

**EXHIBIT NO. \_\_\_(TMH-4)  
DOCKETS UE-17\_\_\_/UG-17\_\_\_  
2017 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,**

**Respondent.**

**Docket UE-17\_\_\_**

**Docket UG-17\_\_\_**

**THIRD EXHIBIT (NONCONFIDENTIAL) TO THE  
PREFILED DIRECT TESTIMONY OF**

**THOMAS M. HUNT**

**ON BEHALF OF PUGET SOUND ENERGY**

**JANUARY 13, 2017**

## 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 Committee (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 2015, nor were they formerly Company officers or had any relationship otherwise requiring disclosure. Each member meets the independence requirements of the SEC and the New York Stock Exchange (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 below. For 2015 the Company's Named Executive Officers and titles were:

- Kimberly J. Harris, President and Chief Executive Officer (CEO);
- Daniel A. Doyle, Senior Vice President and Chief Financial Officer (CFO);
- Marla D. Mellies, Senior Vice President, Chief Administrative Officer;
- Philip K. Bussey, Senior Vice President, Chief Customer Officer; and
- Steve R. Secrist, Senior Vice President, General Counsel, Chief Ethics and Compliance Officer

This section also includes a discussion and analysis of the overall objectives of our compensation program and each element of compensation the Company provides.

#### **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 incentive compensation payments with the achievement of short and long-term 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 obtains information and advice on various aspects of the executive compensation program from its independent executive compensation consultant, Frederic W. Cook & Co., Inc. (Cook & Co.). The Committee recommends to the full Board for approval both the salary level for our CEO, based on information provided by Cook & Co., and the salary levels for the other executives, based on recommendations from our CEO. The Committee also recommends to the Board for its approval the annual and long-term incentive compensation plans for the executives, the setting of performance goals and the determination of target and actual awards under those plans.

In 2015, the Committee used the following strategies to achieve the objectives of our executive compensation program:

- Design and deliver a competitive total compensation opportunity. To attract, retain and motivate a talented executive team, the Committee believes that total pay opportunity should be competitive with similar companies of similar size and scope of operations 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 compensation to external market data from similar companies in our industry and targets base salary and target total direct compensation (the sum of base salary and target annual and long-term incentive award opportunities) to the 50th percentile of the market data with variations by

individual executive, as appropriate. The Committee also recognizes the importance of providing retirement income. Executives choose to work for the Company as opposed to 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 based on achievement relative to 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 our annual and long-term incentive programs and considers adjustments as appropriate to meet the objectives of our executive compensation program. As described under "Risk Assessment," the Company's policies and practices surrounding incentive pay are structured in a manner to mitigate the risk that employees would seek to take untoward risks in an attempt to increase incentive results.
- Oversee the Company's talent management 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 and discussions with her executive team. Each executive conducts talent reviews of senior employees that report to him or her and who have high potential for assuming greater responsibility in the Company. Utilizing evaluations and assessments, 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.

### **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 limited number of perquisites. The Company also provides certain post-termination and change in control benefits to executives who were employed by the Company prior to March 2009. Since the Company is not publicly listed and does not grant equity awards to its executives, 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 described below and drive the achievement of 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, although long-term incentive awards 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 2015 through base salary to provide liquidity for the executives and through incentive programs to focus performance on important Company goals and to increase the alignment with investors.

### **Review of Pay Element Competitiveness**

To help inform the Committee's recommendations for 2015 base salaries, annual incentive programs and long-term incentive programs, the Committee reviewed both market data obtained from industry-specific surveys and proxy statements of companies selected for inclusion in the Company's custom executive compensation benchmarking peer group. The market survey data were sourced from a select cut from the Towers Watson 2014 Energy Services Survey, comprised of utility and other companies similar in size and scope of operations to PSE. The 26 companies in the custom market survey cut used to inform compensation decisions for 2015 are:

**Custom Survey Peer Group**

1. AGL Resources	10. MDU Resources Group	19. SCANA
2. Alliant Energy	11. NiSource	20. Southwest Gas
3. Ameren	12. Northeast Utilities	21. Teco Energy
4. Atmos Energy	13. OGE Energy	22. UIL Holdings
5. Avista	14. Oncor Electric Delivery	23. UNS Energy
6. Black Hills	15. Pepco Holdings	24. Vectren
7. CMS Energy	16. Pinnacle West Capital	25. Westar Energy
8. Integrys Energy Group	17. PNM Resources	26. Wisconsin Energy
9. LLG&E and KU Energy	18. Portland General Electric	

