

EXHIBIT NO. \_\_\_(MNC-3)  
DOCKET NO. UG-040640, *et al.* (consolidated)  
2004 PSE GENERAL RATE CASE  
WITNESS: MICHELLE N. CLEMENTS

BEFORE THE  
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION,

Complainant,

v.

PUGET SOUND ENERGY, INC.,

Respondent.

Docket No. UG-040640  
Docket No. UE-040641  
(consolidated)

In the Matter of the Petition of

PUGET SOUND ENERGY, INC.

For an Order Regarding the Accounting  
Treatment for Certain Costs of the Company's  
Power Cost Only Rate Filing.

Docket No. UE-031471 (consolidated)

In the Matter of the Petition of

PUGET SOUND ENERGY, INC.

For an Accounting Order Authorizing  
Deferral and Recovery of the Investment  
And Costs Related to the White River  
Hydroelectric Project.

Docket No. UE-032043 (consolidated)

SECOND EXHIBIT TO THE  
PREFILED REBUTTAL TESTIMONY OF  
MICHELLE N. CLEMENTS (NONCONFIDENTIAL)  
ON BEHALF OF PUGET SOUND ENERGY, INC.

NOVEMBER 3, 2004

2004

# Goals & Incentive Plan

*Puget Sound Energy: The Energy To Do Great Things*

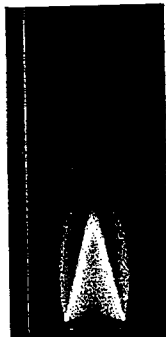
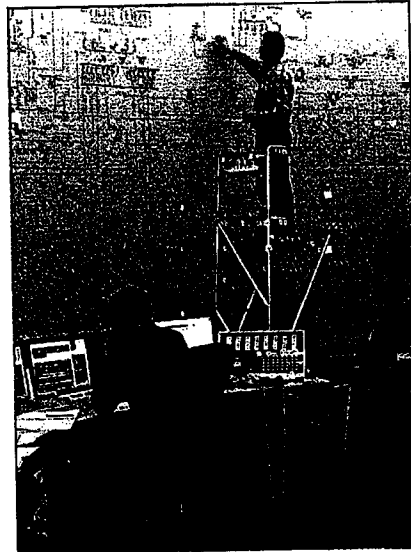
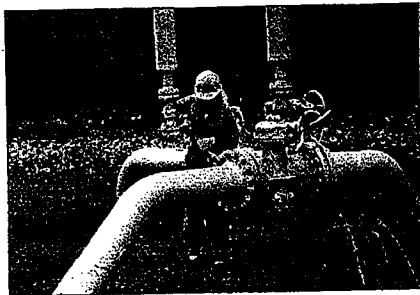
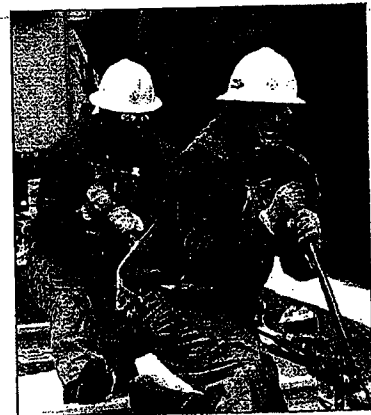


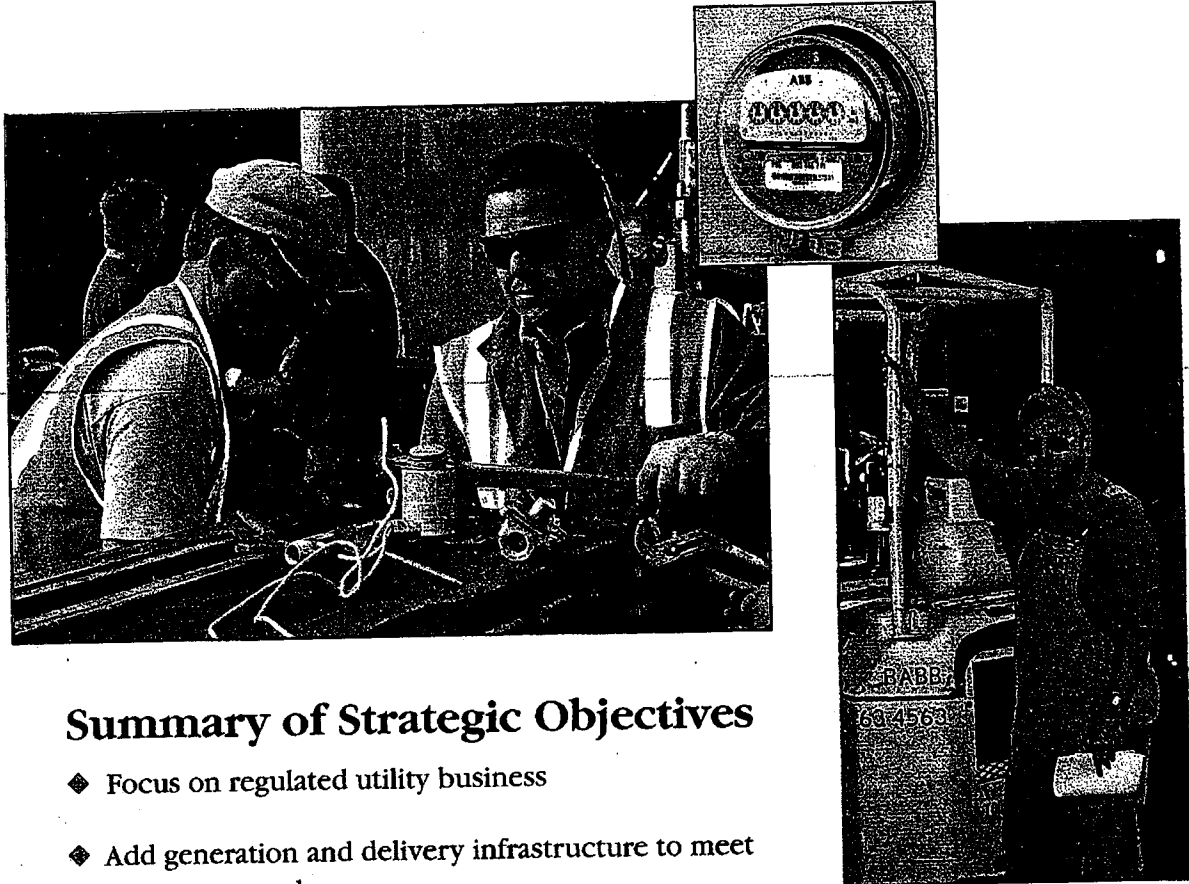
Exhibit No. \_\_\_\_ (MNC-3)  
Page 1 of 23

