EXHIBIT NO. ___(TMH-5)
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____**

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

JUNE 13, 2011

ITEM 11. EXECUTIVE COMPENSATION

PUGET ENERGY
PUGET SOUND ENERGY
EXECUTIVE COMPENSATION

COMPENSATION AND LEADERSHIP DEVELOPMENT COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

The members of the Compensation and Leadership Development Committees (referred to as the Committee) of the Boards of Directors (referred to as the Board) of Puget Energy and PSE (referred to as the Company) are named in the Compensation and Leadership Development Committee Report. No members of the Committee were officers or employees of the Company or any of its subsidiaries during 2010, were formerly Company officers or had any relationship otherwise requiring disclosure. Each member meets the independence requirements of the SEC and the NYSE.

COMPENSATION DISCUSSION AND ANALYSIS

This section provides information about the compensation program for the Company's Named Executive Officers who are included in the Summary Compensation Table. For 2010, the Company's Named Executive Officers and titles as of 2010 year end were:

- Stephen P. Reynolds, Chief Executive Officer (CEO);
- Kimberly J. Harris, President;
- Bertrand A. Valdman, Executive Vice President and Chief Operating Officer;
- Eric M. Markell, Executive Vice President and Chief Financial Officer;
- James W. Eldredge, Vice President, Controller and Chief Accounting Officer;
- Donald E. Gaines, Vice President Finance and Treasurer; and
- Jennifer L. O'Connor, Former Senior Vice President General Counsel, Corporate Secretary, and Chief Ethics and Compliance Officer.

This section includes a discussion and analysis of the overall objectives of our compensation program and each element of compensation the Company provides. It also discusses changes in executive roles made in connection with Mr. Reynolds' retirement as CEO of the Company in March 2011.

COMPENSATION PROGRAM OBJECTIVES

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

- Support sustained Company performance by attracting, retaining and motivating talented people to run the business.
- Align compensation payment levels with achievement of Company goals.

The Committee is responsible for developing and monitoring an executive compensation program and philosophy that achieves the foregoing objectives. In performing its duties, the Committee receives information and advice on various aspects of executive compensation from its outside compensation consultant, Towers Watson (formerly Towers Perrin). The Committee recommends the pay level for our CEO, based on recommendations from Towers Watson to the Committee, and recommends the pay levels for the other executives, based on recommendations from our CEO, to the full Board for approval. The Committee also recommends to the Board for its approval the establishment of annual and long-term incentive compensation plans for the executives, the setting of performance goals and the determination of awards under those plans.

In 2010, the Committee used the following strategies to achieve the objectives of our executive compensation program:

- *Design and deliver a competitive total pay opportunity.* To attract, retain and motivate a talented executive team, the Committee believes that total pay opportunity should be competitive with similar companies so that new executives will want to join the Company and current executives will be retained. As described below in the discussion of Compensation Program Elements (Review of Pay Element Competitiveness), the Committee annually compares executive pay to external market data from similar companies in our industry and targets base pay and total direct compensation (which is base salary plus annual and long-term incentive pay) to the 50th percentile of this comparator group. The Committee also recognizes the importance of providing retirement income. 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 our comparator group and provides benefits that are commensurate with this group.

- *Place a significant portion of each executive's total compensation at risk to align executive compensation with Company financial and operating performance.* Under its "pay for performance" philosophy, the Committee works to design and deliver an incentive compensation program that supports the Company's business direction as approved by the Board and aligns executive interests with those of investors and customers. The Committee believes that a significant portion of each executive's compensation should be "at risk" and rewarded solely for meeting and exceeding target levels of annual and long-term performance goals. By establishing goals, monitoring results, and rewarding achievement of goals, the Company focuses executives on actions that will improve the Company and enhance investor value, while also retaining key talent. The Committee annually evaluates the performance factors and targets for its annual and long-term incentive programs and considers adjustments as appropriate to meet the objectives of our executive compensation program. As described below, the Company's policies and practices surrounding incentive pay reduce the risk that employees would seek to take untoward risks in an attempt to increase incentive results.