As noted, the market survey data were supplemented with proxy statement data for select positions in the Company's executive compensation peer group, which was comprised of 14 companies, all but one of which overlapped with companies included in the market survey data. The 2014 median revenue of the executive compensation peers was \$3.4 billion, which was comparable to PSE's annual revenues of \$3.2 billion at the time the peer group was developed. The peer companies included in the Company's executive compensation benchmarking peer group to inform 2015 compensation decisions are shown below:

**Proxy Peer Group**

1. Alliant Energy	6. NiSource	11. SCANA
2. Avista	7. Northeast Utilities	12. Vectren
3. Great Plains Energy	8. Pepco Holdings	13. Westar Energy
4. Integrys Energy Group	9. Pinnacle West Capital	14. Wisconsin Energy
5. MDU Resources Group	10. Portland General Electric	

As a matter of philosophy, all three components of target total direct compensation are generally targeted at the 50th percentile of industry practice, with deviations by individual executive as described below. If Company performance results are below expectations, actual compensation is expected to be below this targeted level and if Company performance significantly exceeds target, actual compensation is expected to be above this targeted level.

Individual pay adjustments are reviewed annually to see how they position the executive in relation to the 50th percentile of market pay, while also considering the executive's recent performance and experience level. Despite the median philosophy, the Company may choose to target an executive's compensation above or below the 50th percentile 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. In addition to the foregoing survey data, the Committee generally also received advice from Cook & Co. in connection with 2015 compensation decisions.

**Base Salary**

We recognize that it is necessary to provide executives with a fixed amount of total compensation that is delivered each month and provides a balance to other pay elements that are at risk. As mentioned above, base salaries are reviewed annually by the Committee based on its median philosophy, internal equity considerations and individual executive considerations such as expertise level of performance achievement, experience in role and contribution relative to others in the organization.

## Base Salary Adjustments for 2015

The Committee reviewed the base salaries of the Named Executive Officers in early 2015 and recommended base salary adjustments to the Board. The Board approved the Committee's recommendation to increase executive salaries as shown in the table below. The adjustments were effective March 1, 2015. Base salaries for 2015 generally remained at the 50th percentile of market among the comparator group. The annual salary for Ms. Harris is unchanged from 2014, given that her current base salary was slightly higher than the 50th percentile of market among the comparator group. The salary increase percentages approved by the Board for the other Named Executive Officers were in a range of 2% to 4%, similar to salary increases for other non-represented employees.

Name	2014 Base Salary	2015 Base Salary	% Change
Kimberly J. Harris	\$900,000	\$900,000	—%
Daniel A. Doyle	\$482,040	\$496,501	3.0%
Marla D. Mellies	\$289,626	\$299,763	3.5%
Philip K. Bussey	\$291,750	\$297,583	2%
Steve R. Secrist	\$352,352	\$362,923	3%

## 2015 Annual Incentive Compensation

All PSE employees, including the Named Executive Officers, are eligible to participate in an annual incentive program referred to as the "Goals and Incentive Plan." The plan is designed to provide financial incentives for achieving desired annual operating results, measured by EBITDA, while also meeting the Company's service quality commitment to customers and an employee safety measure. EBITDA was selected as a performance goal because it provides a financial measure of cash flows generated from the Company's annual operating performance.

For 2015, the Company's service quality commitment was measured by performance against nine Service Quality Indicators (SQIs) covering three broad categories, set forth below. These are the same SQIs for which the Company is accountable to the Washington Commission. Annual incentive funding is decreased if a SQI is not achieved. 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. The Company's service quality report cards are available at <http://www.PSE.com/PerformanceReportCards>.

The SQIs for 2015 were the same as those in 2014 and were as follows:

- **Customer Satisfaction (3 SQIs)** - Customer satisfaction with the telephone access center and natural gas field services and number of 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.

In 2015, the Company retained a safety performance measure in the annual incentive plan funding to promote its continued commitment to employee safety. The employee safety measure functions similarly to the nine SQIs in determining the funding of the annual incentive plan. That is, if the safety measure is not achieved, annual incentive funding will be decreased by 10%, in the same way as a missed SQI. The safety performance measure contains four targets which must all be satisfied for the safety measure to be treated as met. The four targets for 2015 were:

- All employees attend a monthly safety "meeting in a box" presentation, or complete the same content online. The target completion rate is no less than 95%.
- The Company DART (**D**ays **A**way from Work, days of **R**estricted Work, or **J**ob **T**ransfer) not to exceed a rate of 0.61 in 2015.
- Field employees to attend the Industrial Athlete program, a new training designed to improve mobility and strengthen stability. The target completion rate is no less than 95% of field employees.

