

**EXHIBIT NO. ___(TMH-1T)
DOCKET NO. UE-11___/UG-11___
2011 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-11___
Docket No. UG-11___**

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

JUNE 13, 2011

PUGET SOUND ENERGY, INC.

**PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF
THOMAS M. HUNT**

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PUGET SOUND ENERGY, INC.

**PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF
THOMAS M. HUNT**

I. INTRODUCTION

Q. Please state your name, business address and present position with Puget Sound Energy, Inc.

A. My name is Thomas (Tom) M. Hunt. My business address is 10885 NE 4th Street, P.O. Box 97034, Bellevue, Washington 98009-9734. I am the Director of Compensation and Benefits for Puget Sound Energy, Inc. (“PSE” or the “Company”).

Q. What is your educational and professional experience?

A. Exhibit No. ____ (TMH-2) describes my educational and professional experience.

Q. What are your duties as Director of Compensation and Benefits?

A. I have the overall management responsibility for the functions of compensation, benefits and human resources reporting. I manage employees who analyze, design and administer the following programs for PSE employees and retirees:

- Compensation for non-bargaining unit represented employees;

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- Employee health and welfare benefits for all active employees (and retiree medical programs for retirees);
- Retirement plans (Pension and 401k); and
- Short-term and long-term disability programs, ergonomics, job modifications and Workers Compensation.

I also analyze executive compensation programs and provide updates to the Compensation and Leadership Development Committee of the PSE Board of Directors. I report directly to the Senior Vice President and Chief Administrative Officer, who has overall responsibility for Human Resources.

Q. Please summarize your testimony.

A. In my testimony, I describe the elements of PSE’s compensation and benefit program and explain the steps the Company has taken to control wage and benefit costs. I show that PSE’s programs are market competitive with other utility companies and provide benefits to customers by enabling PSE to retain a skilled and engaged workforce.

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1 **II. PSE'S STRATEGY FOR ITS COMPENSATION AND**
2 **BENEFIT PROGRAMS IS TO ATTRACT AND RETAIN A SKILLED**
3 **WORKFORCE**

4 **A. Compensation and Benefit Philosophy**

5 **Q. Please describe the Company's compensation philosophy.**

6 A. The Company has a two-part compensation philosophy: (1) pay competitively
7 compared to the utility market; and (2) pay-for-performance. This two-part
8 compensation philosophy is designed to attract talented new employees and
9 motivate existing employees to stay with the Company to develop and maintain
10 their experience in operating the utility. This provides business continuity and
11 maintains a high quality of work. Paying for performance is important in directing
12 higher rewards to the strongest performers, enhancing productivity and
13 effectiveness, and motivating talented employees to stay.

14 **Q. How does the Company implement its pay-for-performance philosophy?**

15 A. PSE implements pay-for-performance through merit increases (for non-represented
16 employees) and through its Goals and Incentive Plan, which is described in a later
17 section of my testimony. PSE's salary grade structure allows managers to set base
18 salaries of non-represented employees within the full range of labor-market rates.
19 An employee's position within the pay range ("Position in Range") depends upon
20 several factors including experience, skill, knowledge and performance.

1 Performance is evaluated annually for non-union employees, assessing individual
2 performance on goals and PSE's expected competencies. PSE managers and
3 supervisors reinforce pay-for-performance by rating an employee's performance
4 and using the employee's Position In Range to determine merit salary increases.

5 **B. Salary Administration**

6 **Q. How have salaries changed at PSE during the test year?**

7 A. During 2010, PSE had few salary increases. PSE non-union employees did not
8 receive an annual merit increase in March 2010, as the Company responded to the
9 economic difficulties of the recession and controlled costs in part by foregoing
10 merit increases. PSE employees represented by the United Association of
11 Journeymen and Apprentices of the Plumbing and Pipefitting Industry of the United
12 States and Canada ("UA") union did not have any wage adjustments during 2010.
13 In January 2010, employees represented by the International Brotherhood of
14 Electrical Workers ("IBEW") union received a general wage increase of 3%, as
15 stipulated in their contract which was ratified June 20, 2007.

16 PSE ratified new employment contracts with both of its union groups during the test
17 year, and the new contracts reflect the difficult economic times with smaller wage
18 increases than previous contracts. The contract with the IBEW provides wage
19 adjustments of 2% on April 1, 2011, 2.25% on April 1, 2012, and 2.5% on April 1,

1 2013. The contract with the UA union provides wage adjustments of 1% on
2 January 1, 2011, 3% on January 1, 2012, and 3.75% on January 1, 2013.

