

**EXHIBIT NO. \_\_\_(TMH-10)  
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\_\_\_**

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

**JUNE 13, 2011**



# *2010 Goals & Incentive Plan*

## Focused on 2010 Goals

We are committed to meeting the expectations of our customers and communities to provide great service, offer aggressive energy-efficiency programs, be environmentally sensitive, and be a good corporate citizen — while performing in a way that is continually better, faster and cheaper. We also recognize our obligation to the owners of our company, who expect a fair return on their investment. And all of us at Puget Sound Energy want it to be a great place to work.

To do this, PSE has company goals that shape our department, team and individual goals, so everyone pulls in the same direction. 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.

### 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.

## How the plan works

### **How much incentive can I earn?**

The target annual incentive for nonrepresented employees is 10 percent of base pay. All represented employees have a fixed incentive target of \$2,000. Actual incentives may increase or decrease depending on company performance. It is possible to earn a maximum incentive of up to twice the target incentive.

### **How is my incentive determined?**

The amount of your incentive depends on your individual and team performance and on the company's performance as a whole. Company performance determines the amount of money in the incentive pool. For money to be contributed to the pool, the company must achieve minimum goals for both financial results and service quality.

### **Company financial performance**

The key financial measure is adjusted EBITDA (earnings before interest, taxes, depreciation and amortization). Adjusted EBITDA is a measure of cash flow that excludes the impact of financing (interest) and taxes. It is a good financial measure of employees' contribution to operating performance because it excludes the effects of factors — interest, taxes, depreciation and amortization — that are beyond most employees' control.

The company as a whole must achieve an adjusted EBITDA of at least \$849.3 million to trigger funding of the incentive pool. The more that adjusted EBITDA exceeds the trigger level, the larger the incentive pool and your potential incentive award, as shown in the

table on page 4. Adjusted EBITDA may be modified 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 modifications could increase or decrease the incentive pool.

### **Service quality performance**

The quality of our customer service is key to our success. Our Service Quality Index (SQI) includes 10 measures, and company performance on these affects the incentive pool. We must achieve our target performance on at least six of the 10 measures to provide *any* funding to the pool.

Achieving target on additional measures will increase the incentive pool, as shown in the table on page 4. Although funding of the pool increases as adjusted EBITDA increases, the amount is capped unless SQI results also continue to improve. (See table on page 4.)

### **Individual and team performance**

At year-end, your officer 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.

***To fund the incentive pool at the 100 percent target level, the company must achieve adjusted EBITDA of at least \$943.7 million and hit its targets on all 10 SQI measures.***

## Opportunity for incentive award

### Incentive pool is based on company performance

The table below illustrates how the incentive pool is funded. Actual incentive awards will vary based on team and individual performance. See the examples and rules for represented and nonrepresented employees.

2010 incentive pool funding as a percentage of target incentive									
SQI results	Adjusted EBITDA vs. plan								
	<90%	90%	95%	100%	105%	110%	120%	130%	135%
10 of 10 ⇒	0%	50%	75%	TARGET 100%	125.0%	137.5%	162.5%	187.5%	200%
9 of 10 ⇒	0%	45%	68%	90%	112.5%	123.8%			→
8 of 10 ⇒	0%	40%	60%	80%	100%				→
7 of 10 ⇒	0%	35%	53%	70%					→
6 of 10 ⇒	0%	30%	45%	60%					→
5 of 10 or below ⇒	0%	0%	0%	0%	0%	0%	0%	0%	0%

*Note:*

- For the plan to be funded, the company must achieve six or more SQI goals **and** generate an adjusted EBITDA equal to 90 percent of budget or higher.
- Although funding of the pool increases as adjusted EBITDA increases, the amount of funding is capped unless SQI results also continue to improve.

## Service Quality Index (SQI) for 2010

PSE uses the following 10 UTC-required measures to gauge the quality of our service. We must achieve our target performance on at least six of the 10 measures to provide any funding to the pool. Achieving target on additional measures will increase the incentive pool, as shown in the table on page 4.

