

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

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

FOR THE FISCAL YEAR ENDED: DECEMBER 31, 2000 COMMISSION FILE NUMBER: 001-11590

CHESAPEAKE UTILITIES CORPORATION
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

STATE OF DELAWARE

51-0064146

(STATE OR OTHER JURISDICTION OF
INCORPORATION OR ORGANIZATION)

(I.R.S. EMPLOYER
IDENTIFICATION NO.)

909 SILVER LAKE BOULEVARD, DOVER, DELAWARE 19904

(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES, INCLUDING ZIP CODE)

302-734-6799

(REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE)

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

TITLE OF EACH CLASS

NAME OF EACH EXCHANGE ON WHICH REGISTERED

COMMON STOCK - PAR VALUE PER SHARE \$.4867

NEW YORK STOCK EXCHANGE, INC.

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:
8.25% CONVERTIBLE DEBENTURES DUE 2014

(TITLE OF CLASS)

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

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

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

DOCUMENTS INCORPORATED BY REFERENCE

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

CHESAPEAKE UTILITIES CORPORATION
FORM 10-K

YEAR ENDED DECEMBER 31, 2000

TABLE OF CONTENTS

	PAGE

PART I.....	1
Item 1. Business.....	1
Item 2. Properties.....	10
Item 3. Legal Proceedings.....	11
Item 4. Submission of Matters to a Vote of Security Holders.....	14
PART II.....	15
Item 5. Market for the Registrant's Common Stock and Related Security Holder Matters.....	15
Item 6. Selected Financial Data.....	16
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.....	20
Item 7a. Quantitative and Qualitative Disclosures About Market Risk.....	29
Item 8. Financial Statements and Supplemental Data.....	29
Item 9. Changes In and Disagreements With Accountants on Accounting and Financial Disclosure.....	50
PART III.....	50
Item 10. Directors and Executive Officers of the Registrant.....	50
Item 11. Executive Compensation.....	50
Item 12. Security Ownership of Certain Beneficial Owners and Management.....	50
Item 13. Certain Relationships and Related Transactions.....	50
PART IV.....	51
Item 14. Financial Statements, Financial Statement Schedules, Exhibits and Reports on Form 8-K.....	51

PART I

ITEM 1. BUSINESS

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

(a) GENERAL DEVELOPMENT OF BUSINESS

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

Chesapeake's three natural gas distribution divisions serve approximately 40,800 residential, commercial and industrial customers in southern Delaware, Maryland's Eastern Shore and Florida. The Company's natural gas transmission subsidiary, Eastern Shore Natural Gas Company ("Eastern Shore"), operates a 281-mile interstate pipeline system that transports gas from various points in Pennsylvania to the Company's Delaware and Maryland distribution divisions, as well as to other utilities and industrial customers in Delaware and on the Eastern Shore of Maryland. The Company's propane distribution operation serves approximately 35,300 customers in southern Delaware, the Eastern Shore of both Maryland and Virginia and parts of Florida. The advanced information services segment provides consulting, custom programming, training and development tools for national and international clients.

(b) FINANCIAL INFORMATION ABOUT INDUSTRY SEGMENTS

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

(c) NARRATIVE DESCRIPTION OF BUSINESS

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

(i) (a) NATURAL GAS DISTRIBUTION AND TRANSMISSION

GENERAL

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

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

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

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

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

ADEQUACY OF RESOURCES

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

Delaware. Delaware's contracts with Transco include: (a) firm transportation capacity of 8,663 dekatherms ("Dt") per day, which expires in 2005; (b) firm transportation capacity of 311 Dt per day for December through February, expiring in 2006; and (c) firm storage service, providing a total capacity of 142,830 Dt, with provisions to continue from year to year, subject to six (6) months notice for termination.

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

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

Delaware's contracts with Eastern Shore include: (a) firm transportation capacity of 28,425 Dt per day for the period December through February, 27,203Dt per day for the months of November, March and April, and 18,127 Dt per day for the period May through October, with various expiration dates ranging from 2004 to 2017; (b) firm storage capacity under Eastern Shore's Rate Schedule GSS providing a peak day entitlement of 2,655 Dt and a total capacity of 131,370 Dt, which expires in 2013; (c) firm storage capacity under Eastern Shore's Rate Schedule LSS providing a peak day entitlement of 580 Dt and a total capacity of 29,000 Dt, which expires in 2013; and (d) firm storage capacity under Eastern Shore's Rate Schedule LGA providing a peak day entitlement of 911 Dt and a total capacity of 5,708 Dt, which expires in 2006. Delaware's firm transportation contracts with Eastern Shore also include Eastern Shore's provision of swing transportation service. This service includes: (a) firm transportation capacity of 1,846 Dt per day on Transco's pipeline system, retained by Eastern Shore, in addition to Delaware's Transco capacity referenced earlier and (b) an interruptible storage service under Transco's Rate Schedule ESS that supports a swing supply service provided under Transco's Rate Schedule FS.

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

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

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

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

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

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

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

Florida. The Florida division receives transportation service from Florida Gas Transmission Company ("FGT"), a major interstate pipeline. Chesapeake has contracts with FGT for: (a) daily firm transportation capacity of 27,579 Dt in November through April, 21,200 Dt in May through September, and 27,416 Dt in October under FGT's firm transportation service FTS-1 rate schedule; (b) daily firm transportation capacity of 5,100 Dt in May through October, and 8,100 in November through April under FGT's firm transportation service FTS-2 rate schedule. The firm transportation contract FTS-1 expires on August 1, 2010 with the Company retaining a right of first refusal on this capacity. The firm transportation contract FTS-2 expires on March 1, 2015. Chesapeake has requested and been approved for a turnback of all but 1,000 Dt per day year round of its FTS-2 capacity in two increments. These turnbacks coincide with the in service dates of FGT's Phase 4 Project scheduled to be in service in May 2001, and the Phase 5 Project scheduled to be in service in the second quarter of 2002. The Florida division currently receives its gas supply from various suppliers. If needed, some supply is bought on the spot market; however, the majority is bought under the terms of two firm supply contracts. The Company believes that the availability of gas supply to the Florida division is adequate under existing arrangements to meet customer's needs.

Eastern Shore. Eastern Shore has 4,916 thousand cubic feet ("Mcf") of firm transportation capacity under Rate Schedule FT under contract with Transco, which expires in 2005. Eastern Shore also has 7,046 Mcf of firm peak day entitlements and total storage capacity of 278,264 Mcf under Rate Schedules GSS, LSS and LGA, respectively, under contract with Transco. The GSS and LSS contracts expire in 2013 and the LGA contract expires in 2006.

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

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

COMPETITION

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

RATES AND REGULATION

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

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

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

REGULATORY PROCEEDINGS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(i) (b) PROPANE DISTRIBUTION AND MARKETING

GENERAL

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

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

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

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

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

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

ADEQUACY OF RESOURCES

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

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

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

COMPETITION

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

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

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

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

(i) (c) ADVANCED INFORMATION SERVICES

GENERAL

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

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

COMPETITION

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

(i) (d) OTHER SUBSIDIARIES

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

In March 1998, the Company acquired Sam Shannahan Well Co., based in Salisbury, Maryland, doing business as Tolan Water Service ("Tolan"). Tolan was a privately owned EcoWater dealership serving 3,000 customers on the Delmarva Peninsula with divisions supporting residential, commercial and industrial water treatment. The 3000 customers are receiving recurring water treatment services during the year.

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

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

(II) SEASONAL NATURE OF BUSINESS

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

(III) CAPITAL BUDGET

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

(IV) EMPLOYEES

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

(v) EXECUTIVE OFFICERS OF THE REGISTRANT

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

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

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

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

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

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

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

ITEM 2. PROPERTIES

(a) GENERAL

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

(b) TOLAN WATER SERVICE

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

(c) NATURAL GAS DISTRIBUTION

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

(d) NATURAL GAS TRANSMISSION

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

(e) PROPANE DISTRIBUTION AND MARKETING

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

ITEM 3. LEGAL PROCEEDINGS

(a) GENERAL

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

(b) ENVIRONMENTAL

DOVER GAS LIGHT SITE

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

SALISBURY TOWN GAS LIGHT SITE

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

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

WINTER HAVEN COAL GAS SITE

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

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

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

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

None

PART II

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

(a) COMMON STOCK PRICE RANGES, COMMON STOCK DIVIDENDS AND SHAREHOLDER INFORMATION:

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

				DIVIDENDS DECLARED PER SHARE
QUARTER ENDED	HIGH	LOW	CLOSE	

2000				
March 31.....	\$18.8750.....	\$16.2500.....	\$16.9375.....	\$0.2600
June 30.....	18.5000.....	16.3750.....	17.7500.....	0.2600
September 30.....	18.1250.....	16.6250.....	18.1250.....	0.2700
December 31.....	18.7500.....	16.7500.....	18.6250.....	0.2700

1999				
March 31.....	\$19.5000.....	\$15.8750.....	\$16.0625.....	\$0.2500
June 30.....	18.8750.....	14.8750.....	18.5625.....	0.2500
September 30.....	19.8125.....	17.1875.....	17.2500.....	0.2600
December 31.....	19.6250.....	17.1250.....	18.3750.....	0.2600

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

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

ITEM 6. SELECTED FINANCIAL DATA

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

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

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

FOR THE YEARS ENDED DECEMBER 31,	1997	1996	1995	1994(1)
Operating (in thousands of dollars)				
Revenues				
Natural gas distribution and transmission	\$ 88,105	\$ 90,093	\$ 79,105	\$ 71,716
Propane distribution and marketing	125,159	161,812	147,596	20,684
Advanced informations systems	7,636	6,903	7,307	2,288
Other	1,589	1,294	1,277	3,884
Total revenues	\$ 222,489	\$ 260,102	\$ 235,285	\$ 98,572
Gross margin				
Natural gas distribution and transmission	\$ 30,064	\$ 29,612	\$ 29,094	\$ 23,943
Propane distribution and marketing	12,492	17,579	13,235	9,359
Advanced informations systems	3,856	2,503	1,823	1,281
Other	737	915	1,016	1,472
Total gross margin	\$ 47,149	\$ 50,609	\$ 45,168	\$ 36,055
Operating income before taxes				
Natural gas distribution and transmission	\$ 9,219	\$ 9,625	\$ 10,811	\$ 7,715
Propane distribution and marketing	1,158	2,669	2,128	2,288
Advanced informations systems	1,046	1,017	587	305
Other	671	672	508	(551)
Total operating income before taxes	\$ 12,094	\$ 13,983	\$ 14,034	\$ 9,757
Net income from continuing operations(2)	\$ 5,868	\$ 7,782	\$ 7,696	\$ 4,460
Assets (in thousands of dollars)				
Gross property, plant and equipment	\$ 144,251	\$ 134,001	\$ 120,746	\$ 110,023
Net property, plant and equipment	\$ 99,879	\$ 94,014	\$ 85,055	\$ 75,313
Total assets	\$ 145,719	\$ 155,787	\$ 130,998	\$ 108,271
Capital expenditures	\$ 13,471	\$ 15,399	\$ 12,887	\$ 10,653
Capitalization (in thousands of dollars)				
Stockholders' equity	\$ 53,656	\$ 50,700	\$ 45,587	\$ 37,063
Long-term debt, net of current maturities	\$ 38,226	\$ 28,984	\$ 31,619	\$ 24,329
Total capitalization	\$ 91,882	\$ 79,684	\$ 77,206	\$ 61,392
Current portion of long-term debt	\$ 1,051	\$ 3,526	\$ 1,787	\$ 1,348
Short-term debt	\$ 7,600	\$ 12,735	\$ 5,400	\$ 8,000
Total capitalization & short-term financing	\$ 100,533	\$ 95,945	\$ 84,393	\$ 70,740
FOR THE YEARS ENDED DECEMBER 31,				
	1993(1)	1992(1)	1991(1)	
Operating (in thousands of dollars)				
Revenues				
Natural gas distribution and transmission	\$ 64,380	\$ 55,877	\$ 51,468	
Propane distribution and marketing	16,908	16,489	14,961	
Advanced informations systems	1,706	1,122	522	
Other	2,879	2,447	2,876	
Total revenues	\$ 85,873	\$ 75,935	\$ 69,827	
Gross margin				
Natural gas distribution and transmission	\$ 22,833	\$ 22,055	\$ 20,910	
Propane distribution and marketing	8,579	7,954	7,567	
Advanced informations systems	955	628	292	
Other	1,078	942	1,187	
Total gross margin	\$ 33,445	\$ 31,579	\$ 29,956	
Operating income before taxes				
Natural gas distribution and transmission	\$ 7,207	\$ 7,083	\$ 7,408	
Propane distribution and marketing	1,588	1,440	559	
Advanced informations systems	136	70	40	
Other	(631)	(705)	66	
Total operating income before taxes	\$ 8,300	\$ 7,888	\$ 8,073	
Net income from continuing operations(2)	\$ 3,972	\$ 3,549	\$ 2,501	
Assets (in thousands of dollars)				
Gross property, plant and equipment	\$ 100,330	\$ 91,039	\$ 85,038	

Net property, plant and equipment	\$ 69,794	\$ 64,596	\$ 61,970
Total assets	\$ 100,775	\$ 89,214	\$ 85,963
Capital expenditures	\$ 10,064	\$ 6,720	\$ 5,923

Capitalization (in thousands of dollars)

Stockholders' equity	\$ 34,817	\$ 33,105	\$ 32,107
Long-term debt, net of current maturities	\$ 25,682	\$ 25,668	\$ 22,901
Total capitalization	\$ 60,499	\$ 58,773	\$ 55,071
Current portion of long-term debt	\$ 1,286	\$ 5,026	\$ 1,760
Short-term debt	\$ 8,900	\$ -	\$ 8,800
Total capitalization & short-term financing	\$ 70,685	\$ 63,799	\$ 65,631

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

- (1) 1994 and prior years have not been restated to include the business combinations with Tri-County Gas Company, Inc., Tolan Water Service and Xeron, Inc.
- (2) Earnings per share amounts shown prior to 1995 represent primary and fully diluted earnings per share.
- (3) 1993 excludes earnings per share of \$0.02 for the cumulative effect of change in accounting principle.
- (4) 1992 exclude earnings per share of \$0.02 for discontinued operations.
- (4) 1991 excludes a loss per share of \$0.17 for discontinued operations.

