

EXHIBIT NO. ___(TMH-4)
DOCKET NO. UE-07___/UG-07___
2007 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-07___
Docket No. UG-07___

**THIRD EXHIBIT (NONCONFIDENTIAL) TO THE
PREFILED DIRECT TESTIMONY OF
THOMAS M. HUNT
ON BEHALF OF PUGET SOUND ENERGY, INC.**

DECEMBER 3, 2007

2007 Goals and Incentive Plan



2007 Goals and Incentive Plan

Puget Sound Energy 2007 Goals

Our customers, constituents and communities expect us to provide state-of-the-art services, offer aggressive energy-efficiency programs, be environmentally sensitive, and be a good corporate citizen — while delivering in a way that is continually better, faster and cheaper. Our shareholders — the owners of our company — expect a fair return on their investment. And all of us at PSE want it to be a great place to work.

To do this, PSE has company goals and these cascade to department, team and individual goals so everyone has the same focus and priorities.

Puget Sound Energy 2007 Goals

- **Enhance customer service** – Provide responsive service to our customers by listening, leveraging new systems, updating processes, and providing new and improved products.
- **Optimize generation and delivery** – Manage existing resources as well as acquire, build and/or replace infrastructure in responsible ways that meet customers' needs, protect the environment and provide a fair return to shareholders.
- **Be a good neighbor** – Demonstrate that we accept leadership responsibility to protect and improve our region through our natural gas and electric service, energy efficiency initiatives, corporate giving, and community involvement.
- **Value employees** – Focus on safety, teamwork, process improvement, and technology as well as employee development and recognition to make PSE truly a great place to work.
- **Own it** – Be a company where employees treat resources as their own.
- **Learn from the past** – Examine past practices, including significant event response efforts, and apply lessons learned to develop and implement solutions that add value and enhance customer service and community involvement.

Overview of Goals and Incentive Plan

The Goals and Incentive Plan is designed to focus all employees on company goals and provide an incentive to be outstanding performers and creative stewards of resources. This plan supports the PSE philosophy to pay for performance.

How much incentive can I earn?

The target annual incentive for most nonrepresented employees is 10 percent of base pay. It is possible to earn up to a maximum incentive of twice that amount (20 percent of base pay). All represented employees have a fixed incentive target of \$2,000, which may increase or decrease depending on company performance.

How is my incentive determined?

Three factors determine your incentive award:

1 Company financial performance

The company as a whole must achieve earnings per share of at least \$1.43 to trigger the incentive pool. The more our earnings per share increase above the trigger, the larger the incentive pool and your potential incentive award, as shown in table 1.

2 Service quality performance

The quality of our customer service is key to our success. Our Service Quality Index (SQI) includes 11 measures, and company performance on these may increase or decrease the incentive pool. Achieving fewer than 10 of the 11 decreases the pool, but achieving more than 10 increases the incentive pool, as shown in table 2.

3 Individual and team performance

At year-end, your vice president will be allocated part of the incentive pool to distribute in your department. What determines your incentive amount is how you and/or your team perform against your individual or team goals. Your direct supervisor and management team work together to distribute the pool across work groups.

What has changed for 2007?

For 2007, individual awards will be based 100 percent on your individual or team performance. This means goal setting is even more important than in the past.

Table 1

Incentive Opportunity Table	
EPS	Incentive Pool*
Cap	205%
\$1.76	205%
\$1.75	198%
\$1.74	191%
\$1.73	184%
\$1.72	177%
\$1.17	170%
\$1.70	163%
\$1.69	156%
\$1.68	149%
\$1.67	142%
\$1.66	135%
\$1.65	128%
\$1.64	125%
\$1.63	121%
\$1.62	118%
\$1.61	114%
\$1.60	111%
\$1.59	107%
\$1.58	104%
\$1.57	100%
\$1.56	93%
\$1.55	86%
\$1.54	79%
\$1.53	72%
\$1.52	65%
\$1.51	58%
\$1.50	51%
\$1.49	44%
\$1.48	37%
\$1.47	30%
\$1.46	30%
\$1.45	30%
\$1.44	30%
\$1.43	30%
\$1.42	0%



Opportunity for incentive award

Funding pool is based on company performance

Tables 1 and 2 illustrate how the incentive pool is determined. Actual incentive awards will vary based on team and individual performance. See the examples and rules for represented and nonrepresented employees.