3 **Q. How have salaries changed at PSE since the test year?**

4 A. On January 1, 2011, employees of the UA union received a 1% wage adjustment
5 per their contract. On March 1, 2011, most non-union employees received a merit
6 increase that on average was 3.24% of salary. For officers, this was the first merit
7 increase since March 2008. Non-union merit increases are made based on
8 employee performance and position in salary range, according to PSE's salary
9 administration guidelines. Actual merit increases ranged from 0% to 6%, with
10 higher increases going to higher performers and those employees lower in their
11 salary range. On April 1, 2011, IBEW employees received a 2% wage adjustment
12 per their contract.

13 **Q. How have PSE's salary changes compared to the rest of the utility industry?**

14 A. In 2010, PSE's zero percent merit increase for non-union employees was below
15 market compared with salary increases made by other utilities, as shown in Exhibit
16 No. ___(TMH-3C). For 2011, the utility market was projected to increase salaries
17 by 3.4%, as shown in the "2011 projected" column in Exhibit No. ___(TMH-3C).
18 PSE's actual non-union increase of 3.24% is consistent with market data. PSE's
19 union wage increases are determined pursuant to collective bargaining contracts
20 and were lower than in prior contracts.

1 **Q. Does PSE face any staffing or pay-related concerns?**

2 A. Yes. As mentioned in previous rate cases, PSE's employee population includes a
3 significant proportion of employees who are currently eligible or will soon be
4 eligible to retire. Exhibit No. ____ (TMH-4) summarizes the percentages of PSE
5 employees who are eligible or will be eligible to retire within the next few years.
6 As a result of the recovery in the stock market since 2008, employee retirement
7 accounts are stronger, and more employees could be considering plans to retire.
8 PSE holds informational seminars about readiness to retire, and these have been
9 fully subscribed every session. PSE's departments have implemented plans to
10 transfer knowledge and develop succession plans.

11 **C. Executive Compensation**

12 **Q. How does the Company determine the salary structure for executives?**

13 A. Officers' salaries are administered on an individual position basis and reviewed by
14 the Compensation and Leadership Development Committee of the Board. This
15 Committee is advised by an outside compensation consultant. The Company uses a
16 market comparison group of similarly-sized utility companies, and follows a pay-
17 for-performance philosophy to determine competitive salaries. The Company
18 provided extensive information about its executive compensation program in its
19 2010 SEC 10-K filing, following the detailed Securities and Exchange Commission
20 guidelines for disclosure. Please see Exhibit No. ____ (TMH-5) for an excerpt from

1 the Company's 2010 10-K filing disclosure on executive pay.

2 **Q. What benefits do customers receive from competitive executive compensation?**

3 A. Executive leadership is a guiding force behind the utility's operations, and
4 competitive compensation is required to retain the leadership services of quality
5 executives. Customers benefit from good utility leadership that effectively and
6 efficiently manages Company operations. Also, Company executives interact with
7 customers and community representatives, providing increased understanding of the
8 industry and the impacts that customers can have on its operations. This interaction
9 provides a direct channel for customers to hold the Company accountable on
10 operational performance issues such as reliability and cost.

11 **Q. What portions of executive compensation are included in the rate case?**

12 A. The Company includes in operating costs executive compensation expenses that are
13 related to utility operation and management for the main compensation programs,
14 i.e., base salary, overheads for health and welfare benefits, annual incentives, and
15 qualified retirement benefits. As discussed later in my testimony, however, in this
16 rate case the Company is not requesting recovery of officer annual incentives in
17 recognition of the difficult economic times in our local communities. Officer
18 annual merit increases made in March 2011 have also been excluded from this rate
19 case. Mr. Steve Reynolds' former base salary has also been removed from the
20 Company salary expense and replaced with the base salary of Ms. Kimberly Harris,

1 who assumed Mr. Reynolds' position as President and CEO.

2 **Q. What components of executive compensation are paid by the investors?**

3 A. Investors fund the Company's multi-year incentive plan, the Long Term Incentive
4 Plan, which is the single largest component of CEO compensation and is also a
5 significant part of compensation for other officers. This plan is a market-
6 competitive pay program that is fully funded by the Company's investors. In
7 addition, as noted above, for this rate case investors are fully funding officer annual
8 incentives, officer annual merit increases, and Supplemental Executive Retirement
9 Plan expenses.