FOR THE YEARS ENDED DECEMBER 31,		1997	1996	1995
COMMON STOCK DATA AND RATIOS				
Basic earnings per share (2) (3) (4) (5)	\$	1.18	\$ 1.58	\$ 1.59
Return on average equity		11.3%	16.2%	18.6%
Common equity / total capitalization		58.4%	63.6%	59.0%
Common equity / total capitalization & short-term financing		53.4%	52.8%	54.0%
Book value per share	\$	10.72	\$ 10.26	\$ 9.38
Market price:				
High	\$	21.750	\$ 18.000	\$ 15.500
Low	\$	16.250	\$ 15.125	\$ 12.250
Close	\$	20.500	\$ 16.875	\$ 14.625
Average number of shares outstanding		4,972,086	4,912,136	4,836,430
Shares outstanding end of year		5,004,078	4,939,515	4,860,588
Registered common shareholders		2,178	2,213	2,098
Cash dividends per share	\$	0.97	\$ 0.93	\$ 0.90
Dividend yield (annualized)		4.7%	5.5%	6.2%
Payout ratio		82.2%	58.9%	56.6%

ADDITIONAL DATA

Customers				
Natural gas distribution and transmission		35,797	34,713	33,530
Propane distribution		33,123	31,961	31,115
Volumes				
Natural gas deliveries (in MMCF)		23,297	24,835	29,260
Propane distribution (in thousands of gallons)		26,682	29,975	26,184
Heating degree-days		4,430	4,717	4,594
Propane bulk storage capacity (in thousands of gallons)		1,866	1,860	1,818
Total employees		397	338	335

FOR THE YEARS ENDED DECEMBER 31,		1994 (1)	1993 (1)	1992 (1)	1991 (1)
COMMON STOCK DATA AND RATIOS					
Basic earnings per share (2) (3) (4) (5)	\$	1.23	\$ 1.12	\$ 1.02	\$ 0.73
Return on average equity		12.4%	11.2%	10.5%	9.6%
Common equity / total capitalization		60.4%	57.5%	56.3%	58.3%
Common equity / total capitalization & short-term financing		52.4%	49.3%	51.9%	48.9%
Book value per share	\$	10.15	\$ 9.76	\$ 9.50	\$ 9.37
Market price:					
High	\$	15.250	\$ 17.500	\$ 15.000	\$ 14.000
Low	\$	12.375	\$ 13.000	\$ 11.500	\$ 11.000
Close	\$	12.750	\$ 15.375	\$ 13.000	\$ 13.750
Average number of shares outstanding		3,628,056	3,551,932	3,477,244	3,434,008
Shares outstanding end of year		3,653,182	3,575,068	3,487,778	3,437,934
Registered common shareholders		1,721	1,743	1,674	1,723
Cash dividends per share	0.88	\$	0.86	\$ 0.86	\$ 0.86
Dividend yield (annualized)	6.9%		5.6%	6.6%	6.3%
Payout ratio	71.5%		76.8%	84.3%	117.8%

ADDITIONAL DATA

Customers					
	Natural gas distribution and transmission	32,346	31,270	30,407	29,464
	Propane distribution	22,180	21,622	21,132	22,145

Volumes					
	Natural gas deliveries (in MMCF)	22,728	19,444	17,344	16,337
	Propane distribution (in thousands of gallons)	18,395	17,250	17,125	14,837

	Heating degree-days	4,398	4,705	4,645	4,140
	Propane bulk storage capacity (in thousands of gallons)	1,230	1,140	1,140	1,221
	Total employees	320	326	317	311

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

BUSINESS DESCRIPTION

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

LIQUIDITY AND CAPITAL RESOURCES

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

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

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

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

CAPITAL STRUCTURE

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

FINANCING ACTIVITIES

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

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

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

RESULTS OF OPERATIONS

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

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

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

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

PRE-TAX OPERATING INCOME (IN THOUSANDS)

FOR THE YEARS ENDED DECEMBER 31,	2000	1999	INCREASE (DECREASE)	1999	1998	INCREASE (DECREASE)
BUSINESS SEGMENT:						
Natural gas distribution & transmission	\$12,365	\$ 10,300	\$ 2,065	\$ 10,300	\$ 8,814	\$ 1,486
Propane distribution & marketing	2,319	2,627	(308)	2,627	971	1,656
Advanced information services	336	1,470	(1,134)	1,470	1,316	154
Other & Eliminations	1,006	452	554	452	504	(52)
TOTAL PRE-TAX OPERATING INCOME	\$ 16,026	\$ 14,849	\$ 1,177	\$ 14,849	\$11,605	\$ 3,244

NATURAL GAS DISTRIBUTION AND TRANSMISSION

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

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

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

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

NATURAL GAS GROSS MARGIN SUMMARY (IN THOUSANDS)

FOR THE YEARS ENDED DECEMBER 31,	2000	1999	INCREASE (DECREASE)	1999	1998	INCREASE (DECREASE)
GROSS MARGIN:						
Sales	\$ 29,460	\$ 26,496	\$ 2,964	\$ 26,496	\$ 25,186	\$ 1,310
Transportation	6,486	5,830	656	5,830	3,969	1,861
Marketing	184	208	(24)	208	174	34
Non-gas sales	300	529	(229)	529	187	342
TOTAL GROSS MARGIN	\$ 36,430	\$ 33,063	\$ 3,367	\$ 33,063	\$ 29,516	\$ 3,547

Pre-tax operating income increased \$1.5 million from 1998 to 1999. The increase was the result of a \$3.5 million increase in gross margin offset by a \$2.0 million increase in operating expenses. The principal factors responsible for this increase in gross margin were:

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

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

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

In 1998, the Company restructured its retirement benefit plans ("the benefit restructuring"), resulting in a one-time reduction of \$1.2 million in consolidated pension expenses. Exclusive of the benefit restructuring, operating expenses increased by \$1.0 million, or 4.7 percent. The principal costs that contributed to higher operating expenses were depreciation, compensation, marketing and employee benefits.

PROPANE DISTRIBUTION AND MARKETING

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

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

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

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

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

Pre-tax operating income for 1999 was \$2.6 million compared to \$1.0 million for 1998. This increase of \$1.6 million was the result of a \$1.9 million increase in gross margin, offset by an increase in operating expenses of \$300,000. Gross margin was higher due to the following: gallons delivered by the distribution operation increased by 11 percent; margin earned per gallon sold by the distribution operation increased by 6 percent; and wholesale marketing margins earned increased by 28 percent.

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

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

ADVANCED INFORMATION SERVICES

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

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

INCOME TAXES

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

OTHER

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

INTEREST EXPENSE

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

REGULATORY ACTIVITIES

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

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

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

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

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

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

ENVIRONMENTAL MATTERS

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

MARKET RISK

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

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

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

AT DECEMBER 31, 2000	QUANTITY IN GALLONS	ESTIMATED MARKET PRICES	WEIGHTED AVERAGE CONTRACT PRICES
FORWARD CONTRACTS			
Sale	33,007,800	\$0.6800 -- \$1.2000	\$0.7869
Purchase	33,419,400	\$0.5625 -- \$1.0200	\$0.7597
FUTURES CONTRACTS			
Sale	2,814,000	\$0.6800 -- \$0.8700	\$0.7714
Purchase	1,260,000	\$0.5625 -- \$0.7700	\$0.5397

AT DECEMBER 31, 1999	QUANTITY IN GALLONS	ESTIMATED MARKET PRICES	WEIGHTED AVERAGE CONTRACT PRICES
FORWARD CONTRACTS			
Sale	9,954,000	\$0.3350 -- \$0.5250	\$0.4412
Purchase	8,064,000	\$0.3250 -- \$0.5200	\$0.4121
FUTURES CONTRACTS			
Purchase	2,730,000	\$0.4270 -- \$0.4350	\$0.4229

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

All contracts expire within twelve months.

COMPETITION

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

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

transportation services to certain industrial customers since 1994. At that time, the Company established a natural gas brokering and supply operation in Florida to compete for these customers.

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

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

INFLATION

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

RECENT PRONOUNCEMENTS

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

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

CAUTIONARY STATEMENT

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

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

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

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA

REPORT OF INDEPENDENT ACCOUNTANTS

To the Stockholders of Chesapeake Utilities Corporation

In our opinion, the consolidated financial statements listed in the index appearing under Item 14(a)(1) of this Form 10-K present fairly, in all material respects, the financial position of Chesapeake Utilities Corporation and its subsidiaries at December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 14(a)(2) of this Form 10-K presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. The financial statements and the financial statement schedule are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/ PRICEWATERHOUSECOOPERS LLP
 PRICEWATERHOUSECOOPERS LLP
 Philadelphia, Pennsylvania
 February 13, 2001

CONSOLIDATED STATEMENTS OF INCOME

For the Years Ended December 31,	2000	1999	1998
Operating Revenues	\$ 335,407,036	\$ 230,200,335	\$ 182,919,848
Cost of Sales	273,635,709	175,500,379	135,116,125
Gross Margin	61,771,327	54,699,956	47,803,723
Operating Expenses			
Operations	32,385,261	27,554,796	24,110,315
Maintenance	1,868,260	1,521,302	2,118,066
Depreciation and amortization	7,142,611	6,523,669	5,945,901
Other taxes	4,349,224	4,251,051	4,024,129
Income taxes	4,387,925	4,174,896	3,175,693
Total operating expenses	50,133,281	44,025,714	39,374,104
Operating Income	11,638,046	10,674,242	8,429,619
Other Income			
Gain on sale of investment	0	1,415,343	0
Interest income	220,462	99,660	192,262
Other income	248,748	60,799	110,506
Income taxes	(108,667)	(509,351)	(50,051)
Total other income	360,543	1,066,451	252,717
Income Before Interest Charges	11,998,589	11,740,693	8,682,336
Interest Charges			
Interest on long-term debt	2,628,781	2,793,712	2,966,043
Interest on short-term borrowing	1,699,402	551,937	242,695
Amortization of debt expense	111,122	117,966	123,335
Other	70,083	6,092	47,677
Total interest charges	4,509,388	3,469,707	3,379,750
Net Income	\$ 7,489,201	\$ 8,270,986	\$ 5,302,586
Earnings Per Share of Common Stock:			
Basic	\$ 1.43	\$ 1.61	\$ 1.05
Diluted	\$ 1.40	\$ 1.57	\$ 1.04

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

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

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31,	2000	1999	1998
OPERATING ACTIVITIES			
Net Income	\$ 7,489,201	\$ 8,270,986	\$ 5,302,586
Adjustments to reconcile net income to net operating cash:			
Depreciation and amortization	8,044,315	7,509,841	6,864,063
Investment tax credit adjustments, net	(54,815)	(54,815)	(54,815)
Deferred income taxes, net	2,922,815	385,104	1,711,510
Mark-to-market adjustments	(689,032)	65,076	(242,757)
Employee benefits	80,165	8,659	(801,898)
Employee compensation	217,000	298,756	206,378
Other, net	(816,049)	212,711	(171,619)
Changes in assets and liabilities:			
Accounts receivable, net	(16,347,454)	(6,902,950)	1,797,425
Inventories, storage gas and materials	(3,307,420)	(1,704,544)	1,118,973
Prepaid expenses and other current assets	247,892	96,687	(488,771)
Other deferred charges	(333,147)	1,105,748	156,786
Accounts payable, net	16,789,601	5,778,418	(5,327,048)
Refunds payable to customers	235,619	143,356	279,112
(Under) overrecovered purchased gas costs	(6,111,373)	315,351	121,123
Other current liabilities	(687)	1,068,928	556,359
Net cash provided by operating activities	8,366,631	16,597,312	11,027,407
INVESTING ACTIVITIES			
Property, plant and equipment expenditures, net	(21,821,006)	(25,128,670)	(12,021,735)
Sale (purchase) of investments	0	2,189,312	(500,000)
Net cash used by investing activities	(21,821,006)	(22,939,358)	(12,521,735)
FINANCING ACTIVITIES			
Common stock dividends, net of amounts reinvested of \$520,712, \$456,962 and \$421,382 in 2000, 1999 and 1998, respectively	(5,022,313)	(4,774,338)	(4,340,687)
Issuance of stock - Dividend Reinvestment Plan optional cash	197,797	187,369	188,564
Issuance of stock - Retirement Savings Plan	916,159	816,306	466,759
Net borrowing under line of credit agreements	2,400,000	11,400,000	3,999,990
Proceeds from issuance of long-term debt, net	19,887,194	0	0
Repayment of long-term debt	(2,675,319)	(1,528,202)	(1,051,390)
Net cash provided (used) by financing activities	15,703,518	6,101,135	(736,764)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,249,143	(240,911)	(2,231,092)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	2,357,173	2,598,084	4,829,176
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 4,606,316	2,357,173	\$ 2,598,084
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Cash paid for interest	\$ 4,410,230	\$ 3,409,070	\$ 3,490,993
Cash paid for income taxes	\$ 3,212,080	\$ 4,413,155	\$ 2,670,580

