

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: September 30, 1995

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: 0-593

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

Delaware  
(State of other jurisdiction of  
incorporation or organization)

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

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

(302) 734-6754  
(Registrant's Telephone Number, Including Area Code)

861 Silver Lake Boulevard, Dover, Delaware 19904  
(Former name, former address and former fiscal year,  
if changed since last report.)

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

Common Stock, par value \$.4867 - 3,712,864 shares issued as of September 30, 1995, of which 2,919 are held in treasury.

PART I  
FINANCIAL INFORMATION

CHESAPEAKE UTILITIES CORPORATION AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

	September 30, 1995	December 31, 1994
Assets	(Unaudited)	-----
Property, Plant And Equipment		
Natural gas distribution	\$62,525,116	\$57,773,632
Natural gas transmission	25,110,722	24,546,916
Propane distribution	19,083,173	18,289,571
Information technology services and other	5,785,961	8,618,014
Gas plant acquisition adjustment	795,004	795,004
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Total property, plant and equipment	113,299,976	110,023,137
Less: Accumulated depreciation and amortization	(33,838,216)	(34,710,478)
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Net property, plant and equipment	79,461,760	75,312,659
Investments	1,876,996	1,641,851
Current Assets		
Cash and cash equivalents	485,031	398,751
Accounts receivable, less allowance for uncollectibles	6,879,591	8,416,293
Materials and supplies, at average cost	878,680	797,147
Propane inventory, at average cost	1,226,640	1,411,384
Storage gas prepayments	3,310,804	3,467,281
Underrecovered purchased gas costs	0	109,025
Income taxes receivable	5,487	836,813
Prepaid expenses	910,837	855,107
Deferred income taxes	1,165,012	1,290,680
Total current assets	14,862,082	17,582,481
Deferred Charges and Other Assets		
Intangible assets, net of accumulated amortization	1,560,649	1,941,239
Environmental cost	8,390,610	7,462,647
Order 636 transition cost	1,608,980	2,020,732
Other deferred charges	2,316,009	2,309,008
Total deferred charges and other assets	13,876,248	13,733,626
Total Assets	\$110,077,086	\$108,270,617

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

CHESAPEAKE UTILITIES CORPORATION AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

	September 30, 1995	December 31, 1994
Capitalization and Liabilities	(Unaudited)	
Capitalization		
Stockholders' equity		
Common Stock, par value \$.4867 per share; (authorized 12,000,000 shares; issued 3,712,864 and 3,668,791 shares, respectively)	\$1,806,965	\$1,785,514
Additional paid-in capital	17,470,033	16,834,823
Retained earnings	22,396,398	19,480,374
Less: Treasury stock, at cost; (2,919 and 15,609 shares, respectively)	(38,270)	(99,842)
Unearned compensation - restricted stock awards	(496,966)	(696,679)
Net unrealized loss on marketable securities	(126,729)	(241,609)
Total stockholders' equity	41,011,431	37,062,581
Long-term debt, net of current portion	26,119,139	24,328,988
Total capitalization	67,130,570	61,391,569
Current Liabilities		
Current portion of long-term debt	4,872,849	1,348,080
Short-term borrowings	1,791,000	8,000,000
Accounts payable	5,711,508	7,385,590
Refunds payable to customers	1,009,933	567,817
Overrecovered purchased gas costs	1,182,351	0
Accrued interest	535,460	691,949
Dividends payable	834,738	803,700

Other accrued expenses	2,644,679	2,225,097
Total current liabilities	18,582,518	21,022,233
Deferred Credits and Other Liabilities		
Deferred income taxes	8,689,587	8,700,472
Deferred investment tax credits	949,831	986,062
Environmental liability	7,117,083	6,642,092
Accrued pension costs	2,669,817	2,530,904
Order 636 transition liability	1,608,980	2,020,732
Other liabilities	3,328,700	4,976,553
Total deferred credits and other liabilities	24,363,998	25,856,815
Total Capitalization and Liabilities	\$110,077,086	\$108,270,617

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

CHESAPEAKE UTILITIES CORPORATION AND SUBSIDIARIES  
CONSOLIDATED INCOME STATEMENTS  
(UNAUDITED)

	For the Quarter Ended	
	September 30,	
	1995	1994
Operating Revenues	\$20,564,994	\$18,789,776
Operating Expenses		
Purchased gas costs	10,594,483	11,490,822
Operations	5,411,880	4,729,442
Maintenance	528,140	565,442
Depreciation and amortization	1,382,311	1,257,900
Other taxes	665,908	611,795
Income taxes	490,072	(161,735)
Total operating expenses	19,072,794	18,493,666
Operating Income	1,492,200	296,110
Other Income and Deductions	93,730	81,068
Income Before Interest Charges	1,585,930	377,178
Interest Charges	597,808	641,951
Net Income (Loss)	\$988,122	(\$264,773)
Weighted Average Number of Common Shares Outstanding	3,705,763	3,637,056
Earnings Per Share of Common Stock (1):		
Net Income (Loss)	\$0.27	(\$0.07)
Fully Diluted Earnings Per Share of Common Stock (1):		
Net Income (Loss)	\$0.26	(\$0.05)

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

(1) See Exhibit 11 - Computation of Primary and Fully Diluted Earnings Per Share

(UNAUDITED)

For the Nine Months Ended  
September 30,  
1995 1994

Operating Revenues	\$73,536,454	\$74,667,852
Operating Expenses		
Purchased gas costs	40,493,514	45,653,150
Operations	15,136,089	14,424,956
Maintenance	1,446,532	1,546,975
Depreciation and amortization	4,049,238	3,906,765
Other taxes	2,239,348	2,119,483
Income taxes	2,979,229	1,809,259
Total operating expenses	66,343,950	69,460,588
Operating Income	7,192,504	5,207,264
Other Income and Deductions	225,409	105,889
Income Before Interest Charges	7,417,913	5,313,153
Interest Charges	2,007,274	1,948,423
Net Income	\$5,410,639	\$3,364,730
Weighted Average Number of Common Shares Outstanding	3,689,900	3,620,618
Earnings Per Share of Common Stock (1):		
Net Income	\$1.47	\$0.93
Fully Diluted Earnings Per Share of Common Stock (1):		
Net Income	\$1.41	\$0.91

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

(1) See Exhibit 11 - Computation of Primary and Fully Diluted Earnings Per Share

CHESAPEAKE UTILITIES CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(UNAUDITED)