10 **D. Employee Benefits**

11 **Q. Please describe the Company's employee benefit plans.**

12 A. The Company offers a "cafeteria" benefit plan for employees. Employees have
13 several choices as to their type of medical plan, dental plan, life insurance, etc., so
14 that they can determine the best fit for their situations. During 2009 and 2010, the
15 Company allotted a yearly benefit amount to each employee, which will cover the
16 cost of basic benefits for employee-only coverage. Employees who elect more
17 benefits than the allotment, or who elect for family coverage, contribute a portion of
18 their salary to cover the additional cost. The Company also offers retirement
19 programs for employees—a company-funded pension plan and a company- and

1 employee-funded 401k plan—which are described in more detail later in my
2 testimony.

3 **Q. Are benefits cost increases a source of concern in Washington State?**

4 A. Yes, the rate of medical insurance premium increases has exceeded consumer
5 inflation in Washington, as well as the rest of the country. PSE has responded to
6 the call from Governor Gregoire to participate in a group effort to identify strategies
7 which will limit annual medical cost increases to 4% or less by the year 2014. The
8 Governor’s Health Cabinet and many local governments and private employers will
9 be sharing best practices and identifying benefit design strategies to control future
10 cost increases.

11 **Q. What actions has PSE taken to control increases in medical benefits costs**
12 **during the test year and in the future?**

13 A. For 2010, PSE negotiated a 4.75% increase in flexible credits for IBEW and UA
14 unions, which was a significantly lower increase than in prior years, when the
15 increase was 8%. For 2011, PSE negotiated a 0.0% increase in flex credits for UA
16 union employees and implemented a changed approach to calculating flex credits
17 for IBEW union employees.

18 Under the Company’s new collective bargaining agreement with the IBEW, PSE
19 allots flex credits based on a core set of program choices—Group Health Options,

1 WDS High Option Dental—with specified cost sharing percentages. For an
2 employee covering only him/herself, the core program will be provided with 5%
3 employee cost sharing, while employees covering their family will have 15%
4 employee cost sharing. The Group Health Option medical choice is one of the
5 lowest cost choices, so employees selecting another medical plan will have
6 additional cost sharing. All employees covering family members have at least 15%
7 cost sharing. This change links the level of PSE’s 2011 benefits expense for these
8 employees to medical and dental premium increases rather than to pre-negotiated
9 contractual flex credit increases to the average employee flex credit. Additionally,
10 PSE believes that increased employee cost sharing will help employees become
11 better consumers of health care coverage, and therefore should encourage lower
12 medical plan usage and help control costs.

13 Under PSE's new collective bargaining agreement with the UA, UA union
14 employees will move to a similar core program approach to establishing flex credits
15 beginning January 2012.

16 **Q. What other factors have influenced the Company’s medical expense levels?**

17 A. In the Company’s cafeteria benefit plan, employees elect whether they will cover
18 only themselves, or themselves and other family members, such as a spouse, a
19 child, or both spouse and child (any combination of an employee, spouse and child
20 is considered “family” coverage). An employee who has a spouse with benefit

1 coverage from another employer may elect PSE coverage of employee-only or
2 family, resulting in different flexible credits and different monthly premium costs.
3 In line with market competitive practice, PSE provides more flexible credits for
4 employees electing family coverage because the premium expense of family
5 coverage is also higher; however, employees who elect family coverage have higher
6 cost sharing than employees who elect employee-only coverage. Since 2008, the
7 proportion of PSE employees electing family coverage has increased and this has
8 resulted in higher benefit costs. The increased number of employees electing for
9 family coverage may reflect continuing economic difficulties, such as the loss of
10 jobs by employees' spouses.

11 **Q. Were other benefit programs changed as part of the new union contracts?**

12 A. Yes. In addition to the changes in how flex credits are calculated, the new union
13 bargaining agreements revised the maximum duration for IBEW union employee
14 short term disability benefits. The new contracts also established additional
15 requirements for beginning a new short term disability period for both IBEW and
16 UA employees. With these changes, all employees at PSE have the same short term
17 disability benefits. As discussed below, IBEW union retirement benefits were also
18 changed.