See accompanying notes

CONSOLIDATED BALANCE SHEETS

AT DECEMBER 31,	2000	1999
Assets		
Property, Plant and Equipment		
Natural gas distribution and transmission	\$ 149,109,573	\$ 132,929,885
Propane distribution and marketing	31,630,208	28,679,766
Advanced information services	1,699,968	1,460,411
Other plant	10,488,581	9,017,458
Total property, plant and equipment	192,928,330	172,087,520
Less: Accumulated depreciation and amortization	(61,462,011)	(54,424,105)
Net property, plant and equipment	131,466,319	117,663,415
Investments, at fair market value	616,293	595,644
CURRENT ASSETS		
Cash and cash equivalents	4,606,316	2,357,173
Accounts receivable (less allowance for uncollectibles of \$549,961 and \$475,592 in 2000 and 1999, respectively)	38,046,582	21,699,128
Materials and supplies, at average cost	1,566,126	1,547,225
Merchandise inventory, at average cost	1,234,072	859,989
Propane inventory, at average cost	4,379,599	2,754,401
Storage gas prepayments	3,500,323	2,211,084
Underrecovered purchased gas costs	5,388,725	1,236,914
Income taxes receivable	1,159,761	73,772
Deferred income taxes receivable	0	745,888
Prepaid expenses and other current assets	1,946,535	1,505,396
Total current assets	61,828,039	34,990,970
DEFERRED CHARGES AND OTHER ASSETS		
Environmental regulatory assets	2,910,000	2,340,000
Environmental expenditures	3,626,475	3,574,888
Underrecovered purchased gas costs	1,959,562	0
Other deferred charges and intangible assets	8,292,815	7,823,597
Total deferred charges and other assets	16,788,852	13,738,485
TOTAL ASSETS	\$ 210,699,503	\$ 166,988,514

See accompanying notes

CONSOLIDATED BALANCE SHEETS

AT DECEMBER 31,	2000	1999

CAPITALIZATION AND LIABILITIES		
Capitalization		
Stockholders' equity		
Common stock	\$ 2,577,992	\$ 2,524,018
Additional paid-in capital	27,672,005	25,782,824
Retained earnings	33,721,747	31,857,732

Total stockholders' equity	63,971,744	60,164,574

Long-term debt, net of current maturities	50,920,818	33,776,909

Total capitalization	114,892,562	93,941,483

CURRENT LIABILITIES		
Current maturities of long-term debt	2,665,091	2,665,091
Short-term borrowing	25,400,000	23,000,000
Accounts payable	33,654,718	16,865,119
Refunds payable to customers	1,015,128	779,508
Accrued interest	595,175	581,649
Dividends payable	1,429,945	1,347,784
Deferred income taxes payable	985,349	0
Other accrued liabilities	5,674,419	4,613,357

Total current liabilities	71,419,825	49,852,508

DEFERRED CREDITS AND OTHER LIABILITIES		
Deferred income taxes	15,086,951	13,895,373
Deferred investment tax credits	657,172	711,987
Environmental liability	2,910,000	2,340,000
Accrued pension costs	1,625,128	1,544,963
Other liabilities	4,107,865	4,702,200

Total deferred credits and other liabilities	24,387,116	23,194,523

COMMITMENTS AND CONTINGENCIES		
(NOTES L AND M)		
TOTAL CAPITALIZATION AND LIABILITIES	\$ 210,699,503	\$ 166,988,514
=====		

See accompanying notes

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

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

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

See accompanying notes

CONSOLIDATED STATEMENTS OF INCOME TAXES

FOR THE YEARS ENDED DECEMBER 31,	2000	1999	1998
Current Income Tax Expense			
Federal	\$ 1,598,184	\$ 3,948,746	\$ 1,553,839
State	264,294	807,214	307,654
Investment tax credit adjustments, net	(54,815)	(54,815)	(54,815)
Total current income tax expense	1,807,663	4,701,145	1,806,678
Deferred Income Tax Expense (1)			
Property, plant and equipment	1,071,852	734,765	887,175
Deferred gas costs	2,404,994	(124,576)	(111,416)
Pensions and other employee benefits	(115,615)	(153,697)	546,237
Unbilled revenue	(736,700)	(45,290)	(16,198)
Contributions in aid of construction	0	(160,971)	(104,003)
Environmental expenditures	879	97,480	415,845
Other (2)	63,519	(364,609)	(198,574)
Total deferred income tax expense	2,688,929	(16,898)	1,419,066
Total Income Tax Expense	\$ 4,496,592	\$ 4,684,247	\$ 3,225,744
Reconciliation of Effective Income Tax Rates			
Federal income tax expense at 34%	4,075,170	\$ 4,404,779	\$ 2,899,632
State income taxes, net of federal benefit	489,831	553,444	363,041
Other (2)	(68,409)	(273,976)	(36,929)
Total Income Tax Expense	\$ 4,496,592	\$ 4,684,247	\$ 3,225,744
Effective income tax rate	37.5%	36.2%	37.8%

AT DECEMBER 31,	2000	1999
Deferred Income Taxes		
Deferred income tax liabilities:		
Property, plant and equipment	\$15,088,379	\$ 14,016,527
Environmental costs	1,478,259	1,477,380
Deferred gas costs	2,844,140	439,146
Other	736,255	527,643
Total deferred income tax liabilities	20,147,033	16,460,696
Deferred income tax assets:		
Unbilled revenue	1,790,563	1,053,863
Pension and other employee benefits	1,382,628	1,267,013
Self insurance	502,416	687,158
Other	399,126	303,177
Total deferred income tax assets	4,074,733	3,311,211
Deferred Income Taxes Per Consolidated Balance Sheet	\$16,072,300	\$ 13,149,485

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

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

See accompanying notes

A. SUMMARY OF ACCOUNTING POLICIES

NATURE OF BUSINESS

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

PRINCIPLES OF CONSOLIDATION

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

SYSTEM OF ACCOUNTS

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

PROPERTY, PLANT, EQUIPMENT AND DEPRECIATION

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

CASH AND CASH EQUIVALENTS

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

ENVIRONMENTAL REGULATORY ASSETS

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

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

OTHER DEFERRED CHARGES AND INTANGIBLE ASSETS

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

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

INCOME TAXES AND INVESTMENT TAX CREDIT ADJUSTMENTS

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

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

FINANCIAL INSTRUMENTS

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

OPERATING REVENUES

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

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

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

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

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

EARNINGS PER SHARE

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

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

CERTAIN RISKS AND UNCERTAINTIES

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

The Company records certain assets and liabilities in accordance with Statement of Financial Accounting Standards ("SFAS") No. 71. If the Company were required to terminate application of SFAS No. 71 for its regulated operations, all such deferred amounts would be recognized in the income statement at that time. This would result in a charge to earnings, net of applicable income taxes, which could be material.

FASB STATEMENTS AND OTHER AUTHORITATIVE PRONOUNCEMENTS

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

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

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

RESTATEMENT AND RECLASSIFICATION OF PRIOR YEARS' AMOUNTS

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

B. BUSINESS COMBINATIONS

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

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

C. SEGMENT INFORMATION

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

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

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

D. FAIR VALUE OF FINANCIAL INSTRUMENTS

Various items within the balance sheet are considered to be financial instruments because they are cash or are to be settled in cash. The carrying values of these items generally approximate their fair value (see Note E to the Consolidated Financial Statements for disclosure of fair value of investments). The Company's open forward and futures contracts at December 31, 2000 and December 31, 1999 had a net fair value of \$831,000 and \$142,000, respectively based on market rates. The fair value of the Company's long-term debt is estimated using a discounted cash flow methodology. The Company's long-term debt at December 31, 2000, including current maturities, had an estimated fair value of \$56.0 million as compared to a carrying value of \$53.6 million. At December 31, 1999, the estimated fair value was approximately \$36.3 million as compared to a carrying value of \$36.4 million. These estimates are based on published corporate borrowing rates for debt instruments with similar terms and average maturities.

E. INVESTMENTS

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

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

F. COMMON STOCK AND ADDITIONAL PAID-IN CAPITAL

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

FOR THE YEARS ENDED DECEMBER 31,	2000	1999	1998
COMMON STOCK: SHARES ISSUED AND OUTSTANDING (1)			
Balance-- beginning of year	5,186,546	5,093,788	5,004,078
Dividend Reinvestment Plan (2)	41,056	36,319	32,925
Sale of stock to the Company's Retirement Savings Plan	52,093	46,208	26,018
Conversion of debentures	10,628	8,631	6,401
Performance shares	7,120	1,600	24,366
Balance-- end of year (3)	5,297,443	5,186,546	5,093,788

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

(2)Includes dividends and reinvested optional cash payments.

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

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

G. LONG-TERM DEBT

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

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

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

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

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

H. SHORT-TERM BORROWING

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

I. LEASE OBLIGATIONS

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

J. EMPLOYEE BENEFIT PLANS

PENSION PLAN

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

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

AT DECEMBER 31,	2000	1999
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 8,241,995	\$ 12,187,885
Service cost	354,031	400,921
Interest cost	605,185	688,198
Effect of curtailment	-	(16,369)
Change in discount rate	-	(896,201)
Actuarial loss	8,153	263,562
Benefits paid (1)	(382,830)	(4,386,001)
Benefit obligation at end of year	8,826,534	8,241,995
CHANGE IN PLAN ASSETS:		
Fair value of plan assets at beginning of year	10,185,394	14,585,169
Actual return on plan assets	1,068,566	(13,774)
Benefits paid (1)	(382,830)	(4,386,001)
Fair value of plan assets at end of year	10,871,130	10,185,394
FUNDED STATUS	2,044,596	1,943,399
UNRECOGNIZED TRANSITION OBLIGATION	(81,163)	(96,267)
UNRECOGNIZED PRIOR SERVICE COST	(57,754)	(62,453)
UNRECOGNIZED NET GAIN	(3,015,953)	(2,956,318)
ACCRUED PENSION COST	\$ (1,110,274)	\$ (1,171,639)
ASSUMPTIONS:		
Discount rate	7.50%	7.50%
Rate of compensation increase	4.75%	4.75%
Expected return on plan assets	8.50%	8.50%

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

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

FOR THE YEARS ENDED DECEMBER 31,	2000	1999	1998
COMPONENTS OF NET PERIODIC PENSION COST:			
Service cost	\$ 354,031	\$ 400,921	\$ 838,177
Interest cost	605,185	688,198	803,727
Expected return on assets	(859,245)	(1,046,254)	(1,149,754)
Amortization of:			
Transition assets	(15,104)	(15,104)	(15,104)
Prior service cost	(4,699)	(4,699)	(4,699)
Actuarial gain	(141,533)	(118,142)	(143,622)
Net periodic pension (benefit) cost	(61,365)	(95,080)	328,725
Curtailment gain	-	-	(1,224,298)
TOTAL PENSION (BENEFIT) COST	\$ (61,365)	\$ (95,080)	\$ (895,573)

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

RETIREMENT SAVINGS PLAN

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

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

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

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

OTHER POST-RETIREMENT BENEFITS

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

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

FOR THE YEARS ENDED DECEMBER 31,	2000	1999	1998
Components of net periodic post-retirement cost:			
Service cost	\$ 1,803	\$ 3,322	\$ 3,361
Interest cost	57,584	55,023	59,321
Amortization of:			
Transition obligation	27,859	27,859	27,859
Actuarial loss	-	3,130	6,071
Net periodic post-retirement cost	87,246	89,334	96,612
Amounts amortized	25,028	25,254	25,254
TOTAL POST-RETIREMENT COST	\$ 112,274	\$ 114,588	\$ 121,866

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

AT DECEMBER 31,	2000	1999
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 788,532	\$ 887,060
Retirees	23,708	(19,169)
Fully-eligible active employees	48,992	(59,211)
Other active	(28,697)	(20,148)
Benefit obligation at end of year	\$ 832,535	\$ 788,532
FUNDED STATUS	\$ (832,535)	\$ (788,532)
UNRECOGNIZED TRANSITION OBLIGATION	161,577	189,436
UNRECOGNIZED NET LOSS	61,543	23,329
ACCRUED POST-RETIREMENT COST	\$ (609,415)	\$ (575,767)

ASSUMPTIONS:

Discount rate	7.50%	7.50%
---------------	-------	-------

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

K. EXECUTIVE INCENTIVE PLANS

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

The Company executed Stock Option Agreements for a three-year performance period ending December 31, 2000 with certain executive officers. One-half of these options become exercisable over time and the other half become exercisable if certain performance targets are achieved. In 2000, the Company replaced the third year of this Stock Option Agreement with Stock Appreciation Rights ("SARs"). The SARs are awarded based on performance with a minimum number of SARs established for each participant. During 2000, the Company awarded 26,300 SARs in conjunction with the agreement. Chesapeake currently awards Performance Share Agreements annually for certain other executive officers. Each year participants are eligible to earn a maximum number of performance shares, based on the Company's achievement of certain performance goals. The Company recorded compensation expense of \$118,000, \$131,000 and \$49,000 associated with these performance shares in 2000, 1999 and 1998, respectively.

