EXHIBIT NO. ___(TMH-4)
DOCKET NO. UE-09___/UG-09___
2009 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-09____** **Docket No. UG-09____**

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

MAY 8, 2009

ITEM 11. EXECUTIVE COMPENSATION

PUGET ENERGY
PUGET SOUND ENERGY
EXECUTIVE COMPENSATION

COMPENSATION AND LEADERSHIP DEVELOPMENT COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

The members of the Compensation and Leadership Development Committees (referred to as the Committee) of the Boards of Directors (referred to as the Board) of Puget Energy and Puget Sound Energy (referred to as the Company) who served during 2008 are named in the Compensation and Leadership Development Committee Report on page 154. No members of the Committee were officers or employees of the Company or any of its subsidiaries during 2008, were formerly Company officers or had any relationship otherwise requiring disclosure. Effective with the completion of the Company's merger on February 6, 2009, a new Board and Committee were appointed.

COMPENSATION DISCUSSION AND ANALYSIS

This section provides information about the compensation program in place for the Company's Named Executive Officers who are included in the Summary Compensation Table on page 155 — the Chief Executive Officer (CEO), the Chief Financial Officer and the three other most highly compensated executive officers for 2008. It includes a discussion and analysis of the overall objectives of our compensation program and each element of compensation the Company provides.

COMPENSATION PROGRAM OBJECTIVES

The Company's executive compensation program has two main objectives:

- Support sustained Company performance by having talented people running the business.
- Align compensation payment levels with achievement of Company goals.

The following is a discussion of the specific strategies used in 2008 to accomplish each of these objectives by the Committee and management to implement these strategies.

1. Our objective of supporting sustained Company performance by having talented people running the business is supported by the following strategies:

- *Designing and delivering compensation programs that attract, motivate, and retain a talented executive team.*

Several factors are critical to attracting and retaining executives for the Company. One is ensuring that total pay opportunity is competitive with similar companies so that new executives will want to join the Company and current executives are not hired away. As described below in the discussion of Compensation Program Elements (Review of Pay Element Competitiveness), the Committee annually compares executive pay to external market data from similar companies in our industry. Base pay and total direct compensation (which is base salary plus annual and long-term incentive pay) are targeted to the 50th percentile of our comparator group. Individual pay adjustments are reviewed to see how they position the executive in relation to the median of market pay, while also considering the executive's recent performance and experience level. The Company may choose to pay an individual above or below the median level of market pay when our executive has a role with greater or lesser responsibility than the best comparison job or when our executive's experience and performance exceed those typically found in the market. In 2008, the Committee determined the pay level for Mr. Reynolds, the President and CEO, and reviewed and approved Mr. Reynolds' recommendations for pay levels of the other executives.

Another factor critical to motivating our executives, as well as attracting and retaining them, is to provide incentive compensation for meeting and exceeding target levels of annual and long-term goals. By establishing goals, monitoring results, and providing payments and recognition for accomplishment of results, the Company focuses executives on actions that will improve the Company and enhance investor value, while also retaining key talent.

A final critical factor in attracting, motivating and retaining executives is to provide them with retirement income. We recognize that executives choose to work for the Company from a variety of other alternative organizations, and one financial goal of employees is to provide a secure future for themselves and their families. The Committee reviews the design of retirement programs provided by the comparator group and provides benefits that are commensurate with this group.

- *Designing and delivering incentive programs that support the Company's business direction as approved by the Board of Directors and align executive interests with those of investors and customers.*

In addition to rewarding performance that meets or exceeds goals, our annual and long-term incentives help executives focus on the priorities of our investors and customers. Both the annual incentive plan and the long-term incentive plan measure and reward the Company's performance on Service Quality Indices (SQIs). These reporting measures were developed in collaboration with the Company's regulator and provide customers with a report card on the Company's customer service and reliability. In fact, we provide an annual accounting on these 11 measures to our customers each year. Additional key measures used in 2008 for determining incentives were Earnings Per Share (EPS) in the annual incentive plan and Relative Total Shareholder Return (TSR) in the long-term incentive plan. EPS and Relative TSR were important shareholder performance measures, but they also indicated to our customers that the Company will have the financial strength needed for long-term sustainability.

The Committee evaluates the performance factors and targets for its annual and long-term incentive programs each year. The Committee believes the balance between annual and long-term incentives and the performance targets based on management's operating plan, which includes providing good customer service, do not provide an incentive to executives to take unreasonable risks relating to the Company's business.

