

**EXHIBIT NO. \_\_\_(TMH-6)**  
**DOCKET NO. UE-06 \_\_\_/UG-06 \_\_\_**  
**2006 PSE GENERAL RATE CASE**  
**WITNESS: TOM M. HUNT**

**BEFORE THE**  
**WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION,**

**Complainant,**

**v.**

**PUGET SOUND ENERGY, INC.,**

**Respondent.**

**Docket No. UE-06 \_\_\_**  
**Docket No. UG-06 \_\_\_**

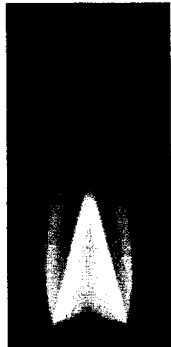
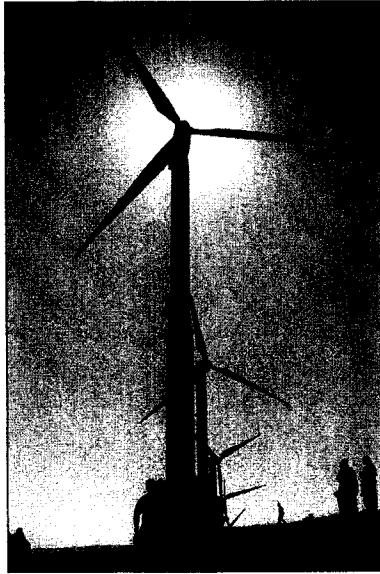
**FIFTH EXHIBIT (NONCONFIDENTIAL) TO THE  
PREFILED DIRECT TESTIMONY OF  
TOM M. HUNT  
ON BEHALF OF PUGET SOUND ENERGY, INC.**

**FEBRUARY 15, 2006**

2005

# Goals & Incentive Plan

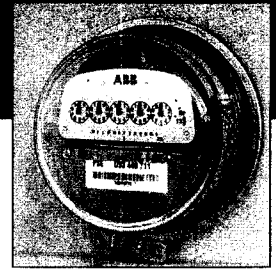
*Puget Sound Energy: The Energy To Do Great Things*



*The energy to do great things*

# Goals & Incentive Plan

*Puget Sound Energy: The Energy To Do Great Things*

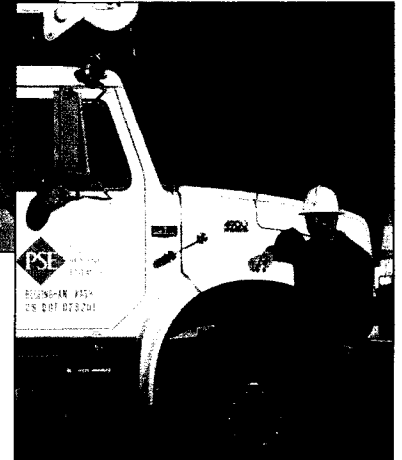
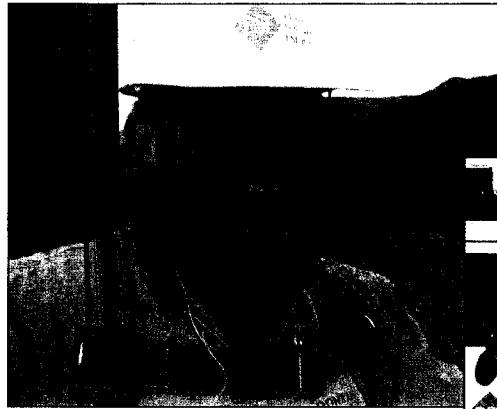


## Summary of Strategic Objectives

- ◆ Focus on regulated utility business
- ◆ Add generation and delivery infrastructure to meet customer need
- ◆ Rebuild financial strength to fund energy infrastructure, manage energy portfolio
- ◆ Attract equity by providing attractive return to Puget Energy investors

PSE's strategic objectives are to be a regulated gas and electric utility business with resources to meet our customer's long-term energy needs. Our 2005 Goals & Incentive Plan reflects these strategies along with our continuing goals of providing a safe and reliable energy infrastructure, cost efficient operations and superior levels of employee, customer and constituent satisfaction. It is important for all of us to remember that to receive incentive pay, PSE as a company must be financially sound and successful.