For the Nine Months Ended  
September 30,  
1995 1994

Operating Activities		
Net Income	\$5,410,639	\$3,364,730
Adjustments to reconcile net income to net operating cash		
Depreciation and amortization	4,294,633	4,148,802
Deferred income taxes, net	38,783	(965,499)
Investment tax credit adjustments	(36,231)	(41,112)
Employee benefits	101,543	639,776
Employee compensation from lapsing stock restrictions	332,514	270,667
Reserve for refund	(1,356,705)	1,007,862
Other	(118,419)	89,504
Changes in assets and liabilities:		
Accounts receivable	1,536,702	3,561,814
Inventory, materials, supplies and storage gas	259,688	(416,211)
Prepaid expenses	(55,730)	(427,738)
Other deferred charges	(559,073)	(125,719)
Accounts payable	(1,674,082)	(2,960,100)
Refunds payable to customers	442,116	135,419

Overrecovered purchased gas costs	1,291,376	2,468,958
Other current liabilities	1,041,462	721,038
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Net cash provided by operating activities	10,949,216	11,472,191
Investing Activities		
Property, plant and equipment expenditures, net	(8,063,144)	(6,419,165)
Purchases of investments, net	(38,836)	0
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Net cash used by investing activities	(8,101,980)	(6,419,165)
Financing Activities		
Common stock dividends net of amounts reinvested of \$383,959 and \$312,657, respectively	(2,079,570)	(2,048,974)
Net repayments under line of credit agreements	(300,000)	(2,700,000)
Proceeds from issuance of treasury stock	212,694	145,608
Repayments of long-term debt	(594,080)	(513,946)
Payments under capital lease obligations	0	(46,476)
Converted debenture bonds	0	4,984
	-----	-----
Net cash used by financing activities	(2,760,956)	(5,158,804)
Net Increase (Decrease) in Cash	86,280	(105,778)
Cash and Cash Equivalents at Beginning of Period	398,751	1,162,797
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Cash and Cash Equivalents at End of Period	\$485,031	\$1,057,019
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CHESAPEAKE UTILITIES CORPORATION AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS  
(UNAUDITED)

1. Quarterly Financial Data

The financial information included herein is unaudited; however, the financial information reflects normal recurring adjustments, which are, in the opinion of management, necessary for a fair presentation of the Company's interim results. Due to the seasonal nature of the Company's business, there are substantial variations in the results of operations reported on a quarterly basis. Certain amounts in 1994 have been reclassified to conform with the 1995 presentation.

2. Investments

The investment balances at September 30, 1995 and December 31, 1994 consist primarily of an investment in the common stock of Florida Public Utilities Company ("FPU"). The Company's ownership at September 30, 1995 and December 31, 1994, represents a 7.05% and 6.84% interest, respectively.

The Company has classified its investment in FPU as an "available for sale" security, which requires that all unrealized gains and losses be excluded from earnings and be reported as a separate component of stockholders' equity, net of income taxes. At September 30, 1995 the market price per share, cost basis per share, and the unrealized loss on the investment in FPU were \$18.00, \$20.05 and \$210,729, respectively. In management's opinion, the decline in the value of the stock is temporary. At December 31, 1994 the market price per share, cost basis per share and the unrealized loss were \$16.125, \$20.20 and \$401,609, respectively.

3. Statement of Financial Accounting Standards No. 121

In March 1995, the Financial Accounting Standards Board issued Statement of Accounting Standards ("SFAS") No. 121 regarding accounting for asset impairments. This statement, which must be adopted by the Company by January 1, 1996, requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Additionally, the standard requires rate-regulated companies to write-off regulatory assets to earnings whenever those assets no longer meet the criteria for recognition of a regulatory asset as defined by SFAS No. 71, Accounting for the Effects of Certain Types of Regulation. Adoption of SFAS No. 121 is not expected to have a material impact on the Company's financial statements.

4 Commitments and Contingencies

FERC PGA Settlement

The Federal Energy Regulatory Commission ("FERC") issued an Order on May 19, 1994 directing the Company's interstate pipeline subsidiary, Eastern Shore Natural Gas Company ("Eastern Shore") to refund, with interest, what the FERC characterized as overcharges from November 1, 1992 to the current billing month. The Order also directed Eastern Shore to file a report showing how the refund was calculated, and to revise tariff language clarifying the PGA provisions of its tariff. On June 20, 1994, Eastern Shore filed a request for rehearing of the Order. In addition, on June 21, 1994, Eastern Shore filed revised tariff sheets clarifying its PGA methodology and two alternative refund calculations. Eastern Shore filed two alternative refund calculations due to what it believed were inconsistencies and contradictions in the Order. The FERC issued an Order on July 18, 1994, for the sole purpose of extending the time for consideration of Eastern Shore's filings. Subsequently Eastern Shore and the FERC Staff entered into negotiations to resolve this issue. In response to the FERC's May 19, 1994 Order, Eastern Shore accrued \$412,000 during the second quarter of 1994, as a reserve for potential refund relating to prior periods. Thereafter, Eastern Shore accrued an amount each month to ensure that the potential refund was fully reserved. As of July 31, 1995, the total amount accrued was \$1,660,200.

On August 17, 1995 the FERC issued an Order approving an Offer of Settlement submitted by Eastern Shore. The Order approved a change in Eastern Shore's PGA methodology retroactive to June 1, 1994, which will result in a rate reduction of approximately \$234,000 per year. The reserves the Company had been accruing for the potential refund were significantly greater than the rate reduction ordered. Accordingly, Eastern Shore has reversed a large portion of the reserve that it had been accruing. This reversal contributed \$1,385,000 to pre-tax earnings or \$833,000 to after-tax earnings during the third quarter of 1995.

In connection with the FERC Order, Eastern Shore will apply to the FERC for a blanket certificate authorizing open access transportation service on its pipeline system. The implementation of open access transportation service, expected to occur during the second half of 1996, will provide all of Eastern Shore's customers with the opportunity to transport gas over its system at FERC regulated rates. Open access will thus result in a shift of Eastern Shore's business from higher margin sales of gas to large industrial customers, to lower margin transportation services. The Company believes that the impact on earnings can be partially offset by anticipated pipeline expansion and the Company's plans to provide unregulated supply management services.

#### Environmental Matters

##### Dover Gas Light Company Site

In 1984, the State of Delaware notified the Company that a parcel of land it purchased in 1949 from Dover Gas Light Company, a predecessor gas company, contains hazardous substances. The State also asserted that the Company is responsible for any cleanup and prospective environmental monitoring of the site. The Delaware Department of Natural Resources and Environmental Control ("DNREC") investigated the site and surroundings, finding coal tar residue and some ground-water contamination.

