

**EXHIBIT NO. ___(TMH-8)
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___**

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

MAY 8, 2009



2008 GOALS & INCENTIVE PLAN

Puget Sound Energy 2008 Goals

Our customers, constituents and communities expect us to provide great service, 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 that cascade to department, team and individual goals, so everyone has the same focus and priorities.

Puget Sound Energy 2008 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 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.

Overview of Goals & 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 non represented 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 \$1.15 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 the table 1. Note: Earnings per share results may be adjusted to eliminate the effects of one-time events or other extenuating circumstances that the CEO determines are unrelated to company performance during the plan year. These adjustments could increase or decrease the incentive pool.
- 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 based on performance against goals.

What has changed for 2008?

There are no major changes to the Goals & Incentive Plan for 2008. As of February 2008, the approval process was underway for a proposed merger:

- If the merger is approved, earnings per share used for 2008 incentive calculation will be based on PSE net income at year-end (Dec. 31, 2008) prior to inclusion of any merger-related expenses, divided by the number of Puget Energy common shares outstanding at the close of market on the last day Puget Energy is traded on the New York Stock Exchange.
- If the merger is not approved, earnings per share will be calculated based on two figures at year-end (Dec. 31, 2008): PSE net income (prior to inclusion of any merger-related expenses) divided by the number of Puget Energy common shares outstanding.

Table 1

Incentive Opportunity Table		
	EPS	Incentive Pool*
Cap	\$1.55	200.0%
	\$1.50	187.5%
	\$1.45	175.0%
	\$1.40	162.5%
	\$1.39	160.0%
	\$1.38	157.5%
	\$1.37	155.0%
	\$1.36	152.5%
	\$1.35	150.0%
	\$1.34	147.5%
	\$1.33	145.0%
	\$1.32	142.5%
	\$1.31	140.0%
	\$1.30	137.5%
	\$1.29	135.0%
	\$1.28	132.5%
	\$1.27	130.0%
	\$1.26	127.5%
	\$1.25	125%
	\$1.24	120%
	\$1.23	115%
	\$1.22	110%
	\$1.21	105%
Target	\$1.20	100%
	\$1.19	90%
	\$1.18	80%
	\$1.17	70%
	\$1.16	60%
Trigger	\$1.15	50%
	\$1.14	0%

Opportunity for incentive award

Incentive 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 non represented employees.

* The CEO has discretion to adjust incentive pool allocations to departments.

In table 1, “guidance range” refers to the company’s publicly disclosed outlook for annual 2008 earnings on a per share basis, as of February 2008.

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%

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

Examples for nonrepresented employees

These examples show how company performance and individual performance affect incentive awards. The examples and incentive amounts are shown for illustrative purposes.

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

$EPS = \$1.24 = 120\%$
 \times
 $SQI = 11/11 = 120\%$
 $=$
144% pool
 Above target

$EPS = \$1.20 = 100\%$
 \times
 $SQI = 10/11 = 100\%$
 $=$
100% pool
 At target

$EPS = \$1.16 = 60\%$
 \times
 $SQI = 9/11 = 90\%$
 $=$
54% pool
 Below target

Individual Performance

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. The examples and incentive amounts are shown for illustrative purposes.

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

$EPS = \$1.24 = 120\%$
 \times
 $SQI = 11/11 = 120\%$
 $=$
144% pool
 Above target

$EPS = \$1.20 = 100\%$
 \times
 $SQI = 10/11 = 90\%$
 $=$
100% pool
 At target

$EPS = \$1.16 = 60\%$
 \times
 $SQI = 9/11 = 90\%$
 $=$
54% pool
 Below target

Team Goal Performance

Team goals achieved

Team goals achieved	=	Team Goal Performance	⇒	Incentive Award
3 of 3	=	100%	⇒	141% (\$2,820)
2 of 3	=	66%	⇒	93% (\$1,861)
1 of 3	=	33%	⇒	70.5% (\$930)
3 of 3	=	100%	⇒	100% (\$2,000)
2 of 3	=	66%	⇒	66% (\$1,320)
1 of 3	=	33%	⇒	33% (\$660)
3 of 3	=	100%	⇒	77.4% (\$1,548)
2 of 3	=	66%	⇒	51% (\$1,021)
1 of 3	=	33%	⇒	25.5% (\$510)