- *Executing the Company's succession planning process to ensure that executive leadership continues uninterrupted by executive retirements or other personnel changes.*

The President and CEO leads the talent reviews and executive succession planning through meetings with his executive team. Each executive conducts talent reviews of senior employees who have high potential for assuming greater responsibility in the Company. The talent reviews include evaluations prepared within the Company and by external organizational development consultants. The Committee annually reviews these assessments of executive readiness, the plans for development of the Company's key executives, and progress made on these succession plans. The Committee directly participates in discussion of succession plans for the position of President and CEO.

2. Our objective of aligning compensation payment levels with achievement of Company goals is supported by the following strategy:

- *Placing a significant portion of each executive's total direct compensation at risk to align executive compensation with financial and operating performance. Total direct compensation is base salary plus annual and long-term incentive pay, and does not include retirement plan accruals.*

When Company results are above expectations, total direct compensation is higher than our target of the 50th percentile of our comparator group. If results are below expectations, total direct compensation is lower than this targeted level. As described above as "pay for performance," the Company's variable pay program helps focus executives and creates a record of their results.

COMPENSATION PROGRAM ELEMENTS

This section continues the detailed discussion of the Company's compensation program by identifying the elements of the program and examining how these elements function and why the Committee chooses to include the items in the compensation program.

The Company's compensation policies encompass a mix of base salary, annual and long-term incentive compensation, health and welfare benefits, retirement programs, and a small number of perquisites. The Company also provides certain change in control benefits to executives. The total package is designed to provide participants with appropriate incentives that are competitive with the comparator group and achieve current operational performance and customer service goals as well as the long-term objective of enhancing investor value. The Company does not have a specific policy regarding the mix of cash and non-cash compensation elements, but arrives at a mix of pay by setting each compensation element relative to market comparators. The Company delivered compensation in 2008 through cash and stock-based programs, because cash provides liquidity for employees while stock increased the connection to shareholders. Long-term performance-based incentives are designed to comprise the largest portion of each executive's incentive pay. Annually the Committee reviews total compensation opportunity and actual total compensation received over the prior years by each officer in the form of a tally sheet. This review helps inform the Committee's decisions on program designs by allowing the Committee to review overall pay received in relation to Company results.

Review of Pay Element Competitiveness

In making compensation decisions on base salary and annual and long-term incentive programs, management prepares comprehensive surveys of pay for review by the Committee and the Committee's outside executive pay consultant, Towers Perrin. The surveys summarize data provided by the Towers Perrin 2007 Energy Services survey for a selection of utility and other companies that are most similar in scope and size to Puget Energy. For the review of compensation pay levels and practices in 2008, we included the following utility companies in our comparator group that were all of similar scope (generally \$1.5 billion — \$6.0 billion revenue and \$4.0 billion — \$11.0 billion asset size) and also participated in the Towers Perrin 2007 Energy Services survey:

1. Allegheny Energy
2. Alliant Energy
3. Ameren
4. Atmos Energy
5. Avista
6. Great Plains Energy
7. MDU Resources
8. NSTAR
9. New York Power Authority
10. Nicor
11. OGE Energy
12. PNM Resources
13. Pinnacle West Capital
14. Portland General Electric
15. SCANA
16. Westar Energy
17. Wisconsin Energy

Base Salary

Base salaries are generally targeted at the 50th percentile for the comparator group. Actual salaries vary by individual and depend on additional factors, such as expertise, individual performance achievement, level of experience and level of contribution relative to others in the organization.

Generally, base salaries for executives are administered on an individual basis by the Committee using as a guideline, median salary levels of our comparator group companies, as well as internal pay equity among executives. We recognize that it is necessary to provide executives with a portion of total compensation that is delivered each month and provides a balance to other pay elements that are at risk.

Base Salary Adjustments

The Committee reviewed Mr. Reynolds' performance and, based on his results and market comparison, his base salary for 2008 was increased from $800,000 per year to $825,000, a 3.1% increase. For the other Named Executive Officers, Mr. Reynolds evaluated their performance during 2007 and recommended increases to the Committee based on individual performance. Additionally, based on market data and internal peer comparisons, the base salaries for Mr. Markell and Ms. Harris were determined to be below market median and each of their salaries was increased to $360,000, a 20% increase. The recommended increases for the other executives were similar to the range of salary increases awarded to all employees. The Committee reviewed market comparisons and found the proposed increases appropriate. These increases were: Mr. Valdman, a 5.3% increase to $395,000; and Ms. O'Connor, a 3.5% increase to $310,500.