In October 1989, the Environmental Protection Agency Region III ("EPA") listed the Dover Site on the National Priorities List under the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA" or "Superfund"). At this time, under CERCLA, both the State of Delaware and the Company were named as potentially responsible parties ("PRP") for cleanup of the site. In July 1990, the Company entered into an agreement with EPA and DNREC to perform a Remedial Investigation/Feasibility Study under the supervision of EPA and DNREC to study the site and surroundings to determine any environmental impacts. Pursuant to the agreement, the Company agreed to pay for the study and 80% of the EPA's oversight costs. The Company submitted its reports on the Remedial Investigation ("RI") and Feasibility Study ("FS") to EPA and DNREC in January and February 1993, respectively. After receiving extensive comments, the Company submitted to the EPA and DNREC its revised RI and FS reports in May and June 1993, respectively. In the FS Report, Chesapeake proposed a remedy, which involved capping the site and monitoring ground-water quality in the surrounding area with a total estimated cost of approximately \$700,000.

After further discussions with the regulatory authorities, Chesapeake undertook an additional phase study, the Ground Water Evaluation Study - Phase III, which focused on delineating the area of maximum ground-water impact from the site. The results of that study were submitted to EPA and DNREC in September 1993. On February 1, 1994, EPA issued its proposed plan

of action (the "Plan"). The Plan adopted many findings of the Phase III Study, acknowledging that the Dover Site has only impacted ground-water in a limited area.

The Plan presented and discussed a number of remedial alternatives, including the remedial strategy proposed by the Company in the FS. The EPA Plan proposed a more extensive remediation strategy that involved removal of contaminated soils from the site and drilling a series of twenty (20) wells. EPA estimated that execution of its Plan would cost \$4.9 million. The Plan was submitted by the EPA for 30-day public comment period, which ended on April 4, 1994. During this period, the EPA received public comments, including those submitted by the Company.

The EPA issued the site Record of Decision ("ROD") dated August 16, 1994. The remedial action selected by the EPA in the ROD differed significantly from the Plan. The EPA selected a less stringent ground-water remediation addressing contamination with a combination of hydraulic containment and natural attenuation. Remediation selected for the soil at the site is to meet stringent cleanup standards for the first two feet of soil and less stringent standards for the soil below two feet. These selected levels of remediation were not alternatives listed in the Plan, but utilized elements proposed. In addition, the ROD incorporated many of the public comments that were received. The ROD estimates the costs of selected remediation of ground-water and soil at \$2.7 million and \$3.3 million, respectively. The remediation selected in the ROD is substantially more limited than had been suggested in the Plan. In the ROD, the EPA indicated that its previous \$4.9 million estimate was incorrect.

On November 18, 1994, EPA issued a "Special Notice Letter" (the "Letter") to Chesapeake and three other PRPs. The Letter included, inter alia, (1) a demand for payment by the PRPs of EPA's past costs (currently estimated to be approximately \$300,000) and future costs incurred overseeing site work; (2) notice of EPA's commencement of a 60-day moratorium on certain EPA response activities at the Site; (3) a request by EPA that Chesapeake and the other PRPs submit a "good faith proposal" to conduct or finance the work identified in the ROD and (4) proposed consent orders by which Chesapeake and other parties may agree to perform the good faith proposal.

In January 1995, Chesapeake submitted to the EPA a good faith proposal to perform a substantial portion of the work set forth in the ROD, which was subsequently rejected.

The Company and the EPA each attempted to secure voluntary performance of part of the remediation by other parties. These parties include the State of Delaware, which is the owner of the property and was identified in the ROD as a PRP, and a business identified in the ROD as a PRP for having contributed to ground-water contamination. On March 6, 1995, in order to protect its interests, the Company filed suit in U.S. District Court for the District of Delaware for a determination that the State of Delaware is a liable party and for recovery from the State of costs of complying with the ROD. The Company is also considering suit against other PRPs.

On May 17, 1995, EPA issued an order to the Company under section 106 of CERCLA (the Order), which requires the Company to fund or implement the site ROD issued by EPA on August 6, 1994. The Order was also issued to General Public Utilities Corporation, Inc. (GPU), which EPA and the Company believe is liable under CERCLA. Other PRPs such as the State of Delaware were not ordered to perform the ROD. EPA may seek judicial enforcement of its Order, as well as significant financial penalties for failure to comply. Although notifying EPA of objections to the Order, the Company agreed to comply. GPU has informed EPA that it does not intend to comply with the order.

The Company has commenced the design phase of the work required by the Order. On July 6, 1995, the Company also submitted to EPA a study that proposes two alternative remedies for the soil at the site. The alternatives contemplate a reduction in the level and cost of soil-cleanup from that identified in the ROD. The alternatives are consistent with a prior agreement by the State of Delaware that limits construction on the site. The EPA is currently evaluating the proposal, which is supported by the State of Delaware, and the Company anticipates further negotiations on this issue.

The litigation commenced by the Company on March 6, 1995 against the State of Delaware remains pending in U.S. District Court for the District of Delaware. The Company is currently engaged in discovery related to any additional parties who may be PRPs. Based upon this discovery, the Company will

consider suit against other PRPs. Additionally, the Company and EPA each continue to attempt to secure voluntary funding or performance of part of the remediation by other PRPs. The Company expects continued negotiations with PRPs to attempt to resolve these matters.

In the third quarter of 1994, the Company increased its accrued liability recorded with respect to the Dover Site to \$6.0 million from \$700,000, reflecting the EPA's present estimate, as stated in the ROD, for remediation of the site according to the ROD. Future developments in the matters discussed above would be accompanied by appropriate reductions to the liability recorded as they occur. The Company also increased the corresponding regulatory asset to \$6.0 million. If the Company incurs expenses of that amount in connection with undertaking the remedies selected in the ROD, management's belief is that the Company will be equitably entitled to contribution from other responsible parties for the greater part of these expenses. Management also believes that any amounts not so contributed will be recoverable in the Company's rates.

As of September 30, 1995, the Company has incurred approximately \$3.4 million in costs relating to environmental testing and remedial action studies. In 1990, the Company entered into settlement agreements with a number of insurance companies resulting in proceeds to fund a portion of actual environmental costs incurred over a five to seven-year period beginning in 1990. The final insurance proceeds were requested and received in 1994. On February 23, 1993, the Delaware Public Service Commission, consistent with prior base rate proceedings, authorized the Company to amortize an additional \$749,971 in environmental expenses for ratemaking purposes over a seven-year period. At September 30, 1995 the unamortized balance is approximately \$473,000. Of the \$3.4 million in costs reported above, approximately \$328,000 has not been recovered through insurance proceeds or received ratemaking treatment. It is management's opinion that these costs incurred will be recoverable in future rates.

