

**EXH. TMH-4**  
**DOCKETS UE-19 \_\_\_/UG-19 \_\_\_**  
**2019 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-19 \_\_\_**  
**Docket UG-19 \_\_\_**

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

**THOMAS M. HUNT**

**ON BEHALF OF PUGET SOUND ENERGY**

**JUNE 20, 2019**

## Excerpt from PSE Form 10K Filing

### 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 2018, 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 2018, 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);
- Steve R. Secrist, Senior Vice President, General Counsel, Chief Ethics and Compliance Officer;
- Marla D. Mellies, Senior Vice President, Chief Administrative Officer; and
- Booga K. Gilbertson, Senior Vice President, Operations

137

---

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

#### 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, Meridian Compensation Partners, LLC (Meridian). The Committee recommends to the full Board for approval both the salary level for our CEO, based on information provided by Meridian, 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, based on the compensation philosophy and taking into consideration information provided by Meridian.

In 2018, the Company 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 Company believes that total pay opportunity should be competitive with companies of similar size, industry and scope of operations. As described below in the discussion of Compensation Program Elements (Review of Pay Element Competitiveness), the Committee, with the support of its independent consultant, annually compares executive compensation levels to external market data from similar companies in our industry and targets each element of target total direct compensation (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 Company also recognizes the importance of providing retirement income. As such, the Committee reviews our retirement programs and provides benefits that are competitive with our peers.
- **Place a significant portion of each executive's target incentive compensation at risk to align executive compensation with Company financial and operating performance.** Under its "pay for performance" philosophy, the Company maintains an incentive compensation program that supports the Company's business strategy 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 earned based on achievement relative to annual and long-term performance goals. For the President and CEO in 2018, target cash compensation includes base salary, annual incentive with a target of 100% of base salary, and long-term incentive plan with a target of 265% of base salary. If both incentive plans are paid at target, the President and CEO's mix of cash compensation would be 22% base salary and 78% at risk. By establishing goals, monitoring results, and rewarding achievement of goals, the Company seeks to focus executives on actions that will improve the Company and enhance investor value, while also retaining key talent. The Committee annually evaluates and establishes the performance goals and targets for our annual and long-term incentive programs and considers adjustments to the programs 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 program 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 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 executive 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 under certain legacy arrangements. Since the Company is not publicly listed and does not grant equity awards to its executives,

it relies on a mix of fixed and variable cash-based compensation elements to achieve its compensation objectives, including a performance unit plan, the Long Term Incentive Plan, which helps align named executives with investors.

The target total compensation package is designed to provide participants with appropriate incentives that are competitive with the comparator group described below and motivate 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 2018 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.

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. If Company performance 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 other factors such as, the executive's recent performance, experience level, company performance, retention and internal pay equity. 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 differ from those typically found in the market.

### Review of Pay Element Competitiveness

The Company uses market data to inform its pay decisions on base salary, target annual incentives and target long-term incentive awards. Market data is obtained from both industry-specific surveys and proxy statements of public 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 Willis Towers Watson 2017 Energy Services Survey, comprised of utility and other companies similar in size and scope of operations to PSE. The 25 companies in the custom market survey cut used to inform target compensation decisions for 2018 are shown below:

#### Custom Survey Peer Group

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

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 16 companies, all but one of which overlapped with companies included in the market survey data. The 2017 median revenue of the executive

compensation peers was \$3.4 billion, which was comparable to PSE’s annual revenues of \$3.3 billion at the time the peer group was developed. The peer companies included in the Company’s executive compensation benchmarking peer group to inform 2018 compensation decisions are the same as those used for 2017 and are shown below:

**Proxy Peer Group**

1. Alliant Energy	7. Great Plains Energy	13. SCANA
2. Ameren	8. MDU Resources Group	14. Vectren
3. Avista	9. NiSource	15. WEC Energy
4. Black Hills	10. OGE Energy	16. Westar Energy
5. CMS Energy	11. Pinnacle West Capital	
6. Eversource Energy	12. Portland General Electric	

**Base Salary**

We recognize that it is necessary to provide executives with a fixed amount of regularly paid compensation that 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 considerations specific to an individual such as an executive’s expertise, level of performance achievement, experience in role and contribution relative to others in the organization.