Annual Incentive Compensation

In addition to reviewing base salaries paid by our market comparator group, we also review annual incentive payments through an annual review of total cash compensation (base salaries plus incentives). Total cash compensation is targeted at the 50th percentile of total cash compensation for the industry comparator group if the Company's annual performance goals are achieved at target. If performance goals significantly exceed target, total cash compensation can approach the 75th percentile.

All PSE employees, including executive officers, participate in an annual incentive program referred to as the "Goals and Incentive Plan." The plan is designed to provide financial incentives to executives for achieving desired annual operating results while meeting the Company's service quality commitment to customers. The Company's service quality commitment is measured by performance against 11 SQIs covering three broad categories, set forth below. These are the same SQIs for which the company is accountable to the Washington Commission. Based on a recent order from the Washington Commission, the "overall customer satisfaction" SQI will be eliminated in 2009. The remaining ten SQIs will continue to be key performance measurements for the Company.

- **Customer Satisfaction**
  — Overall customer satisfaction (a measure in 2008, but no longer a measure in 2009), customer access center, gas field services and Washington Commission complaints
- **Customer Service**
  — Calls answered "live", on-time appointments and disconnects for non-pay
- **Safety and Reliability**
  — Gas emergency response, electric emergency response, non-storm outage frequency and non-storm outage duration

The 2008 plan had a funding level based on EPS and attainment of SQIs as shown in the table below. The Committee can adjust EPS used in the annual incentive calculation to exclude nonrecurring items that are outside the normal course of business for the year, but did not do so for 2008. Individual awards were based on performance against team and individual goals. Individual goals were developed from the overall corporate goals for 2008:

- **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 investors.
- **Be a Good Neighbor** — Demonstrate that we accept leadership to protect and improve 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** — Each employee must manage the resources under their control as if they owned them.
- **Continue to Learn and Grow** — Examine past practices and apply lessons learned to develop and implement solutions that add value and enhance customer service and community involvement.

ANNUAL INCENTIVE PERFORMANCE PAYOUT SCALE

PERFORMANCE	2008 EPS	SQI*	FUNDING LEVEL
Maximum	$1.55	11/11	240%
Target	1.20	10/11	100%
Trigger Payout Funding	1.15	10/11	50%
2008 Actual Performance	$1.25	9/11	112.5%

* SQI results of 5/11 or better required for any incentive payout funding. SQI results below 10/11 reduce funding (e.g., 9/11 = 90%, 8/11 = 80%, etc.).

Actual performance for 2008 was better than the target level for EPS, but below target for SQI achievement. Puget Sound Energy EPS was $1.25, and SQI achievement was 9 out of 11, leading to a funding level of 112.5% (125% x 90% = 112.5%).

For 2008, the target incentives for this plan varied by executive officer as shown in the table below. The maximum incentive for exceptional performance in this plan is twice the target incentive. After considering performance on individual and team goals, which were met by each executive officer, no adjustments were made and the following amounts were paid at 112.5% of target:

NAME	TARGET INCENTIVE (% OF BASE SALARY)	2008 ACTUAL INCENTIVE PAID
Stephen P. Reynolds	85%	$788,906
Bertrand A. Valdman	60%	266,625
Eric M. Markell	60%	243,000
Kimberly J. Harris	60%	243,000
Jennifer L. O'Connor	50%	174,656

Long-Term Incentive Compensation

Total direct compensation (base salary, annual incentive and long-term incentives) opportunities are designed to be competitive with market practices, generally targeting the 50th percentile of the comparator group for performance at target. The Puget Energy 2005 Long-Term Incentive Plan (LTIP), approved by shareholders in 2005, provides for several forms of multi-year incentive grants, both equity and cash-based awards. Even though the LTIP provides many types of awards, through 2008 the Company's use of the plan has typically been limited to two types of grants to executives and key employees — (i) annual grants comprised of a mixture of Performance Shares and Performance-Based Restricted Stock and (ii) new employment grants to newly hired executives. The Company has not used stock options frequently, even though permitted under the LTIP, because the Committee believes that Performance Shares and Performance-Based Restricted Stock generally have better incentive value for executives in a utility industry company.

