

## **Incentive Performance Plan** **Chesapeake Utilities Corporation and all Business Units/Verticals**

### **General Overview**

Chesapeake Utilities Corporation (CUC or the Company) and all subsidiary Business Units (BU) provide an annual Incentive Performance Plan (IPP) for non-officer, eligible employees. Under the IPP, eligible employees have the opportunity to earn an annual cash bonus/incentive.

The IPP provides for a potential annual payout, no later than the end of March of the following calendar year for eligible employees that have contributed to the success of the Company.

The primary objectives of the IPP are as follows:

- Reward each employee's individual contribution to the overall performance results consistent with their eligibility.
- Create alignment and link performance metrics related to CUC's and BUs'/Vertical strategy, operational objectives and financial targets to individual compensation;
- Create a line of sight for each employee to clearly understand how their performance contributes to the overall success of the Company;
- Recognize and reward performance achievement of departmental / team goals and metrics.

### **IPP Eligibility**

All non-union, non-officer, active employees may be eligible for the IPP excluding those that are on commission-based plans, seasonal employees, summer help, and interns. Employees covered by a Collective Bargaining Agreement will follow the provisions negotiated.

Employees accrue eligibility for the IPP bonus throughout the calendar year by actively working for the Company. Employees are eligible for the IPP bonus only for the amount of time during the applicable calendar year during which they are actively employed and must be employed by the Company on the day of the IPP payouts. However, Retirees, those age 55 with 5 or more years of service as of December 31st, are entitled to a prorata bonus for the time worked during the calendar year. For example, an employee who works six months in the applicable calendar year and then retires is eligible to receive 50% of their potential IPP bonus for those months they were actively employed, if they meet the applicable retirement criteria. If an employee does not work for some portion of the applicable calendar year due to any extended leave of absence during which they do not receive pay from the Company including, but not limited to, disability leave or workers compensation leave, their IPP payment will be pro-rated, based on the amount of time worked during the calendar year. An employee's use of accrued vacation and/or sick time will not be considered as an extended leave for purposes of IPP eligibility. If an employee is eligible for an IPP payment and is on an extended, unpaid leave of absence on the date the IPP bonus is paid out, they will receive the IPP bonus payment at the time it is paid out for all other employees.

Employees hired between January 1<sup>st</sup> and December 31<sup>st</sup> will begin to accrue eligibility for the IPP bonus on their first day of employment.

### **Incentive Methodology**

The IPP payment excludes any bonus payments, overtime calculations or other compensation that was in addition to regular earnings or compensation. The IPP target percentage is applied to an employee's annual base salary that was in effect on December 31<sup>st</sup> of the applicable calendar year.

### **Performance Categories:**

The IPP has the following distinct performance categories:

1. The Individual's Performance Rating (PR) annual score.
2. Chesapeake Corporate Earnings Per Share (EPS) overall annual results.
3. Consolidated Return on Equity (ROE)
4. Identified Non-financial goals
  - Safety for 2021
  - Add other non-financial goals each year such as Equity, Diversity and Inclusion; Net Promoter; Engagement; etc.

The following outlines the performance targets and payout percentage levels for each Performance Category of the IPP.

#### **1. Individual Performance**

An employee's most recent annual evaluation and PR score will be utilized along with any recent performance of the employee and/or performance associated with any specific goals that have been assigned. Any positive or negative changes in performance throughout the year may be considered. An employee who is on an active step of Progressive Discipline at the time the IPP bonus is paid out may not be eligible to receive any portion of their IPP.

- Employees who receive a PR score below 2.75 AND are on an active step of progressive discipline at the time the IPP bonus is paid out will NOT receive a portion of their IPP payout. This is subject to their manager's discretion and approval.
- If an employee is on any step of formal Progressive Discipline OR did not meet expectations during the calendar year, they may receive a partial IPP payout subject to their manager's discretion and approval.

#### **2. Chesapeake Corporate Earnings Per Share (EPS)**

There is a Chesapeake Utilities corporate financial target included in the IPP based on annual Earnings per Share (EPS) results. Each year the Board of Directors

establishes a corporate EPS target. The CEO shall determine the EPS band for IPP purposes as well as the annual payout percentage based on actual achieved EPS.