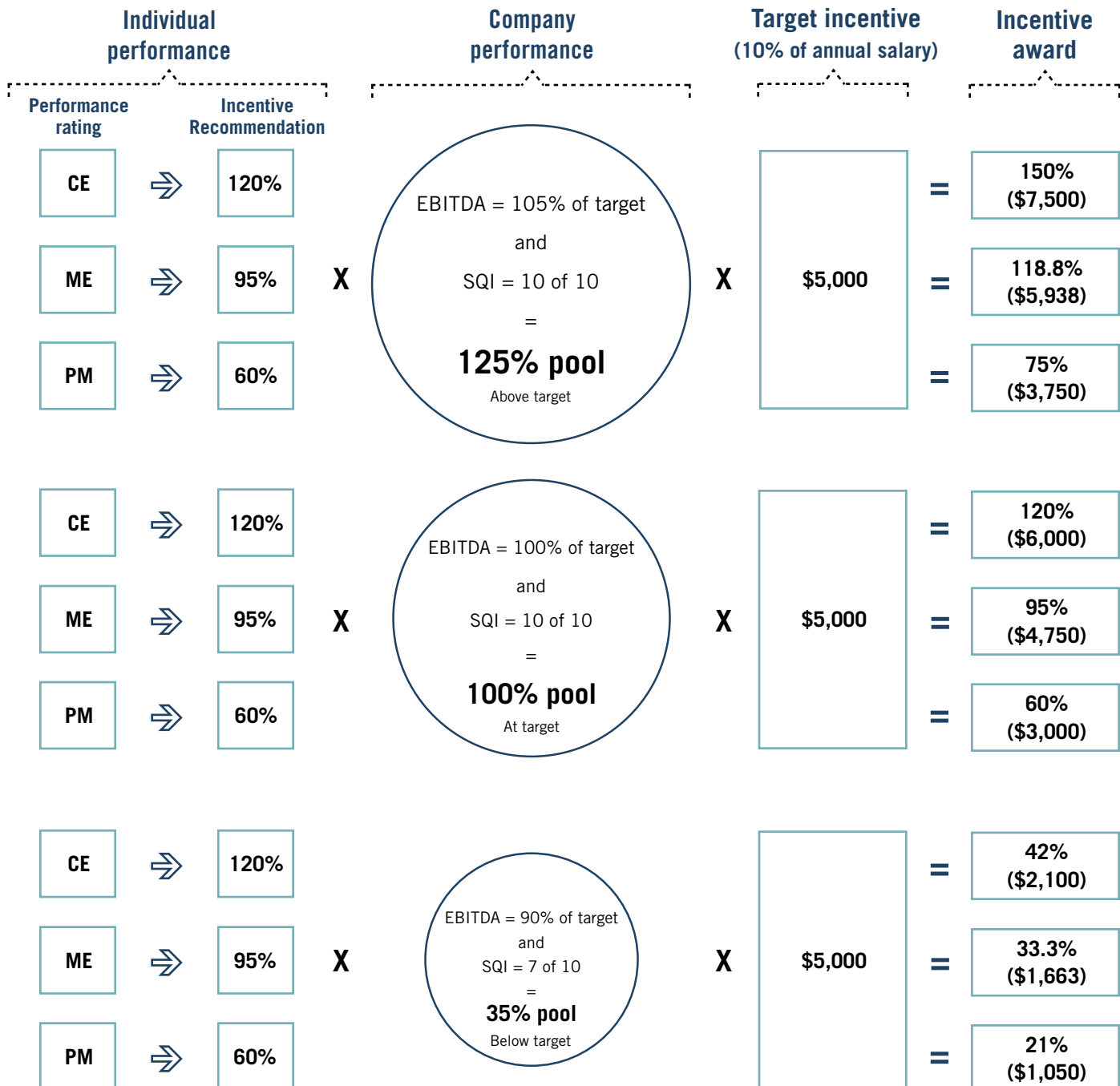
Key measurement	Target
<b>Customer satisfaction</b>	
Percent of customers satisfied with telephone services, based on survey	At least 90 percent
Percent of customers satisfied with field services, based on survey	At least 90 percent
Number of complaints to the UTC per 1,000 customers	Less than 0.40
<b>Customer services</b>	
Percent of calls answered live within 30 seconds by our telephone center	At least 75 percent
Percent of customers disconnected for nonpayment	No more than 3.8 percent
<b>Operations services</b>	
Frequency of non-major-storm power outages, per year, per customer	Less than 1.3 outages
Length of non-major-storm power outages, per year, per customer	Less than 2 hours 16 minutes
Time from customer call to arrival of electric field technician in response to power system emergencies	No more than 55 minutes
Time from customer call to arrival of gas field technician in response to natural gas emergencies	No more than 55 minutes
Percent of service appointments kept as promised	At least 92 percent

## 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. Actual incentive recommendations for each performance rating may differ from those below.