**Base Salary Adjustments for 2018**

The Committee reviewed the base salaries of the Named Executive Officers in early 2018 and recommended base salary adjustments to the Board. The Board approved the Committee’s salary recommendations as shown in the table below. The adjustments were effective March 1, 2018. Base salaries for 2018 generally remained at the 50th percentile of market among the comparator group. The annual salary for Ms. Harris was increased for the first time since 2016 and reflects market median. The salary increase percentage approved by the Board for Mr. Doyle was similar to salary increases for other non-represented employees, and Mr. Secrist, Ms. Mellies and Ms. Gilbertson received additional adjustments to better align with the market levels.

Name	2017 Base Salary	2018 Base Salary	% Change
Kimberly J. Harris	\$900,000	\$950,000	6%
Daniel A. Doyle	511,396	521,000	2
Steve R. Secrist	403,861	445,000	10
Marla D. Mellies	318,019	360,000	13
Booga K. Gilbertson	292,006	340,000	16

**2018 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, a reliability measure (non-storm outage duration or “SAIDI”) 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 2018, the Company's service quality commitment was measured by performance against eight 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. 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 2018 were the same as those in 2017 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 (3 SQIs)** - Gas emergency response, electric emergency response and non-storm outage frequency.

In 2018, the Company began measuring one of the customer reliability measures (non-storm outage duration, or "SAIDI") according to a scale based on improvement compared to a five year average, with the measure for 2018 being 164 minutes.

The Company retained the safety performance measure in the annual incentive plan funding to promote its continued commitment to employee safety. The safety performance measure contains three targets which must all be satisfied for the safety measure to be treated as met. The three targets for 2018 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 Away from Work, days of **R**estricted Work, or Job **T**ransfer) not to exceed a rate of 0.49
- All employees complete an online driving training. The target completion rate is no less than 95%.

140

---

Annual incentive funding is decreased if a SQI is not achieved. The employee safety measure and SAIDI function similarly to the eight SQIs in determining the funding of the annual incentive plan. That is, if the safety measure or SAIDI is not achieved, annual incentive funding will be decreased by 10%, in the same way as a missed SQI.

In 2018, 100% funding for the annual incentive plan required (i) achievement of 10 out of 10 customer service and safety measures (all eight SQIs, SAIDI and achievement of the safety measure) and (ii) target EBITDA performance. All customer service and safety measures were met for 2018, but EBITDA finished at 99% of target, so funding was less than 100%.

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.

### **2018 Corporate Goals**

In 2018, 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 2018 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 ISP 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.

### 2018 Annual Incentive Plan Results

For 2018, achievement of the corporate goals under the annual incentive plan was at 99% of target for EBITDA, and fully met for SQI, safety, and SAIDI achievement. PSE EBITDA was, \$1,290.1 million, and SQI, SAIDI and safety achievement was 10 out of 10, leading to a funding level for 2018 of 95.2% for the annual incentive plan.

Funding levels for 2018 at maximum, target, and threshold are shown in the table below:

Annual Incentive Performance Payout Scale and Actual Performance

Performance	2018 EBITDA (In Millions)	SQI, SAIDI& Safety*	Funding Level
Maximum	\$ 1,758.6	10/10	200%
Target	1,302.7	10/10	100
Threshold	1,172.4	6/10	30
2018 Actual Performance	\$ 1,290.10	10/10	95.2%

- *Combined SQI, SAIDI& Safety results of 6/10 or better and minimum EBITDA of \$1,172.4 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 made no adjustments.

For 2018, individual target incentive levels for the annual incentive plan varied by executive officer as a percentage of 2018 base salary as shown in the table below, based on the executive's level of responsibility within the Company and informed by market data. Target annual incentive opportunities as a percentage of base salary for the Named Executive Officers were increased from 2017 levels, to better align with market levels of target annual incentive. No bonus is earned unless threshold goals are

achieved. The achievement of threshold performance results in a 30% of target bonus payout. 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, adjustments were made by the CEO for individual performance of certain Named Executive Officers below CEO in 2018. In recognition of the achievement of individual goals and the Company's financial performance, the Committee similarly recommended an award adjustment for the CEO in 2018. The adjustments for individual performance are noted in the "Bonus" column on the Summary Compensation table and did not materially change the amounts resulting from 2018 achievement of the corporate goals. The Board approved the incentive amounts shown below, which will be paid in March 2019:

Name	Target Incentive (% of Base Salary)	2018 Actual Incentive Paid	2018 Actual Incentive (% of Base Salary)
Kimberly J. Harris	100%	\$ 949,620	100%
Daniel A. Doyle	65	322,395	62
Steve R. Secrist	65	275,366	62
Marla D. Mellies	65	256,183	71
Booga K. Gilbertson	65	220,912	65

### Long-Term Incentive Compensation

Long-term incentive compensation opportunities are designed to align the interests of executives with those of our investors, provide competitive pay opportunities, 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, each weighted equally and measured over a three-year performance cycle:

- Total return (Total Return) and
- ROE

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 recommended and targeted LTI grant value is determined 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 Company generally does not consider previously granted awards or the level of accrued value from prior or other programs when making new LTI Plan grants.