- *Execute the Company's succession planning process to ensure that executive leadership continues uninterrupted by executive retirements or other personnel changes.* The CEO leads the talent reviews for leadership 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 and the Board annually review these assessments of executive readiness, the plans for development of the Company's key executives, and progress made on these succession plans. The Committee and the Board directly participate in discussion of succession plans for the position of CEO.

  During 2010, the Board worked with Mr. Reynolds on a succession plan to ensure a smooth transition in connection with his retirement as CEO in March 2011. In July 2010, Mr. Reynolds voluntarily resigned as President of the Company and the Board appointed Ms. Harris, then the Company's Executive Vice President and Chief Resource Officer, to that position. In November 2010, Mr. Reynolds announced that he would retire as CEO, and effective with Mr. Reynolds' retirement on March 1, 2011, Ms. Harris became CEO of the Company.

RISK ASSESSMENT

A portion of each executive's total direct compensation is variable, at risk and tied to the Company's financial and operational performance to motivate and reward executives for achievement of Company goals. The Company's variable pay program helps focus executives and creates a record of their results. In structuring its incentive programs, the Company also strives to balance and moderate risk to the Company from such programs: individual award opportunities are defined and subject to limits, goal funding is based on collective company performance, annual incentive awards are balanced by long-term incentive awards that measure performance over three years, performance targets are based on management's operating plan (which includes providing good customer service), and all incentive awards to individual executives are subject to discretionary review by management and/or the Board. As a result, the Committee and the Board believe that the programs' design do not provide an incentive to executives to take unreasonable risks that could have a material adverse effect relating to the Company's business and also provide appropriate incentive opportunities for executives to achieve Company goals that support the interests of our investors and customers.

COMPENSATION PROGRAM ELEMENTS

The Company's compensation program encompasses a mix of base salary, annual and long-term incentive compensation, retirement programs, health and welfare benefits and a small number of perquisites. The Company also provides certain post-termination and change in control benefits to executives. Since the Company is no longer publicly listed following its merger in February 2009, it relies on a mix of non-equity compensation elements to achieve its compensation objectives.

The total compensation package is designed to provide participants with appropriate incentives that are competitive with the comparator group and achieve current operational performance and customer service goals as well as the long-term objective of enhancing investor value. The Company does not have a specific policy regarding the mix of compensation elements, though long-term incentive programs are designed to comprise the largest portion of each executive's incentive pay. The Company arrives at a mix of pay by setting each compensation element relative to market comparators. The Company delivered cash compensation to the Named Executive Officers in 2010 through base salary to provide liquidity for the executives and through incentive programs to focus performance on important Company goals and to increase the connection to investors. The Committee annually reviews total compensation opportunity and actual total compensation received over the prior years by each executive officer in the form of a tally sheet. This review helps inform the Committee's decisions on program designs by allowing the Committee to review overall pay received in relation to Company results.

Review of Pay Element Competitiveness

In making compensation decisions on base salary and annual and long-term incentive programs, management prepares comprehensive pay surveys for review by the Committee and the Committee's outside executive pay consultant, Towers Watson. The Committee also received advice from Towers Watson in making 2010 compensation decisions. The surveys summarize data provided by the Towers Perrin 2009 Energy Services survey for a selection of utility and other companies that are most similar in scope and size to PSE. For the review of compensation pay levels and practices in 2010, we included the following utility companies in our comparator group that were all of similar scope (generally $1.5 billion — $6.0 billion revenue and $4.0 billion — $11.0 billion asset size) and also participated in the Towers Perrin 2009 Energy Services survey:

1. AGL Resources
2. Allegheny Energy
3. Alliant Energy
4. Avista
5. CMS Energy
6. MDU Resources
7. New York Power Authority
8. Nicor
9. Northeast Utilities
10. NSTAR/MA
11. NV Energy
12. OGE Energy
13. Pinnacle West Capital
14. PNM Resources
15. Portland General Electric
16. SCANA
17. Southern Union Company
18. TECO Energy
19. Westar Energy
20. Wisconsin Energy

Base pay and total direct compensation (which is base salary plus annual and long-term incentive pay) are targeted to the 50th percentile of the industry comparator group if the Company's performance goals are achieved at target. If results are below expectations, total direct compensation is lower than this targeted level. If achievement of performance goals significantly exceeds target, total cash compensation can approach the 75th percentile.