If annual salary = \$50,000  
 Target incentive = \$5,000 (10% of salary)  
 Incentive opportunity = 0 to \$10,000  
 (0 to 20% of salary)

Performance ratings	
CE	Clearly exceeds most or all goals and core expectations.
ME	Meets goal and core expectations and may exceed some.
PM	Meets most goal and core expectations and partially meets others.
NM	Not adequately meeting goal and core expectations. Performance improvement required.



## 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%

Team goals achieved	Team goal performance		Company performance		Target incentive		Incentive award
3 of 3	⇒ 100%	X	EBITDA = 105% of target and SQI = 10 of 10 = <b>125% pool</b> Above target	X	\$2,000	=	125% (\$2,500)
2 of 3	⇒ 66%						82.5% (\$1,650)
1 of 3	⇒ 33%						41.2% (\$825)
3 of 3	⇒ 100%	X	EBITDA = 100% of target and SQI = 10 of 10 = <b>100% pool</b> At target	X	\$2,000	=	100% (\$2,000)
2 of 3	⇒ 66%						66% (\$1,320)
1 of 3	⇒ 33%						33% (\$660)
3 of 3	⇒ 100%	X	EBITDA = 90% of target and SQI = 7 of 10 = <b>35% pool</b> Below target	X	\$2,000	=	35% (\$700)
2 of 3	⇒ 66%						23.1% (\$462)
1 of 3	⇒ 33%						11.5% (\$231)



## 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. Adjusted EBITDA (earnings before interest, taxes, depreciation and amortization), including incentive accrual, must meet “trigger” level for any possible incentive pool funding.
3. SQIs must meet “trigger” level for any possible incentive pool funding.
4. The incentive pool funding increases as adjusted EBITDA and SQI performance increase.
5. The number of Service Quality Index measures (SQIs) achieved can increase or decrease the total incentive pool funding.
6. All incentive amounts are shown for illustrative purposes. Actual incentive amounts are determined by achievement against team and/or individual goals.
7. The maximum incentive payable under the plan is 200 percent of the target incentive.
8. The adjusted EBITDA results may be modified 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 modifications could increase or decrease the incentive pool funding.
9. The CEO has discretion to adjust incentive pool allocations to departments.
10. Employees who resign or are discharged during the plan performance period (Jan. 1 - Dec. 31) are not eligible to receive an incentive payment.
11. 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. Temporary and casual employees are not eligible to participate in the plan.
12. 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.
13. 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.

14. 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 the 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' incentive 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 adjusted EBITDA and SQI 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 adjusted EBITDA and SQI performance achieved.
6. Individual performance will not modify incentive amounts for represented employees.

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



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# ***2011 Goals & Incentive Plan***

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To do this, PSE has company goals that shape our department, team and individual goals, so everyone pulls in the same direction. 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.

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**Enhance customer service** – Respond to our customers by listening, leveraging new systems, updating processes, and providing innovative and improved services, products and programs.

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**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.

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## How the plan works

### How much incentive can I earn?

The target annual incentive for nonrepresented employees is 10 percent of base pay. All represented employees have a fixed incentive target of \$2,000. Actual incentives may increase or decrease depending on company performance. It is possible to earn a maximum incentive of up to twice the target incentive.

### How is my incentive determined?

The amount of your incentive depends on your individual and team performance and on the company's performance as a whole. Company performance determines the amount of money in the incentive pool. For money to be contributed to the pool, the company must achieve minimum goals for both financial results and service quality.

### Company financial performance

The key financial measure is adjusted EBITDA (earnings before interest, taxes, depreciation and amortization). Adjusted EBITDA is a measure of cash flow that excludes the impact of financing (interest) and taxes. It is a good financial measure of employees' contribution to operating performance because it excludes the effects of factors — interest, taxes, depreciation and amortization — that are beyond most employees' control.

The company as a whole must achieve an adjusted EBITDA of at least 90% of \$981 million to trigger funding of the incentive pool. The more that adjusted EBITDA exceeds the trigger level, the larger the incentive pool and your potential incentive award, as shown in the table on page 4. Adjusted EBITDA may be modified 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 modifications could increase or decrease the incentive pool.