Goals and Incentive Plan rules

General rules for all employees

1. Incentive payments ultimately depend on a combination of company, team and individual results. Therefore it is possible that no incentive payment will be made to any given team or individual.
2. PSE earnings per share (EPS), including incentive accrual, must meet “trigger” level for any possible incentive pool.
3. The incentive pool increases as EPS increases.
4. The number of Service Quality Index measures (SQIs) achieved is a multiplier that can increase or decrease the total incentive pool.
5. All incentive amounts shown for illustrative purposes. Actual incentive amounts are determined by achievement against team and/or individual goals.
6. The EPS results may be adjusted to eliminate the effects of one-time events or other extenuating circumstances that the CEO determines are unrelated to company performance during the plan year. These adjustments could increase or decrease the incentive pool.
7. The CEO has discretion to adjust incentive-pool allocations to departments.
8. Employees who resign or are discharged during the plan performance period are not eligible.
9. To be eligible for a payout, an employee must be on the payroll, actively employed, and in good standing as of the last company business day of the plan performance period.
10. To be eligible for a payment, new employees must start prior to Oct. 1, work a minimum of 520 straight time hours, and participate on a pro-rated basis. Employees on disability leave during the plan year also participate on a pro-rated basis.
11. Participants who retire or go on an approved leave are eligible to receive a pro-rated award if they worked a minimum of 520 straight-time hours during the plan performance period.
12. If an employee has a job change within the calendar year that results in a different target incentive (for example, moves from a represented to a nonrepresented role), the target incentive for the year will be prorated by full months in each job. If a new job begins after the 15th of the month, that month is credited to the old job for determining payout target.

For nonrepresented employees

1. This is a performance-based incentive plan. Individual performance will modify individual incentive amounts for nonrepresented employees.
2. Management judgment will be applied to determine individual goal performance and actual incentive amounts based on the available incentive pool.
3. The overall performance appraisal rating of the individual will be taken into consideration when the management team determines individual incentive amounts.
4. Higher performers may receive greater individual incentive amounts.

For represented employees

1. Each represented employee will be assigned to team goals. Represented employees will be tied to the goals of the team they are assigned to at the end of the year.
2. 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 the trigger.
3. The incentive pay opportunity is allocated among all team goals assigned.
4. Everyone assigned to that team goal will receive the team goal incentive amount.
5. The incentive pool is determined by the level of EPS and SQI performance achieved.
6. Individual performance will not modify incentive amounts for represented employees.

This brochure provides general rules regarding the Goals & Incentive Plan. Administration of the plan, including interpretation of plan rules, will be made by the plan administrator.



10885 NE 4th Street
Bellevue, WA 98004

PSE.com

Puget Sound Energy 2008 Goals

Our customers, constituents and communities expect us to provide great service, 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 that cascade to department, team and individual goals, so everyone has the same focus and priorities.

Puget Sound Energy 2008 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 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.

Overview of Goals & 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 non represented 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 \$1.15 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 the table 1. Note: Earnings per share results may be adjusted to eliminate the effects of one-time events or other extenuating circumstances that the CEO determines are unrelated to company performance during the plan year. These adjustments could increase or decrease the incentive pool.

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 based on performance against goals.

What has changed for 2008?

There are no major changes to the Goals & Incentive Plan for 2008. As of February 2008, the approval process was underway for a proposed merger:

- If the merger is approved, earnings per share used for 2008 incentive calculation will be based on PSE net income at year-end (Dec. 31, 2008) prior to inclusion of any merger-related expenses, divided by the number of Puget Energy common shares outstanding at the close of market on the last day Puget Energy is traded on the New York Stock Exchange.
- If the merger is not approved, earnings per share will be calculated based on two figures at year-end (Dec. 31, 2008): PSE net income (prior to inclusion of any merger-related expenses) divided by the number of Puget Energy common shares outstanding.

Table 1

Incentive Opportunity Table		
	EPS	Incentive Pool*
Cap	\$1.55	200.0%
	\$1.50	187.5%
	\$1.45	175.0%
	\$1.40	162.5%
	\$1.39	160.0%
	\$1.38	157.5%
	\$1.37	155.0%
	\$1.36	152.5%
	\$1.35	150.0%
	\$1.34	147.5%
	\$1.33	145.0%
	\$1.32	142.5%
	\$1.31	140.0%
	\$1.30	137.5%
	\$1.29	135.0%
	\$1.28	132.5%
	\$1.27	130.0%
	\$1.26	127.5%
	\$1.25	125%
	\$1.24	120%
	\$1.23	115%
	\$1.22	110%
	\$1.21	105%
Target	\$1.20	100%
	\$1.19	90%
	\$1.18	80%
	\$1.17	70%
	\$1.16	60%
Trigger	\$1.15	50%
	\$1.14	0%

Opportunity for incentive award

Incentive 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 non represented employees.