- Office employees to complete an on-line training to increase awareness on ergonomic resources and tools available to help reduce sprain and strain injuries. The target completion rate is no less than 95% of office employees.

In 2015, 100% funding for the annual incentive plan required (i) achievement of 10 out of 10 customer service and safety measures (all nine SQIs and achievement of the safety measure) and (ii) target EBITDA performance. In total, eight of the 10 customer service and safety measures were met or deemed met. The two SQIs not met were SQI 3, System Average Interruption Duration Index (SAIDI) and SQI 5, Telephone Center Answering Performance.

Funding levels for 2015 at maximum, target, and threshold are shown in the table below.

Annual Incentive Performance Payout Scale and Actual Performance

Performance	2015 EBITDA (In Millions)	SQI & Safety*	Funding Level
Maximum	\$ 1,668.2	10/10	200%
Target	1,235.7	10/10	100%
Threshold Payout Funding	1,112.1	6/10	30%
2015 Actual Performance	\$ 1,222.2	8/10	75.60%

\* Combined SQI & Safety results of 6/10 or better and minimum EBITDA of \$1,112.1 million are required for any annual incentive payout funding. SQI/Safety results below 10/10 reduce funding (e.g., 9/10 = 90%, 8/10 = 80%, 7/10 = 70%).

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 exclude any items for 2015. Individual awards may be adjusted upward or downward based on an evaluation of an executive officer's performance against individual and team goals that align with the corporate goals described below.

## 2015 Corporate Goals

In 2015, the Company continued using the Integrated Strategic Plan (ISP) to summarize for employees the direction and overall goals of the Company. The plan has five objectives which capture our 2015 corporate goals and which have been communicated to our employees. Each employee, including the Named Executive Officers, has specific individual and team goals linked to driving strategies that meet one or more of the following objectives:

- **Safety-** Our Safety Objective is our foundation: If Nobody Gets Hurt Today, we will feel safe and secure and be able to perform at our best.
- **People-** When we're Safe, we can achieve our People Objective of being a Great Place to Work, with engaged employees who live our values, embrace an ownership culture and are motivated to drive results for our company and our customers.
- **Process and Tools-** Engaged employees take us to our Process and Tools Objective where results start with achieving Operational Excellence, with continuous improvement of our internal processes and tools so that we can increase efficiency, eliminate waste, improve reliability and enhance customer service.
- **Customer-** We now have the fundamentals to achieve our Customer Objective of delivering greater value and being our Customer's Energy Partner of Choice in a competitive marketplace.
- **Financial-** Being our customer's energy partner of choice takes us to our Financial Objective of increasing our Financial Strength, allowing us to sustain further improvement.

## 2015 Annual Incentive Plan Results

Achievement of the corporate goals for 2015 was at 98.9% of target for EBITDA, and below target for SQI and safety achievement. PSE EBITDA was \$1,222.2 million, and SQI and safety achievement was 8 out of 10, leading to a funding level for 2015 of 75.6% under the annual incentive plan.

For 2015, individual target incentive levels for the annual incentive plan varied by executive officer as a percentage of 2015 base salary as shown in the table below, based on the executive's level of responsibility within the Company. Target annual incentive opportunities as a percentage of base salary for participating executives remained unchanged from 2014 levels. The maximum incentive payable for exceptional performance in this plan is twice the target incentive. An executive's individual award amount can be increased or decreased based on an 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 determined to be met or exceeded by each executive, small adjustments were made by the CEO for individual performance of the Named Executive Officers below CEO in 2015. The Committee similarly recommended an award amount for the CEO which included a small adjustment for individual performance in 2015 and to recognize that the Company nearly met 2015 annual incentive goals at target. The adjustments for individual performance did not materially change the amounts resulting from 2015 achievement of the corporate goals. The Board approved the incentive amounts shown below, which will be paid in March 2016.

Name	Target Incentive (% of Base Salary)	2015 Actual Incentive Paid	2015 Actual Incentive (% of Base Salary)
Kimberly J. Harris	100%	\$ 714,420	79%
Daniel A. Doyle	45%	152,019	31%
Marla D. Mellies	45%	112,177	37%
Philip K. Bussey	45%	101,238	34%
Steve R. Secrist	45%	123,466	34%

### Long-Term Incentive Compensation

Long-term incentive compensation opportunities are designed to be competitive with market practices, reward long-term performance and promote retention. Long-term incentive plan (LTI Plan) awards are denominated in units and are settled in cash if threshold performance measures are met. Performance measures are based on two financial goals, total return (Total Return) and ROE, each measured over a three-year performance cycle. Total return reflects the change in the value of the Company during the performance cycle plus any distributions made to investors. Achievement of each performance measure during the performance cycle is evaluated independently of the other.