1 **E. Retirement Plan**

2 **Q. What type of pension plan does PSE offer?**

3 A. PSE's "Retirement Plan for Employees of Puget Sound Energy" is a defined benefit
4 plan, with two distinct formulas—final average earnings and cash balance. The
5 final average earnings formula is the traditional type of pension, which provides a
6 monthly payment upon retirement, calculated according to years of service and an
7 average pay calculation (in PSE's plan, the highest 60 consecutive months during
8 the last 15 years) and only remains in place for some IBEW union employees. PSE
9 identified changing the pension formula for IBEW employees as a priority in recent
10 negotiations with the IBEW union because the Company felt that the existing
11 formula could lead to large future benefit costs, as employee service and overtime
12 pay increased.

13 With the new contract, employees represented by the IBEW who were not vested in
14 their pension plan at July 31, 2010, and all new employees represented by the
15 IBEW, have the cash balance formula. Employees represented by the IBEW who
16 had a vested pension benefit at July 31, 2010 were given the choice of staying on a
17 final average earnings formula or moving to the cash balance formula. Of 593
18 employees represented by the IBEW who were eligible to choose between the cash
19 balance formula and the final average earnings formula, 147 employees elected to
20 move to the cash balance formula and 120 did not return an election form and

1 defaulted to the cash balance formula. With the new contract, IBEW employees
2 remaining on the final average earnings formula have an average pay calculation
3 determined by base salary only, not including overtime pay.

4 Employees not represented by a union and employees represented by the UA union
5 have a cash balance formula. The cash balance formula is sometimes termed a
6 “hybrid” plan because, while it is still a defined benefit plan, it has features that are
7 similar to a defined contribution plan.

8 **Q. When did PSE implement the cash balance formula in its pension plan?**

9 A. In 1998, when PSE was created from the merger of Puget Power and Light
10 Company and Washington Energy Company, PSE converted the pension formulas
11 in place and implemented a cash balance formula. At that time, the IBEW-
12 represented employees did not agree to change their final average earnings formula,
13 and continued with the final average earnings formula. With the recent IBEW
14 contract change, all PSE employees hired within the last five years, and all future
15 employees, are on the cash balance formula.

1 **Q. Is PSE's defined benefit pension plan market competitive in the utility**
2 **industry?**

3 A. Yes. Utilities still predominantly use defined benefit pension plans as well as
4 defined contribution plans, as seen in the October 23, 2009 report from EAP Data
5 Information Solutions, LLC, which is included as Exhibit No. ____ (TMH-6C).
6 Additionally, public utilities such as Seattle City Light, Tacoma Power, and
7 Snohomish PUD provide defined benefit pension plans to their employees.

8 **Q. Do many other investor-owned utilities offer a cash balance formula?**

9 A. Like PSE, some other utilities have adopted a cash balance formula. According to
10 survey data shown in Exhibit No. ____ (TMH-6C), 41% of utilities offered a cash
11 balance formula, either alone or in combination with a "traditional final average
12 pay" formula.

13 **Q. In 2008, PSE's pension plan assets dropped in value along with the stock**
14 **market. Have the assets improved in value since that time?**

15 A. PSE's 2009 and 2010 asset performance was good, and the plan's funding level has
16 improved compared to 2008. Exhibit No. ____ (TMH-7C) shows the funding level
17 for the last five years, clearly showing the drop during 2008 and the subsequent
18 recovery.

1 **Q. What were the Company's contributions to the pension plan during 2010?**

2 A. PSE contributed \$12 million to the pension during 2010. This was within the
3 Company's pension funding guidelines of between \$6.3 million and \$34.8 million,
4 as shown by Exhibit No. ___(TMH-8C).

5 **Q. Are the Company's contributions expected to rise or fall during 2011 and**
6 **future years?**

7 A. Pension contributions are expected to be lower in 2011 than recent years, but are
8 expected to continue in the future. PSE has contributed \$5 million through May 31,
9 2011, which is the total amount that the Company expects to contribute in 2011.
10 Attached as Exhibit No. ___(TMH-9C) is a chart which shows future projected
11 service costs, pension expenses and pension contributions. As indicated in the
12 chart, pension contributions have been decreasing from prior years, while pension
13 expenses are forecast to rise.

14 Pension contributions are a part of normal plan functioning. In the 1990–2007 time
15 period, and due to several years of good investment results, PSE had few
16 contributions. In the future, contributions are expected. First, the Pension
17 Protection Act has minimum contribution requirements. Second, PSE has
18 introduced pension funding guidelines with the goal of ensuring the pension
19 remains fully funded. Finally, the pension trust makes payments to beneficiaries
20 totaling approximately \$24 million per year, and these payments reduce the market

1 assets of the plan.