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, or based on market transactions. 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 foregoing metrics and weightings have remained unchanged since the 2012 - 2014 grant cycle.



## 2018-2020 Long-Term Incentive Plan Target Awards

Consistent with prior years, target LTI Plan awards for the 2018-2020 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 and the corresponding market data. Target LTI Plan award amounts for the 2018-2020 performance cycle are shown in the following table.

Name	Target Long Term Incentive (% of Base Salary)
Kimberly J. Harris	265%
Daniel A. Doyle	95
Steve R. Secrist	95
Marla D. Mellies	95
Booga K. Gilbertson	95

These percentages were unchanged from amounts established for the 2017-2019 performance cycle. The total number of target LTI Plan units granted to a Named Executive Officer for the 2018-2020 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 \$60.59. Details of the number of units granted and expected values at target, threshold and maximum performance levels can be found in the “2018 Grants of Plan-Based Awards” table below. Prior outstanding LTIP grants continue to have the performance targets and payout scales in effect at the time of grant.

## Long-Term Incentive Plan Performance 2016-2018 Performance Cycle Results and Payouts

The 2016-2018 performance cycle has now ended. Amounts payable as a result of award vesting are shown in the following table:

- Performance on Total Return in 2018 was 35.1%, which was significantly higher than target, reflecting an increase in valuation due to market transactions during 2018.
- Performance on the Total Return component for the three-year performance cycle was a compounded annual rate of 23.9%, above target and at the maximum of the funding scale. The Total Return Component funded at 200% of target units.
- Performance on the ROE component of the grant was an average of 106.5% of target. The ROE component funded at 137.3% of target units.

Name	Target Incentive (% of Base Salary) <sup>1</sup>	Total Return Component Units Granted/Paid	ROE Component Units Granted/Paid	2016-2018 Actual LTIP Paid <sup>2</sup>
Kimberly J. Harris	200%	20,603.5/41,207	20,603.5/28,288.6	\$ 5,688,911
Daniel A. Doyle	95%	5,055.5/10,111	5,055.5/6,941.2	1,395,893
Steve R. Secrist	95%	3,839/7,678	3,839/5,270.9	1,060,001
Marla D. Mellies	95%	3,052/6,104	3,052/4,190.4	842,700
Booga K. Gilbertson	95%	2,802.5/5,605	2,802.5/3,847.8	773,809

<sup>1</sup> Target LTI Plan incentive is a percentage of 2016 base salary when the grants were made in 2016.

<sup>2</sup> 2016-2018 actual LTI Plan amount payable is equal to the unit price \$81.86 multiplied by earned Total Return and ROE component units.

**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 “2018 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 “2018 Nonqualified Deferred Compensation” table.

**Post-Termination Benefits**

Effective March 30, 2009, the Company entered into Executive Employment Agreements with the Named Executive Officers at the time, including Ms. Harris and Ms. Mellies. 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 and only the agreements for Ms. Harris and Ms. Mellies remain in effect.

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, 2018.

**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 and legal services 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. 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 2018. 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 Tax and 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. As a result of changes in federal tax law effective in 2018, the Company is now subject to IRS section 162(m). Section 162(m) limits the tax deductibility of compensation paid to certain executive officers, including the Named Executive Officers, to \$1 million per year. Notwithstanding the new tax law, the Company does not expect to make changes in its executive compensation program designs.

### **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.

### **Compensation and Leadership Development Committee Report**

The Board delegates responsibility to the Compensation and Leadership Development Committee to establish and oversee the Company's executive compensation program. Each member of the Committee served during all of 2018, except as noted below.

The Committee members listed below have reviewed and discussed the "Compensation Discussion and Analysis" with the Company's management. Based on this review and discussion, the Committee recommended to the Board, and the Board has approved, that the "Compensation Discussion and Analysis" be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2018 for filing with the SEC.

Compensation and Leadership  
Development Committee of  
Puget Energy, Inc.  
Puget Sound Energy, Inc.

Christopher Leslie, Chair  
Scott Armstrong  
Barbara Gordon  
Mary McWilliams  
Christopher Trumpy