The table below shows the mix of Performance Shares and Performance-Based Restricted Stock grants under the LTIP for each three-year cycle that was active in 2008. Beginning with the 2006-2008 grant cycle, the committee began granting a combination of Performance Shares and Performance-Based Restricted Stock. The committee adopted a mix for grants of 50% each for executive officers, except the CEO is granted 70% Performance Shares and 30% Performance-Based Restricted Stock to better align the CEO's pay at risk with the overall Company performance.

GRANT CYCLE	PERFORMANCE SHARES	PERFORMANCE BASED RESTRICTED STOCK
2006-2008*	50%	50%
2007-2009*	50%	50%
2008-2010*	50%	50%

* *CEO grants are split 70% Performance Shares and 30% Performance-Based Restricted Stock*

The Committee established the number of LTIP shares for each executive by evaluating the actual payment and forecast target payment of long-term incentive awards of our market comparator group for comparable levels of responsibility. The Committee generally did not consider previously granted awards or the level of accrued value from prior programs when granting annual incentive awards or making new LTIP grants. Each year's grant is primarily viewed in the context of the compensation opportunity needed to maintain the Company's competitive position relative to the comparator group. In 2008 and previously, target LTIP awards were calculated based on a percentage of annual salary, and were then translated into a target number of shares using the average of the month ending stock prices from the three months prior to the start of the performance cycle. Targets for 2008 were 170% of base salary for Mr. Reynolds; 110% for Mr. Valdman, Mr. Markell and Ms. Harris; and 95% for Ms. O'Connor. Beginning in 2009, LTIP awards will be calculated based on a percentage of annual salary and have a cash target.

The points below summarize the performance measures and design of the LTIP grants that were outstanding during 2008.

Performance Shares:

- A Performance Share grant establishes a target number of shares of stock that will be paid to the participant if the Company achieves the targeted level of performance during the three-year performance cycle. The actual award paid is based on Company performance relative to target, subject to a minimum threshold level of performance.
- The Performance Share grant is calculated based on Puget Energy's total shareholder return relative to the EEI Combination Gas & Electric Investor Owned Utilities Index and performance outcomes based on the same SQIs used under the annual incentive plan described above. The grant requires a threshold performance of relative total shareholder return at the 25th percentile, and pays at target level if total shareholder return is at the 50th percentile and 10 out of 11 SQIs are met.
- At the completion of the performance cycle, if the Performance Share grant is paid, the participant receives shares of stock and a cash payment equivalent to the dividends that would have been paid on this number of shares during the performance cycle.
- Participants who are meeting or exceeding shareholder ownership guidelines may elect to receive up to 50% of the value of the Performance Shares in cash.
- The Performance Shares have interim calculations ("banking") at the end of Year 1 for 15% of the shares, at the end of Year 2 for 25%, and at the conclusion of the performance period in Year 3 for the remaining 60% of the shares. If the full three-year performance is higher than the performance banked, the full award amount is paid.

Performance-Based Restricted Stock:

- A Performance-Based Restricted Stock grant is a grant of shares that vest based on a combination of continued service and attainment of Company performance. The Performance-Based Restricted Stock vests in installments over a three-year period only if a target number of SQIs are met and the participant remains employed with the Company.
- Vesting is based on the Company meeting or exceeding 8 out of 11 SQIs in each year of the three-year period and the participant continuing employment through the vesting dates at the end of Year 1 (15% vesting), Year 1 (25% vesting) and Year 3 (60% vesting).

LTIP Performance:

In connection with the completion of the merger on February 6, 2009, all LTIP Awards were settled in cash, and the amounts received by each Named Executive Officer for the 2007-2009 and 2008-2010 Awards are included in "Payments Upon Completion of the Merger."

- 2006-2008 Grant: Overall performance on the cumulative grant for the three-year period was 149.5% of the target grant. Performance on relative TSR was 94th percentile versus the comparator group and the service quality measures achieved 90% of target. The Performance Share grant had a performance banking of 16.1% in 2006 and 35.2% in 2007, which is included in the 149.5%. The Committee approved the 2006-2008 performance measures just prior to the merger close, and the awards were paid in cash after the close.
- 2007-2009 Grant: Overall performance on the cumulative grant for the first two years was 149.5% of the target grant. Performance on relative TSR was 100th percentile versus the comparator group and the service quality measures achieved 90% of target. The Performance Share grant had a performance banking of 21.1% in 2007 and 37.4% in 2008, which is included in the 149.5%. With the Company's merger, these awards accelerated and were paid in cash.
- 2008-2010 Grant: Overall performance for the first year of this grant was 149.5% of the target grant. Performance on relative TSR was at the 86th percentile versus the comparator group and the service quality measures achieved 90% of target. The Performance Share grant had a performance share banking of 22.4% for the first year, which is included in the 149.5%. With the Company's merger, these awards accelerated and were paid in cash.