2 **Q. Please explain how the Supplemental Executive Retirement Plan relates to**
3 **PSE's pension plan and whether PSE is including the costs of Supplemental**
4 **Executive Retirement Plan benefits in this proceeding.**

5 A. Together, the qualified pension and the Supplemental Executive Retirement Plan
6 provide a pension benefit that is market competitive for executives. Without the
7 Supplemental Executive Retirement Plan, executives do not have the same
8 retirement benefit as a percentage of their salary as non-executives. These plans
9 continue to be a prevalent design element of executive retirement programs in the
10 utility industry and are necessary to offer market-competitive total compensation
11 for executives. While PSE believes that Supplemental Executive Retirement Plan
12 costs should be recovered, PSE is not requesting recovery of these expenses in this
13 rate case.

14 **F. Goals and Incentive Plan**

15 **Q. Please describe PSE's Goals and Incentive Plan.**

16 A. The Goals and Incentive Plan is a key part of the Company's compensation policy
17 which, as described earlier, has two parts—competitive pay in the utility market
18 and pay-for-performance. PSE's Goals and Incentive Plan focuses employees on
19 achieving strategic objectives that benefit customers. The Goals and Incentive Plan

1 provides all employees with the opportunity for incentive payment based on
2 Company, team and individual performance. As part of PSE's pay-for-performance
3 philosophy, the Goals and Incentive Plan helps retain and motivate employees. The
4 program is a variable incentive plan under which employees are eligible to receive
5 incentive pay if Company, team and individual goals are achieved, and under which
6 employees' pay is put at risk if these goals are not met. The incentive program
7 continues to emphasize performance goals that benefit customers. Please see
8 Exhibit No. ____ (TMH-10) for a copy of PSE's 2010 and 2011 Goals and Incentive
9 Plan brochures.

10 **Q. How does PSE's Goals and Incentive Plan benefit customers?**

11 A. PSE's Goals and Incentive Plan provides three distinct benefits to customers. First,
12 the plan focuses work groups and individuals on the key objectives of the
13 Company, including safety, reliability, customer service and operational efficiency,
14 all of which benefit customers.

15 Second, the Goals and Incentive Plan slows the base wage growth that would occur
16 in a compensation system with base salaries only, benefiting customers. Under the
17 Company's current plan, significant pay is at risk for all employees. Employees
18 must earn incentives each year, and therefore the incentive received one year does
19 not compound in future years as base salary would. Also, customers benefit by
20 having the year's total compensation dependent on the Company achieving its

1 strategic objectives.

2 Third, the Goals and Incentives Plan is part of a comprehensive compensation and
3 benefits package that makes PSE an attractive employer to skilled, experienced
4 talent in the labor market. Customers directly benefit from the contributions of a
5 strong workforce that provides high-quality and efficient service.

6 **Q. How does PSE establish incentive goals for its employees?**

7 A. PSE's strategic objectives are established through a long-range plan. From the
8 long-range plan, annual objectives relating to service quality and operational
9 efficiency are set by the officers each year. Team and individual goals are then
10 formulated to reflect the Company-wide objectives. All employees are focused on
11 achieving the Company's annual goals as well as their individual and team goals.
12 They are encouraged to contribute ideas – such as customer service, safety and cost
13 containment ideas – and efforts to help achieve these goals.

14 **Q. Is the Goals and Incentive Plan considered part of competitive pay in the**
15 **utility company market?**

16 A. Yes. Most other companies, including investor-owned utilities, follow a pay-for-
17 performance approach like PSE and have a portion of pay at risk in the form of
18 annual incentives. By providing the opportunity for annual incentive pay based on
19 individual performance, PSE provides market-competitive total pay.

1 **Q. Does PSE's incentive plan apply to PSE employees who are subject to collective**
2 **bargaining agreements?**

3 A. Yes. Represented employees are subject to the same incentive plan terms as non-
4 represented employees, although with a lower incentive opportunity as negotiated
5 by the Company and the unions representing PSE's employees. Further, with
6 represented employees, the goals are team-based instead of individual-based.

