EXHIBIT NO. ___(TMH-6)
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____**

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

DECEMBER 3, 2007

EXECUTIVE COMPENSATION

The Company has updated the Executive Compensation section of the proxy to comply with rules the SEC adopted in 2006. The new rules require company proxy statements to further disclose existing compensation practices and to include additional narrative and tabular disclosure. In response, the Company has expanded explanations of historical compensation and the cost of that compensation for our named executive officers, as well as expanded information concerning director compensation.

Compensation Discussion and Analysis

This section provides information about the compensation program in place for the Company's named executive officers — the CEO, Chief Financial Officer and the three other most highly compensated executive officers for 2006. It includes information about 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 to accomplish each of these objectives, including Committee and management actions 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 Pay Elements (Review of Pay Element Competitiveness), the Committee annually compares executive pay to external market data from similar companies in our industry. 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 median level of market pay when our executive has a role with greater responsibility than the best comparison job or when our executive's experience and performance exceed those typically found in the market. The Committee determines the pay level for Mr. Reynolds, the Chairman, President and CEO, and reviews and approves Mr. Reynolds' recommendations for pay levels of the other executives.

Another critical factor 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. Our "pay for performance" strategy connects individual, team, and Company performance with an executive's pay. We believe the executives who will most successfully lead the Company are motivated by the possibility for individual financial gain and by the satisfaction of individual and team accomplishment. 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 shareholder value.

A final critical factor in attracting, motivating and retaining executives is providing them with retirement income based upon annual salary and actual bonus paid, as well as tenure. 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 competing companies and provides benefits that are commensurate with those of its competitors.

- *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 shareholders 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 shareholders 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 for determining incentives are Earnings Per Share (EPS) in the annual incentive plan and Relative Total Shareholder Return (Relative TSR) in the long-term incentive plan. EPS and Relative TSR are important shareholder performance measures, but they also indicate to our customers that the Company will have the financial strength needed for long-term sustainability.

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

The Chairman, President and CEO leads the talent reviews and 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 Chairman, 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. 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. When the performance of the executive team and all employees is better than planned, customers and shareholders benefit. Customers receive good customer service and reliable energy supplies at the least cost. Shareholders have the opportunity to receive dividends and increases in the value of their investment. By keeping a significant portion of pay at risk, the Company will not pay for results unless they are achieved. This is also why the Company targets the median pay of the market when performance goals are met, but will pay higher when performance exceeds targets.

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 shareholder 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 delivers compensation through cash and stock-based programs, because cash provides liquidity for employees while stock increases the connection to shareholders. Long-term performance-based incentives are designed to comprise the largest portion of each executive's incentive pay. As an example, the mix of annual salary and annual and long-term incentive targets for the Chairman, President and CEO in 2006, if all annual and long-term performance goals were achieved, was 29% annual salary, 22% target annual incentive, and 49% target long-term incentive. 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 plan 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, 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 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 2006, we included the following utility companies that were all of similar scope (generally \$2 billion — \$5 billion revenue and \$4 billion — \$10 billion asset size for 2005) and also participated in the Towers Perrin Energy Services survey:

1. Alliant Energy
2. Allegheny Energy Inc
3. Ameren Corp
4. Atmos Energy
5. Energy East
6. Great Plains Energy
7. MDU Resources Group Inc
8. New York Power Authority
9. Nicor
10. NSTAR
11. OGE Energy Group
12. Peoples Energy
13. Pinnacle West Capital
14. PNM Resources Inc.
15. Scana Corp
16. Teco Energy Inc
17. Vectren Corp
18. Washington Gas
19. Westar
20. Wisconsin Energy Group
21. WPS Resources Corp

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 a subjective, individual basis by the Committee using as a guideline, median salary levels of a select group of electric and combination gas and electric companies and other comparable companies from the group above, as well as internal 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 more at risk.

Base Salary Adjustments

The Committee reviewed Mr. Reynolds' performance and based on his results and market comparison, his base salary for 2006 was increased from \$750,000 per year to \$775,000, a 3.3% increase. For the other named executives, Mr. Reynolds evaluated their performance during 2005 and recommended increases to the Committee based on individual performance. The recommended increases 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 4% increase to \$364,000; Ms. O'Connor, a 3.2% increase to \$289,000; Ms. McLain, a 3.0% increase to \$273,000, and Mr. Markell, a 3.3% increase to \$268,000.