#### Salisbury Town Gas Light Site

In cooperation with the Maryland Department of the Environment ("MDE"), the Company has completed an assessment of the Salisbury manufactured gas plant site. The assessment determined that there was localized contamination of ground-water. A remedial design report was submitted to MDE in November 1990 and included a proposal to monitor, pump and treat any contaminated ground-water on-site. Through negotiations with the MDE, the remedial action workplan was revised with final approval from MDE obtained in early 1995. The remediation process for ground-water was revised from pump-and-treat to Air Sparging and Soil-Vapor Extraction, resulting in a substantial reduction in overall costs. The Company hopes to have the remediation facilities for ground water designed and constructed by mid-year 1996.

The cost of remediation is estimated to be approximately \$365,000 in capital costs with yearly operating expenses of approximately \$200,000. Based on earlier estimated costs, the Company recorded both a liability and a deferred regulatory asset of \$642,092 on December 31, 1994 to cover the Company's projected remediation costs for this site. In July, the Company increased both the liability and deferred regulatory asset to \$1,163,000 to reflect an increase in costs. The liability payout for this site is expected to be over a five-year period. As of September 30, 1995, the Company has incurred approximately \$1,771,000 for remedial actions and environmental studies and has charged such costs to accumulated depreciation. In a previous rate proceeding, the Company requested and received recovery for all costs incurred as of November 30, 1988 through base rates, including both a ten-year amortization of these costs and rate base treatment for the unamortized balance. As of September 30, 1995, the unamortized balance was approximately \$167,000 and will be fully amortized by May 31, 1999. In January 1990, the Company entered into settlement agreements with a number of insurance companies resulting in proceeds to fund a portion of actual environmental costs incurred over a three to five-year period beginning in 1990. The final insurance proceeds were requested and received in 1992. Of the \$1,771,000 in costs reported above, approximately \$813,000 has not been recovered through insurance proceeds or received ratemaking treatment. It is management's opinion that these costs incurred and future costs incurred, if any, will be recoverable in future rates.

#### Winter Haven Coal Gas Site

The Company is currently conducting investigations of a site in Winter Haven, Florida, where the Company's predecessors manufactured coal gas earlier this century. A Contamination Assessment Report ("CAR") was submitted to the Florida Department of Environmental Protection ("FDEP") on July 11, 1990.

The CAR contained the results of additional investigations of conditions at the site. These investigations confirmed limited soil and ground-water impacts to the site. By letter dated March 26, 1991, FDEP directed the Company to conduct additional investigations on-site to fully delineate the vertical and horizontal extent of soil and ground-water impacts.

Additional contamination assessment activities were conducted at the site in late 1992 and early 1993. On March 25, 1993, a Contamination Assessment Report Addendum ("CAR Addendum") was delivered to FDEP. The CAR Addendum concluded that soil and ground-water impacts have been adequately delineated as a result of the additional field work. The FDEP approved the CAR and CAR Addendum in April of 1994. The next step is a Risk Assessment ("RA") and a Feasibility Study ("FS") on the site. The RA and FS are expected to be filed with the FDEP during the fourth quarter of 1995 at an estimated cost of \$60,000. Until the RA and FS are completed and accepted as final by the FDEP, it is not possible to determine whether remedial action will be required by FDEP and, if so, the cost of such remediation.

The Company has spent approximately \$621,000 on these investigations as of September 30, 1995 and expects to recover these expenses, as well as any future expenses, through base rates. These costs have been accounted for as charges to accumulated depreciation. The Company requested and received approval from the Florida Public Service Commission ("FPSC") to amortize through base rates \$359,659 of all costs incurred as of December 31, 1986. As of December 31, 1992, these costs were fully amortized. In January 1993, the Company received approval to recover through base rates approximately \$217,000 in additional costs related to the former manufactured gas plant. This amount represents recovery of \$173,000 of costs incurred from January 1987 through December 1992, as well as prospective recovery of estimated future costs, which had not yet been incurred at that time. The FPSC has allowed for amortization of these costs over a three-year period and provided for rate base treatment for the unamortized balance. In a separate docket before the FPSC, the Company has requested and received approval to apply a refund of 1991 overearnings of approximately \$118,000 against the balance of unamortized environmental charges incurred as of December 31, 1992. As a result, these environmental charges were fully amortized as of June 1994. Of the \$621,000 in costs reported above, all costs have received ratemaking treatment. The FPSC has allowed the Company to continue to accrue for future environmental costs. At September 30, 1995, the Company has \$54,000 accrued. It is management's opinion that future costs above the amount accrued, if any, will be recoverable in future rates.

#### Smyrna Coal Gas Site

On August 29, 1989 and August 4, 1993, representatives of DNREC conducted sampling on property owned by the Company in Smyrna, Delaware. This property is believed to be the location of a former manufactured gas plant. Analysis of the samples taken by DNREC show a limited area of soil contamination.

In November 1993 DNREC advised the Company that it would require a remediation of the soil contamination under the state's Hazardous Substance Cleanup Act. The Company met with DNREC personnel in December 1993 to discuss the scope of any remediation of the site, and in January 1994, submitted a proposed workplan, together with comments on the draft Consent Decree. The final Work Plan was submitted on September 27, 1994. DNREC has approved the Work Plan and the Consent Decree. Remediation based on the Work Plan began in 1995 at an estimated cost of approximately \$250,000. All soil and debris were removed in the third quarter, restoration is complete and DNREC has initiated site closure procedures. At September 30, 1995, the Company has incurred approximately \$234,000 in remediation costs, of which \$229,000 has not received ratemaking treatment. It is management's opinion that these and any other costs will be recoverable in future rates.

### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

#### RESULTS OF OPERATIONS FOR THE QUARTER ENDED SEPTEMBER 30, 1995

The Company recognized net income of \$988,122 for the three months ended September 30, 1995, representing an increase in net income of \$1,252,895 as compared to the corresponding period in 1994. As indicated in the table below, the increase in earnings before interest and taxes ("EBIT") is primarily due to the settlement between Eastern Shore and FERC regarding Eastern Shore's computation of the Purchased Gas Adjustment clause of its tariff, coupled with substantially higher than usual EBIT from Eastern Shore, and partially offset by

slightly lower EBIT in the Company's natural gas distribution and propane segments. Exclusive of matters relating to the settlement, net income increased by approximately \$310,000.

