



## Incentive Performance Plan

The Incentive Performance Plan (IPP) provides employees the opportunity to earn compensation in addition to their base pay. Incentive pay is determined annually using three components: The employee's individual performance, the employee's business unit performance (BU) and Chesapeake Utilities Corporation's consolidated financial results. Each component is assigned metrics with specific weightings and targets that total the employee's annual bonus potential, which varies according to the employee's job. Employees receive their goals and discuss their performance metrics with their manager annually.

### **Individual Performance**

The Individual component is based on contributions the individual employees make during the plan period. For purposes of this plan, Sharp employees' individual goals are based on the district's goals. Individual performance goals are directly aligned with BU and Consolidated Financial Results. Managers will review goals quarterly with employees to keep them apprised of their progress.

Employees have the potential to earn more than 100% of their Individual targeted percentage annually. Employees who meet less than 75% of their goals will not receive an Individual component payment and their targeted BU and the Consolidated Financial Results payout percentages will be lowered by 50%.

The Individual performance component will be paid at the appropriate bonus percentage and will be awarded independent of the BU and Consolidated Financial Results achievements.

### **Business Unit Performance**

The BU maybe Sharp, Eastern Shore Natural Gas, Delmarva Natural Gas, Central Florida Gas or the corporate office. For purposes of this plan, corporate office employees' BU is the department the employee works in. The BU's financial objectives are determined during the budget process for the upcoming year. The Chief Operating Officer, Chief Financial Officer and the BU leader will measure and report the BU's performance quarterly. The BU leader will communicate the results to employees quarterly.

If the overall BU objectives are met, the BU bonus will be paid at the appropriate bonus percentage, independent of the Consolidated Financial Results.

### **Consolidated Financial Results**

The targeted consolidated financial results are determined during the budgeting process for the upcoming year. The actual consolidated financial results will be measured monthly and the results communicated to employees quarterly.

It is the Company's intention to only pay the Consolidated Financial Results when the overall Chesapeake Utilities Corporation's financial targets are fully met.

**Eligibility**

All Sharp, Eastern Shore Natural Gas, Delmarva Natural Gas, Central Florida Gas and corporate office employees are eligible to participate in the IPP plan. Newly hired employees will be eligible to participate on a prorated basis. As employees transfer between departments and job levels, their IPP will be adjusted according to their new job.

The IPP plan year is a twelve-month period beginning January and ending in December. The actual IPP payout occurs no later than March 15th following the completed plan year. Employees must be actively employed with the Company as of the day the IPP amount is paid to be eligible for the payout. The IPP percentage is applied to the employee's annual base salary that is in effect at the time of the payment.

Employees who fail to receive a minimum score of "meets expectations"/2.0 on their annual performance review, employees who are on a performance improvement plan during the 12 month period from March 16, 2010 to March 15, 2011 and employees who received two or more written warnings within the previous 6 months prior to the payout will forfeit their award.

Management reserves the right to reduce, suspend or eliminate the IPP plan for any reason including corporate consolidated results.

**Natural Gas: Bonus Components. Bonus Performance Metrics**

| <i>Description of Performance Metric</i> | <i>Measurement</i>                                   | <i>Level 4</i> | <i>Level 3</i> | <i>Level 2</i> | <i>Level 1</i> |
|--|--|----------------|----------------|----------------|----------------|
| <b>Corporate (Entire Co.)</b>            | 2009 EPS payout - same targets as Corporate officers | 5%             | 5%             | 5%             | 5%             |
|  |  |                |                |                |                |
| <b>Business Unit</b>                     | Earnings   | 22%            | 20%            | 20%            | 15%            |
|  | Returns  | 22%            | 20%            | 20%            | 15%            |
|  | Investment Growth                                    | 11%            | 10%            | n/a            | n/a            |
|  |  | <b>55%</b>     | <b>50%</b>     | <b>40%</b>     | <b>30%</b>     |
| <b>Individual</b>                        | Individual Goals                                     | 30%            | 33.75%         | 27.5%          | 32.5%          |
|  | Department Goals                                     | 10%            | 11.25%         | 27.5%          | 32.5%          |
|  |  | 100%           | 100%           | 100%           | 100%           |

**Bonus Opportunity**

| <i>Level of Position</i>                | <i>Bonus Opportunity %</i> |
|---|----------------------------|
| Level 4: BU Managers - Direct           | 10% (Maximum 20%)          |
| Level 3: BU Managers - First Line       | 8.5% (Maximum 17%)         |
| Level 2: Employees – Pay Grade I thru O | 7.5% (Maximum 15%)         |
| Level I: Employees- Pay Grade D thru H  | 6% (Maximum 12%)           |

**Corporate Bonus Program: Bonus Components, Bonus Performance Metrics**

| <i>Description of Performance Metric</i> | <i>Measurement</i>  | <i>Level 1</i> | <i>Level 2</i> | <i>Level 3</i> | <i>Level 4 Managers</i>  | <i>Level 5 Directors</i> |
|--|---|----------------|----------------|----------------|--------------------------|--------------------------|
| <b>Corporate (Entire Co.)</b>            | 2009 EPS payout - same targets as Corporate officers  | 50%            | 50%            | 50%            | 30%                      | 30%                      |
|  | <b><i>Based upon the following scale:</i></b>   |                |                |                |                          |                          |
|  | Minimum 50%   |                |                |                |                          |                          |
|  | Budget - . 83%  |                |                |                |                          |                          |
|  | Target-100%   |                |                |                |                          |                          |
|  | Maximum- 150%   |                |                |                |                          |                          |
|  | Involvement and support in the integration of FPU into the Chesapeake organization  | <i>n/a</i>     | <i>n/a</i>     | <i>n/a</i>     | 30% + FPU Kicker '09/'10 | 30% + FPU Kicker '09/'10 |
| <b>Departmental</b>                      | 2 Goals related to Improvement and Ingenuity - Efficiency in Processing; Technological Advancements. and Ingenuity; Enhanced customer service | <i>n/a</i>     | <i>n/a</i>     | <i>n/a</i>     | 15%                      | 15%                      |
|  | 1-2 Goals related to Employee Development – Individual Development. Professional Development, and Succession Planning                         | <i>n/a</i>     | <i>n/a</i>     | <i>n/a</i>     | 15%                      | 15%                      |
| <b>Individual</b>                        | 1-2 Goals related to efficiencies and ingenuity in job functions  | 30%            | 30%            | 30%            | <i>n/a</i>               | <i>n/a</i>               |
|  | 1 Goal related to individual development  | 10%            | 10%            | 10%            | 5%                       | 5%                       |
|  | 1 Goal in support and promotion of teambuilding/teamwork  | 10%            | 10%            | 10%            | 5%                       | 5%                       |
|  |   | 100%           | 100%           | 100%           | 100%                     | 100%                     |

**Bonus Opportunity**

| <b><i>Level of Position Bonus</i></b>               | <b><i>Opportunity %</i></b>   |
|---|---|
| Level I: Pay Grades C through H                     | 6%(Maximum 7.5%)  |
| Level 2: Pay Grades I through M(excluding managers) | 8%(Maximum 10%)   |
| Level 3: Pay Grades N and O (excluding managers)    | 10% (Maximum 12.5%)   |
| Level 4: Managers                                   | 12% (Maximum 15.6%)   |
| Level 5: Directors                                  | 15% (Maximum 19.5%)<br>Directors whose incentive bonus opportunity is currently greater than 15% will be grandfathered in and will not be affected by the establishment of the 15% pool |