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 executive above or below the median level of market pay when that individual has a role with greater or lesser responsibility than the best comparison job or when our executive's experience and performance exceed those typically found in the market.

Base Salary

We recognize that it is necessary to provide executives with a fixed portion of total compensation that is delivered each month and provides a balance to other pay elements that are at risk. Base salaries are generally targeted at the 50th percentile for the comparator group and are reviewed annually by the Committee on an individual basis using as a guideline, median salary levels of our comparator group, as well as internal pay equity among executives. Actual salaries vary by individual and depend on additional factors, such as an individual's expertise, level of performance achievement, level of experience and level of contribution relative to others in the organization.

Base Salary Adjustments

The Committee reviewed the base salaries of the Named Executive Officers in early 2010 and recommended to the Board that base salaries not be changed from 2009 levels for 2010, in light of the continued difficult economic environment faced by many of our customers. The Board approved the Committee's recommendation, and base salaries for 2010 generally remained at the median of market among the comparator group. Effective July 1, 2010, the Board appointed Ms. Harris as President of the Company and increased her base salary from \$360,000 to \$680,000. In establishing the level of pay for Ms. Harris, the Committee recommended and the Board approved base pay that was below the median of market among the comparator group, reflecting Ms. Harris's new tenure in 2010 as President.

Incentive Compensation (Annual and Long-Term)

Our annual and long-term incentives help executives focus on the priorities of our investors and customers and reward performance that meets or exceeds goals. Both the Company's 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, the Washington Commission, and provide customers with a report card on the Company's customer service and reliability. In fact, we provide an annual accounting on these measures to the Washington Commission and our customers each year. Additional key performance measures used in 2010 for determining incentives were EBITDA in the annual incentive plan and Total Return in the long-term incentive plan. EBITDA and Total Return are important performance measures of economic return to our investors, and their accomplishment indicates to our customers that the Company has the financial strength needed for long-term sustainability.

Annual Incentive Compensation

All PSE employees, including executive officers, participate in an annual incentive program referred to as the "Goals and Incentive Plan." The plan is designed to provide financial incentives to executives for achieving desired annual operating results while also meeting the Company's service quality commitment to customers. For 2010, the Company's service quality commitment was measured by performance against 9 SQIs covering three broad categories, set forth below. These are the same SQIs for which the Company is accountable to the Washington Commission. The Company's annual report to the Washington Commission and our customers describes each SQI, how it is measured, the Company's required level of achievement, and performance results. For 2010, the Washington Commission agreed to remove one SQI that had been applicable for 2009 relating to limiting disconnects for non-payment, and during a future Company general rate case, the Washington Commission will determine if that measure should be reinstated for future years.

The report for 2010 and prior years is available at http://www.PSE.com/PerformanceReportCards.

The SQIs for 2010 were as follows:

- **Customer Satisfaction (3 SQIs)**
  — Customer satisfaction with the telephone access center, gas field services and Washington Commission complaints
- **Customer Service (2 SQIs)**
  — Calls answered "live" and on-time appointments
- **Safety and Reliability (4 SQIs)**
  — Gas emergency response, electric emergency response, non-storm outage frequency and non-storm outage duration

The annual incentive plan for 2010 had a funding level based on customer service, as measured by SQI achievement, and EBITDA as shown in the table below. EBITDA was selected as a performance goal because it provides a financial measure of cash flows generated from the Company's annual operating performance.

The annual incentive plan had a funding level based on EBITDA and attainment of SQIs as shown in the table below.

ANNUAL INCENTIVE PERFORMANCE PAYOUT SCALE

PERFORMANCE	2010 EBITDA (IN MILLIONS)	SQI*	FUNDING LEVEL
Maximum	$1,274.3	9/9	200%
Target	943.9	9/9	100%
Trigger Payout	849.5	6/9	30%

Funding				

* SQI results of 6/9 or better and minimum EBITDA of $849.5 million are required for any incentive payout funding. SQI results below 9/9 reduce funding (e.g., 8/9 = 90%, 7/9 = 80%, 6/9 = 70%).