As always, it is only through the combined efforts of our outstanding workforce that PSE can accomplish its highest objectives!



## Summary of the Four Key Themes for 2005

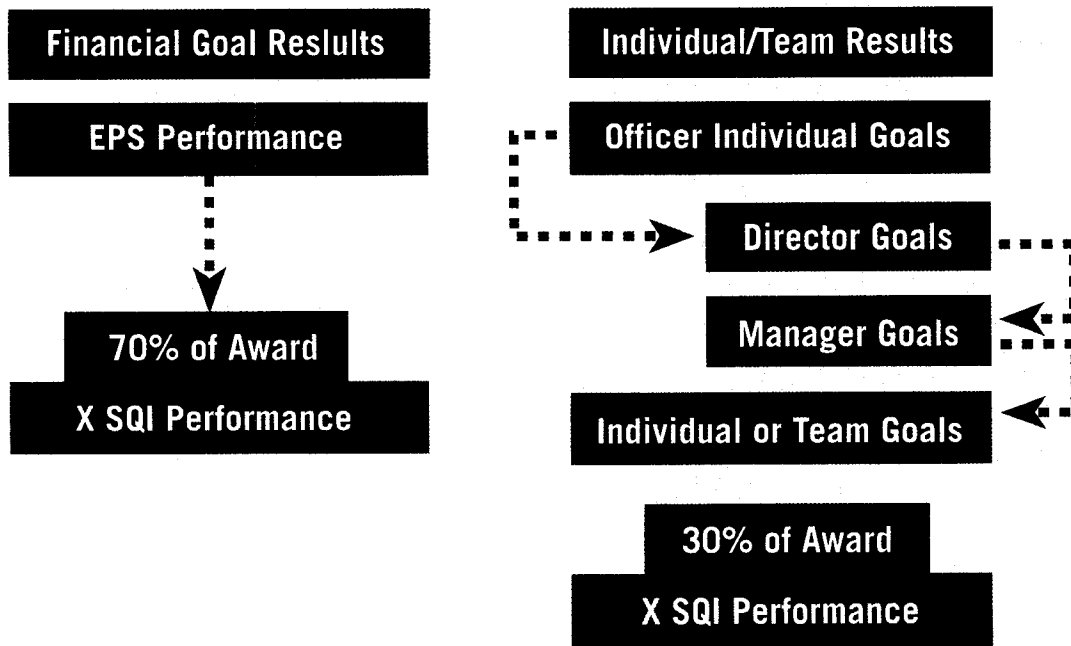
- ◆ **Leading Customer Service** — Continue our national reputation for customer service by investing in systems, processes and people.
- ◆ **Generation & Delivery** — Plan, coordinate and integrate our generation and related delivery and fuel supply services to meet the expectations of our investors and customers.
- ◆ **Public Profile** — Elevate our public profile to facilitate adoption of our regulatory and business framework.
- ◆ **Workforce for the Future** — Focus on safety, teamwork, process improvements, technology and controls to prepare our workforce for the future.



## Incentive Plan Overview

The 2005 Goals Incentive Plan has been changed to provide a better line-of-sight to Corporate Goals for employees and a better connection between individual performance and incentive payment. The 2005 plan includes several improvements that make it more motivating and effective.

- ◆ **Team and Individual Goals:** There is a new team/individual goal component that ties a portion of an employee's incentive opportunity directly to work they do everyday.
- ◆ **Better Potential Rewards:** This year's plan introduces a sliding scale that allows a person's incentive opportunity to increase for every penny of increase in EPS. If EPS is at maximum and SQI's are at 11/11, the payment is 240% of target.
- ◆ **Lower Trigger:** Employees still have the same target opportunity as last year but now a portion of the incentive can be earned at an earnings per share (EPS) trigger that is lower than in the past.



# Goals & Incentive Plan

## How the Goals Incentive Plan Works

For illustrative purposes only. Actual total incentive amounts will vary based on team and individual performance. See specific rules and examples for bargaining and non-bargaining unit employees.