Previously, new employment grants, usually in the form of restricted stock, performance shares, or in one case, non-qualified stock options, were made to attract an executive to the Company, often to replace value the candidate would forfeit from similar awards by moving to the Company.

Timing of Grants

The Committee approves LTIP grants in the first quarter of the year at the regular meeting of the Committee, which typically is within a month after the Company has publicly released a report of its annual earnings. Due to administrative requirements, the Committee may make the effective date of grants up to five business days after the date of Committee action.

Stock Ownership

The Company has established stock ownership guidelines to be achieved over a five-year period for PSE officers and key managers. For executives, holding a certain amount of stock relative to their current income helps to strengthen their alignment to shareholders. The guidelines range from five times base salary for the President and CEO to two times base salary for the other Named Executive Officers to 50% of base salary for other key employees. Directly owned shares, share equivalents in the deferred compensation plan, and contingent shares in the LTIP that are forecast to be paid, count towards meeting the stock ownership guidelines. The Company has determined that as of December 31, 2008, all of the Named Executive Officers met or exceeded their guidelines. Officers and directors of the Company are not allowed to own derivatives of Puget Energy stock, nor are they allowed to own shares in margin accounts. Effective with the delisting of Puget Energy stock on February 6, 2009, stock ownership guidelines are no longer pertinent and have been eliminated.

Impact of Accounting and Tax Treatment of Compensation

The accounting treatment of compensation generally has not been a factor in determining the amounts of compensation for our executive officers. However, the Company considers the accounting impact of various program designs to balance the potential cost to the Company with the benefit/value to the executive. The Company considers the tax impact of long-term incentive compensation awards, and therefore to the extent practical, strives to deliver pay that qualifies under IRS Section 162(m) as performance-based to obtain a corporate tax deduction. Under Section 162(m), the Company may not deduct compensation expense for the Named Executive Officers (other than the Chief Financial Officer) if that expense is over one million dollars, except that performance-based pay is excluded from the total pay subject to the Section 162(m) deduction limit. Our LTIP grants of multi-year cash incentives, Performance-Based Restricted Stock and Performance Shares are designed to meet the performance-based qualification requirements and be fully tax deductible. Only Mr. Reynolds has pay that normally exceeds the one million dollar level, and the majority of this pay is performance-based and qualifies for deduction under Section 162(m). The Committee has the right under the LTIP to exercise its discretion to decrease, but not to increase, the payment amount of LTIP awards from the grant's performance-based calculation.

Retirement Plans — Supplemental Executive Retirement Plan (SERP)

The Company maintains the SERP for executives to provide a benefit that is coordinated with the tax-qualified PSE Retirement Plan (Retirement Plan). Without the addition of the SERP, these executives would receive lower percentages of replacement income during retirement than other employees. All the Named Executive Officers except Mr. Reynolds participate in the SERP. When Mr. Reynolds was hired, he elected to receive an annual contribution to his account in the Deferred Compensation Plan for Key Employees in lieu of participating in the SERP, as described in the following paragraph. He participates in the Retirement Plan. Additional information regarding the Retirement Plan and the SERP is shown in the "2008 Pension Benefits" table.

Retirement Plans — Deferred Compensation Plan for Key Employees (Deferred Compensation Plan)

The Named Executive Officers are eligible to participate in the Deferred Compensation Plan. The Deferred Compensation Plan provides executives an opportunity to defer up to 100% of base salary, annual incentive bonus and vested performance shares, plus receive additional Company contributions made by PSE, into an account with four investment tracking fund choices. The funds mirror performance in major asset classes of bonds, stocks, Puget Energy stock (until the delisting of Puget Energy stock), and an interest crediting fund that changes rate quarterly based on corporate bond rates. Similar to the SERP, the Deferred Compensation Plan is intended to allow the executives to defer current income, without being limited by the Internal Revenue Code contribution limitations for 401(k) plans and therefore have a deferral opportunity similar to other employees. The Company contributions are also intended to restore benefits not available to executives under PSE's tax-qualified plans due to Internal Revenue Code limitations on compensation and benefits applicable to those plans. Mr. Reynolds additionally receives an annual Company contribution to his Deferred Compensation Plan account equal to 15% of the base salary and annual incentive payment he received during the prior year. This account is a feature of Mr. Reynolds' employment agreement. Additional information regarding the Deferred Compensation Plan and Mr. Reynolds' employment agreement arrangement, as well as his year-end balance, is shown in the "2008 Nonqualified Deferred Compensation" table.