In table 1, “guidance range” indicates the company’s outlook that annual earnings in 2007 will fall in the range specified.

Table 2 shows how Service Quality Index (SQI) performance modifies the total incentive pool.

Table 2

SQI performance	
11 of 11	= 120%
10 of 11	= 100%
9 of 11	= 90%
8 of 11	= 80%
7 of 11	= 70%
6 of 11	= 60%
5 of 11	= 50%
4 or less	= 0%
SQI modifies the incentive pool	

The 11 SQIs measure:	
Customer satisfaction	
Overall customer satisfaction	
Customer access center	
Gas field services	
WUTC complaints	
Customer service	
Calls answered “live”	
On-time appointments	
Disconnects for non-pay	
Safety and reliability	
Gas emergency response	
Electric emergency response	
Non-storm outage frequency	
Non-storm outage duration	

Examples for nonrepresented employees

These examples show how company performance and individual performance affect incentive awards.

If annual salary = \$50,000
 Target incentive = \$5,000 (10% of salary)
 Incentive opportunity = 0 to \$10,000 (0 to 20% of salary)

Company Performance EPS x SQI = Incentive Pool

$EPS = \$1.62 = 117.5\%$
 \times
 $SQI = 11/11 = 120\%$
 $=$
141% pool
 Above target

$EPS = \$1.57 = 100\%$
 \times
 $SQI = 10/11 = 100\%$
 $=$
100% pool
 At target

$EPS = \$1.55 = 86\%$
 \times
 $SQI = 9/11 = 90\%$
 $=$
77.4% pool
 Below target

Individual Performance

Performance Rating

Incentive Award

Performance Rating		Incentive Award
Goals & Competencies = 5	⇒	150% (\$7,500)
Goals & Competencies = 3	⇒	100% (\$5,000)
Goals & Competencies = 2	⇒	50% (\$2,500)
Goals & Competencies = 5	⇒	110% (\$5,500)
Goals & Competencies = 3	⇒	100% (\$5,000)
Goals & Competencies = 2	⇒	50% (\$2,500)
Goals & Competencies = 5	⇒	100% (\$5,000)
Goals & Competencies = 3	⇒	75% (\$3,750)
Goals & Competencies = 2	⇒	25% (\$1,250)

Examples for represented employees

These examples show how company performance and team performance affect incentive awards. The examples below represent a team with three goals.

Target incentive = \$2,000
Incentive opportunity = 0 to \$4,000 (200% of target incentive)

If team has 3 goals, achieving:
3 of 3 = 100%
2 of 3 = 66%
1 of 3 = 33%

If team has 5 goals, achieving:
5 of 5 = 100%
4 of 5 = 80%
3 of 5 = 60%
2 of 5 = 40%
1 of 5 = 20%

Company Performance EPS x SQI = Incentive Pool	Team goals achieved	Team Goal Performance	Incentive Award
<p>EPS = \$1.62 = 117.5% x SQI = 11/11 = 120% = 141% pool Above target</p>	3 of 3	= 100%	⇒ 141% (\$2,820)
	2 of 3	= 66%	⇒ 93% (\$1,861)
	1 of 3	= 33%	⇒ 70.5% (\$930)
<p>EPS = \$1.57 = 100% x SQI = 10/11 = 100% = 100% pool At target</p>	3 of 3	= 100%	⇒ 100% (\$2,000)
	2 of 3	= 66%	⇒ 66% (\$1,320)
	1 of 3	= 33%	⇒ 33% (\$660)
<p>EPS = \$1.55 = 86% x SQI = 9/11 = 90% = 77.4% pool Below target</p>	3 of 3	= 100%	⇒ 77.4% (\$1,548)
	2 of 3	= 66%	⇒ 51% (\$1,021)
	1 of 3	= 33%	⇒ 25.5% (\$510)