Changes in outstanding options were as follows:

	2000		1999		1998	
	NUMBER OF SHARES	OPTION PRICE	NUMBER OF SHARES	OPTION PRICE	NUMBER OF SHARES	OPTION PRICE
Balance-- beginning of year	163,637	\$12.75 -- \$20.50	163,637	\$12.75 -- \$20.50	208,543	\$12.625 -- \$20.50
Options expired					(44,906)	\$12.625
Options forfeited or replaced	(53,544)	\$20.50				
Balance-- end of year	110,093	\$12.75 -- \$20.50	163,637	\$12.75 -- \$20.50	163,637	\$12.75 -- \$20.50
Exercisable	110,093	\$12.75 -- \$20.50	85,735	\$12.75 -- \$20.50	68,145	\$12.75

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

FOR THE YEARS ENDED DECEMBER 31,	2000	1999	1998
Pro forma Net Income	\$ 7,475,885	\$ 8,230,868	\$ 5,262,468
Pro forma Earnings Per Share:			
Basic	\$ 1.42	\$ 1.60	\$ 1.04
Diluted	\$ 1.40	\$ 1.57	\$ 1.03
Assumptions:			
Dividend yield	4.73%	4.73%	4.73%
Expected volatility	15.53%	15.53%	15.53%
Risk-free interest rate	5.89%	5.89%	5.89%

L. ENVIRONMENTAL COMMITMENTS AND CONTINGENCIES

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

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

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

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

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

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

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

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

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

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

M. OTHER COMMITMENTS AND CONTINGENCIES

NATURAL GAS SUPPLY

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

OTHER

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

N. QUARTERLY FINANCIAL DATA (UNAUDITED)

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

FOR THE QUARTERS ENDED	MARCH 31	JUNE 30	SEPTEMBER 30	DECEMBER 31
2000				
Operating Revenue	\$ 98,509,179	\$ 65,950,982	\$ 59,212,768	\$ 111,734,107
Operating Income	6,640,727	1,235,233	(43,959)	3,806,045
Net Income	5,669,466	319,548	(1,044,709)	2,544,896
Earnings per share:				
Basic	\$ 1.09	\$ 0.06	\$ (0.20)	\$ 0.48
Diluted	\$ 1.05	\$ 0.06	\$ (0.20)	\$ 0.47
1999				
Operating Revenue	\$ 55,449,379	\$ 46,718,039	\$ 56,397,315	\$ 71,635,602
Operating Income	5,757,404	1,542,744	22,546	3,351,548
Net Income (1)	4,942,983	796,103	(784,981)	3,316,881
Earnings per share:				
Basic	\$ 0.97	\$ 0.16	\$ (0.15)	\$ 0.64
Diluted	\$ 0.93	\$ 0.16	\$ (0.15)	\$ 0.62

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

See Note E to the Consolidated Financial Statements.

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

None

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information pertaining to the Directors of the Company is incorporated herein by reference to the Proxy Statement, under "Information Regarding the Board of Directors and Nominees", Section 16(a) Beneficial Ownership Reporting Compliance" to be filed on or before May 1, 2001 in connection with the Company's Annual Meeting to be held on May 15, 2001

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

ITEM 11. EXECUTIVE COMPENSATION

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

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

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

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

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

PART IV

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

(a) THE FOLLOWING DOCUMENTS ARE FILED AS PART OF THIS REPORT:

1. Financial Statements:

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

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

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

(b) REPORTS ON FORM 8-K:

None

(c) EXHIBITS:

- Exhibit 3(a) Amended Certificate of Incorporation of Chesapeake Utilities Corporation is incorporated herein by reference to Exhibit 3.1 of the Company's Quarterly Report on Form 10-Q for the period ended June 30, 1998, File No. 001-11590.
- Exhibit 3(b) Amended Bylaws of Chesapeake Utilities Corporation, effective August 20, 1999, are incorporated herein by reference to Exhibit 3 of the Company's Registration Statement on Form 8-A, File No. 001-11590, filed August 24, 1999.
- Exhibit 4(a) Form of Indenture between the Company and Boatmen's Trust Company, Trustee, with respect to the 8 1/4% Convertible Debentures is incorporated herein by reference to Exhibit 4.2 of the Company's Registration Statement on Form S-2, Reg. No. 33-26582, filed on January 13, 1989.
- Exhibit 4(b) Note Agreement dated February 9, 1993, by and between the Company and Massachusetts Mutual Life Insurance Company and MML Pension Insurance Company, with respect to \$10 million of 7.97% Unsecured Senior Notes due February 1, 2008, is incorporated herein by reference to Exhibit 4 to the Company's Annual Report on Form 10-K for the year ended December 31, 1992, File No. 0-593.
- Exhibit 4(c) Note Purchase Agreement entered into by the Company on October 2, 1995, pursuant to which the Company privately placed \$10 million of its 6.91% Senior Notes due in 2010, is not being filed herewith, in accordance with Item 601(b)(4)(iii) of Regulation S-K. The Company hereby agrees to furnish a copy of that agreement to the Commission upon request.
- Exhibit 4(d) Note Purchase Agreement entered into by the Company on December 15, 1997, pursuant to which the Company privately placed \$10 million of its 6.85% senior notes due 2012, is not being filed herewith, in accordance with Item 601(b)(4)(iii) of Regulation S-K. The Company hereby agrees to furnish a copy of that agreement to the Commission upon request.

Exhibit 4(e)	Note Purchase Agreement entered into by the Company on December 27, 2000, pursuant to which the Company privately placed \$20 million of its 7.83% senior notes due 2015, is not being filed herewith, in accordance with Item 601(b)(4)(iii) of Regulation S-K. The Company hereby agrees to furnish a copy of that agreement to the Commission upon request.
*Exhibit 10(a)	Executive Employment Agreement dated March 26, 1997, by and between Chesapeake Utilities Corporation and each Ralph J. Adkins and John R. Schimkaitis is incorporated herein by reference to Exhibit 10 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 1997, File No. 001-11590.
*Exhibit 10(b)	Executive Employment Agreement dated January 1, 2001, by and between Chesapeake Utilities Corporation and Ralph J. Adkins, filed herewith.
*Exhibit 10(c)	Form of Performance Share Agreement dated January 1, 1998, pursuant to Chesapeake Utilities Corporation Performance Incentive Plan by and between Chesapeake Utilities Corporation and each of Ralph J. Adkins and John R. Schimkaitis is incorporated herein by reference to Exhibit 10 of the Company's Annual Report on Form 10-K for the year ended December 31, 1997, File No. 001-11590.
*Exhibit 10(d)	Form of Performance Share Agreement dated January 1, 2001, pursuant to Chesapeake Utilities Corporation Performance Incentive Plan by and between Chesapeake Utilities Corporation and each of Ralph J. Adkins, John R. Schimkaitis, Michael P. McMasters and Stephen C. Thompson, filed herewith.
*Exhibit 10(e)	Chesapeake Utilities Corporation Cash Bonus Incentive Plan dated January 1, 1992, is incorporated herein by reference to Exhibit 10 to the Company's Annual Report on Form 10-K for the year ended December 31, 1991, File No. 0-593.
*Exhibit 10(f)	Chesapeake Utilities Corporation Performance Incentive Plan dated January 1, 1992, is incorporated herein by reference to the Company's Proxy Statement dated April 20, 1992, in connection with the Company's Annual Meeting held on May 19, 1992.
*Exhibit 10(g)	Form of Stock Appreciation Rights Agreement dated January 1, 2001, pursuant to Chesapeake Utilities Corporation Performance Incentive Plan by and between Chesapeake Utilities Corporation and each of Philip S. Barefoot, William C. Boyles, Thomas A. Geoffroy, James R. Schneider and William P. Schneider, filed herewith.
*Exhibit 10(h)	Directors Stock Compensation Plan adopted by Chesapeake Utilities Corporation in 1995 is incorporated herein by reference to the Company's Proxy Statement dated April 17, 1995 in connection with the Company's Annual Meeting held in May 1995.
*Exhibit 10(i)	United Systems, Inc. Executive Appreciation Rights Plan dated December 31, 2000, filed herewith.
*Exhibit 10(j)	United Systems, Inc. Employee Appreciation Rights Plan dated December 31, 2000, filed herewith.
Exhibit 12	Computation of Ratio of Earning to Fixed Charges, filed herewith.
Exhibit 21	Subsidiaries of the Registrant, filed herewith.
Exhibit 23	Consent of Independent Accountants, filed herewith.

* Management contract or compensatory plan or agreement.

SIGNATURES

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

CHESAPEAKE UTILITIES CORPORATION

By: /S/ JOHN R. SCHIMKAITIS

 John R. Schimkaitis
 President and Chief Executive Officer
 Date: March 15, 2001

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

/S/ RALPH J. ADKINS

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

/S/ JOHN R. SCHIMKAITIS

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

/S/ MICHAEL P. MCMASTERS

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

/S/ RICHARD BERNSTEIN

 Richard Bernstein, Director
 Date: March 15, 2001

/S/ WALTER J. COLEMAN

 Walter J. Coleman, Director
 Date: March 15, 2001

/S/ JOHN W. JARDINE, JR.

 John W. Jardine, Jr., Director
 Date: March 15, 2001

/S/ CALVERT A. MORGAN, JR.

 Calvert A. Morgan, Jr., Director
 Date: March 15, 2001

/S/ RUDOLPH M. PEINS, JR.

 Rudolph M. Peins, Jr., Director
 Date: March 15, 2001

/S/ ROBERT F. RIDER

 Robert F. Rider, Director
 Date: March 15, 2001

/S/ JEREMIAH P. SHEA

 Jeremiah P. Shea, Director
 Date: March 15, 2001

/S/ WILLIAM G. WARDEN, III

 William G. Warden, III, Director
 Date: March 15, 2001

CHESAPEAKE UTILITIES CORPORATION AND SUBSIDIARIES
SCHEDULE II
VALUATION AND QUALIFYING ACCOUNTS

FOR THE YEAR ENDED DECEMBER 31,	BALANCE AT BEGINNING OF YEAR	ADDITIONS			BALANCE AT END OF YEAR
		CHARGED TO INCOME	OTHER ACCOUNTS (1)	DEDUCTIONS (2)	
RESERVE DEDUCTED FROM RELATED ASSETS					
RESERVE FOR UNCOLLECTIBLE ACCOUNTS 2000	\$ 475,592	\$ 342,407	\$ 63,741	\$ (331,779)	\$ 549,961
1999	\$ 302,513	\$ 457,367	\$ 74,877	\$ (359,165)	\$ 475,592
1998	\$ 331,775	\$ 280,391	\$ 57,759	\$ (367,412)	\$ 302,513

(1) Recoveries.

(2) Uncollectible accounts charged off.

Upon written request,
Chesapeake will provide, free of
charge, a copy of any exhibit to
the 2000 Annual Report on
Form 10-K not included
in this document.

EXECUTIVE EMPLOYMENT AGREEMENT

AN EXECUTIVE EMPLOYMENT AGREEMENT ("Agreement"), dated this 1st day of January 2001, by and between Chesapeake Utilities Corporation, a Delaware corporation (the "Company"), and Ralph J. Adkins ("Executive").

WITNESSETH:

WHEREAS, the Company is currently obtaining the benefit of Executive's services as a part-time executive employee in the capacity of Chairman of the Company's Board of Directors ("Chairman") under an Executive Employment Agreement, dated January 1, 1999;

WHEREAS, the Company's Board of Directors (the "Board") has authorized the Company to agree to provide for Executive's continued employment on the terms set forth in this Agreement; and

WHEREAS, Executive is willing, in consideration of the covenants hereinafter provided, to continue to be employed by the Company in the capacity of Chairman and to render services incident to such position during the term of this Agreement.

NOW, THEREFORE, 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 Chairman, with such reasonable duties and responsibilities as are consistent with the By-laws of the Company, as of the date hereof, and the Position Description dated January 1, 2001, appended to this Agreement.

2. Term of Agreement. The term of Executive's employment under this Agreement (the "Term") shall extend until December 31, 2002, unless such employment is earlier terminated (i) by either the Company or Executive upon 90 days prior written notice to the other or (ii) otherwise accordance with the provisions of Section 8.

3. Time. Executive agrees to devote one-half of a full-time work schedule and, during that time, his full best efforts for the benefit of the Company and its subsidiaries, and not to serve any other business enterprise or organization in any capacity during the Term, without the prior written consent of the Company, which consent shall not be unreasonably withheld.

4. Office. During the Term, Executive shall serve as the Company's Chairman.

5. Compensation. During the Term, the Company shall compensate Executive for his services hereunder at a rate of \$XXXXX per annum, payable in equal semimonthly installments, or such greater or lesser amount as the Board may determine ("Base Compensation"). The Base Compensation rate shall be reviewed annually and may be increased or decreased from time to time.

6. Expenses. During the Term, the Company shall pay all necessary and reasonable business expenses incurred by Executive on behalf of the Company in the course of his employment under this Agreement, including, without limitation, expenses incurred in the conduct of the Company's business while away from his domicile and expenses for travel, meals, lodging, entertainment and related expenses that are for the benefit of the Company.

7. Other Benefits.

(a) During the Term, Executive shall be entitled to participate in all profit-sharing, insurance, medical and retirement benefit plans, together with vacation and other employee benefits of the Company, now in effect or as hereafter amended or established, in which Company executive employees are permitted to participate. The Executive's participation shall be in accordance with the terms and provisions of such plans.

(b) During the Term, 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 maintained automobile, new every three years, of a kind and model appropriate to his position with the Company.

8. Termination.

(a) Termination for Cause. This Executive's employment under this Agreement may be terminated by the Company at any time for "cause". In the event of termination for "cause," Executive (i) shall only be entitled to the payment of the compensation and benefits contemplated by Section 5, 6, and 7 through the date termination (except for any benefits that the Company may be required to continue to provide by law) and (ii) and shall not be entitled to any severance benefits under this Agreement. Unless a Change in Control has occurred, "cause" shall be as the Board may reasonably determine. Following a Change in Control, the Company may terminate the Executive's employment for "cause" only if Executive engages in:

- (i) conduct that constitutes a felony under the laws of the United States or a state in which Executive works or resides;
 - (ii) an act or acts of dishonesty 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 (except by reason of incapacity due to illness or accident) to comply with the provisions of Section 1, provided that such breach shall have resulted in demonstrably material injury to the Company, and Executive shall have failed to remedy such breach within thirty days after notice received from the Secretary of the Company demanding that 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.
- (b) Termination Following a Change in Control. After a Change in Control:
 - (i) the Company may terminate the Executive's employment under this Agreement at any time and for any reason; and
 - (ii) Executive may terminate his employment at any time following the occurrence of any of the following events:
 - (A) failure to elect or reelect Executive to, or removal of Executive from, the position described in Section 1;
 - (B) Executive's good-faith determination that there has been a significant change in the nature or scope of his authorities, powers, functions, duties or responsibilities attached to the position described in Section 1 or a reduction in his compensation as provided in Section 5 or his benefits as provided in Section 7, which change or reduction is not remedied within thirty days after notice to the Company by Executive;
 - (C) any other breach by the Company of any provision of this Agreement that is not remedied within 30 days after notice to the Company by Executive; or

(D) the liquidation, dissolution, 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; provided that in any event set forth in this Section 8(b)(ii), Executive shall have elected to terminate his employment under this Agreement upon not less than 40 and not more than 90 days' notice to the Board, attention of the Secretary of the Company, given within three calendar months after (1) failure to be so elected or reelected, or such removal, (2) expiration of the 30-day cure period with respect to such event, or (3) the closing date of such liquidation, dissolution, consolidation, merger or transfer of assets.