***To fund the incentive pool at the 100 percent target level, the company must achieve adjusted EBITDA of at least \$981 million and hit its targets on all nine SQI measures.***

### Service quality performance

The quality of our customer service is key to our success. Our Service Quality Index (SQI) includes nine measures, and company performance on these affects the incentive pool. We must achieve our target performance on at least six of the nine measures to provide *any* funding to the pool.

Achieving target on additional measures will increase the incentive pool, as shown in the table on page 4. Although funding of the pool increases as adjusted EBITDA increases, the amount is capped unless SQI results also continue to improve. (See table on page 4.)

### Individual and team performance

At year-end, your officer 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.

### Changes in the 2011 plan

The 2011 Goals and Incentive Plan differs from the 2010 plan in the number of SQI measures used and the related impact on the funding formula.

In 2010 on an interim basis, the Utilities and Transportation Commission (UTC) eliminated one of the ten SQIs used to evaluate PSE's performance — the ratio of customer disconnects to the overall number of customers. The nine SQIs remaining will be used by the UTC to evaluate PSE's 2011 performance.

The funding matrix has been adjusted accordingly. The minimum number of SQIs we must achieve to fund the incentive pool — provided EBITDA minimums are also satisfied — is now six of nine. See the table on page 4.

In addition, the UTC approved a change in how one of the SQI indices — the length of power outages — is measured. The new measure includes all outages, including those caused by major storms. The previous measure excluded outages caused by major storms. With the addition of major storms, the average outage duration target is 5 hours 20 minutes, compared to 2 hours 16 minutes under the previous measure.

## Opportunity for incentive award

### Incentive pool is based on company performance

The table below illustrates how the incentive pool is funded. Actual incentive awards will vary based on team and individual performance. See the examples and rules for represented and nonrepresented employees.

2011 incentive pool funding as a percentage of target incentive									
SQI results	Adjusted EBITDA vs. plan								
	<90%	90%	95%	100%	105%	110%	120%	130%	135%
9 of 9 ⇒	0%	50%	75%	TARGET 100%	125.0%	137.5%	162.5%	187.5%	200%
8 of 9 ⇒	0%	45%	68%	90%	112.5%	123.8%	→		
7 of 9 ⇒	0%	40%	60%	80%	100%	→			
6 of 9 ⇒	0%	35%	53%	70%	→				
5 of 9 or below ⇒	0%	0%	0%	0%	0%	0%	0%	0%	0%

*Note:*

- For the plan to be funded, the company must achieve six or more SQI goals **and** generate an adjusted EBITDA equal to 90 percent of budget or higher.
- Although funding of the pool increases as adjusted EBITDA increases, the amount of funding is capped unless SQI results also continue to improve.

## Service Quality Index (SQI) for 2011

PSE uses the following nine UTC-required measures to gauge the quality of our service. We must achieve our target performance on at least six of the nine measures to provide any funding to the pool. Achieving target on additional measures will increase the incentive pool, as shown in the table on page 4.