2010 Performance	Actual	$907.8	9/9	80.9%

The Committee can adjust EBITDA used in the annual incentive calculation to exclude nonrecurring items that are outside the normal course of business for the year, but did not do so for 2010. Individual awards may be adjusted upward or downward based on a subjective evaluation of an executive officer's performance against team and individual goals. Individual goals were developed from the overall corporate goals for 2010:

2010 Corporate Goals

- **Enhance Customer Service** — Respond to our customers by listening, leveraging new systems, updating processes and providing innovative and improved services, products and programs.
- **Optimize Generation and Delivery** — Secure and maintain reliable resources, build or replace infrastructure in a way that meets our customers' needs, promotes environmental stewardship and provides a fair return to investors.
- **Be a Good Neighbor** — Embrace our role as a leader to protect and improve our natural gas and electric service, promote energy efficiency initiatives, encourage corporate giving and instill community involvement.
- **Value Employees** — Safety is key; work safely. Value diversity, teamwork and open communication. Support employees through technology, process improvement, recognition, training and development. Strive to make PSE a great place to work.
- **Own it** — Conduct ourselves and our business in a manner that is ethical, responsible and meets or exceeds any internal or external compliance obligation. Take personal responsibility for meeting customer needs while using company resources and facilities wisely.
- **Continue to Learn and Grow** — Strive to get better at what we do every day. Continuously examine past practices, challenge our assumptions and apply lessons learned to improve our efforts on behalf of customers and the community.

Actual performance of the corporate goals for 2010 was below target but above the threshold level for EBITDA, and at target for SQI achievement. PSE EBITDA was $907.8 million, and SQI achievement was 9 out of 9, leading to a funding level of 80.9%.

For 2010, the target incentive levels for this plan varied by executive officer as a percentage of base salary as shown in the table below, based on the individual executive's level of responsibility within the Company. The Board increased the target incentive for Ms. Harris from 60% to 85% of her base salary of $680,000 when it appointed her President of the Company. For 2010, Ms. Harris's target annual incentive was pro-rated to reflect her two roles during the year (six months as Executive Vice President and Chief Resource Officer and six months as President). With the exception of Ms. Harris, target annual incentive opportunities for the executives remained unchanged from 2009 levels. The maximum incentive for exceptional performance in this plan is twice the target incentive. An individual executive's formula amount can be increased or decreased based on a subjective assessment by the CEO (or the Board in the case of the CEO) of the executive's individual and team performance results. After considering performance on individual and team goals, which were met by each executive, the CEO did not make adjustments for individual performance of the Named Executive Officers below CEO in 2010 and the amounts shown below were approved by the Board and paid in March 2011. For Mr. Reynolds, the Board reviewed his individual and Company performance during 2010 and his contributions to the Company during his tenure and approved an award 5.2% above the formula amount, or 84.6% of funding level.

Name			Target Incentive (% of Base Salary)	2010 Actual Incentive Paid	2010 Actual Incentive (% of Base Salary)
Reynolds	Stephen	P.	85.0%	$ 596,982	72%
Harris *	Kimberly	J.	72.5%	321,173	47%
Valdman	Bertrand	A.	60.0%	191,733	49%
Markell	Eric	M.	60.0%	174,744	49%
Eldredge	James	W.	40.0%	71,004	32%
Gaines	Donald	E.	40.0%	68,660	32%
O'Connor	Jennifer	L.	50.0%	0	0%

* *As described above Ms. Harris's incentive amount was based on six months at a salary of $360,000 and target of 60% and six months at a salary of $680,000 and target of 85%.*

In addition to the annual incentive program, the Named Executive Officers, other than Mr. Reynolds, are eligible to receive merger performance bonuses under the terms of their Executive Employment Agreements. (See the section Post-Termination Benefits below.) Ms. O'Connor received a merger performance bonus at the first anniversary of the merger in February 2010, but voluntarily resigned in October 2010 and forfeited eligibility for a merger performance bonus at the second anniversary. Ms. O'Connor also forfeited eligibility for a 2010 annual incentive.