An election by Executive to terminate his employment under the provisions of this Section 8(b)(ii) shall not be deemed a voluntary termination of employment by Executive for the purposes of this Agreement or any plan or practice of the Company.

(c) Payment Upon Termination. In the event that (i) the Company terminates Executive's employment under this Agreement for any reason other than Cause or Executive's death or (ii) Executive terminates his employment under this Agreement pursuant to Section 8(B)(ii), the Company shall continue to pay to Executive (or in the event of his death following such termination, his legal representative) his Base Compensation under Section 5, at the semi-monthly rate in effect immediately prior to the date of such termination, until December 31, 2002.

(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, which shall be deemed to have occurred if:

(i) The registration of the Company's voting securities under the Securities Exchange Act of 1934, as amended (the "1934 Act"), terminates or the Company shall have fewer than 300 stockholders of record; or

(ii) any person or group (within the meaning of sections 13(d) and 14(d) of the 1934 Act), other than the Company or any of its majority-controlled subsidiaries, becomes the beneficial owner (within the meaning of Rule 13d-3 under the 1934 Act) of 30 percent or more of the combined voting power of the Company's then outstanding voting securities; or

(iii) a tender offer or exchange offer (other than an offer by the Company or a majority-controlled subsidiary), pursuant to which 30 percent or more of the combined voting power of the Company's then outstanding voting securities is purchased, expires; or

(iv) the stockholders of the Company approve an agreement to merge or consolidate with another corporation (other than a majority-controlled subsidiary of the Company) unless the stockholders of the Company immediately before the merger or consolidation are to own more than 70 percent of the combined voting power of the resulting entity's voting securities; or

(v) the Company's stockholders approve an agreement (including, without limitation, a plan of liquidation) to sell or otherwise dispose of all or substantially all of the business or assets of the Company; or

(vi) during any period of two consecutive years, individuals who, at the beginning of such period, constituted the Board cease for any reason to constitute at least a majority thereof, unless the election or the nomination for election by the Company's stockholders of each new director was approved by a vote of at least two-thirds of the directors then still in office who were directors at the beginning of the period; or

(vii) the acquisition of direct or indirect beneficial ownership of more than 15 percent of the Company's then outstanding voting securities by any person or group is approved over the formal objection of the Company by the Securities and Exchange Commission pursuant to section 9 of the Public Utility Holding Company Act of 1935, as amended.

However, no Change in Control shall be deemed to have occurred by reason of any event involving a transaction in which Executive, or a group of persons or entities with which

Executive acts in concert, acquires, directly or indirectly, more than 30 percent of the common stock or the business or assets of the Company; any event involving or arising out of a proceeding under Title 11 of the United States Code (or the provisions of any future United States bankruptcy law), an assignment for the benefit of creditors or an insolvency proceeding under state or local law; or any event constituting approval by the Company's stockholders of a merger or consolidation if a majority of the group consisting of the President and Vice Presidents of the Company who are parties to agreements conferring rights upon a Change in Control shall have agreed in writing prior to such approval that approval shall be deemed not to constitute a Change in Control.

9. 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 the termination of his employment under this Agreement.

10. Noncompetition Covenant. For a period of one year following the termination of Executive's employment under this Agreement or, if Executive has given a notice pursuant to Section 8(b)(ii), for a period of 15 months following the giving of such notice, Executive shall assist no individual or entity other than the Company to acquire any entity with respect to which a proposal to acquire the entity was presented to the Board prior to the beginning of the period.

11. Indemnification. The Company shall indemnify Executive to the fullest extent permitted by applicable Delaware law (as it may be amended from time to time), including the advance of expenses permitted herein.

12. Performance. The failure of either party to this Agreement to insist upon strict performance of any provision hereof shall not constitute a waiver of its rights subsequently to insist upon strict performance of such provision or any other provision of this Agreement.

13. 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.

14. 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.

15. 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 Association, which right shall be invoked by serving upon the Company a notice to arbitrate, stating the place of arbitration, within 90 days of receipt of notice in any form (including, without limitation, failure by the Company to respond to a notice from Executive within 30 days) that the Company is withholding or proposes to withhold payments or provisions of benefits. In the event of any such dispute, 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 indemnify and hold harmless Executive from and against any and all expenses incurred in connection with such determination, including legal and other fees and expenses.

16. Successors. This Agreement shall be binding upon and inure to the benefit of 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, whether by means of merger, consolidation, acquisition of substantially all of the assets of the Company or otherwise, including by operation of law.

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.

18. Amendments. No amendment to this Agreement shall be effective unless in writing and signed by both the Company and Executive.

19. Governing Law. This Agreement shall be interpreted and enforced in accordance with the laws of the State of Delaware.

20. 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 19901, and, if to Executive, the last address therefor 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.

21. Withholding. The Company may withhold from any amounts payable to Executive hereunder all federal, state, city or other taxes that the Company may reasonably determine are required to be withheld pursuant to any applicable law or regulation.

22. Nature of Payments Upon Termination. All payments to Executive pursuant to Section 8 be considered as liquidated damages or 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.

23. Acknowledgment. The parties hereto each acknowledge 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:

Name:
Title:

ATTEST:

Secretary

EXECUTIVE

Ralph J. Adkins

PERFORMANCE SHARE AGREEMENT

PURSUANT TO THE

CHESAPEAKE UTILITIES CORPORATION
PERFORMANCE INCENTIVE PLAN

AGREEMENT dated as of January 1, 2001, and entered into, in duplicate, by and between Chesapeake Utilities Corporation, a Delaware corporation (the "Company"), and [Ralph J. Adkins / John R. Schimkaitis / Michael P. McMasters / Stephen C. Thompson] (the "Grantee") who resides at [ADDRESS].

WITNESSETH that:

WHEREAS, the Chesapeake Utilities Corporation Performance Incentive Plan (the "Plan") has been duly adopted by action of the Company's Board of Directors (the "Board") as of January 1, 1992; and

WHEREAS, the Committee of the Board of Directors of the Company referred to in the Plan (the "Committee") has determined that it is in the best interests of the Company to grant the Performance Share Award described herein pursuant to the Plan; and

WHEREAS, the shares of the Common Stock of the Company 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;

NOW, THEREFORE, it is hereby covenanted and agreed by and between the Company and the Grantee as follows:

Section 1. Performance Share Award

The Company hereby grants to the Grantee a Performance Share Award for the year ending December 31, 2001 (the "Award Year"). As more fully described herein, the Grantee may earn a maximum total of [XXXX] shares (the "Contingent Performance Shares") upon the Company's achievement of the Performance Goals set forth in Section 2. Alternatively, the Grantee may elect to receive [XXXX] shares (the "Forfeitable Performance Shares"), as detailed in Section 3, in lieu of receiving any Contingent Performance Shares. The Forfeitable Performance Shares shall be subject to forfeiture conditions, as set forth in Section 3(c).

Section 2. Contingent Performance Shares

(a) As soon as practicable after the Company's independent auditors have certified the Company's financial statements for the Award Year, the Committee shall determine for purposes of this Agreement the Company's (1) earnings growth ("EG"), (2) growth in non-regulated net income ("NRNI"), and (3) share price relative to book value ("Price/Book Value") as of the end of the Award Year. The EG, NRNI and Price/Book Value shall be determined by the Committee based on financial results reported to shareholders in the Company's annual reports and shall be subject to adjustment by the Committee for

extraordinary events, including, but not limited to, temperature fluctuation during the Award Year. The Committee shall promptly notify the Grantee of its determination.

(b) The Grantee may earn up to [XXXX] Contingent Performance Shares (the "Maximum Award"), as follows:

(1) If the EG for the Award Year exceeds the median five-year weighted average growth for companies included in the C.A. Turner database (natural gas distribution companies and integrated natural gas distribution companies), the Grantee may earn up to fifty percent (50%) of the Maximum Award, as follows:

- (i) If the EG is in the fourth quartile of companies in the C.A. Turner database, the Grantee shall earn fifty percent (50%) of the Maximum Award, or
- (ii) If the EG falls between the median and the fourth quartile, the Grantee shall earn a portion of the fifty percent (50%) available under this paragraph that is pro-rated to reflect the position of the Company's earnings growth within the third quartile, or
- (iii) If the EG is at or below the median, the Grantee shall not earn any Contingent Performance Shares under this paragraph (1);

(2) If the temperature-adjusted NRNI for the Award Year exceeds the temperature-adjusted NRNI for the prior calendar year by fifteen percent (15%) or more, the Grantee shall earn thirty percent (30%) of the Maximum Award. If the temperature-adjusted NRNI for the Award Year does not exceed the temperature-adjusted NRNI for the prior calendar year by at least fifteen percent (15%), the Grantee shall not earn any Contingent Performance Shares under this paragraph (2); and

(3) If the Price/Book Value for the Award Year is equal to or greater than the average Price/Book Value for the Award Year of companies in the third quartile of the C.A. Turner database (natural gas distribution companies and integrated natural gas distribution companies), the Grantee shall earn twenty percent (20%) of the Maximum Award. If the Price/Book Value for the Award Year does not equal or exceed the average Price/Book Value for the Award Year of companies in the third quartile of the C.A. Turner database, the Grantee shall not earn any Contingent Performance Shares under this paragraph (3). If one or more of the companies in the C.A. Turner database is at any time during the Award Year the subject of an announced acquisition, its stock shall not be considered for purposes of this paragraph (3).

(c) Contingent Performance Shares that are earned by the Grantee pursuant to this Section 2 shall be issued promptly, without payment of consideration by the Grantee. The Grantee shall have the right to vote the Contingent 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 Contingent Performance Shares (the "Issue Date"). If, however, the Grantee receives shares of Common Stock as part of any dividend or other distribution with respect to the Contingent Performance Shares, such shares shall be treated as if they are Contingent Performance Shares, and such shares shall be subject to all of the terms and conditions imposed by this Section 2.

(d) Sale, transfer, pledge, or hypothecation of the Contingent Performance Shares shall be prohibited for a period of three (3) years after the Issue Date (the "Limitation Period"),

and the Performance Shares shall bear a restrictive legend to that effect. Any attempt to dispose of Contingent Performance Shares in contravention of this Agreement shall be ineffective. Upon expiration of the Limitation Period, the transfer restrictions imposed by this Section shall expire, and new certificates representing the Contingent Performance Shares, without the restrictive legend described in this paragraph (d), shall be issued, subject to the provisions of paragraph (e) of this Section 2.

(e) The Performance Shares will be not 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 Contingent Performance Shares after expiration of the Limitation Period 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 Contingent 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 Award Year, the Grantee shall earn at least the Maximum Award of Contingent Performance Shares set forth in this Section 2, as if all employment and performance criteria were satisfied, pro rated based on the proportion of the Award Year that has expired as of the date of such Change in Control.

(g) If, during the Award Year, the Grantee is separated from employment, Contingent Performance Shares shall be deemed earned or forfeited as follows:

(1) Upon voluntary termination by the Grantee (other than for retirement at age 65 or as accepted by the Committee) or termination by the Company for failure of job performance or other just cause as determined by the Committee, all unearned Contingent Performance Shares shall be forfeited immediately;

(2) If the Grantee separates from employment by reason of death or total and permanent disability (as determined by the Committee), the number of Contingent Performance Shares that would otherwise have been earned at the end of the Award Year shall be reduced by pro rating such Contingent Performance Shares based on the proportion of the Award Year during which the Grantee was employed by the Company, unless the Committee determines that the Contingent Performance Shares shall not be so reduced;

(3) Retirement of the Grantee at age 65 or as accepted by the Committee shall not affect the Contingent Performance Shares, which shall continue to be earned through the remainder of the Award Year, as set forth above.

(h) The Grantee shall be solely responsible for any federal, state and local income taxes imposed in connection with the delivery of Contingent Performance Shares. Prior to the transfer of any Contingent 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 Contingent 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 Contingent Performance Shares.

Section 3. Forfeitable Performance Shares

(a) In lieu of earning Contingent Performance Shares, the Grantee may elect to receive [XXXX] Forfeitable Performance Shares, irrespective of whether the Company meets any Performance Goals. The Grantee must make any such election on or before September 30, 2001, and the election must be made in writing, in a manner prescribed by the Committee. Once made, the election is irrevocable. If a Grantee makes such an election, he shall not receive any Contingent Performance Shares under this Agreement.

(b) Any Forfeitable Performance Shares received by the Grantee pursuant to this Section 3 shall be issued as promptly as possible after December 31, 2001, without payment of consideration by the Grantee. The Grantee shall have the right to vote the Forfeitable 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 Forfeitable Performance Shares (the "Issue Date"). If, however, the Grantee receives shares of Common Stock as part of any dividend or distribution with respect to the Forfeitable Performance Shares, such shares shall be treated as if they are Forfeitable Performance Shares, and such shares shall be subject to all of the terms and conditions imposed by this Section 3.

(c) The Forfeitable Performance Shares shall be subject to the following restrictions:

(1) Sale, transfer, pledge or hypothecation of the Forfeitable Performance Shares shall be prohibited for a period of three (3) years after the Issue Date (the "Restriction Period"), and the certificates evidencing the Forfeitable Performance Shares shall bear an appropriate restrictive legend that refers to the terms, conditions, and restrictions set forth in this Agreement. Any attempt to dispose of Forfeitable Performance Shares in contravention of this Agreement shall be ineffective. Upon expiration of the Restriction Period, the transfer restrictions imposed by this Section shall expire, and new certificates representing the Forfeitable Performance Shares, without the restrictive legend described in this paragraph (c)(1), shall be issued, subject to the provisions of paragraph (f) of this Section 3.