	FOR THE QUARTER ENDED SEPTEMBER 30,		
	1995	1994	Change
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Earnings Before Interest and Taxes			
Natural Gas Distribution	\$ (400,399)	\$ (227,018)	\$ (173,381)
Natural Gas Transmission	3,086,878	1,133,330	1,953,548
Propane Distribution	(909,619)	(770,593)	(139,026)
Information Technology Services and Other	247,884	79,847	168,037
Eliminations & Corporate	(42,472)	(81,191)	38,719
	-----	-----	-----
Total EBIT	1,982,272	134,375	1,847,897
Operating Income Taxes	490,072	(161,735)	651,807
Interest	597,808	641,951	(44,143)
Non-Operating Income, Net	93,730	81,068	12,662
	-----	-----	-----
Net Income (Loss)	\$988,122	\$ (264,773)	\$1,252,895
	=====	=====	=====

#### Natural Gas Distribution

The natural gas distribution segment reported a loss before earnings and taxes ("LBIT") of \$400,399 for the third quarter 1995 as compared to LBIT of \$227,018 for the corresponding period last year, an increase of \$173,381. The increase in LBIT is due to an increase in operating expenses, partially offset by an increase in gross margin.

	FOR THE QUARTER ENDED SEPTEMBER 30,		
	1995	1994	Change
	----	----	-----
Revenue	\$8,458,920	\$6,424,563	\$2,034,357
Cost of Gas	5,396,931	3,677,082	1,719,849
	-----	-----	-----
Gross Margin	3,061,989	2,747,481	314,508
Operations & Maintenance	2,436,136	2,070,555	365,581
Depreciation & Amortization	596,717	516,063	80,654
Other Taxes	429,535	387,881	41,654
	-----	-----	-----
LBIT	\$ (400,399)	\$ (227,018)	\$ (173,381)
	=====	=====	=====

The increase in revenue and cost of gas is primarily due to an increase in firm sales in our northern service territories, the brokering of gas in Florida, an increase in sales to phosphate customers and transportation of gas to two co-generation facilities in our Florida division. Adding to gross margin is an increase in base rates in our Delaware division effective June 3, 1995, the increase subject to refund pending final regulatory approval.

The increase in operations and maintenance expenses of \$365,581 is due to an increase in customer installation expenses, customer accounting, administrative payroll and outside services. This was partially offset by a decrease in pension and benefits. Depreciation and amortization expenses increased \$80,654 due to plant placed in service during the past year. Increased revenue in our Florida division caused other taxes to rise due to an increase in revenue related taxes.

#### Natural Gas Transmission

The natural gas transmission segment reported EBIT of \$3,086,878 for the third quarter of 1995 as compared to EBIT of \$1,133,330 for the corresponding period last year, an increase of \$1,953,548. The increase in EBIT is primarily due to a one-time reversal in the third quarter of 1995, in connection with the FERC settlement, of \$1.3 million previously accrued as reserves for potential refunds to customers and a reduction in the level of required current accruals for refunds from \$192,000 in the third quarter of 1994, to \$38,000 in the third quarter of 1995 (See Note 4 to the Consolidated Financial Statements). Contributing to the rise in EBIT was an increase in gross margin due to greater deliveries to industrial customers.

	FOR THE QUARTER ENDED SEPTEMBER 30,		
	1995	1994	Change
	----	----	-----
Revenue	\$10,995,581	\$10,178,061	\$817,520
Cost of Gas	6,851,181	8,063,993	(1,212,812)
	-----	-----	-----
Gross Margin	4,144,400	2,114,068	2,030,332
Operations & Maintenance	780,826	722,901	57,925
Depreciation & Amortization	181,677	165,643	16,034
Other Taxes	95,019	92,194	2,825
	-----	-----	-----
EBIT	\$3,086,878	\$1,133,330	\$1,953,548
	=====	=====	=====

The increase in revenue is primarily due to a 31.5% increase in industrial interruptible sales volumes, partially offset by a 19.1% decrease in the cost of gas component of revenue, which is passed on to our customers. Cost of gas decreased due to the one-time reversal explained above, partially offset by the increase in sales volumes. The increase in gross margin is attributable to the increase in interruptible sales volumes as natural gas competed favorably with alternative fuels. The increased sales volumes were primarily to the methanol plant and a municipal power plant, which are industrial interruptible customers. Sales volumes and margins to these customers were up 33% and 89%, respectively, when compared to the same period last year.

The increase in operations and maintenance expenses of \$57,925 is due to an increase in payroll, property insurance, outside services and the painting of a bridge structure partially offset by a reduction in maintenance expenses. Depreciation and amortization increased \$16,034 due to plant placed in service during the past year.

In connection with the FERC Order, Eastern Shore will apply to the FERC for a blanket certificate authorizing open access transportation service on its pipeline system. The implementation of open access transportation service, expected to occur during the second half of 1996, will provide all of Eastern Shore's customers with the opportunity to transport gas over its system at FERC regulated rates. Open access will thus result in a shift of Eastern Shore's business from higher margin sales of gas to large industrial customers, to lower margin transportation services. The Company believes that the impact on earnings can be partially offset by anticipated pipeline expansion and the Company's plan to provide unregulated supply management services.

#### Propane Distribution

For the third quarter of 1995, the propane distribution segment recognized an increase in LBIT of \$139,026, or 18%. Generating the additional loss was a reduction in gross margin, coupled with higher operations and maintenance expenses.

	FOR THE QUARTER ENDED SEPTEMBER 30,		
	1995	1994	Change
	----	----	-----
Revenue	\$1,902,900	\$3,493,363	\$(1,590,463)
Cost of Gas	993,062	2,510,516	(1,517,454)
	-----	-----	-----
Gross Margin	909,838	982,847	(73,009)
Operations & Maintenance	1,417,755	1,344,469	73,286
Depreciation & Amortization	330,243	335,637	(5,394)
Other Taxes	71,459	73,334	(1,875)
	-----	-----	-----
LBIT	\$(909,619)	\$(770,593)	\$(139,026)
	=====	=====	=====

Both revenue and cost of gas decreased \$1.5 million due to the absence of sales to a wholesale customer to which we supplied propane under a non-recurring contract in 1994. The gross margin earned on sales to the wholesale customer was minimal. Excluding gallons sold under this contract, sales volumes decreased by 9% over the same quarter for 1994, contributing approximately \$63,000 of the decrease in gross margin. The remaining reduction in gross margin was due to lower service revenue.

Operations and maintenance expenses rose \$73,286, or 5%, due to increases in advertising, outside services and salaries, offset by a reduction in pension

benefits.

#### Information Technology Services and Other

The information technology services and other segment recognized EBIT of \$247,88 and \$79,847 for the quarters ended September 30, 1995 and 1994, respectively. This increase in EBIT of \$168,037 resulted from increased revenues partially offset by higher operating expenses.