The Committee recommends for Board approval a targeted LTI grant value for each executive, which is expressed as a percentage of base salary. The target LTI grant value is then converted into a target number of units, allocated equally among the two financial goals, based on the unit value on the grant date. The initial per-unit value is measured at the Puget Holdings level and is calculated annually by an independent auditing firm. The number of units ultimately earned may range from 0% to 200% of target depending on performance, with the payout being made in cash based on the number of units earned and the per-unit value at the end of the performance period. Executives generally must be employed on the payment date to receive a cash payment under the LTI Plan, except in the event of retirement, disability or death.

The Committee recommends for Board approval the number of LTI Plan units granted to each executive by evaluating long-term incentive grant values provided to similarly situated executives at comparable companies (using the previously discussed survey and peer group data) as well as other relevant executive-specific factors. The Committee generally does not consider previously granted awards or the level of accrued value from prior or other programs when making new LTI Plan grants.

Half of the target units are earned based on Total Return and the other half are earned based on ROE, each over a 3-year performance period. These metrics and weightings have remained unchanged since the 2012 - 2014 grant cycle.

### 2015-2017 Long-Term Incentive Plan Target Awards and Performance Goals

Consistent with prior years, target LTI Plan awards for the 2015-2017 performance cycle were calculated based on a percentage of an executive's annual base salary, taking into account the executive's level of responsibility within the Company. Target LTI Plan award amounts for the 2015-2017 performance cycle were 200% of base salary for Ms. Harris and 95% for Mr. Doyle, Mr. Secrist, Ms. Mellies and Mr. Bussey, which percentages were unchanged from amounts established for the 2014-2016 performance cycle, except for Ms. Harris. The Board approved an increase in Ms. Harris' target award from 170% to

200% to provide a target level of award that was market competitive. The total number of target LTI Plan units granted to a Named Executive Officer for the 2015-2017 performance cycle is equal to the applicable percentage of salary (converted to dollars) divided by the per unit value at the beginning of the performance cycle, which was \$44.53. Details of the number of units granted and expected values at target, threshold and maximum performance levels can be found in the “2015 Grants of Plan-Based Awards” table below. Effective with the 2015-2017 LTI Plan grants, the Board approved a change in the calculation of performance results. Under this change, actual performance is measured as a percentage of target performance and plan funding is based on the modified payout scales shown below. Target Total Return will be set annually by the Board prior to the grant date, and was set at 9.8% for the 2015-2017 performance cycle. Target ROE remains based on the ROE target in the Board’s approved budget for each year. Prior outstanding LTIP grants continue to have the performance targets and payout scales in effect at the time of grant. The table below shows the percentage of LTI Plan target awards under the Total Return component that could be earned based on three-year performance during the 2015-2017 performance cycle. Payout percentages will be linearly interpolated if performance falls between the values shown below.

Annualized Three-Year Total Return Compared to Target	Plan Funding for Total Return (% of Target Units)
117.5% of Target or More	200%
115% of Target	185.5
110% of Target	157.0
105% of Target	128.5
100% of Total Return Target	100
95% of Target	89.6
90% of Target	79.2
88% of Target	75.0
85% of Target	62.3
80% of Target	41.2
75% of Target	20
<75% of Target	—

The table below shows the percentage of LTI Plan target awards under the ROE component that could be earned based on average performance during the three-year performance period. Payout percentages will be interpolated if performance falls between the values shown below.

ROE Compared to Target	Plan Funding
117.5% of Target or More	200%
115% of Target	185.5
110% of Target	157.0
105% of Target	128.5
Target ROE	100
95% of Target	84
90% of Target	68
85% of Target	52
80% of Target	36
75% of Target	20
<75% of Target	—

*Performance Scales for 2013-2015 and 2014-2016 LTI Plan grants*



The table below shows the percentage of LTI Plan target awards under the Total Return component that could be earned based on three-year performance during the 2013-2015 performance cycle. Payout percentages will be linearly interpolated if performance falls between the values shown below.

Annualized Three-Year Total Return	Plan Funding for Total Return (% of Target Units)
15% or more	200%
14%	180
13%	160
12%	140
11%	120
10%	100
9%	80
8%	60
7%	40
6%	20
<6%	—

The table below shows the percentage of LTI Plan target awards under the ROE component that could be earned based on average performance during the three-year 2013-2015 performance period. Payout percentages will be interpolated if performance falls between the values shown below.

