EXHIBIT NO. ___(TMH-8CT)
DOCKET NO. UE-060266/UG-060267
2006 PSE GENERAL RATE CASE
WITNESS: THOMAS M. HUNT

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, **Complainant,** **v.** **PUGET SOUND ENERGY, INC.,** **Respondent.**	**Docket No. UE-060266** **Docket No. UG-060267**

PREFILED REBUTTAL TESTIMONY OF THOMAS M. HUNT (CONFIDENTIAL) ON BEHALF OF PUGET SOUND ENERGY, INC.

REDACTED VERSION

AUGUST 23, 2006

PUGET SOUND ENERGY, INC.

PREFILED REBUTTAL TESTIMONY (CONFIDENTIAL) OF THOMAS M. HUNT

CONTENTS

PUGET SOUND ENERGY, INC.

PREFILED REBUTTAL TESTIMONY (CONFIDENTIAL) OF THOMAS M. HUNT

I. INTRODUCTION

Q. Are you the same Thomas M. Hunt who submitted prefiled direct testimony in this proceeding on February 15, 2006, and supplemental prefiled direct testimony in this proceeding on July 10, 2006, each on behalf of Puget Sound Energy, Inc. ("PSE" or "the Company")?

A. Yes.

Q. Please summarize the purpose of your rebuttal testimony.

A. My rebuttal testimony responds to two adjustments to adjustment E.27 Incentive Pay proposed by Commission Staff witness Mr. James Russell and clarifies why the Commission should reject the two adjustments. Additionally, my rebuttal testimony provides context for an updated wage base related to a letter of agreement entered into between PSE and the International Brotherhood of Electrical Workers ("IBEW").

II. INCENTIVE PAY ADJUSTMENTS

A. Replacement of Test Year Incentive Payments With a Four-Year Average of Incentive Payments

Q. Does the Company agree with Commission Staff's proposal on adjustments E.27 Incentive Pay and G.15 Incentive Compensation to replace the test year incentive with a four-year average of incentive payments for the years 2003 through estimated 2006?

A. No. PSE believes that a four-year average of incentive payments that have actually been earned is the correct methodology. The four-year average proposed by Commission Staff is speculative because it uses the actual incentive payments earned in 2003 through 2005 and the budgeted incentive payment for 2006. The incentive payment amount for 2006 is not yet known and will not be determined until after the close of calendar year 2006 when the Company calculates its annual performance on its incentive goals. The 2006 incentive payment will be made in early 2007.

In past years, the Commission Staff has projected lower incentive payments than the Company actually paid. As discussed in my direct testimony, during the 2004 general rate case, the Commission Staff projected that no incentive payments would be made in 2004, but PSE ultimately made incentive payments in excess of $7 million under the 2004 plan.

If the Commission agrees with the approach suggested by Mr. Russell of including an estimate of 2006 incentives in the four year average, it should use the most updated projections for the 2006 incentive payout. The projected incentive payment as of July 2006 is $[redacted], of which, $[redacted] is allocated to O&M accounts. This is a more accurate number than the original budgeted number used in Mr. Russell's calculation.

Q. Why is the projected amount different that the budgeted incentive payout?

A. Each year the Company budgets a base amount for incentive pay. The initial budgeted amount is at the low end of possible payouts. As the year proceeds, the Company updates the incentive projections, based on the Company's progress toward meeting its financial and service quality goals. It is not unusual for the Company's incentive payout to exceed the budgeted amount. In two of the past three years, the Company paid more in incentive pay than it initially budgeted, as shown on the table below.

Year	Initial Budgeted Incentive Pay	Actual Incentive Pay
2003	$5,502,837	$3,237,441
2004	$4,184,195	$7,686,035
2005	$4,550,539	$17,082,436
2006	$6,386,000	$[redacted] (Projected)
Average		**$**[redacted]

REDACTED VERSION

As shown above, if the Commission includes the incentive pay for 2006 in its four-year average, it should use the latest projection for 2006 in that average, rather than the base budget amount.

B. Removal of Stock Equivalent Payments To Mr. Steven Reynolds

Q. Does the Company agree with Commission Staff's proposal on adjustments E.27 Incentive Pay to remove stock equivalent payments made to Chief Executive Officer Steven Reynolds in lieu of the performance share grants awarded to other PSE executives?

A. No. The following excerpt from Mr. Russell's testimony erroneously characterizes the stock equivalent payments as Long Term Incentive Payments and removes them from revenue requirements:

> My adjustment to incentive pay also includes removing stock equivalent payments made to Chief Executive Officer Steven Reynolds in lieu of the performance share grants awarded to other PSE executives, which are treated as non-operating expenses for ratemaking purposes.

Exhibit No. ___(JMR-1T) at page 14, lines 9-12. Mr. Reynolds is a participant in PSE's Long Term Incentive Plan and has received performance share grants annually since 2002. The stock equivalent payments made to Mr. Reynolds are not made in lieu of performance share grants as stated by Mr. Russell.

The stock equivalent payments made to Mr. Reynolds are part of his retirement benefit and are provided in lieu of his participation in PSE's Supplemental Executive Retirement plan ("SERP"), as disclosed in PSE's annual proxy filing:

> As described more fully in "Employment Contracts, Termination of Employment and Change-in-Control Arrangements," in lieu of participation in the SERP, Mr. Reynolds receives an annual credit of stock equivalents to a Retirement Equivalent Stock Account equal to 15% of combined base salary and incentive bonus for the preceding year, which vest over seven years.

Exhibit No. ___(TMH-9) ("Retirement Benefits Statement", page 20 of the Proxy statement covering 2005). Thus, stock equivalent payments made to Mr. Reynolds are part of his retirement benefits and should be included in PSE's revenue requirements.

III. WAGE ADJUSTMENTS

Q. Is PSE offering any update to wage base?

A. Yes. As discussed in my prefiled testimony, PSE is actively addressing the issue of attracting and retaining key skilled workers. *See* Exhibit No. ___(TMH-1T) at page 3 through page 8. As part of Labor Management meetings, PSE identified eleven IBEW job classifications that were below the prevailing market rate. PSE and the IBEW have signed a letter of intent, effective July 17, 2006, to adjust wage rates for employees in these job classifications by seven percent overall, with the increase to take effect on August 28, 2006. *See* Exhibit No. ___(TMH-10). The wage increases pursuant to the letter of agreement increases the

April 2006 to March 2007 contractual increase by 1.62%. Ms. McLain's rebuttal testimony describes the importance of this increase to attracting and retaining these employees. *See* Exhibit No. ___(SML-5) at page 5.

Q. Has the IBEW approved of the letter of intent?

A. Yes. IBEW membership approved the letter of intent on August 1, 2006.

IV. CONCLUSION

Q. Does that conclude your testimony?

A. Yes, it does.