	FOR THE QUARTER ENDED SEPTEMBER 30,		
	1995	1994	Change
	----	----	-----
Revenue	\$2,274,500	\$2,037,347	\$237,153
Operations & Maintenance	1,691,227	1,663,227	28,000
Depreciation & Amortization	265,494	235,887	29,607
Other Taxes	69,895	58,386	11,509
	-----	-----	-----
EBIT	\$247,884	\$79,847	\$168,037
	=====	=====	=====

The increase in revenues of \$237,153, or 12%, resulted from higher facilities management ("FM"), consulting and resource services revenues. Partially offsetting these revenues were reduced consulting and programming, software licensing, system software and training revenues. For this quarter, intercompany revenues totaled \$412,997 and \$581,456, while intercompany LBIT connected with the development of UtiliCISTM totaled \$27,702 and \$81,421 for 1995 and 1994, respectively. UtiliCISTM, the customer information and billing system designed for the Company's natural gas distribution segment, is installed and running at two of our three divisions, with full implementation at the remaining division to be complete by the end of 1995. The decline in intercompany revenue and intercompany LBIT should continue for the remainder of 1995.

Operations and maintenance expenses increased \$28,000, or 2%. Although Capital Data Systems ("CDS") recognized reduced expenses, these were more than offset by increased expenses from United Systems, Inc. ("USI"). CDS' operations have been scaled back over the past year due to the decline in intercompany revenue and to downsizing efforts. This downsizing was initiated as a result of the termination of its contract by CDS' largest FM customer in connection with a change in control of that customer. Following the termination, CDS is no longer providing FM services for Page-ITTM, the billing software product designed by CDS for the telecommunications industry. CDS will be focusing mainly on consulting and contract programming, similar to USI's operation. Reductions in payroll, benefits and outside programming costs comprised the largest portion of the overall decline in CDS' expenses. Generating the overall increase in operations and maintenance expenses for the segment were higher payroll and benefit costs for USI. Depreciation and amortization increased \$29,607, or 13%, due to accelerated amortization of Page-ITTM, directly correlating to the downsizing efforts mentioned above. Other taxes rose \$11,509, or 20%, in response to an overall segment increase in payroll costs.

#### Interest

The decrease in interest expense resulted from an adjustment to interest expense accrued in association with the FERC PGA issue (see Note 4 to the Consolidated Financial Statements) partially offset by higher short-term borrowing balances and higher interest rates on those balances.

#### Non-Operating Income

The increase of approximately \$13,000 over the corresponding quarter in 1994 is primarily due to the net result of a one-time termination fee paid to CDS and costs to downsize CDS. The termination fee was paid to CDS by its largest facilities management customer in connection with a change in control of that customer. The downsizing costs included a one-time writedown of assets, since CDS will no longer provide FM services in connection with its Page-ITTM software. The increase was somewhat offset by the absence of any recorded AFUDC in the third quarter of 1995 when compared to approximately \$50,000 recorded last year.

#### Operating Income Taxes

Income taxes increased due to higher third quarter EBIT, as compared to last year.

RESULTS OF OPERATIONS FOR THE  
NINE MONTHS ENDED SEPTEMBER 30, 1995

The Company recognized net income of \$5,410,639 for the nine months ended September 30, 1995, representing an increase in net income of \$2,045,909 as compared to the corresponding period in 1994. As indicated in the table below, the increase in EBIT is primarily due to Eastern Shore's settlement with FERC, coupled with substantially higher EBIT from Eastern Shore and, to a lesser extent, higher EBIT from the information technology segment. Partially offsetting these were lower EBIT from the natural gas and propane distribution operations located in the Company's northern service territory. Exclusive of matters relating to the settlement, net income increased by approximately \$780,000.

	FOR THE NINE MONTHS ENDED SEPTEMBER 30,		
	1995	1994	Change
	----	----	-----
Earnings Before Interest and Taxes			
Natural Gas Distribution	\$3,564,839	\$3,676,713	\$(111,874)
Natural Gas Transmission	5,350,942	2,108,065	3,242,877
Propane Distribution	733,225	1,585,205	(851,980)
Information Technology Services and Other	722,834	51,260	671,574
Eliminations & Corporate	(200,107)	(404,720)	204,613
	-----	-----	-----
Total EBIT	10,171,733	7,016,523	3,155,210
Operating Income Taxes	2,979,229	1,809,259	1,169,970
Interest	2,007,274	1,948,423	58,851
Non-Operating Income, Net	225,409	105,889	119,520
	-----	-----	-----
Net Income	\$5,410,639	\$3,364,730	\$2,045,909
	=====	=====	=====

Natural Gas Distribution

The natural gas distribution segment reported EBIT of \$3,564,839 for the first nine months of 1995 as compared to EBIT of \$3,676,713 for the corresponding period last year, a decrease of \$111,874. The decrease in EBIT is due to an increase in operating expenses being partially offset by an increase in gross margin.

	FOR THE NINE MONTHS ENDED SEPTEMBER 30,		
	1995	1994	Change
	----	----	-----
Revenue	\$36,883,237	\$37,933,573	\$(1,050,336)
Cost of Gas	23,424,471	25,075,063	(1,650,592)
	-----	-----	-----
Gross Margin	13,458,766	12,858,510	600,256
Operations & Maintenance	6,667,193	6,248,467	418,726
Depreciation & Amortization	1,778,255	1,561,523	216,732
Other Taxes	1,448,479	1,371,807	76,672
	-----	-----	-----
EBIT	\$3,564,839	\$3,676,713	\$(111,874)
	=====	=====	=====

The decrease in revenue and cost of gas is primarily due to a decrease in firm sales in our northern service territories due to temperatures being 10% warmer in the first three quarters of 1995 as compared to the corresponding period of 1994. Partially offsetting this decrease, was an increase in sales to phosphate customers and two co-generation facilities in our Florida division. Adding to margin is an increase in base rates in our Delaware operations effective June 3, 1995, subject to refund pending final regulatory approval.

The increase in operations and maintenance expenses of \$418,726 is due to an increase in engineering, customer installation expenses, customer accounting less administrative expenses transferred to plant, outside services and maintenance to mains. This was partially offset by a decrease to pension and benefits. Depreciation and amortization expenses and other taxes increased \$216,732 and \$76,672, respectively, due to plant placed in service during the past year.

## Natural Gas Transmission

The natural gas transmission segment reported EBIT of \$5,350,942 for the first nine months of 1995 as compared to EBIT of \$2,108,065 for the corresponding period last year, an increase of \$3,242,877. The increase in EBIT is primarily due to a one-time reversal in the third quarter of 1995, in connection with the FERC settlement, of \$1.3 million previously accrued as reserves for potential refunds to customers and a reduction in the level of required current accruals for refunds from \$984,000 for the nine months ended September 30, 1994, to \$288,000 for the corresponding period in 1995 (See Note 4 to the Consolidated Financial Statements). Contributing to the rise in EBIT was an increase in gross margin due to greater deliveries to industrial customers.