Post-Termination Benefits

The Company provides change in control agreements to its executive officers, including the Named Executive Officers, to establish in advance the terms of payments if the Company should have a change in control. Change in control agreements are important for two primary reasons. First, many executives when joining a new company require a level of assurance that they will receive pay in the event of a change in control after they join the company. Secondly, the Company provides change in control agreements so that the executives are focused on the Company's ongoing operations and not distracted by the employment uncertainty that can arise in the event of a change in control.

The Committee periodically reviews existing change in control arrangements for the comparator group considering benchmarking information provided by Towers Perrin. Based on this information, the Committee believes that the arrangements generally provide benefits that are similar to those of the comparator group. The change in control agreements call for accelerated vesting of equity awards in the event of a change in control, meaning that executives will receive accelerated vesting even if their employment continues with the Company or a successor company. Payment of severance benefits, however, requires a "double trigger" of both a change in control and the executive not continuing employment with the Company or a successor company, except Mr. Reynolds' employment agreement provides that payment of change in control benefits will be made at the time of a change in control even if employment continues with the Company or a successor company.

The "Potential Payments Upon Termination or Change in Control" section describes the existing change in control agreements with the Named Executive Officers as well as other plans and arrangements that would provide benefits on termination of employment, and the estimated potential incremental payments upon termination or a change in control based on an assumed termination or change in control date of December 31, 2008.

The Company's merger, which was completed on February 6, 2009, was a change in control event under the Company's change in control agreements and arrangements that resulted in the payment to each Named Executive Officer of the amounts included in "Payments Upon Completion of the Merger."

Other Compensation

In addition to base salary and annual and long-term incentive award opportunities, the Company also provides the Named Executive Officers with benefits and perquisites targeted to competitive practices. The executives participate in the same group health and welfare plans as other employees. Company vice presidents and above, including the executives, are eligible for additional disability and life insurance benefits. The executives are also eligible to receive reimbursement for financial planning, tax preparation, and legal services, business club memberships and executive physicals. The reimbursement for financial planning, tax preparation and legal services is provided to allow executives to concentrate on their business responsibilities. Business club memberships are provided to allow access for business meetings and business events at club facilities and executives are required to reimburse the Company for individual use of club facilities. Perquisites do not make up a significant portion of executive compensation, amounting to less than $10,000 in total for each executive in 2008.

Relationship Among Compensation Elements

A number of compensation elements increase in absolute dollar value as a result of increases to other elements. Base salary increases translate into higher dollar value incentive opportunity for annual and long-term incentives, because each plan operates with a target level award set as a percentage of base salary. Base salary increases also increase the level of retirement benefits, as do actual annual incentive plan payments. Some key compensation elements are excluded from consideration when determining other elements of pay. Retirement benefits exclude LTIP payments in the calculation of qualified retirement (pension and 401(k)) and SERP benefits.

COMPENSATION AND LEADERSHIP DEVELOPMENT COMMITTEE REPORT

The Board delegates responsibility to the Compensation and Leadership Development Committee to establish and oversee the Company's executive compensation program. During 2008 and through February 6, 2009, each member of the Committee meets the independence requirements of the SEC and the NYSE.

The individuals listed below, who were the members of the Company's Compensation Committee throughout 2008 and up until the effective date of the merger on February 6, 2009, have reviewed and discussed the "Compensation Discussion and Analysis" with the Company's management. Based on this review and discussion, the Committee recommended to the current Board, and the current Board has approved, that the "Compensation Discussion and Analysis" be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2008 for filing with the SEC.

Compensation and Leadership
Development Committee of
Puget Energy, Inc.
Puget Sound Energy, Inc.
(2008 and through February 6, 2009)

Stephen E. Frank, Chair
William S. Ayer
Herbert B. Simon