Long-Term Incentive Compensation

Long-term incentive compensation opportunities are designed to be competitive with market practices, reward long-term performance and promote retention. Prior to the merger completed in February 2009, executives received equity awards under the Puget Energy 2005 LTI Plan in the form of performance shares and performance-based restricted stock. Awards vested based on the Company achieving a targeted level of performance during a three-year performance cycle. Upon the merger, all unvested LTI Plan awards accelerated in vesting and became payable in cash in 2009 pursuant to the terms of the LTI Plan. As a result of this acceleration, the 2008-2010 performance cycle was terminated, and no LTI Plan awards were paid during 2010.

Since 2009, the Company has continued the basic design of the pre-merger LTI Plan program, including retention of three-year performance cycles that begin each year. Since the Company no longer has publicly listed stock, LTI Plan awards for the 2009-2011 and 2010-2012 performance cycles are denominated in units and are settled in cash if threshold performance measures are met.

The Committee determines the number of LTI Plan units granted to each executive by evaluating the actual payment and forecast target payment of long-term incentive awards of our market comparator group for comparable levels of responsibility. The Committee generally does not consider previously granted awards or the level of accrued value from prior or other programs when granting annual incentive awards or making new LTI Plan grants. Each year's grant is primarily viewed in the context of the compensation opportunity needed to maintain the Company's competitive position relative to the comparator group. Target LTI Plan awards are calculated based on a percentage of annual salary, taking into account the executive's level of responsibility within the Company. Target LTI Plan awards for the 2010-2012 performance cycle were 170% of base salary for Mr. Reynolds; 110% for Mr. Valdman and Mr. Markell; 50% for Mr. Eldredge and Mr. Gaines; and 95% for Ms. O'Connor. In connection with her appointment as President, Ms. Harris's target LTI Plan award increased from 110% to 170% of her base salary of $680,000, and her 2010 grant was pro-rated to reflect her two roles during the year (six months as Executive Vice President and Chief Resource Officer and six months as President). With the exception of Ms. Harris, target LTI Plan award opportunities as a percentage of base salary remained unchanged from 2009 levels for the Named Executive Officers.

Except for the CEO, 50% of each grant of LTI Plan units is allocated to achievement of SQIs only (SQI component) and 50% is allocated to achievement of a combination of SQIs and Total Return (Total Return component). The CEO's LTI Plan units are allocated 30% to the SQI component and 70% to the Total Return component to place additional weight on financial measures, consistent with other peer companies. The total number of LTI Plan units granted to a Named Executive Officer is equal to the applicable percentage of salary divided by the per unit value at the beginning of the performance cycle. For the 2010-2012 performance cycle, the initial per unit value was $31.56.

The total amount payable for a performance cycle is calculated at the end of the performance cycle based on the performance measures of SQIs and Total Return as well as the per unit dollar value at the end of the performance cycle. Unit value is measured at the Puget Holdings LLC level and is re-calculated each year based on the change in Total Return for the prior year as measured by an independent auditing firm. Total Return reflects the annual change in the value of the Company plus any distributions made to investors. For any award to be earned in a performance cycle, average SQI results must meet or exceed 80% accomplishment of the available SQIs set forth above under Annual Incentive Compensation. Executives must be employed on the payment date to receive a cash payment under the LTI Plan, except in the event of retirement at normal retirement age or approved early retirement, disability or death.

The tables and points below summarize the performance measures and design of the LTI Plan grants for the current performance cycles.

GRANT CYCLE	SQI COMPONENT	TOTAL RETURN COMPONENT**
2009-2011*	50%	50%
2010-2012*	50%	50%

* *CEO grants are split 30% SQI component and 70% Total Return Component.*

** *Total Return Component is determined based on a combination of Total Return and 3-year average SQI results.*

SERVICE QUALITY INDICES (SQIS) COMPONENT TABLE

SQI RESULT, 3 YEAR AVERAGE	PERCENTAGE OF LTI PLAN TARGET AWARD
80% achievement or above *	**100%**
Below 80%	**0%**

* *For 2009 in the 2009-2011 performance cycle, SQIs results were measured against 10 SQIs. 9 SQIs currently apply for the remaining years in the 2009-2011 performance cycle and for the 2010-2011 performance cycle.*

The table below shows the percentage of LTI Plan target awards under the Total Return Component that will be earned based on three-year performance. Percentages will be interpolated if performance falls between the values shown below.