(2) If, during the Restriction Period, the Grantee separates from employment for any reason other than death, total and permanent disability (as determined by the Committee), or involuntary termination without cause (as determined by the Committee), all Forfeitable Performance Shares shall be forfeited immediately.

(d) All restrictions under paragraph (c) of this Section 3 shall immediately expire on the earliest of: (A) the Grantee's separation from employment because of death, total and permanent disability (as determined by the Committee), or involuntary termination without cause (as determined by the Committee), (B) a Change in Control, as defined in the Plan, or (C) the end of the Restriction Period.

(e) If, after the Grantee has made an election to receive Forfeitable Performance Shares pursuant to Section 3(a), a Change in Control, as defined in the Plan, occurs during the Award Year, the Grantee shall receive at least the total number of Forfeitable Performance Shares due under this Agreement, pro rated based on the proportion of the Award Year that

has expired as of the date of such Change in Control. Pursuant to Section 3(d), such Shares shall not be subject to any of the restrictions imposed by this Section.

(f) The Forfeitable Performance Shares shall be not 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 Forfeitable Performance Shares after expiration of the Restriction Period 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 Forfeitable Performance Shares are not transferred in the absence of such exemption.

(g) The Grantee shall be solely responsible for any federal, state and local income taxes imposed in connection with receipt of the Forfeitable Performance Shares:

(1) The Grantee agrees that, no later than the date that the restrictions set forth in Section 3(c) lapse, he shall remit to the Company an amount sufficient to satisfy any federal, state, local and other withholding tax requirements.

(2) 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 in connection with the Award of Restricted Stock, unless the Committee determines otherwise by resolution.

(3) If the Grantee properly elects, within 30 days of the Issue Date, to include in gross income for federal income tax purposes an amount equal to the fair market value of the Forfeitable Performance Shares, he shall make arrangements satisfactory to the Committee to remit in the year of issue an amount sufficient to satisfy any federal, state, local and other withholding tax requirements with respect to such Forfeitable Performance Shares.

(4) If the Grantee fails to make satisfactory arrangements to meet all withholding tax obligations, 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 Forfeitable Performance Shares.

Section 4. Effect on Prior Agreements

Pursuant to an Agreement dated January 1, 1998, between the Company and the Grantee (the "1998 Agreement"), awards may vest as of the end of each of 1998, 1999, and 2000. This Agreement hereby modifies the 1998 Agreement to provide that no awards shall vest for years after December 31, 1999. This Agreement does not affect the awards that vest as of the end of 1998 or 1999, and the terms of the 1998 Agreement shall continue in effect with respect to those awards.

Section 5. Additional Conditions to Issuance of Shares

Each transfer of Contingent Performance Shares or Forfeitable Performance Shares (together, the "Award Shares") shall be subject to the condition that if at any time the

Committee shall determine, in its sole discretion, that it is necessary or desirable as a condition of, or in connection with, transfer of Award 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 6. 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 Contingent Performance Shares or to elect to receive Forfeitable Performance Shares shall be deemed a right to earn or to elect to receive the consideration into which the shares of Common Stock represented by the Contingent Performance Shares or by the Forfeitable 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 of Common Stock 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 Contingent Performance Shares to be earned and/or to the number of Forfeitable Performance Shares to be received in order to prevent the dilution or enlargement of the rights of the Grantee.

Section 7. No Right to Employment

Nothing contained in this Agreement shall be deemed by implication or otherwise to confer upon the Grantee any right to continued employment by the Company or any affiliate of the Company.

Section 8. 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 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 9. 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 Award Shares.

Section 10. Terms of Plan

This Agreement is entered into pursuant to the Plan (a copy of which has been delivered to the Grantee). This Agreement is subject to all of the terms and provisions of the Plan, which are incorporated into this Agreement by reference, and the actions taken by the Committee pursuant to the Plan. In the event of a conflict between this Agreement and the Plan, the provisions of the Plan shall govern. All determinations by the Committee shall be in its sole discretion and shall be binding on the Company and the Grantee.

Section 11. 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 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 Award 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: _____

Grantee

-7-

STOCK APPRECIATION RIGHTS AGREEMENT

PURSUANT TO THE

CHESAPEAKE UTILITIES CORPORATION
PERFORMANCE INCENTIVE PLAN

AGREEMENT dated as of January 1, 2001, and entered into, in duplicate, by and between Chesapeake Utilities Corporation, a Delaware corporation (the "Company"), and [Philip S. Barefoot / William C. Boyles / Thomas A. Geoffroy / James R. Schneider / William P. Schneider] (the "Grantee") who resides at [ADDRESS].

WITNESSETH that:

WHEREAS, the Chesapeake Utilities Corporation Performance Incentive Plan (the "Plan") has been duly adopted by action of the Company's Board of Directors (the "Board") as of January 1, 1992; 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 Stock Appreciation Rights Award described herein pursuant to the Plan; and

WHEREAS, the shares of the Common Stock of the Company that are subject to Stock Appreciation Rights under 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;

NOW, THEREFORE, it is hereby covenanted and agreed by and between the Company and the Grantee as follows:

Section 1. Stock Appreciation Rights Award

The Company hereby grants to the Grantee a Stock Appreciation Rights Award (the "Award") for the year ending December 31, 2001 (the "Award Year"). As more fully described herein, the Award consists of Stock Appreciation Rights (the "Rights") on a maximum total of [XXXX] shares of the Company's Common Stock (par value \$.4867 per share). Subject to the employment restrictions in Section 4(d), the Grantee may exercise Rights on [XXXX] shares (the "Service-Based Stock Appreciation Rights") on or after December 31, 2001, and he may exercise Rights on up to [XXXX] shares (the "Performance-Based Stock Appreciation Rights") upon the Company's achievement of the Performance Goals set forth in Section 3.

When the Grantee exercises Rights, he will receive a cash payment equal to the amount by which the Fair Market Value of one share of Common Stock on the date of exercise exceeds the Fair Market Value of one share of Common Stock on the date of grant, multiplied by the number of shares with respect to which Rights are exercised. For purposes of the exercise of the Rights under this Agreement, the Fair Market Value of one (1) share of Common Stock on the date of grant is as of the close of business on December 31, 2000.

The Grantee's exercise of Rights is subject to the other restrictions set forth in this Agreement. In no event may the Grantee exercise Rights after December 31, 2006 (the "Expiration Date").

Section 2. Service-Based Stock Appreciation Rights

Subject to the employment restrictions in Section 4(d), the Rights on [XXXX] shares become exercisable at the end of the Award Year. The Grantee may exercise these Rights in addition to any Rights that may be exercisable pursuant to Section 3.

Section 3. Performance-Based Stock Appreciation Rights

As soon as practicable after the Company's independent auditors have certified the Company's financial statements for the Award Year, the Committee shall determine for purposes of this Agreement the Company's (1) earnings growth ("EG"), (2) growth in non-regulated net income ("NRNI"), and (3) share price relative to book value ("Price/Book Value") as of the end of the Award Year. The EG, NRNI and Price/Book Value shall be determined by the Committee based on financial results reported to shareholders in the Company's annual reports and shall be subject to adjustment by the Committee for extraordinary events, including, but not limited to, temperature fluctuation. The Committee shall promptly notify the Grantee of its determination.

In addition to the Rights that may be exercised pursuant to Section 2, and subject to the continued employment requirements in Section 4(d), the Grantee may exercise Rights on up to [XXXX] shares (the "Maximum Performance Award") as follows:

(1) If the EG for the Award Year exceeds the median five-year weighted average growth for companies included in the C.A. Turner database (natural gas distribution companies and integrated natural gas distribution companies), the Grantee may exercise Rights on up to fifty percent (50%) of the Maximum Performance Award, as follows:

- (i) If the EG is in the fourth quartile of companies in the C.A. Turner database, the Grantee may exercise Rights on fifty percent (50%) of the Maximum Performance Award, or
- (ii) If the EG falls between the median and the fourth quartile, the Grantee may exercise Rights on a portion of the fifty percent (50%) available under this paragraph that is pro-rated to reflect the position of the Company's earnings growth within the third quartile, or
- (iii) If the EG is at or below the median, the Grantee may not exercise any Rights available under this paragraph (1);

(2) If the temperature-adjusted NRNI for the Award Year exceeds the temperature-adjusted NRNI for the prior calendar year by fifteen percent (15%) or more, the Grantee may exercise Rights on thirty percent (30%) of the Maximum Performance Award. If the temperature-adjusted NRNI for the Award Year does not exceed the temperature-adjusted NRNI for the prior calendar year by at least fifteen percent (15%), the Grantee may not exercise any Rights available under this paragraph (2); and

(3) If the Price/Book Value for the Award Year is equal to or greater than the average Price/Book Value for the Award Year of companies in the third quartile of the C.A. Turner database (natural gas distribution companies and integrated natural gas distribution companies), the Grantee may exercise Rights on twenty percent (20%) of the Maximum Performance Award. If the Price/Book Value for the Award Year is not equal to or greater than the average Price/Book Value for the Award Year of companies in the third quartile of the C.A.

Turner database the Grantee may not exercise any Rights available under this paragraph 93). If one or more of the companies in the C.A. Turner database is at any time during the Award Year the subject of an announced acquisition, its stock shall not be considered for purposes of this paragraph (3).

Section 4. Additional Terms and Conditions

(a) In the event of a Change in Control, as defined in the Plan, during the Award Year, the Grantee may exercise Rights on the maximum number of shares set forth in Sections 2 and 3, as if all service and performance criteria were satisfied, pro rated based on the proportion of the Award Year that has expired as of the date of such Change in Control.

(b) The Grantee may exercise Rights by delivering or mailing to the Committee at the Company's address at the time of exercise a notice in writing specifying the number of Rights to be exercised.

(c) The Rights are exercisable only by the Grantee or, in the case of the Grantee's death or incapacity, by the Grantee's executors, administrators, guardians or other legal representatives, and shall not be assignable or transferable by the Grantee, other than by will or the laws of descent and distribution.

(d) If the Grantee is separated from employment before Rights have been exercised, such unexercised Rights shall be exercisable or forfeited as follows, except that under no circumstances may any Rights be exercised after the Expiration Date:

(i) Upon voluntary termination by the Grantee (other than for retirement at age 65 or as accepted by the Committee), any unexercised Rights shall be forfeited, unless otherwise determined by the Committee.

(ii) Upon termination by the Company for failure of job performance or other just cause as determined by the Committee, any unexercised Rights that are exercisable on the date of termination may be exercised during a period of 30 days following termination, after which time the Rights will expire, unless such period is extended by the Committee.

(iii) If the Grantee terminates employment during the Award Year by reason of death or total and permanent disability (as determined by the Committee), the Grantee may exercise Rights that would otherwise have been exercisable at the end of the Award Year, pro rated based on the proportion of the Award Year during which the Grantee was employed by the Company. The remaining Rights shall be forfeited unless the Committee determines otherwise. If the Grantee terminates employment at any time by reason of death, all unexercised Rights shall expire (if they have not otherwise expired) on the later of (A) six months from the date of death, or (B) March 15, 2001, unless extended by the Committee.

(iv) Upon retirement of the Grantee at age 65 or as accepted by the Committee, any unexercised Rights may be exercised no later than the fifth anniversary of such retirement, at which time unexercised Rights shall expire, unless such period is extended by the Committee.

Section 5. Effect on Prior Agreement

Pursuant to an Agreement dated January 1, 1998, between the Company and the Grantee (the "1998 Agreement"), awards may vest as of the end of each of 1998, 1999, and 2000. This Agreement hereby modifies the 1998 Agreement to provide that no awards shall

vest for years after December 31, 1999. This Agreement does not affect the status of awards that vested as of the end of 1998 or 1999, and the terms of the 1998 Agreement shall continue in effect with respect to those awards.

Section 6. Withholding

The Grantee shall be solely responsible for any federal, state and local income taxes imposed in connection with the exercise of the Rights. The Company may satisfy any withholding tax obligation by withholding an appropriate amount of any cash due the Grantee upon exercise of the Rights.

Section 7. Additional Conditions to Exercise of Rights

Each exercise of Rights 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, such exercise (i) to satisfy withholding tax or other withholding liabilities, or (ii) to obtain the consent or approval of any regulatory body, then in any such event such exercise shall not be effective unless such withholding, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Company. Any such limitation affecting the right to exercise Rights shall not extend the time within which Rights may be exercised, unless the Committee in its sole discretion determines otherwise; and neither the Company or any affiliate of the Company, the directors or officers of the Company or any affiliate of the Company, nor the Committee shall have any obligation or liability to the Grantee or to any executor, administrator, guardian or other legal representative of the Grantee regarding Rights which may expire because of such limitation.

Section 8. Adjustment of Shares

(a) If the Company shall be involved in a merger, consolidation or other reorganization, whether or not the Company is the surviving corporation, any unexercised Rights received hereunder shall be deemed Stock Appreciation Rights as to the same number of shares in the surviving corporation that a holder of the number of shares of Common Stock subject to the unexercised Rights would be entitled to receive under the terms of the merger, consolidation or other reorganization. Any Rights deemed granted under this Section 8(a) shall be deemed granted on the date the original Rights were granted. 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 of Common Stock 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 in order to prevent the dilution or enlargement of the Grantee's Rights.

Section 9. No Right to Employment

Nothing contained in this Agreement shall be deemed by implication or otherwise to confer upon the Grantee any right to continued employment by the Company or any affiliate of the Company.

Section 10. 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 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 10, change the address to which subsequent notices shall be sent.

Section 11. 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 shares of Common Stock.