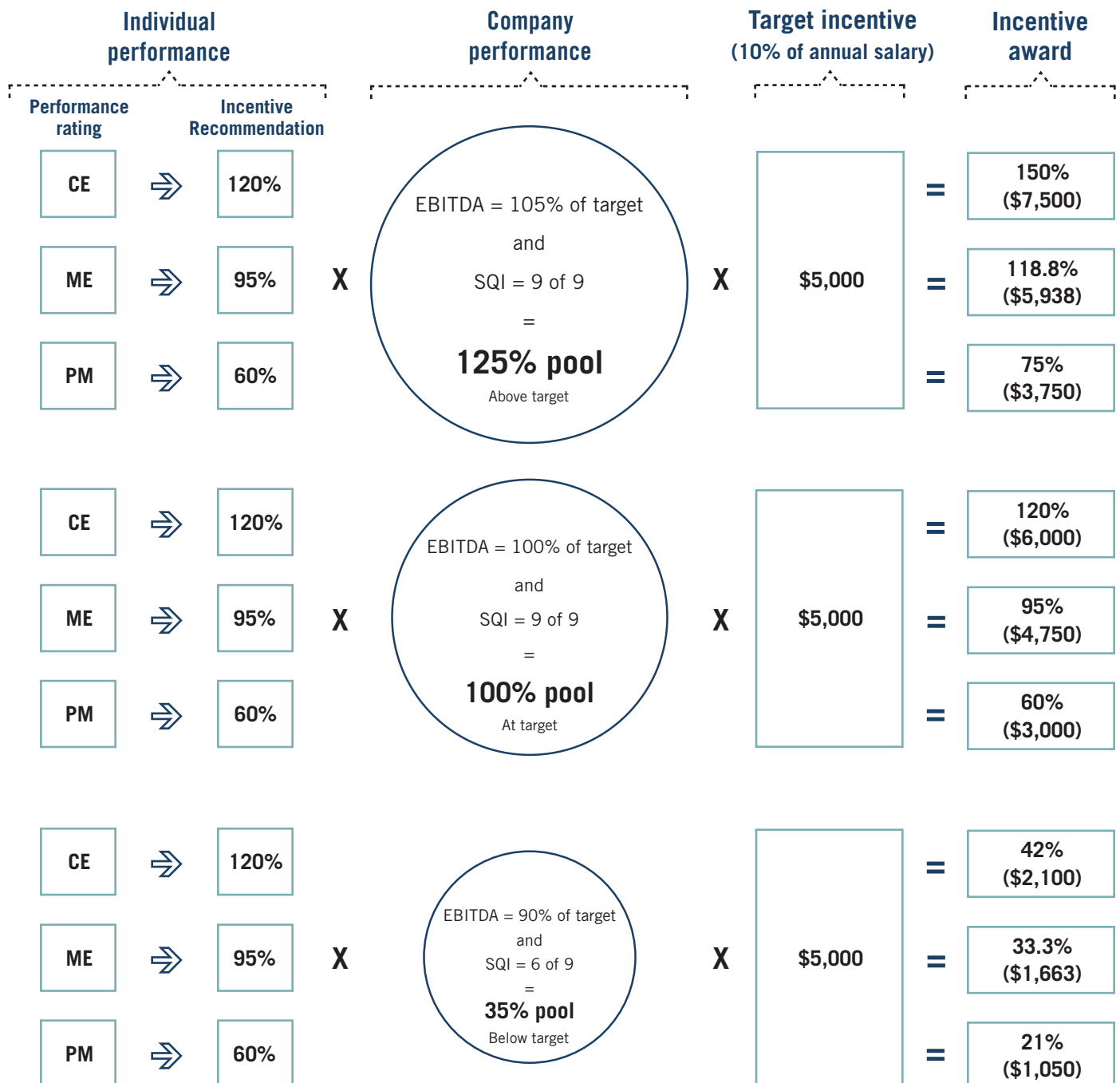
Key measurement	Target
<b>Customer satisfaction</b>	
Percent of customers satisfied with our Customer Access Center services, based on survey	At least 90 percent
Percent of customers satisfied with natural gas field services, based on survey	At least 90 percent
Number of complaints to the UTC per 1,000 customers, per year	No more than 0.40
<b>Customer services</b>	
Percent of calls answered live within 30 seconds by our Customer Access Center	At least 75 percent
<b>Operations services</b>	
Frequency of non-major-storm power outages, per year, per customer	Less than 1.30 outages
Length of power outages per year, per customer	Less than 5 hours, 20 minutes
Time from customer call to arrival of field technicians in response to electric system emergencies	No more than 55 minutes
Time from customer call to arrival of field technicians in response to natural gas emergencies	No more than 55 minutes
Percent of service appointments kept	At least 92 percent

## 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. Actual incentive recommendations for each performance rating may differ from those below.

If annual salary = \$50,000  
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4 of 5 = 80%  
3 of 5 = 60%  
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1 of 5 = 20%

Team goals achieved	Team goal performance		Company performance		Target incentive		Incentive award
3 of 3	⇒ 100%		EBITDA = 105% of target and SQL = 9 of 9 = <b>125% pool</b> Above target		\$2,000		125% (\$2,500)
2 of 3	⇒ 66%	X					82.5% (\$1,650)
1 of 3	⇒ 33%						41.2% (\$825)
3 of 3	⇒ 100%		EBITDA = 100% of target and SQL = 9 of 9 = <b>100% pool</b> At target		\$2,000		100% (\$2,000)
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12. 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.
13. 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.
14. 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 the payout target.

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