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 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. 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 2006 plan had a funding level based on Earnings Per Share (EPS) and attainment of Service Quality Indices (SQIs). The Committee can adjust earnings per share used in annual incentive calculation to exclude nonrecurring items that are outside the normal course of business for the year. Individual awards were based 70% on Company EPS results and 30% on performance against team and individual goals. Individual goals were developed from the overall corporate goals for 2006:

- **Great Customer Service** — Provide noticeably-improved service to our customers by leveraging new systems, improving processes and enhancing employee development and training.

- **Generation and Delivery** — Manage our existing resources and acquire needed new ones in a way that meets customers' needs and provides a fair return to shareholders.

- **Be a Good Neighbor** — Through our Energy Efficiency, corporate giving and employee involvement efforts, demonstrate to our key constituents and communities that we accept leadership responsibility in the effort to make our region better.

- **Dedication to Employees** — Focus on safety, teamwork, process improvements, technology and controls to make PSE truly a Great Place To Work.

- **Own it** — Each employee should manage the resources under their control as if they owned them.

For 2006, a threshold level of $1.38 EPS (Puget Sound Energy utility EPS) and 5 out of 11 SQI performance was required before any incentives could be paid. In order for target level annual incentives to be paid, the Company needed to achieve EPS of $1.47/share and meet 10 out of 11 SQIs. Actual performance for 2006 was better than the target level for EPS, but below target for SQI achievement. Utility EPS was $1.52, and SQI achievement was 9 out of 11, leading to a funding level of 105.75% (117.5% x 90% = 105.75%).

For 2006, the target incentives for this plan varied by executive officer: The target for Mr. Reynolds was 75% of base salary, for Mr. Valdman, 60% of base salary, and the targets for Ms. O'Connor, Ms. McLain, and Mr. Markell were 45% of base salary. The maximum incentive for exceptional performance in this plan is twice the target incentive.

For 2006, the performance goals for the named executives of PSE included EPS performance and other specified operational goals. The targets for Messrs. Reynolds, Valdman and Markell and for Ms. O'Connor and Ms. McLain were based 70% on EPS performance and based 30% team or individual goals. Based on the combination of financial results and operational goals, incentive awards were funded at 105.75% of target, and after considering performance on individual and team goals, the following amounts were paid: Mr. Reynolds, $614,672; Mr. Valdman, $230,958; Ms. O'Connor, $137,528; Ms. McLain, $129,914 and Mr. Markell, $127,534.

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. 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, the Company's use of the plan typically divides into two types of grants — annual grants of Performance Shares and Performance-Based Restricted Stock to all eligible employees, and new employment grants to newly hired executives. The Company does not use 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 Company's most common use of the LTIP is for annual grants to eligible plan participants. The Committee has been using Performance Shares since the LTIP was initially approved by shareholders in 1995. As part of ongoing reviews of the effectiveness of the LTIP program, Performance Share measures and features of the plan have been modified occasionally. In 2006, based on a review of competitive practice of utility companies and the Committee's objectives, the Committee revised its long-term incentive program and granted PSE executives and key employees a mixture of Performance Share grants and Performance-Based Restricted Stock grants. The total value of long-term incentive compensation awards is consistent with prior years. The Performance-Based Restricted Stock was introduced to provide a balance to the Performance Share program.

- 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 multi-year performance cycle. The actual award paid is based on Company performance relative to target, subject to a minimum threshold level of performance. The Committee has the right under the 2005 LTIP to authorize a payment of LTIP awards that differ from the grant's performance based calculation. Since the current program began in 1995, the Committee has not made any discretionary changes to award payments. 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 period. Effective with grants made in 2004, 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.

- 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 service quality measure is met and the participant remains employed with the Company.