ROE Compared to Target	Plan Funding for ROE (% of Target Units)
Target + 250 bps	200%
Target + 200 bps	180
Target + 150 bps	160
Target + 100 bps	140
Target + 50 bps	120
Target ROE	100
Target - 50 bps	80
Target - 100 bps	60
Target - 150 bps	40
Target - 200 bps	20
<Target - 200 bps	—

#### Long-Term Incentive Plan Performance 2013-2015 Performance Cycle

The 2013-2015 performance cycle has now ended. Amounts payable as a result of award vesting are shown in the table below.

- Performance on the Total Return component for the three-year performance cycle was a compounded annual rate of 8.32%, below the target but above the threshold needed for payment. The Total Return Component funded at 66.3% of target units.
- Performance on the ROE component of the grant was an average of target minus 10.7 basis points for funding at 95.73% of target units.

Name	Target Incentive (% of Base Salary) <sup>1</sup>	Total Return Component Units Granted/Paid	ROE Component Units Granted/Paid	2013-2015 Actual LTIP Paid <sup>2</sup>
Kimberly J. Harris	170%	19,670/13,041.5	19,670/18,830.6 \$	1,531,455
Daniel A. Doyle	95%	5,879.5/3,898.1	5,879.5/5,628.4	457,751
Steve R. Secrist	50%	2,240.0/1,485.1	2,240.0/2,149.4	174,396
Marla D. Mellies	95%	3,532.5/2,342.0	3,532.5/3,381.7	275,024
Philip K. Bussey	95%	3,558.5/2,359.3	3,558.5/3,406.6	277,049
Steve R. Secrist	50%	2,240.0/1,485.1	2,240.0/2,144.4	174,396

<sup>1</sup> Target LTI Plan incentive is a percentage of 2013 base salary when the grants were made in 2013.

<sup>2</sup> 2013-2015 actual LTI Plan amount payable is equal to the unit price \$48.05 multiplied by earned Total Return and ROE component units.

### Long-Term Incentive Plan Performance for Outstanding Cycles

The table below summarizes the status of the two other outstanding performance cycles from the initial grant date to December 31, 2015, with the projected payout assuming this same performance for the full three-year cycle under the applicable payout scales for Total Return and ROE:

Performance Cycle	Cycle Progress	Total Return Performance	Payout (% of Target)	ROE Performance	Payout (% of Target)	Total Projected Payout (based on performance as of 12/31/2015)
2014 - 2016	67% Complete	7.9%	58%	+17.3 bps	107%	82.7%
2015 - 2017	33% Complete	7.9%	44%	97%	91%	67.2%

### Retirement Plans - SERP and Retirement Plan

The Company maintains the SERP to attract and retain executives by providing 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 participate in the SERP. Additional information regarding the SERP and the Retirement Plan is shown in the “2015 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 eligible executives an opportunity to defer up to 100% of base salary, annual incentive bonuses and earned 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. 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. Additional information regarding the Deferred Compensation Plan is shown in the “2015 Nonqualified Deferred Compensation” table.

### Post-Termination Benefits

Effective March 30, 2009, the Company entered into Executive Employment Agreements with the Named Executive Officers, except Mr. Doyle (who was not then employed by the Company) and Mr. Secrist (who was not then an officer). The Executive Employment Agreements provide for an employment period of two years following a change in control and provide severance benefits in the event of a qualifying termination of employment within two years of a change in control. Since 2009, the Company has ceased entering into these agreements with new executive officers. Mr. Bussey was an officer of PSE at

March 30, 2009, but left PSE in May 2009 and upon his rehire in March 2012 does not have an employment agreement with the Company.

The Committee periodically reviews existing change in control and severance arrangements for the peer group companies. Based on this information, the Committee believes that the current arrangements generally provide benefits that are similar to those of the comparator group for longer tenured executives, but is not extending them to newly hired executives.

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, 2015.

### **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 limited perquisites. The Company may provide payments upon hiring a new executive to help offset the executive’s relocation expenses, a practice needed to attract qualified candidates from other areas of the country. The current 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 and business club memberships 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 personal use of club facilities. These perquisites generally do not make up a significant portion of executive compensation and did not exceed \$10,000 in total for each Named Executive Officer in 2015. Executives are taxed on the value of the perquisites received, with no corresponding gross-up by the Company.

### **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 opportunities for both annual and long-term incentives, because each plan operates with a target 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 significant 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.

### **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 the achievement of Company goals. The Company’s variable pay program helps focus executives on interests important to the Company and its investors and customers 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, the Committee and/or the Board. As a result, the Committee and the Board believe that the programs’ design do not have risks that are reasonably likely

to have a material adverse effect on the Company and also provide appropriate incentive opportunities for executives to achieve Company goals that support the interests of our investors and customers.