TOTAL RETURN COMPONENT TABLE

	PERCENTAGE OF LTI PLAN TARGET AWARD			
ANNUALIZED 3 YEAR RETURN	**100% SQI (3 YEAR AVERAGE)**	**90% SQI (3 YEAR AVERAGE)**	**80% SQI (3 YEAR AVERAGE)**	**<80% SQI (3 YEAR AVERAGE)**
15% or more	**210%**	**175%**	**155%**	**0%**
14%	**180%**	**150%**	**130%**	**0%**
13%	**150%**	**125%**	**105%**	**0%**
12%	**120%**	**100%**	**80%**	**0%**
11%	**80%**	**65%**	**50%**	**0%**
10%	**40%**	**30%**	**20%**	**0%**
<10%	**0%**	**0%**	**0%**	**0%**

SQI Component:

- A target number of units are granted at the beginning of a three-year performance cycle that will be paid in cash to the participant if the Company achieves the targeted level of 80% of SQIs during the performance cycle. The actual award is paid at target level if an average of at least 80% of SQIs are satisfied during the performance cycle, but is not paid if the average is below 80%. If threshold SQI performance is met, the amount payable is equal to the product of the target number of units granted and the per unit value at the end of the performance cycle.
- If 80% SQIs are met during the performance cycle, but the Total Return threshold of 10% is not met, the SQI component will still be paid at target.

Total Return Component:

- A target number of units are granted at the beginning of a three-year performance cycle that will be paid in cash to the participant if the Company achieves the targeted level of Total Return and SQI performance during the three-year performance cycle. The actual award paid is based on Company performance relative to target, subject to a minimum threshold level of performance of 10% for Total Return (based on average Total Return over the performance cycle) and average SQI achievement of 80%.
- The LTI Plan unit value is determined annually by applying the Total Return for each year to the prior year's unit price.
- At the completion of the performance cycle, if the Total Return component is paid, the participant receives a cash payment equal to the number of units earned based on performance during the performance cycle multiplied by the unit price at the end of the performance cycle.
- If the Total Return component exceeds 10% annualized 3-year return, but the SQI threshold is not met, the Total Return component will not be paid.

LTI Plan Performance of Outstanding Awards

The Company's 2010-2012 outstanding LTI Plan grants had the following performance during 2010:

- Award calculation is based on the full three-year performance cycle, so no award payment calculations will be made until after 2012.
- Performance on the SQI component of the grant was at 9 out of 9, which if continued for the remaining two years of the performance cycle would mean that the SQI component would pay based on the target number of units granted to a Named Executive Officer.
- Performance on the Total Return component during 2010 was 7.1%, below the three-year average threshold needed for payment.

The Company's 2009-2011 outstanding LTI Plan grants had the following performance during 2009 and 2010:

- Award calculation is based on the full three-year performance cycle, so no award payment calculations will be made until after 2011.
- Performance on the SQI component of the grant was at 9 out of 10 in 2009, or 90%, and 9 out of 9 in 2010, or 100%, for a combined two-year result of 95%, which if continued for the remaining year of the performance cycle would mean that the SQI component would pay based on the target number of units granted to a Named Executive Officer.
- Performance on the Total Return component during 2009 was 5.2% and during 2010 was 7.1%, or a combined two-year result of 6.15%, below the three-year average threshold needed for payment.

Retirement Plans — SERP and Retirement Plan

The Company maintains the Supplemental Executive Retirement Plan (SERP) for executives to provide a benefit that is coordinated with the tax-qualified Retirement Plan for Employees of Puget Sound Energy, Inc. (Retirement Plan). Without the addition of the SERP, these executives would receive lower percentages of replacement income during retirement than other employees. All the Named Executive Officers except Mr. Reynolds participate in the SERP. When Mr. Reynolds was hired, he elected to receive an annual contribution to his account in the Deferred Compensation Plan for Key Employees in lieu of participating in the SERP, as described in the following paragraph. He participates in the Retirement Plan. Additional information regarding the SERP and the Retirement Plan is shown in the "2010 Pension Benefits" table.