The Committee establishes the number of LTIP shares that will be paid to each plan participant by evaluating the market comparator group's actual payment and forecast target payment of long-term incentive awards and based on the participant's level of responsibility. The Committee generally does not consider previously granted awards or the level of accrued value from prior programs when granting annual incentive awards or making new LTIP grants of performance shares and performance-based restricted stock. Each year's grant is primarily viewed in the context of the compensation opportunity needed in that year to maintain the Company's competitive position relative to the comparator group. Target Performance Share awards are calculated based on a percentage of annual salary, and are 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 period. Targets are 170% of base salary for Mr. Reynolds, 110% for Mr. Valdman and 95% for Ms. O'Connor, Ms. McLain and Mr. Markell. The Company's use of Performance Shares also includes a feature termed "banking" which is an evaluation of the interim performance of the grant at the end of the first and second years of the performance period. If Company performance up to that point in the grant qualifies for payment, then a portion of shares will be credited to the participant and will be paid at the end of the performance period, provided the participant continues employment until that time.

The points below summarize the performance measures and design of the LTIP grants that are currently outstanding and those which completed during 2006.

- Named executive officers were granted 2006-2008 Performance Share and Performance-Based Restricted Stock grants. For the CEO, the LTIP grant was approximately 70% Performance Shares and 30% Performance-Based Restricted Stock. For other executive officers, the LTIP grant was 50% Performance Shares and 50% Performance-Based Restricted Stock. The performance share grant will be calculated based on Puget Energy's total shareholder return relative to the EEI Combination Gas & Electric Investor Owned Utilities Index and performance outcomes on a set of service quality measures during the performance period. 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. The Performance Shares have interim calculations ("banking") at the end of 2006 for 15% of the shares, at the end of 2007 for 25%, and at the conclusion of the performance period in 2008 for the remaining 60% of the shares. For the CEO, the grant of Performance-Based Restricted Stock approximately represents 30% of the target value (50% of target value for other executive officers). Vesting is based on the Company meeting or exceeding 8 out of 11 SQIs and the participant continuing employment through the vesting dates at the end of 2006 (15% vesting), 2007 (25% vesting) and 2008 (60% vesting). The Performance measures were met for 2006, and 15% of the Performance-Based Restricted Stock grant was paid as shown on the "Stock Vested" table.

- Named executive officers have a 2005-2007 Performance Share award cycle outstanding. These Performance Share grants have a three-year performance cycle and are based on Puget Energy's total shareholder return relative to the EEI Combination Gas & Electric Investor Owned Utilities Index and performance outcomes on a set of service quality measures during the performance period. Performance is measured and a portion of the award determined at the end of each year in the three-year cycle, with payout for all three years made at the conclusion of the cycle based on continued service until that date. The Performance Shares have interim calculations ("banking") at the end of 2005 for 15% of the shares, at the end of 2006 for 25%, and at the conclusion of the performance period in 2007 for the remaining 60% of the shares. The number of shares delivered at the end of the three-year cycle will range from zero to 155.5% of the contingent grant. Dividend equivalents are accrued during the performance period and paid out in cash when and to the extent the related performance shares are paid. As part of the 2005-2007 performance share grant, performance on 25% of the grant was determined based on 2005-2006 cumulative two-year results. Performance on relative TSR was at the 17.5 percentile versus the comparator group (below threshold for payment) and service quality measure achieved 90% of target. Combining the two measures, the overall two-year performance of the cycle was 27% (SQI measure is 30% of grant and finished at 90%, so 30% x 90% = 27%). When the overall two-year performance is applied to the 25% of grants being determined, 6.75% of the target shares are credited.

- Named executive officers had two performance cycles that completed on December 31, 2006: one from 2003-2006 and one from 2004-2006. The 2003-2006 cycle was the last four-year performance cycle and was 100% based on Puget Energy's cumulative four-year total shareholder return relative to the EEI Combination Gas & Electric Investor-Owned Utilities index during that period. Company performance was below the 35% relative TSR threshold and no payments were made. The 2004-2006 cycle was the first of three-year performance cycles and was based on Puget Energy's total shareholder return, Puget Energy's total shareholder return relative to the EEI Combination Gas & Electric Investor-Owned Utilities Index and performance outcomes on a set of service quality measures during the performance period. Puget Energy's three-year cumulative total shareholder return compared to that of the companies in the EEI Combination Gas & Electric Investor Owned Utilities index was below the threshold for payment. However, three-year cumulative total shareholder return for Puget Energy was 21.5%, with SQI performance of 9/11. This generated payout at 20% for the 60% of the grant remaining, or 12% of targeted shares. When added to 5.25% of target shares "banked" in 2004 based on 2004 Company performance, the additional 12% resulted in an overall payout of 17.25% of target shares. These shares and dividend equivalents (accrued during the performance period and paid out in cash) were paid to named executives as shown in the "Stock Vested" table.