## Incentive Opportunity

**Incentive Opportunity Table**

EPS Change \$\$	EPS Goal	Team/ Individual Goals	Total*
<b>Cap</b>	140.0%	60.0%	200%
1.55	140.0%	60.0%	200%
1.54	136.5%	58.5%	195%
1.53	133.0%	57.0%	190%
1.52	129.5%	55.5%	185%
1.51	126.0%	54.0%	180%
1.50	122.5%	52.5%	175%
1.49	119.0%	51.0%	170%
1.48	115.5%	49.5%	165%
1.47	112.0%	48.0%	160%
1.46	108.5%	46.5%	155%
1.45	105.5%	45.0%	150%
1.44	101.5%	43.5%	145%
1.43	98.0%	42.0%	140%
1.42	94.5%	40.5%	135%
1.41	91.0%	39.0%	130%
1.40	87.5%	37.5%	125%
1.39	84.0%	36.0%	120%
1.38	80.5%	34.5%	115%
1.37	77.0%	33.0%	110%
1.36	73.5%	31.5%	105%
1.35	70.0%	30.0%	100%
1.34	60%	30%	90%
1.33	50%	30%	80%
1.32	40%	30%	70%
1.31	30%	30%	60%
1.30	20%	30%	50%
1.29	10%	30%	40%
1.28	0%	30%	30%
1.27	0%	30%	30%
1.26	0%	30%	30%
1.25	0%	30%	30%
1.24	0%	30%	30%
1.23	0%	30%	30%
1.22	0%	30%	30%
1.21	0%	30%	30%
1.20	0%	0%	0%

- - - Guidance Range  
 Target  
 Trigger

The "Service Quality Index" (SQI) Factor is calculated on how well we do on the SQI goals. SQI goals are either "Pass," or "Fail." This factor is then used to calculate the final "Earnings Per Share" payout. For example, if 7 of the 11 SQI goals "Pass," then the Earnings Per Share payout is reduced to 70% (the SQI Factor) of the full potential for the performance level achieved. By the same example, if 11 of the 11 pass then the Earnings Per Share payout is increased to 120% (SQI Factor) of the full potential for the performance level achieved, or 100% if 10 of 11 SQI goals "Pass."

### 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 & Reliability

Gas Emergency Response  
 Electric Emergency Response  
 Non-Storm Outage Frequency  
 Non-Storm Outage Duration

### SQI Modifier

#### SQI Achievement

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 total incentive amount. If EPS is at maximum and SQI's are at 11/11, the payment will be 240% of target.

## Non-Bargaining Unit Incentive Example and Basic Rules

Example assumes EPS reaches 1.35 and 10 of 11 SQI's are achieved.

EPS Performance	EPS Incentive Opportunity	Team/Individual Goals Incentive Opportunity	Total Incentive Opportunity
1.35	70.0%	30.0%	100%

The EPS Incentive makes up 70% of the opportunity. All employees with a solid performance for the year are eligible for this amount.

The Team/Individual Incentive makes up 30% of the opportunity. Overall department goal performance and the individual's year end performance rating will modify this amount. The actual incentive paid may increase or decrease depending on individual and/or department performance.

Final **actual** incentive may be more or less than target.

Example for \$50,000 base salary with 10% incentive opportunity

EPS Incentive Opportunity	+	Team/Individual Goals Incentive Opportunity	x	SQI Performance (10 of 11) 100%	=	Actual Incentive Amount
\$3,500 (7%)		\$1,500 (3%)*		100%		\$5,000

\*Could be higher or lower depending on individual and/or department performance.

# Goals & Incentive Plan

## IBEW Bargaining Unit Incentive Example and Basic Rules

Example assumes  
EPS reaches 1.35  
and 10 of 11 SQI's  
are achieved.

EPS Performance	EPS Incentive Opportunity	Team/Individual Goals Incentive Opportunity	Total Incentive Opportunity
1.35	70.0%	30.0%	100%

The EPS Incentive makes up 70% of the opportunity. All BU employees are eligible for this amount.

The Team/Individual Incentive makes up 30% of the opportunity. This amount is modified by the number of goals achieved.  
 3 of 3 = 100%  
 2 of 3 = 67%  
 1 of 3 = 33%  
 0 of 3 = 0%

Final **actual** incentive may be less than target if all team goals are not achieved.