Section 12. Terms of Plan

This Agreement is entered into pursuant to the Plan (a copy of which has been delivered to the Grantee). This Agreement is subject to all of the terms and provisions of the Plan, which are incorporated into this Agreement by reference, and the actions taken by the Committee pursuant to the Plan. In the event of a conflict between this Agreement and the Plan, the provisions of the Plan shall govern. All determinations by the Committee shall be in its sole discretion and will be binding on the Company and the Grantee.

Section 13. Governing Law; Amendment

This Agreement shall be governed by, and shall be construed, enforced 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 14. Terms of Agreement

This Agreement shall remain in full force and effect and shall be binding on the parties hereto for so long as Rights remain outstanding.

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: _____

Grantee

UNITED SYSTEMS, INC.
EXECUTIVE APPRECIATION RIGHTS PLAN
EFFECTIVE DECEMBER 31, 2000

UNITED SYSTEMS, INC. EXECUTIVE APPRECIATION RIGHTS PLAN

INTRODUCTION

The United Systems, Inc. Executive Appreciation Rights Plan (the "Plan") provides for the distribution to certain executive employees of United Systems, Inc. (the "Company") of a portion of the appreciation in the value of the Company that may be realized in the event of a sale of the Company. The purposes of the Plan are (1) to further the long-term growth of the Company by providing incentives and rewards to the executive employees of the Company and (2) to encourage the executive employees to continue employment with the Company and (3) maximize the value of the Company. To accomplish these objectives, the Board of Directors of United Systems, Inc. has adopted the Plan to authorize Appreciation Bonus Payments as described herein.

SECTION 1: DEFINITIONS

1.01 Definitions

Except where otherwise indicated, the following terms shall have the definitions set forth below for purposes of the Plan:

- (a) "Appreciation Bonus Payment Amount" means, with respect to any Participant, the Proceeds Available for Appreciation Bonus multiplied by the Participant's Participation Rate for the Plan Year in which a Company Sale occurs.
- (b) "Appreciation Right" means a right to receive, upon the occurrence of a Company Sale, an Appreciation Bonus Amount pursuant to the terms of the Plan and the Participant's Employment Agreement.
- (c) "Board" means the Board of Directors of United Systems, Inc.
- (d) "Chesapeake" means Chesapeake Utilities Corporation, a Delaware corporation.
- (e) "Committee" means the committee appointed by the Board to administer the Plan.
- (f) "Company" means United Systems, Inc., a Georgia corporation.
- (g) "Company Sale" means the closing of a transaction (or series of related transactions) that results in either (i) the disposition by Chesapeake and all Related Companies (other than to an employee benefit plan maintained by Chesapeake, a Related Company, or the Company) of all or substantially all of the stock of the Company through a sale, merger or other business combination transaction or (ii) the disposition by the

Company (other than to Chesapeake and any one or more Related Companies) of all or substantially all of the consolidated assets of the Company. For the purposes of this Plan, a Sale does not include the exchange of USI stock to obtain controlling interest in another Company.

- (h) "Effective Date" means December 31, 2000.
- (i) "Employment Agreement" means a written employment agreement entered into between the Company and a Participant.
- (j) "Net Sale Proceeds" means the Sale Proceeds minus (i) all transaction costs (including investment banking fees and commissions, if any, and legal and accounting fees and expenses) incurred by Chesapeake, any Related Company and the Company in connection with the Company, (ii) the fair value of all liabilities retained by Chesapeake or any Related Company and, in the case of an asset sale, by the Company, (iii) all sales or other taxes (excluding income taxes) incurred in connection with the Company Sale by Chesapeake any Related Company and, in the case of an asset sale, by the Company, and (iv) "Chesapeake Investment" (total capital plus intercompany accounts payable, less intercompany accounts receivable recorded on the financial statements of the Company) made by Chesapeake or a Related Company to the Company after the Effective Date and prior to the Company Sale; provided, however, that Net Sale Proceeds shall not be reduced below zero.
- (k) "Participant" means any executive officer or other key employee of the Company who has been selected by the Committee to participate in the Plan under Section 3.01 of the Plan.
- (l) "Participation Rate" means a factor that, in the event of a Company Sale, represents a percentage of the total amount of the Proceeds Available for Appreciation Bonus that would be allocated to a Participant.
- (m) "Plan" means the United Systems, Inc. Executive Appreciation Rights Plan, as set forth herein and as it may be subsequently amended from time to time.
- (n) "Plan Year" means the calendar year.
- (o) "Proceeds Available for Appreciation Bonus" means the amount, if any, by which the Net Sale Proceeds exceeds the sum of (i) the Threshold Value and (ii) the product of (A) the Appreciation Value Per Unit (as defined in the United Systems, Inc. Employee Appreciation Rights Plan) and (B) the number of Units outstanding under that Plan, as determined on the date of a Company Sale; provided, however, that if Chesapeake, a Related Company, or the Company, subsequent to a Company Sale, is required to reimburse any of the Sale Proceeds to the purchaser or, pursuant to the terms of any agreement relating to the Company Sale, is required to make

any indemnification or similar payments to the purchaser or to any third party (a "Sale Proceeds Adjustment Event"), the Proceeds Available for Appreciation Bonus shall be recalculated after subtracting the amount of such payments or reimbursements from the Sale Proceeds.

- (p) "Related Company" means a corporation, partnership, joint venture, or other entity in which Chesapeake has a direct or indirect ownership or other proprietary interest of at least fifty percent (50%), but does not include the Company.
- (q) "Sale Proceeds" means the fair market value of the consideration received from the purchaser by Chesapeake and all Related Companies (or, in the case of an asset sale, by the Company) in a transaction that constitutes a Company Sale. For the purposes of this plan, the fair market value of any cash considerations shall equal the cash consideration itself and the fair market value of any publicly traded equities presented as consideration shall equal the market value of such equities at the close of the last trading day prior to the transaction. Ongoing reasonable and customary compensation and option plan arrangements between the participants and an acquiring entity shall not be included as part of the Sale Proceeds.
- (r) "Threshold Value" means \$5,333,000.

SECTION 2: ADMINISTRATION

2.01 The Committee

The Plan shall be administered by a Committee appointed by the Board. The Committee shall administer the Plan in accordance with the terms of the Plan and the requirements of any applicable law.

2.02 Additional Powers of the Committee

In addition to any implied powers and duties that may be needed to carry out the provisions of the Plan, the Committee shall have the following specific powers and duties:

- (a) To make and enforce any rules and regulations it shall deem necessary and proper for the efficient administration of the Plan;
- (b) To designate one or more officers of the Company to execute on behalf of the Company all agreements and other documents approved by the Committee under the Plan;
- (c) To appoint other persons to carry out any ministerial responsibilities under the Plan as the Committee may determine; and

- (d) To engage one or more persons to render advice with respect to any of the Committee's responsibilities under the Plan.

SECTION 3: PARTICIPATION

3.01 Participation

Participation in the plan is limited to executives, officers and key employees of the Company, who have entered into a Senior Executive Employment and Non-Competition Agreement with the Company.

3.02 Plan Years of Participation

The Committee upon the recommendation of the Chairman or President of the Company shall (subject to the Contemporaneous Senior Executive Employment and Non-Competition Agreement) designate the Plan Years for which each employee selected as a Participant shall be a Participant, but any such designation with respect to a Plan Year (other than pursuant to the Contemporaneous Senior Executive Employment and Non-Competition Agreement with respect to the 2001 Plan Year) shall be made prior to the beginning of that Plan Year.

3.03 Participation Rates

The Participation rate of an executive officer or other key employees as stated in their Senior Executive Employment and Non-Competition Agreement.

SECTION 4: APPRECIATION RIGHTS

4.01 Appreciation Bonus Payment Amount

In the event of a Company sale, a Participant who is employed on the closing date shall be entitled to receive the Appreciation Bonus.

4.02 Timing of Payment

The payments to which the Participant is entitled in the event of a Company Sale shall be paid as proceeds from the sale are received by Chesapeake.

4.03 Effect of Sale Proceeds Adjustment Event

If a Sale Proceeds Adjustment Event occurs, the Appreciation Bonus Payment Amount to which each Participant is entitled shall be reduced to reflect the recomputed Proceeds Available for Appreciation Bonus. If the aggregate amount of all prior

payments made to the Participant pursuant to this Plan exceeds the Participant's Appreciation Bonus Payment Amount as so reduced, the Participant shall reimburse Chesapeake or the Company, as determined by Chesapeake in its sole discretion, an amount equal to the excess. Plan participants will have the opportunity to participate in the negotiation of Sales Proceeds Adjustments and all substantive data relevant to an Adjustment will be made available to all participants.

4.04 Form of Payment

Payments made pursuant to this Section 4 shall be made in cash; provided, however, that, as determined by Chesapeake in its sole discretion, payment may be made in any other form of consideration Chesapeake, a Related Company, or the Company receives in the transaction that constitutes a Company Sale. The apportionment of non-cash remuneration between the participants and Chesapeake, a Related Company, or the Company must be done on an equitable and pro rata basis.

4.05 Forfeiture and Expiration of Appreciation Rights

- (a) Termination of Employment. If the employment of a Participant by the Company terminates for cause or via resignation prior to a Company Sale, the Participant shall immediately forfeit all Appreciation Rights.
- (b) Expiration Date. The Plan shall terminate and all Appreciation Rights shall be forfeited if a Company Sale does not occur on or before December 31, 2005.

4.06 Non-Assignability of Appreciation Rights

Appreciation Rights are not assignable or transferable, except if the Participant dies after a Company Sale, payments may be made to the Participant's estate.

4.07 Release

A Participant shall not be entitled to any payments under the Plan unless, prior to any payment made under the Plan, the Participant executes a release satisfactory to Chesapeake releasing Chesapeake, all Related Companies and the Company, their respective affiliates, shareholders, directors, officers, employees, representatives, and agents, and their respective successors and assigns, from any and all employment-related claims that the Participant or the Participant's successors and beneficiaries might have against any of them (excluding any claims the Participant might have under the Plan, or any employee benefit plan that is subject to the vesting standards imposed by the Employee Retirement Income Security Act of 1974, as amended). The release shall be as exhibit A hereto.

SECTION 5: APPRECIATION BONUS PAYMENT

5.01 Payments Solely from General Assets

Payments under the Plan shall be made solely from the general assets of Chesapeake or the Company. Nothing herein shall be construed to require Chesapeake, any Related Company or the Company to maintain any fund or to segregate any amount for the benefit of any Participant, and no Participant or other person shall have any right against, right to, or security or other interest in, any fund, account, or asset of Chesapeake or the Company from which the payment pursuant to the Plan may be made.

5.02 Plan Expenses

All expenses of administering the Plan shall be paid by Chesapeake or the Company.

SECTION 6: AMENDMENT AND TERMINATION

6.01 Amendment or Termination of Plan

The Board may, from time to time, alter, amend, suspend or terminate the Plan as it shall deem advisable, but in no event shall it alter, amend, suspend or terminate the Plan in a manner that constitutes a breach of any Participant's employment Agreement.

6.02 Other Plans

Any payments made to the Participant pursuant to the Plan shall not be taken into account as compensation in the determination of the Participant's benefits under any pension, savings, group insurance, or other benefit plan maintained by Chesapeake, the Company, or a Related Company, except as otherwise determined by Chesapeake or, in the case of a plan not maintained by Chesapeake, the Company or the Related Company that maintains the plan. This Plan shall not entitle the Participant to any benefits under any other plans maintained by Chesapeake, the Company or a Related Company. Nothing herein shall preclude the Company from authorizing or approving other plans or forms of incentive compensation.

SECTION 7: MISCELLANEOUS

7.01 No Right to Employment

Participation in the Plan shall not give any employee of the Company any right to continued employment by the Company.

7.02 Taxes

Chesapeake or the Company may make appropriate arrangements to deduct from any amounts payable under the Plan to any Participant any taxes that Chesapeake or the Company reasonably believes are required to be withheld by any government or government agency. The Participant shall be responsible for the payment of all taxes on

amounts paid under the Plan to the extent that no taxes are withheld, irrespective of whether withholding is required.

7.03 Headings

Any headings in this instrument are for convenience of reference only and are to be disregarded in the construction of any provision thereof.

7.04 Severability

If any provision of the Plan shall be held illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining parts of the Plan, and the Plan shall be construed and enforced as if the illegal or invalid provision had never been inserted herein.

7.05 Governing Law

The Plan shall be construed, administered, and regulated in accordance with the laws of the State of Georgia (determined without regard to its choice of law rules) and any applicable requirements of federal law.

UNITED SYSTEMS, INC.
EMPLOYEE APPRECIATION RIGHTS PLAN

EFFECTIVE DECEMBER 31, 2000

UNITED SYSTEMS, INC. APPRECIATION RIGHTS PLAN

INTRODUCTION

The United Systems, Inc. Employee Appreciation Rights Plan (the "Plan") provides for the distribution to employees of United Systems, Inc. (the "Company") of a portion of the appreciation in the value of the Company that may be realized in the event of a sale of the Company. The purposes of the Plan are (1) to further the long-term growth of the Company by providing incentives and rewards to employees of the Company, (2) to encourage employees to continue employment with the Company and (3) maximize the value of the Company. To accomplish these objectives, the Board of Directors of United Systems, Inc. has adopted the Plan to authorize grants of Appreciation Rights Units as described herein.

SECTION 1: DEFINITIONS

1.01 Definitions

Except where otherwise indicated, the following terms shall have the definitions set forth below for purposes of the Plan:

- a. "Appreciation Rights Agreement" means a written agreement entered into between the Company and a Participant, setting forth the terms and conditions applicable to Appreciation Rights Units granted to the Participant.
- b. "Appreciation Rights Unit" means a right to receive, upon the occurrence of a Company Sale, and subject to the terms and conditions of the Plan and the Participant's Appreciation Rights Agreement, a portion of the Net Sale Proceeds.
- c. "Gross Appreciated Value" means the Net Sales Price times twenty-five percent (25%).
- d. "Appreciated Value per Unit" means the Gross Appreciated Value divided by the maximum number of Units issuable in accordance with this plan.
- e. "Appreciation Value per Unit" means the Appreciated Value per Unit less the Fair Value per Unit.
- f. "Board" means the Board of Directors of United Systems, Inc.
- g. "Chesapeake" means Chesapeake Utilities Corporation, a Delaware corporation.