7 **Q. How is PSE's incentive plan structured at the corporate executive level?**

8 A. All employees, including directors and officers, participate in the Goals and
9 Incentive Plan and are linked to PSE's goals. Every non-represented employee has
10 a target incentive opportunity that is based on market competitive pay levels and
11 expressed as a percentage of his or her base salary. Officers have higher incentive
12 targets as a percentage of salary than other employees, reflecting the market levels
13 of incentive pay, and therefore have more pay at risk.

14 **Q. What are the threshold requirements for payout under the Goals and**
15 **Incentive Plan?**

16 A. For any incentive payment to be possible, two threshold requirements must be met:
17 First, PSE must meet or exceed six of its Service Quality Index ("SQI") goals.
18 Second, PSE's Earnings Before Interest, Taxes and Depreciation ("EBITDA") must
19 exceed the "trigger" level. Please see Exhibit No. ___(TMH-10) for additional

1 explanation of the program.

2 **Q. Why is the level of available incentive payments based on SQI goals and**
3 **EBITDA?**

4 A. These two measures provide a clear barometer of success for employees—that
5 employees accomplish both the Company’s annual objectives and continue
6 providing good customer service. If customer service quality measures are not met,
7 then the accomplishment of annual objectives is incomplete. EBITDA is related in
8 part to the Company's ability to control costs, stay within its budget, and operate
9 efficiently. The annual budget process recognizes that it costs money to develop
10 and maintain the utility’s infrastructure and meet current and future customer needs.
11 PSE completes a calendar year budgeting process in which the Company forecasts
12 expected expenses and revenues. The forecast for expenses includes expenditures
13 on all needed activities for the year that will allow for continued safe, reliable
14 service for customers and enable PSE to execute required compliance activities and
15 plans for future customer needs. The net result of forecast expenses and revenues
16 from this comprehensive budgeting process is expected earnings, which is easily
17 tracked and understood by employees. If employees and managers are not
18 controlling expenses per the budget, then expected earnings will not be achieved.

1 **Q. If the threshold requirements are met, how are team and individual awards**
2 **determined?**

3 A. The program is a pay-for-performance program, and each employee is assessed on
4 achievement and contribution towards achieving team and individual goals. (Union
5 employees have team goals only.) Even if the incentive pool funds based on
6 Company performance, an employee will not receive a payout unless he or she also
7 achieves his or her team or individual goals.

8 **Q. Have prior Commission orders authorized PSE to include incentive**
9 **compensation expenses in revenue requirements?**

10 A. Yes. The Commission authorized the recovery of incentive payment costs in PSE's
11 2004 general rate case. Recognizing that a financial measure (Earnings Per Share
12 or "EPS" at the time) was part of the program, the Commission found that "while a
13 portion of PSE's incentive plan payments turn on the Company reaching certain
14 earnings goals, there is a second threshold for such payments that is based on
15 service quality, safety, and reliability considerations. These are the criteria we have
16 looked for in authorizing, or not, the recovery of incentive payment costs."¹

¹ *WUTC v. Puget Sound Energy, Inc.*, Docket No. UG-040640, *et. al.*, Order 06 (Feb. 18, 2005) at ¶ 144.

1 **Q. Has the Commission provided guidance on allowance of incentive**
2 **compensation since the 2004 PSE rate case order?**

3 A. Yes. In PacifiCorp's recent 2010 general rate case, the Commission endorsed the
4 use of "incentive-based" compensation where the incentive is offered as part of
5 market-competitive pay.² The criteria for inclusion in rates is whether the
6 compensation is within the market level of pay, is reasonable, and benefits
7 ratepayers.³ PSE's Goals and Incentives Plan meets all of these criteria.

8 **Q. During PSE's 2009 general rate case, the Company did not request recovery of**
9 **officer incentive expenses. Is the Company requesting recovery of these**
10 **expenses in this proceeding?**

11 A. No. PSE has not included officer incentive expenses in recognition of the
12 continuing difficult economic environment for customers, even though such
13 expenses qualify for inclusion and have previously been reimbursed.

² *WUTC v. PacifiCorp*, Docket No. UE-100749, Order 06 (Mar. 25, 2011) at ¶¶ 248–49.

³ *Id.* at ¶ 250 ("We do not wish to delve too deeply in to the Company's management of its human resources and the manner in which it determines overall compensation policy. Thus, we inquire only whether that compensation exceeds the market average, is unreasonable, and offers benefits to ratepayers.").

1 **III. CONCLUSION**

2 **Q. Does this conclude your testimony?**

3 **A. Yes, it does.**