# of Goals Met	EPS Incentive Opportunity	+	Team/Individual Goals Incentive	X	SQI Performance (10 of 11) 100%	=	Actual Incentive Amount
3 of 3	\$1,400	+	\$600	X	100%	=	\$2,000
2 of 3	\$1,400	+	\$400	X	100%	=	\$1,800
1 of 3	\$1,400	+	\$200	X	100%	=	\$1,600

## UA Incentive Example and Basic Rules

Example assumes  
 EPS reaches 1.35  
 and 10 of 11 SQI's  
 are achieved.

EPS Performance	EPS Incentive Opportunity	Team/Individual Goals Incentive Opportunity	Total Incentive Opportunity
1.35	70.0%	30.0%	100%

The EPS Incentive makes up 70% of the opportunity. All BU employees are eligible for this amount.

The Team/Individual Incentive makes up 30% of the opportunity. This amount is modified by the number of goals achieved.

- 3 of 3 = 100%
- 2 of 3 = 67%
- 1 of 3 = 33%
- 0 of 3 = 0%

Final **actual** incentive may be less than target if all team goals are not achieved.

# of Goals Met	EPS Incentive Opportunity	+	Team/Individual Goals Incentive	X	SQI Performance (10 of 11) 100%	=	Actual Incentive Amount
3 of 3	\$2,100	+	\$900	X	100%	=	\$3,000
2 of 3	\$2,100	+	\$600	X	100%	=	\$2,700
1 of 3	\$2,100	+	\$300	X	100%	=	\$2,400



# Goals & Incentive Plan Rules

## General Rules for All Employees

- ◆ PSE earnings per share (EPS), including incentive accrual must meet "Trigger" level for any possible incentive payout.
- ◆ The first level of payment that becomes available is called "Trigger." The incentive award opportunity increases as EPS increases.
- ◆ The number of Service Quality Indices (SQIs) achieved is a multiplier that can increase or decrease the total incentive payment.
- ◆ All incentive amounts shown in the plans are estimates. Actual incentive amounts are modified based on team goal achievement, individual performance and SQIs.
- ◆ The EPS goal results may be adjusted to eliminate the effects of one-time events that the CEO determines are unrelated to company performance during the plan year. These adjustments could increase or decrease the incentive payout.
- ◆ Employees who resign or are discharged during the 2005 performance period are not eligible. An employee must be on the payroll, actively employed, and in good standing as of the last business day of 2005 to be eligible for an award.
- ◆ Participants who retire or go on Long Term Disability are eligible to receive a pro-rated award (assuming they have worked a minimum of 520 straight time hours during the year).

\* For additional information please see the "Fine Print" pages inside the "Goals" website.

## For Non-Bargaining Unit Employees

- ◆ This is a "performance-based" incentive plan. Overall team and individual performance will modify Team/Individual incentive amounts for non-bargaining unit employees

- ◆ Management judgment will be applied to determine team/individual goal performance and actual incentive amounts based on the available Incentive Plan Funding pool.
- ◆ The overall performance appraisal rating of an individual will be taken into consideration when the management team determines individual incentive amounts.
- ◆ Lower performers – those with Level 1 or 2 appraisal ratings may receive lower incentives amounts. Both the EPS and Team/Individual incentives may be reduced or zero. Employees with Level 3 – 5 appraisal ratings are eligible for the EPS portion of their incentive at the full level shown in the plan. Higher performers may receive greater Team/Individual incentive amounts.
- ◆ The total incentive amount (EPS+Team) will be modified by SQI performance

## For Bargaining Unit Employees

Each bargaining unit employee will be assigned to three team goals.

- ◆ Each team goal will have a single measure. If that measure is achieved the team goal will be considered achieved and eligible for payout if EPS levels reach "Trigger".
- ◆ The number of goals achieved will modify the final team incentive amount.
- ◆ Everyone assigned to that team goal will receive the team goal incentive amount.
- ◆ The EPS portion of the incentive will be paid according to the level of EPS achieved.
- ◆ The total incentive amount (EPS+Team) will be modified by SQI performance.
- ◆ Individual performance will not modify incentive amounts for bargaining unit employees