**3. Consolidated Return on Equity (ROE)**

The CEO will determine and approve the target and threshold ROEs for the calendar year.

- 4. Non-Financial Goals/Safety:** This measures goals such as Safety and other non-financial goals. Goals listed under this category may change each year. For example, other goals could include: Equity, Diversity and Inclusion (EDI) goals; Net Promoter Score or Customer Service metric goals. Because the EDI Council and Employee Resource Groups (ERGs) have recently been created, no specific goals have been established for Equity, Diversity and Inclusion for 2021, but such goals will be established for 2022. For 2021, the following Non-Financial/Safety goals have been established:

**Safety Goals:**

- 80% YTD safety meeting attendance (for Enterprise)
- 10% YTD increase in the number of Near Miss/Hazard Reporting (for Enterprise)
- 10% YTD increase in the number of safety inspections (to include vehicles, facilities, assets, job sites) (for Enterprise)

**IPP Payout Opportunity**

The tables below outline the IPP Tiers and the annual incentive pay opportunity targets. These tables apply to CUC and all BUs.

| Target Bonus Opportunity % | Weighting              |               |                  |                              |
|----------------------------|------------------------|---------------|------------------|------------------------------|
|                            | Individual Performance | Corporate EPS | Consolidated ROE | Non-Financials (i.e. Safety) |
| <b>20%</b>                 | 25%                    | 30%           | 25%              | 20%                          |
| <b>15%</b>                 | 30%                    | 25%           | 25%              | 20%                          |
| <b>12%</b>                 | 30%                    | 20%           | 30%              | 20%                          |
| <b>10%</b>                 | 40%                    | 10%           | 30%              | 20%                          |
| <b>7.50 – 8.50%</b>        | 50%                    | 10%           | 20%              | 20%                          |
| <b>6%</b>                  | 50%                    | 10%           | 20%              | 20%                          |

**2021 IPP Financial Goals for CUC and all Business Units**

| Consolidated EPS Metric/EPS Band | Payout Percentage |
|----------------------------------|-------------------|
| Less than \$4.14                 | 0%                |
| \$4.14 - \$4.59                  | 50% - 99%*        |
| \$4.60                           | 100%              |
| \$4.61-\$4.78                    | 101%-149%*        |
| Equal to or Greater than \$4.79  | 150%              |

\* Actual payout will be calculated based upon where EPS falls within the specified EPS band.

| Consolidated ROE Metric | Target                 | Payout %    |
|-------------------------|------------------------|-------------|
| Below Threshold         | <b>Below 10%</b>       | 0%          |
| Threshold               | <b>10%</b>             | 50%         |
| Low Range               | <b>10.01% - 10.99%</b> | 51%-99%**   |
| Target                  | <b>11.00%</b>          | 100%        |
| Upper Range             | <b>11.01% - 11.99%</b> | 101%-149%** |
| Maximum                 | <b>12% and above</b>   | 150%        |

\*\* Actual payout will be calculated based upon where ROE falls within the specified ROE band.

Employees with a PR score below 2.75 will not receive an IPP payout for the Individual Performance category. The chart below provides the pay-out percentage for each range of PR score. Alternatively, if individual goals are assigned, the extent to which the combined goals are completed will be the basis for the payout percentage.

| <u>Performance Rating</u> | <u>Payout Percentage</u> |
|---------------------------|--------------------------|
| <2.75                     | 0% of Base               |
| 2.75 - 2.99               | 50%-99% of Base          |
| 3.00 - 3.74               | 100%-124% of Base        |
| 3.75 - 4.24               | 125%-149% of Base        |
| 4.25 - 5.00               | 150% of Base             |

Payout % will be prorated within the above levels. Management reserves the right to limit the PR pay-out if overall financial results are significantly below expectation.

**Exceptions, Modifications, IPP Suspension or Termination**

Any exceptions to the above eligibility requirements must be approved by the Chief Human Resources Officer (CHRO) and CEO of Chesapeake Utilities.

The Company reserves the right to offer performance incentive plans other than the IPP, in an effort to recruit and reward top talent. All such incentive plans must have the CHRO's approval. Management reserves the right to reduce, suspend or eliminate the IPP plan for any reason.

For more information about the details of this plan, please contact a member of Human Resources.