- h. "Unit" means an Appreciation Rights Unit issued pursuant to Section 4.01 of the Plan.
- i. "Company Sale" means the closing of a transaction (or series of related transactions) in which (i) the disposition by Chesapeake and all Related Companies (other than to an employee benefit plan maintained by the Company, a Related Company, or the Company) of all or substantially all of the stock of the Company through a sale, merger or other business combination transaction or (ii) the disposition by the Company (other than to Chesapeake and any one or more Related Companies) of all or substantially all of the consolidated assets of the Company. For the purposes of this Plan, a Sale does not include the exchange of USI stock to obtain controlling interest in another Company.
- j. "Committee" means the committee appointed by the Board to administer the Plan.
- k. "Company" means United Systems, Inc., a Georgia corporation;
- l. "Effective Date" means December 31, 2000
- m. "Net Sale Proceeds" means the Sale Proceeds minus (i) all transaction costs (including investment banking fees and commissions, if any, and legal and accounting fees and expenses) incurred by Chesapeake, any Related Company and the Company in connection with the Company Sale, (ii) the fair value, as determined in the sole discretion of the Committee, of all liabilities retained by Chesapeake or any Related Company and, in the case of an asset sale, by the Company, (iii) all sales or other taxes (excluding income) incurred in connection with the Company Sale by Chesapeake or any Related Company and, in the case of an asset sale, by the Company, and (iv) all capital contributions made by Chesapeake or a Related Company to the Company after the Effective Date and prior to the Company Sale provided, however, that Net Sales Proceeds shall not be reduced below zero.
- n. "Participant" means any employee of the Company who has been selected by the Committee to participate in the Plan under Section 3.01 of the Plan.
- o. "Plan" means the United Systems, Inc. Appreciation Rights Plan, as set forth herein and as it may be subsequently amended from time to time.
- p. "Related Company" means a corporation, partnership, joint venture, or other entity in which Chesapeake has a direct or indirect ownership or other proprietary interest of at least fifty percent (50%), but does not include the Company.

- q. "Sale Proceeds" means the fair market value of the consideration received from the purchaser by Chesapeake and all Related Companies (or, in the case of an asset sale, by the Company) in a transaction that constitutes a Company Sale. For the purposes of this plan, the fair market value of any cash considerations shall equal the cash consideration itself and the fair market value of any publicly traded equities presented as consideration shall equal the market value of such equities at the close of the last trading day prior to the transaction. Ongoing reasonable and customary compensation and option plan arrangements between the participants and an acquiring entity shall not be included as part of the Sale Proceeds.
- r. "Fair Value Amount" means the amount determined by the Board under the advice of an independent third party to be the fair value of the Unit. The Committee shall select the independent party to determine the Fair Value amount on each Calendar year for the Units issued during that Calendar year.

SECTION 2: ADMINISTRATION

2.01 The Committee

The Plan shall be administered by a Committee appointed by the Board. The Committee shall periodically determine, in its sole discretion, but subject to the limitations set forth in Section 4 of the Plan, (i) the individuals who shall participate in the Plan, (ii) the number of Units to be granted under the Plan, and (iii) the individuals to whom the Units shall be granted. The Committee shall administer the Plan in accordance with the terms of the Plan and the requirements of any applicable law. All questions of interpretation and administration with respect to the Plan shall be determined by the Committee in its sole and absolute discretion. All determinations by the Committee shall be final and conclusive with respect to all parties concerned.

2.02 Additional Powers of the Committee

In addition to any implied powers and duties that may be needed to carry out the provisions of the Plan, the Committee shall have the following specific powers and duties:

- (a) To make and enforce any rules and regulations it shall deem necessary and proper for the efficient administration of the Plan;
- (b) To designate one or more officers of the Company to execute on behalf of the Company all agreements and other documents approved by the Committee under the Plan;
- (c) To appoint other persons to carry out any ministerial responsibilities under the Plan as the Committee may determine; and

- (d) To engage one or more persons to render advice with respect to any of the Committee's responsibilities under the Plan.

SECTION 3: PARTICIPATION

3.01 Participation

Participants in the Plan shall be selected by the Committee upon the recommendation by the Chairman or President of the Company among employees of the Company (including officers or employees who are members of the Board, but excluding directors who are not officers or employees of the Company). No officer or employee of the Company shall have any right to be selected as a Participant.

SECTION 4: APPRECIATION RIGHTS UNITS

4.01 Units

- (a) Number of Units. A total of 1,000,000 Units are available for issuance under the Plan. Prior to a Company Sale, any Units that are forfeited by a Participant may be regranted to any other Participant, provided that in no event shall the total number of outstanding Units granted to all Participants exceed 1,000,000.
- (b) Unit Payment Amount. Subject to the terms and conditions set forth in this Section 4 and in a Participant's Appreciation Rights Agreement, each Unit shall entitle its holder to receive, in the event of a Company Sale, a payment equal to the Appreciation Value per Unit times the number of units held by the Participant on the date of the Company Sale.
- (c) Timing of Payments. The payment to which a holder of the Units is entitled in the event of a Company Sale shall be made as follows:
 - (i) Fifty percent (50%) of the aggregate amount to which a holder of the Units is entitled shall be paid within thirty (30) days after the Company Sale; and
 - (ii) The remaining fifty percent (50%) of the aggregate amount to which a holder of the Units is entitled (the "Unit Deferred Payment") shall be paid as follows:
 - (A) If the Participant is not offered within twenty (20) days after the Company Sale a position with the Company or its successor or with the purchaser of the Company's assets that is comparable to the Participant's position with the Company immediately prior to the Company Sale as determined by Chesapeake in its sole discretion (a

"Comparable Position Offer"), payment shall be made within thirty (30) days after the Company Sale;

- (B) If paragraph (A), above, does not apply and within one year following the Company Sale, (x) the Participant's employment is involuntarily terminated (other than for cause) by the Company or its successor or by the purchaser of the Company's assets or (y) the employment of the Participant terminates on account of disability or death, payment shall be made within thirty (30) days following such termination of employment; and
- (C) If, within thirty (30) days after the Company Sale, the Participant accepts an offer of employment from the Company or its successor or from the purchaser of the Company's assets and such employment continues for a period of one year after the Company Sale, payment shall be made within thirty (30) days following the last day of the one-year period.
- (d) Forfeiture of the Unit Deferred Payment. If (i) a Participant declines a Comparable Position Offer, (ii) the Participant's employment with the Company or its successor or with the purchaser of the Company's assets is terminated for cause within the first year following the Company Sale, or (iii) the Participant voluntarily terminates his or her employment with the Company or its successor or with the purchaser of the Company's assets within the first year following the Company Sale, the Participant's contingent right to the Unit Deferred Payment shall be forfeited.

4.02 Forfeiture of Appreciation Rights Units

Participant's forfeit any and all Appreciation Rights Units upon termination of employment with the Company or upon termination of the Plan in accordance with Section 7.01.

4.03 Non-Assignability of Units.

Appreciation Rights Units are not assignable or transferable, except if the Participant dies after a Company Sale, payments may be made to the Participant's estate.

4.04 Release

A Participant shall not be entitled to any payments under the Plan unless, prior to any payment made under the Plan, the Participant executes a release satisfactory to Chesapeake releasing Chesapeake, the Related Companies and the Company, their respective affiliates, shareholders, directors, officers, employees, representatives, and agents, and their respective successors and assigns, from any and all employment-related claims the Participant or the Participant's successors and beneficiaries might

have against them (excluding any claims the Participant might have under the Plan, or any employee benefit plan that is subject to the vesting standards imposed by the Employee Retirement Income Security Act of 1974, as amended).

SECTION 5: APPRECIATION RIGHTS AGREEMENTS

5.01 Appreciation Rights Agreements

Each Unit granted under the Plan shall be evidenced by an Appreciation Rights Agreement setting forth the terms and conditions applicable to the Appreciation Rights Unit as the Committee deems appropriate.

SECTION 6: PAYMENT FOR APPRECIATION RIGHTS UNITS

6.01 Payments Solely from General Assets

Payments under the Plan shall be made solely from the general assets of Chesapeake or the Company. Nothing herein shall be construed to require Chesapeake or the Company to maintain any fund or to segregate any amount for the benefit of any Participant, and no Participant or other person shall have any right against, right to, or security or other interest in, any fund, account, or asset of Chesapeake or the Company from which the payment pursuant to the Plan may be made.

6.02 Plan Expenses

All expenses of administering the Plan shall be paid by Chesapeake or the Company.

SECTION 7: AMENDMENT AND TERMINATION

7.01 Amendment or Termination of Plan

The Board may, from time to time, alter, amend, suspend or terminate the Plan as it shall deem advisable in its sole discretion. The Plan shall terminate the earlier of the payment of the last amount due herein or on December 31, 2005.

7.02 Other Plans

Any payments made to the Participant pursuant to the Plan shall not be taken into account as compensation in the determination of the Participant's benefits under any pension, savings, group insurance, or other benefit plan maintained by Chesapeake, the Company, or a Related Company, except as otherwise determined by Chesapeake or, in the case of a plan not maintained by Chesapeake, the Company or Related Company that maintains the plan. This Plan shall not entitle the Participant to any benefits under any other plans maintained by Chesapeake, the Company, or a Related Company.

Nothing herein shall preclude the Company from authorizing or approving other plans or forms of incentive compensation.

SECTION 8: MISCELLANEOUS

8.01 No Right to Employment

Participation in the Plan shall not give any employee of the Company any right to continued employment by the Company.

8.02 Taxes

Chesapeake or the Company may make appropriate arrangements to deduct from any amounts payable under the Plan to any Participant any taxes that Chesapeake or the Company reasonably believes are required to be withheld by any government or government agency. The Participant shall be responsible for the payment of all taxes on amounts paid under the Plan to the extent that no taxes are withheld, irrespective of whether withholding is required.

8.03 Headings

Any headings in this instrument are for convenience of reference only and are to be disregarded in the construction of any provision thereof.

8.04 Severability

If any provision of the Plan shall be held illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining parts of the Plan, and the Plan shall be construed and enforced as if the illegal or invalid provision had never been inserted herein.

8.05 Governing Law

The Plan shall be construed, administered, and regulated in accordance with the laws of the State of Georgia (determined without regard to its choice of law rules) and any applicable requirements of federal law.

1

CHESAPEAKE UTILITIES CORPORATION AND SUBSIDIARIES
EXHIBIT 12
RATIO OF EARNINGS TO FIXED CHARGES

FOR THE YEARS ENDED DECEMBER 31,	2000	1999	1998
Income from continuing operations	\$ 7,489,201	\$ 8,270,986	\$ 5,302,586
Add:			
Income taxes	4,496,592	4,684,247	3,225,744
Portion of rents representative of interest factor	217,179	162,278	130,717
Interest on indebtedness	4,398,266	3,351,741	3,256,415
Amortization of debt discount and expense	111,122	117,966	123,335
EARNINGS AS ADJUSTED	\$ 16,712,360	\$ 16,587,218	\$ 12,038,797
FIXED CHARGES			
Portion of rents representative of interest factor	\$ 217,179	\$ 162,278	\$ 130,717
Interest on indebtedness	4,398,266	3,351,741	3,256,415
Amortization of debt discount and expense	111,122	117,966	123,335
FIXED CHARGES	\$ 4,726,567	\$ 3,631,985	\$ 3,510,467
RATIO OF EARNINGS TO FIXED CHARGES	3.54	4.57	3.43

CHESAPEAKE UTILITIES CORPORATION
EXHIBIT 21
SUBSIDIARIES OF THE REGISTRANT

SUBSIDIARIES -----	STATE INCORPORATED -----
Eastern Shore Natural Gas Company	Delaware
Sharp Energy, Inc.	Delaware
Chesapeake Service Company	Delaware
Xeron, Inc.	Mississippi
Sam Shannahan Well Company, Inc.	Maryland
Sharp Water, Inc.	Delaware
 SUBSIDIARY OF EASTERN SHORE NATURAL GAS COMPANY -----	 STATE INCORPORATED -----
Dover Exploration Company	Delaware
 SUBSIDIARIES OF SHARP ENERGY, INC. -----	 STATE INCORPORATED -----
Sharpgas, Inc.	Delaware
Sharpoil, Inc.	Delaware
Tri-County Gas Co., Incorporated	Maryland
 SUBSIDIARIES OF CHESAPEAKE SERVICE COMPANY -----	 STATE INCORPORATED -----
Skipjack, Inc.	Delaware
United Systems, Inc.	Georgia
Capital Data Systems, Inc.	North Carolina
Currin and Associates, Inc.	North Carolina
Chesapeake Investment Company	Delaware
Eastern Shore Real Estate	Maryland
 SUBSIDIARIES OF SHARP WATER, INC. -----	 STATE INCORPORATED -----
EcoWater Systems of Michigan, Inc.	Michigan
Carroll Water Systems, Inc.	Maryland

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statement on Form S-2 (No. 33-26582), Form S-3 (Nos. 33-28391, 33-64671, 333-64757, 333-63381 and 333-94159) and Form S-8 (No. 33-301175) of Chesapeake Utilities Corporation of our report dated February 13, 2001 relating to the financial statements and financial statement schedule, which appears in this Form 10-K.

/s/ PRICEWATERHOUSECOOPERS LLP
PRICEWATERHOUSECOOPERS LLP
Philadelphia, Pennsylvania
March 30, 2001