restrictive manner necessary in order to exclude such compensation from the definition of "deferred compensation" within the meaning of Code Section 409A or in order to comply with the provisions of Code Section 409A, other applicable provisions of the Code and/or any rules, regulations or other regulatory guidance issued under such statutory provisions, and without any diminution in the value of the payments to the Executive.

19. Governing Law. This Agreement shall be interpret-ed and enforced in accordance with the laws of the State of Delaware. The parties hereto irrevocably agree to submit to the jurisdiction and venue of the courts of the State of Delaware in any action or proceeding brought with respect to or in connection with this Agreement except for an action described in Paragraph 14.

20. Code Section 409A. Notwithstanding any provision of Paragraph 10 or 14 of this Agreement to the contrary, any legal fees and expenses to be paid by the Company pursuant to Paragraph 10 or 14 shall be subject to the following requirements in order to comply with Code Section 409A. Such legal fees and expenses shall be paid by the Company only to the extent incurred during the Term of the Agreement or for a period of ten (10) years after the Executive's Separation from Service. The Company shall pay such legal fees and expenses no later than the end of the calendar year next following the calendar year in which such fees and expenses were incurred, and the Company shall not be obligated to pay any such fees and expenses for which the Executive fails to submit an invoice at least ten (10) business days before the end of the calendar year next following the calendar year in which such fees and expenses were incurred. The amount of such legal fees and expenses that the Company is obligated to pay in any given calendar year shall not affect the legal fees and expenses that the Company is obligated to pay in any other calendar year, and the Executive's right to have the Company pay such legal fees and expenses may not be liquidated or exchanged for any other benefit.

21. Notices. Unless otherwise stated herein, all notices hereunder shall be in writing and

shall be deemed to be given when personally delivered or mailed by United States registered or certified mail, postage prepaid, to, if to the Company, 909 Silver Lake Boulevard, Dover, Delaware 19904, and, if to Executive, the last address therefore shown on the records of the Company. Either the Company or Executive may, by notice to the other, designate an address other than the foregoing for the receipt of subsequent notices.

22. Withholding. The Company may withhold from any amounts payable to Executive hereunder all federal, state, city or other taxes that the Company may reasonably deter-mine are required to be withheld pursuant to any applicable law or regulation.

23. Nature of Payments Upon Termination. All payments to Executive pursuant to Paragraph 6 of this Agree-ment shall be considered as liquidated damages or, in the case of certain payments pursuant to Paragraph 6(c), as severance payments in consideration of Executive's past services to the Company, and no such payment shall be regarded as a penalty to the Company.

24. Prior Agreement. The parties acknowledge and agree that the terms of this Agreement constitute the entire agreement of the parties with respect to the subject matter and supersede all prior agreements and amendments with respect thereto, including, without limitation, the Prior Agreement.

25. Acknowledgment. The parties hereto each acknowl-edge that each has read this Agreement and understands the same and that each enters into this Agreement freely and voluntarily.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

CHESAPEAKE UTILITIES CORPORATION

[CORPORATE SEAL] By: ______________________________

Title:

ATTEST:

____

EXECUTIVE:

EX-31.1 3 cpk6302016ex-311.htm EXHIBIT 31.1

EXHIBIT 31.1

**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, 2016 of Chesapeake Utilities Corporation;

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

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

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

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

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

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

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

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

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

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

Date: August 4, 2016

/S/ MICHAEL P. MCMASTERS

Michael P. McMasters
President and Chief Executive Officer

EX-31.2 4 cpk6302016ex-312.htm EXHIBIT 31.2

EXHIBIT 31.2

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

I, Beth W. Cooper, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarter ended June 30, 2016 of Chesapeake Utilities Corporation;

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

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

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

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

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

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

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

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

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

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

Date: August 4, 2016

/S/ BETH W. COOPER

Beth W. Cooper
Senior Vice President and Chief Financial Officer

EX-32.1 5 cpk6302016ex-321.htm EXHIBIT 32.1

EXHIBIT 32.1

Certificate of Chief Executive Officer

of

Chesapeake Utilities Corporation

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

I, Michael P. McMasters, 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, 2016, 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 4, 2016

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.

EX-32.2 6 cpk6302016ex-322.htm EXHIBIT 32.2

EXHIBIT 32.2

Certificate of Chief Financial Officer

of

Chesapeake Utilities Corporation

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

I, Beth W. Cooper, Senior Vice President and Chief Financial Officer of Chesapeake Utilities Corporation, certify that, to the best of my knowledge, the Quarterly Report on Form 10-Q of Chesapeake Utilities Corporation ("Chesapeake") for the period ended June 30, 2016, filed with the Securities and Exchange Commission on the date hereof (i) fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and (ii) the information contained therein fairly presents, in all material respects, the financial condition and results of operations of Chesapeake.

/S/ BETH W. COOPER

Beth W. Cooper
August 4, 2016

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.