* The CEO has discretion to adjust incentive pool allocations to departments.

In table 1, “guidance range” refers to the company’s publicly disclosed outlook for annual 2008 earnings on a per share basis, as of February 2008.

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%

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

Examples for nonrepresented employees

These examples show how company performance and individual performance affect incentive awards. The examples and incentive amounts are shown for illustrative purposes.

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

$$\begin{aligned} \text{EPS} &= \$1.24 = 120\% \\ &\times \\ \text{SQI} &= 11/11 = 120\% \\ &= \\ \mathbf{144\% \text{ pool}} \end{aligned}$$
 Above target

$$\begin{aligned} \text{EPS} &= \$1.20 = 100\% \\ &\times \\ \text{SQI} &= 10/11 = 100\% \\ &= \\ \mathbf{100\% \text{ pool}} \end{aligned}$$
 At target

$$\begin{aligned} \text{EPS} &= \$1.16 = 60\% \\ &\times \\ \text{SQI} &= 9/11 = 90\% \\ &= \\ \mathbf{54\% \text{ pool}} \end{aligned}$$
 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. The examples and incentive amounts are shown for illustrative purposes.

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 = \$1.24 = 120% x SQI = 11/11 = 120% = 144% 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 = \$1.20 = 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 = \$1.16 = 60% x SQI = 9/11 = 90% = 54% 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)

Goals and Incentive Plan rules

General rules for all employees

1. Incentive payments ultimately depend on a combination of company, team and individual results. Therefore it is possible that no incentive payment will be made to any given team or individual.
2. PSE earnings per share (EPS), including incentive accrual, must meet “trigger” level for any possible incentive pool.
3. The incentive pool increases as EPS increases.
4. The number of Service Quality Index measures (SQIs) achieved is a multiplier that can increase or decrease the total incentive pool.
5. All incentive amounts shown for illustrative purposes. Actual incentive amounts are determined by achievement against team and/or individual goals.
6. The EPS results may be adjusted to eliminate the effects of one-time events or other extenuating circumstances that the CEO determines are unrelated to company performance during the plan year. These adjustments could increase or decrease the incentive pool.
7. The CEO has discretion to adjust incentive-pool allocations to departments.
8. Employees who resign or are discharged during the plan performance period are not eligible.
9. To be eligible for a payout, an employee must be on the payroll, actively employed, and in good standing as of the last company business day of the plan performance period.
10. To be eligible for a payment, new employees must start prior to Oct. 1, work a minimum of 520 straight time hours, and participate on a pro-rated basis. Employees on disability leave during the plan year also participate on a pro-rated basis.
11. Participants who retire or go on an approved leave are eligible to receive a pro-rated award if they worked a minimum of 520 straight-time hours during the plan performance period.
12. If an employee has a job change within the calendar year that results in a different target incentive (for example, moves from a represented to a nonrepresented role), the target incentive for the year will be prorated by full months in each job. If a new job begins after the 15th of the month, that month is credited to the old job for determining payout target.

For nonrepresented employees

1. This is a performance-based incentive plan. Individual performance will modify individual incentive amounts for nonrepresented employees.
2. Management judgment will be applied to determine individual goal performance and actual incentive amounts based on the available incentive pool.
3. The overall performance appraisal rating of the individual will be taken into consideration when the management team determines individual incentive amounts.
4. Higher performers may receive greater individual incentive amounts.

For represented employees

1. Each represented employee will be assigned to team goals. Represented employees will be tied to the goals of the team they are assigned to at the end of the year.
2. 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 the trigger.
3. The incentive pay opportunity is allocated among all team goals assigned.
4. Everyone assigned to that team goal will receive the team goal incentive amount.
5. The incentive pool is determined by the level of EPS and SQI performance achieved.
6. Individual performance will not modify incentive amounts for represented employees.

This brochure provides general rules regarding the Goals & Incentive Plan. Administration of the plan, including interpretation of plan rules, will be made by the plan administrator.



10885 NE 4th Street
Bellevue, WA 98004

PSE.com