Deferred Compensation Plan

The Named Executive Officers are eligible to participate in the Deferred Compensation Plan for Key Employees (Deferred Compensation Plan). The Deferred Compensation Plan provides executives an opportunity to defer up to 100% of base salary, annual incentive bonus and LTI Plan awards, plus receive additional Company contributions made by PSE into an account that has three investment tracking fund choices. The funds mirror performance in major asset classes of bonds, stocks, and an interest crediting fund that changes rates quarterly based on corporate bond rates. The Deferred Compensation Plan is intended to allow the executives to defer current income, without being limited by the Internal Revenue Code contribution limitations for 401(k) plans and therefore have a deferral opportunity similar to other employees as a percentage of eligible compensation. 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. Under the terms of Mr. Reynolds' employment agreement, he additionally receives an annual Company contribution to his Deferred Compensation Plan account equal to 15% of the base salary and annual incentive payment he received during the prior year. Additional information regarding the Deferred Compensation Plan and Mr.

Reynolds' employment agreement arrangement, as well as his year-end balance, is shown in the "2010 Nonqualified Deferred Compensation" table.

Post-Termination Benefits

The Company has entered into agreements with its executive officers, including the Named Executive Officers, that provide for certain payments and benefits if an executive's employment is terminated or terminates for certain reasons, such as following a change in control. Benefits provided under these agreements are important for two primary reasons. First, many executives when joining a new company require a level of assurance that they will receive pay in the event of a termination of employment following a change in control after they join the company. Second, the Company provides these agreements so that the executives are focused on the Company's ongoing operations and are not distracted by the employment uncertainty that can arise in the event of a change in control. The Committee periodically reviews existing change in control arrangements for the comparator group considering benchmarking information provided by Towers Watson. Based on this information, the Committee believes that the arrangements generally provide benefits that are similar to those of the comparator group.

Effective March 30, 2009, the Company entered into Executive Employment Agreements with the Named Executive Officers, except Mr. Reynolds, which amended and restated existing Amended and Restated Change of Control Agreements between the Company and each of the executives. The Executive Employment Agreements provide for an employment period of two years following the February 6, 2009 completion of the merger and generally provide benefits similar to those under the previous Change of Control Agreements. In addition, the agreements provide for a merger performance bonus equal to 100% of the executives' annual base salary, payable on or shortly following each of the first and second anniversaries of the completion of the merger if the Company achieves specified minimum SQI performance goals established by the Committee (for 2010, 80% of SQIs or better) and the executive remains employed at the Company until the anniversary of the merger for which payment is made. Ms. O'Connor received a merger performance bonus at the first anniversary of the merger, but voluntarily resigned in October 2010 and forfeited eligibility for payment at the second anniversary.

Following the merger, Mr. Reynolds' employment agreement, as amended, continued, except that effective as of December 31, 2009, Mr. Reynolds agreed to waive any change in control benefits and payments that might otherwise be payable to him under the agreement on or after December 31, 2009, including upon a subsequent change in control. Mr. Reynolds' employment agreement terminated effective February 28, 2011 in connection with his retirement as CEO.

The "Potential Payments Upon Termination or Change in Control" section describes the current post-termination arrangements with the Named Executive Officers as well as other plans and arrangements that would provide benefits on termination of employment or a change in control, and the estimated potential incremental payments upon a termination of employment or change in control based on an assumed termination or change in control date of December 31, 2010.

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 Named Executive Officers, are eligible for additional disability and life insurance benefits. The executives are also eligible to receive reimbursement for financial planning, tax preparation, legal services, business club memberships and executive physicals up to an annual limit. 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. These perquisites do not make up a significant portion of executive compensation, amounting to less than $10,000 in total for each Named Executive Officer in 2010.

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 LTI Plan payments in the calculation of qualified retirement (pension and 401(k)) and SERP benefits.

Impact of Accounting 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.