	FOR THE NINE MONTHS ENDED SEPTEMBER 30,		
	1995	1994	Change
	----	----	-----
Revenue	\$30,974,448	\$30,004,912	\$969,536
Cost of Gas	22,730,710	24,999,207	(2,268,497)
	-----	-----	-----
Gross Margin	8,243,738	5,005,705	3,238,033
Operations & Maintenance	2,073,289	2,118,953	(45,664)
Depreciation & Amortization	530,155	514,533	15,622
Other Taxes	289,352	264,154	25,198
	-----	-----	-----
EBIT	\$5,350,942	\$2,108,065	\$3,242,877
	=====	=====	=====

The increase in revenue is primarily due to a 47% increase in industrial interruptible sales volumes, which was offset by a 22% decrease in the cost of gas component of revenue, which is passed on to our customers. Cost of gas decreased due to the one-time reversal explained above, partially offset by the increase in sales volumes. The increase in gross margin is attributable to the increase in interruptible sales volumes as natural gas competed favorably with alternative fuels. The increased sales volumes were primarily to the methanol plant, which is an industrial interruptible customer. Sales volumes and margins to this customer were up 44% and 91%, respectively, when compared to the same period last year.

The decrease in operations and maintenance expenses of \$45,664 is due to a decrease in pensions and benefits and maintenance expenses being partially offset by an increase in payroll when compared to the same period of 1994. Depreciation and amortization increased \$15,622 due to plant placed in service during the past year. Other taxes increased \$25,198 due to plant placed in service during the past year, an increase in pipeline safety assessments from the federal government and payroll related taxes.

In connection with the FERC Order, Eastern Shore will apply to the FERC for a blank certificate authorizing open access transportation service on its pipeline (See Management's Discussion and Analysis of Financial Condition and Results of Operations for the Quarter Ended September 30, 1995.)

## Propane Distribution

The Company's propane distribution segment recognized EBIT of \$733,225 and \$1,585,205 for the nine months ended September 1995 and 1994, respectively. This decrease in EBIT of \$851,980, or 54%, resulted from a substantial decline in gross margin, as well as a slight increase in operating expenses.

	FOR THE NINE MONTHS ENDED SEPTEMBER 30,		
	1995	1994	Change
	----	----	-----
Revenue	\$11,740,332	\$15,333,065	\$(3,592,733)
Cost of Gas	5,748,639	8,515,521	(2,766,882)
	-----	-----	-----
Gross Margin	5,991,693	6,817,544	(825,851)
Operations & Maintenance	4,015,297	3,950,463	64,834
Depreciation & Amortization	979,254	1,015,458	(36,204)
Other Taxes	263,917	266,418	(2,501)
	-----	-----	-----
EBIT	\$733,225	\$1,585,205	\$(851,980)
	=====	=====	=====

The decrease in gross margin of \$825,851, or 12%, was a result of several

factors. Excluding the impact from a non-recurring sale of propane to a wholesale customer in 1994, the average margin per gallon for the nine-month period of 1995 dropped just over 1% as compared to the same period in 1994. This decrease in average margin per gallon resulted from higher market prices for propane when compared to the same period last year. Impacting gross margin even further was an 11% decline in sales volumes. The weather for 1995 contributed to this decline, with temperatures being 9% warmer than the same period in 1994, and 7% warmer than the 10-year average. Comprising the remaining decline in gross margin were reduced appliance sales and the absence of additional margin from the non-recurring wholesale contract in 1995.

Operations and maintenance expenses were higher due to increased outside service and salaries expenses, partially offset by lower insurance, maintenance and pension costs.

#### Information Technology Services and Other

The information technology services and other segment recognized EBIT of \$722,83 for the nine months ended September 30, 1995. These results are significantly higher than the EBIT of \$51,260 for the corresponding period in 1994, principally due to increased revenues and lower operating expenses.

	FOR THE NINE MONTHS ENDED SEPTEMBER 30,		
	1995	1994	Change
	----	----	-----
Revenue	\$6,637,541	\$6,148,057	\$489,484
Operations & Maintenance	4,941,801	5,083,050	(141,249)
Depreciation & Amortization	735,307	796,644	(61,337)
Other Taxes	237,599	217,103	20,496
	-----	-----	-----
EBIT	\$722,834	\$51,260	\$671,574
	=====	=====	=====

Comprising the increase in revenues of \$489,484, or 8%, were higher consulting and programming, training, facilities management and resource services revenues. Partially offsetting these higher revenues were reduced system software, hardware and data circuit sales, as well as the absence of any Currin & Associates, Inc. ("C&A") revenues due to its dissolution in 1994. Included in the results for the nine months ending September 30, intercompany revenues totaled \$1,278,094 and \$1,810,873, while intercompany LBIT connected with the development of UtiliCISTM totaled \$164,583 and \$404,319 for 1995 and 1994, respectively. This expected decline in intercompany revenues and intercompany LBIT was due to UtiliCISTM development nearing completion. Implementation is now complete at two out of three divisions, with the remaining division scheduled for conversion and implementation by the end of 1995.

Operations and maintenance expenses declined \$141,249, or 3%, primarily due to the absence of approximately \$150,000 incurred by C&A in 1994. The Company wrote off its investment in C&A during the second quarter of 1994. Although CDS recognized reduced expenses of approximately \$591,000, these were more than offset by an increase of \$625,000 from USI. CDS' operations have been scaled back over the past year due to the decline in intercompany revenue and to downsizing efforts, which have been initiated, to no longer provide FM services for Page-ITTM, due to the termination of a contract with its largest FM customer due to a change in control of that customer. CDS will be changing their focus to consulting and contract programming, similar to operations at USI. Areas where costs have declined for CDS include payroll and benefits, computer hardware and outside programming costs. USI's payroll and benefits costs have increased dramatically in response to increased revenue. Depreciation and amortization declined \$61,337, or 8%, due to more assets becoming fully depreciated and the dissolution of C&A in 1994. Other taxes rose \$20,496, or 9%, in response to an overall segment increase in payroll costs.

#### Interest

Interest expense is higher due to increased short-term borrowings, partially offset by a decrease in long-term debt interest, coupled with an adjustment to interest in association with the FERC PGA issue (see Note 4 to the Consolidated Financial Statements).

#### Non-Operating Income

Non-operating income increased approximately \$120,000 as compared to the same period in 1994. The increase was the result of the absence of the 1994 write-off

of our investment in Currin and Associates, Inc. and the net result of a one-time termination fee paid to CDS and costs to downsize CDS. This was partially offset by a reduction in the amount of AFUDC recorded in 1995 as compared to 1994.