New employment grants are the other typical type of grant from the LTIP and are made to attract an executive to the Company, and often are also used to replace value the candidate would forfeit from similar awards by moving to the Company. New employment grants are usually in the form of restricted stock, performance shares, or in one recent case, non-qualified stock options. Of the current named executives, three received new employment grants from the LTIP when they joined the Company. Mr. Markell received pro-rata grants of Performance Shares for Performance Share cycles that were outstanding when he joined in 2002. Mr. Valdman received a restricted stock grant and pro-rata grants of Performance Shares. Mr. Reynolds received a restricted stock grant and two grants of non-qualified stock options.

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. The Committee may also make grants of stock options or stock appreciation rights to selected executive officers in appropriate circumstances. These circumstances would generally include the hiring of new executives or the need to retain current executive officers. The Company's policy for pricing stock options is to establish the grant price as the fair market value of Puget Energy stock on the date that the Committee approves the grant of stock options. The LTIP defines fair market value as the average of the high and low price for Puget Energy stock on the date of grant. The options granted at employment for Mr. Reynolds were priced on January 8, 2002, the date that the Committee approved Mr. Reynolds as President and CEO. There have been no option grants to executives since these January 8, 2002 employment option grants.

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 Chairman, President and CEO to two times base salary for the 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, 2006, all of the Named Executive Officers meet or exceed 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.

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 162(m), the Company may not deduct compensation expense for the named executives if that expense is over one million dollars, except that performance-based pay is excluded from the total pay applying to 162(m). Our LTIP grants of performance-based restricted stock and performance shares are designed to meet the performance-based qualification and therefore are 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 162(m), although Mr. Reynolds received equity awards in prior years that were not qualified under 162(m).

Retirement Plans — Supplemental Executive Retirement Plan (SERP)

The Named Executive Officers, except Mr. Reynolds, participate in the SERP. The Committee determines which executive officers are eligible to participate in the SERP. Mr. Reynolds was offered the opportunity to participate in SERP when he was hired. However, he elected not to do so. He participates in the PSE tax-qualified Retirement Plan and receives an annual contribution to his account in the Deferred Compensation Plan for Key Employees in lieu of participating in the SERP (see below for description of the Deferred Compensation Plan). The Company maintains the SERP for executives to provide a benefit that is coordinated with the Retirement Plan. Without the addition of the SERP, these executives would receive lower percentages of replacement income during retirement than other employees. Additional information regarding the Retirement Plan and the SERP, as well as current balances, is shown in the “2006 Pension Benefits” table.

Retirement Plans — Deferred Compensation Plan

The Company’s 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, 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. 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 receives an annual Company contribution to his Deferred Compensation 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 current balances, is shown in the “2006 Nonqualified Deferred Compensation” table.

Post Termination Benefits

The Company provides change in control agreements to its Named Executive Officers to establish in advance the terms of payments if the Company should have a change in control. When the Company has a change in control, it is likely that some or all of the executives will not be offered jobs in the new company. Change of control agreements are important for two 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 executive officers 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. In 2006, the Committee reviewed and amended existing change in control arrangements in light of benchmarking information provided by Towers Perrin, and believes that the amended arrangements provide competitive benefits. The change in control agreements call for accelerated vesting of equity awards in the event of a change in control, meaning that participants will receive accelerated vesting even if their employment continues with the new company. Payment of severance benefits, however, requires a “double trigger” of change in control and the executive not continuing employment with the new company, except Mr. Reynolds’ employment agreement provides that payment of severance benefits will be made at the time of a change in control. The “Potential Payments Upon Termination or Change in Control” section describes the change in control agreements with the Named Executive Officers as well as other plans and arrangements that would provide benefits on termination of employment.

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 2006.

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.