

Exhibit No. \_\_\_\_ (NEH-3)

Docket No. U-072375

Witness: Nancy E. Hirsh

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

**In the Matter of the Joint Application of**

**PUGET HOLDINGS LLC**

**and**

**PUGET SOUND ENERGY, INC.**

**For an Order Authorizing Proposed Transaction**

**Docket No. U-072375**

**EXHIBIT TO TESTIMONY OF**

**NANCY E. HIRSH**

**ON BEHALF OF NW ENERGY COALITION**

*Response to NWECA Data Request No. 1.02*

**June 18, 2008**

**BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**Docket No. U-072375  
Puget Holdings LLC and Puget Sound Energy, Inc.  
Joint Application for an Order Authorizing Proposed Transaction**

**NWEC DATA REQUEST NO. 01.02**

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**[JA, p. 14, ll. 6-8 and Reynolds, p. 10, l. 12]** Would the acquisition by the Consortium represent a Change of Control as that term is defined in Puget Energy's 2005 Long-Term Incentive Plan, as amended? If so, please explain how Puget Holdings (Holdings) can affirm in this proceeding that, following closing, the management team "will be retained" as stated in the JA and "will remain in place" as stated by Mr. Reynolds.

1.2.1 At p. 20, ll. 13-14, the JA states that Holdings "will seek to retain" the management team. Please describe the efforts, if any, that Holdings has made (or intends to make before closing) to seek to retain each management team member.

**Response:**

Yes, the proposed transaction would represent a change of control for purposes of (i) Puget Energy, Inc.'s ("Puget Energy") 2005 Long-Term Incentive Plan, as amended, and (ii) individual change of control agreements of executive officers of Puget Sound Energy, Inc. ("PSE"). Attached as Attachment A to Joint Applicants' Response to NWEC Data Request No. 01.02, please find a copy of Puget Energy's 2005 Long-Term Incentive Plan, as amended. Specifically, please see page A-9 of such Attachment A to Joint Applicants' Response to NWEC Data Request No. 01.02.

As of February 16, 2008, no member of PSE's management had entered into employment agreements with Puget Holdings LLC ("Puget Holdings"), Puget Energy or PSE in connection with the proposed transaction.

PSE's management team will be retained following closing of the proposed transaction because the positions of PSE's executive officers are not being eliminated as a result of such transaction. The Merger Agreement reflects the intention that PSE's current employees and management team will remain if the proposed merger takes effect:

As part of this transaction, Padua Holdings LLC will seek to retain all current senior management of Puget Sound Energy, Inc.

Exhibit B to the Merger Agreement.

Additionally, the proxy statement related to the proposed transaction (Attachment A to Joint Applicants' Response to WUTC Staff Data Request No. 1003) also states as follows:

"The merger agreement reflects the Parent's intention that PSE's current employees and management team will remain...."

The proxy statement also describes the effect of the proposed transaction on PSE's executive. Additionally, change in control documents for PSE's officers will be in effect after closing of the proposed transaction and provide for severance payments to any PSE officer if his or her position is eliminated by within two years after such closing.

Typically, in proposed mergers, retention of executives can be difficult because executives consider alternative employment as a way of protecting themselves in the event that their position is eliminated. Additionally, just as employees could voluntarily choose to leave a company for a variety of reasons, following a merger, they could also voluntarily choose to leave the new company. Therefore, PSE's compensation package is reviewed annually to ensure market competitive pay, as a way of ensuring employee retention.

1.2.1 Puget Holdings LLC intends to retain each member of the management team of Puget Sound Energy, Inc. by offering such member an employment contract either before or shortly after closing of the proposed transaction.