#### Operating Income Taxes

Income taxes increased due to higher 1995 EBIT, as compared to last year, and the elimination of the valuation allowance for state operating loss carryforwards associated with the Company's propane segment. The Company projects the utilization of all state operating loss carryforwards generated by the propane segment.

#### Environmental Matters

The Company continues to work with federal and state environmental agencies to assess the environmental impacts and explore corrective action at several former gas manufacturing plant sites (see Note 4 to the Consolidated Financial Statements). The Company believes that any future costs associated with these sites will be recoverable in future rates.

#### FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

The Company's capital requirements reflect the capital intensive nature of its business and are attributable principally to its construction program and the retirement of its outstanding debt. The Company relies on funds provided by operations and short-term borrowings to meet normal working capital requirements and temporarily finance capital expenditures. During the first nine months of 1995, the Company's net cash flow provided by operating activities, net cash use by investing activities and net cash used by financing activities were approximately \$10,949,000, \$8,102,000 and \$2,761,000, respectively. Due to the seasonal nature of the Company's business, there are substantial variations in the results of operations reported on a quarterly basis.

The Board of Directors has authorized the Company to borrow up to \$14 million from banks and trust companies. As of September 30, 1995, the Company had four \$8 million unsecured bank lines of credit. Funds provided from these lines of credit are used for short-term cash needs to meet seasonal working capital requirements and to fund portions of its capital expenditures. The outstanding balances of short-term borrowings at September 30, 1995 and 1994 were \$7.7 million and \$6.2 million, respectively.

On October 2, 1995, the Company finalized a private placement of \$10 million of 6.91% Senior Notes due in 2010. The Company used the proceeds to retire \$4,091,000 of the 10.85% Senior Notes of Eastern Shore Natural Gas Company, originally due October 1, 2003. Accordingly, \$4,091,000 was reclassified to current portion of long-term debt for financial statement presentation at September 30, 1995. The remaining proceeds of \$5,909,000 were used to repay short-term borrowing under the Company's lines of credit. Accordingly, \$5,909,000 of short-term borrowings was reclassified to long-term debt for financial statement presentation at September 30, 1995.

During the nine months ended September 30, 1995 and 1994, net property, plant and equipment expenditures were approximately \$8,063,000 and \$6,419,000, respectively. For 1995, the Company has budgeted \$15.5 million for capital expenditures. The components of this amount include \$10.8 million for natural gas distribution, \$1.7 million for natural gas transmission, \$1.7 million for propane distribution, \$1.0 million for structures and improvements, with the remaining \$300,000 for computer and office equipment. The natural gas and propane expenditures are for expansion and improvement of their existing service territories. Financing of the 1995 construction will be provided primarily by short-term borrowings, a private placement of \$10 million of Senior Notes and cash from operations. The construction program is subject to continuous review and modification by management. Actual construction expenditures may vary from the above estimates due to a number of factors including inflation, changing economic conditions, regulation, load growth and the cost and availability of capital.

The Company expects to incur environmental related expenditures in the future (see Note 4 to the Consolidated Financial Statements), a portion of which may need to be financed through external sources. Management does not expect such financing to have a material adverse effect on the financial position or capital resources of the Company.

As of September 30, 1995, common equity represented 61.1% of permanent

capitalization, compared to 60.4% as of December 31, 1994. The Company remains committed to maintaining a sound capital structure and strong credit ratings in order to provide the financial flexibility needed to access the capital markets when required. This commitment, along with adequate and timely rate relief for the Company's regulated operations, helps to ensure that the Company will be able to attract capital from outside sources at a reasonable cost. The achievement of these objectives will provide benefits to customers and creditors, as well as the Company's investors.

PART II  
OTHER INFORMATION

CHESAPEAKE UTILITIES CORPORATION AND SUBSIDIARIES

- Item 1: Legal Proceedings  
See Note 4 to the Consolidated Financial Statements
- Item 2: Changes in Securities  
None
- Item 3: Defaults Upon Senior Securities  
None
- Item 4: Submission of Matters to a Vote of Security Holders  
None
- Item 5: Other Information  
None
- Item 6(a): Exhibits  
Exhibit 4 - The Note Purchase Agreement entered into by the Company on October 2, 1995, pursuant to which the Company privately placed \$10 million of its 6.91% Senior Notes due in 2010, is not being filed herewith, in accordance with Item 601(b)(4)(iii) of Regulation S-K. The Company hereby agrees to furnish a copy of that agreement to the Commission upon request.
- Exhibit 11 - Computation of Primary and Fully Diluted Earnings Per Share is submitted herewith.
- Item 6 (b): Reports on Form 8-K  
On August 17, 1995, the Company filed a report on Form 8-K, reporting under Item 5 Eastern Shore's settlement with the FERC, described in Note 4 to the Consolidated Financial Statements.

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/ John R. Schimkaitis  
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John R. Schimkaitis  
Senior Vice President and Assistant Treasurer  
(Principal Financial and Accounting Officer)

Date: November 9, 1995

CHESAPEAKE UTILITIES CORPORATION AND SUBSIDIARIES

EXHIBIT 11  
COMPUTATION OF PRIMARY AND FULLY DILUTED EARNINGS PER SHARE

	For the Quarter Ended September 30,		For the Nine Months Ended September 30,	
	1995	1994	1995	1994
Primary earnings per share calculation:				
Weighted average number of shares assuming primary dilution	3,710,054	3,642,317	3,691,866	3,626,117
Consolidated net income	\$988,122	(\$264,773)	\$5,410,639	\$3,364,730
Total primary earnings per share	\$0.27	(\$0.07)	\$1.47	\$0.93
Fully diluted earnings per share calculation (1):				
Weighted average number of shares assuming primary dilution	3,710,054	3,642,317	3,691,866	3,626,117
Contingent shares	247,287	255,282	249,487	255,948
Weighted average number of shares assuming full dilution	3,957,341	3,897,599	3,941,353	3,882,065
Consolidated net income (loss)	\$988,122	(\$264,773)	\$5,410,639	\$3,364,730
Interest on convertible debt	87,484	90,311	261,907	268,689
Less: Applicable federal income taxes	34,119	35,221	102,144	104,789
Adjusted net income	\$1,041,487	(\$209,683)	\$5,570,402	\$3,528,630
Fully diluted earnings per share	\$0.26	(\$0.05)	\$1.41	\$0.91

(1) This calculation is submitted in accordance with Regulation S-K item 601(b)(11) although it is contrary to paragraph 40 of APB Opinion No. 15, because it produces an anti-dilutive result for the quarter ended September 30, 1994.

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