*The energy to do great things*

**PSE** PUGET SOUND ENERGY

# 2004 Goals & Incentive Plan

*Puget Sound Energy: The Energy To Do Great Things*

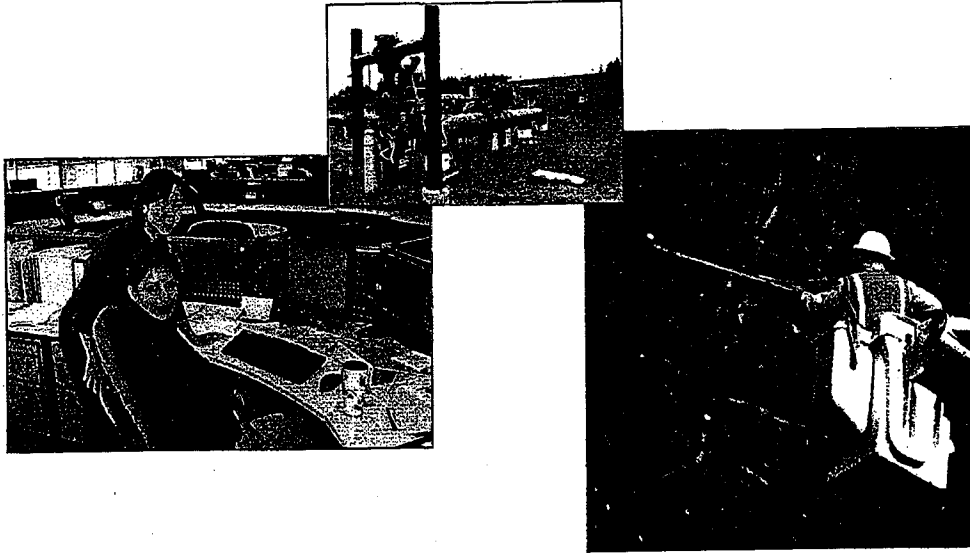


## Summary of Strategic Objectives

- ◆ Focus on regulated utility business
- ◆ Add generation and delivery infrastructure to meet customer need
- ◆ Rebuild financial strength to fund energy infrastructure, manage energy portfolio
- ◆ Attract equity by providing attractive return to Puget Energy investors
- ◆ Manage PSE to achieve earnings growth

Exhibit No. \_\_\_(MNC-3)  
Page 2 of 23

*The energy to do great things*



PSE's strategic objectives are to be a regulated gas and electric utility business with resources to meet our customer's long-term energy needs. Our 2004 Goals & Incentive Plan reflects these strategies along with our continuing goals of providing a safe and reliable energy infrastructure, cost efficient operations and superior levels of employee, customer and constituent satisfaction.

A total of eight corporate goals have been established for 2004; six "incented" goals and two "non-incented" goals.

Again in 2004, there will be fewer goals than in the past which will help us better communicate what we need to do to be successful. While there are fewer goals, your earning opportunity remains the same. Your individual daily activities combined with collaboration and teamwork across all departments will result in these goals achieving their highest levels.

It is important for all of us to remember that to receive incentive pay, PSE as a company must be performing well. This has always been the case, but in 2004, we are strengthening the relationship. If the EPS goal does not reach \$1.50 per share, including incentive accrual, there will be no payouts for any goal.

As always, it is only through the combined efforts of our outstanding workforce that PSE can accomplish its highest objectives!

- 1 PSE Earnings Per Share (EPS)**  
Manage the company to achieve 2004 PSE earnings per share at levels described.  
*Goal Team Leads: Reynolds/Valdman*
- Service Quality Indices (SQIs)**  
The following SQIs will be used to modify EPS:
- |                              |                           |                                 |
|------------------------------|---------------------------|---------------------------------|
| <b>Customer Satisfaction</b> | <b>Customer Service</b>   | <b>Safety &amp; Reliability</b> |
| ◆ Customer Access Center     | ◆ Calls answered "live"   | ◆ Gas emergency response        |
| ◆ Gas field services         | ◆ On-time appointments    | ◆ Electric emergency response   |
| ◆ WUTC complaints            | ◆ Disconnects for non-pay | ◆ Non-storm outage frequency    |
|                              |                           | ◆ Non-storm outage duration     |
- SQI Leads: McLain/Henry/Brady*
- 2 Operating Costs**  
Manage the company's O&M budget and energy costs to achieve financial results.
- A. Corporate O&M**  
*Goal Team Lead: D. Gaines*
- Modifier: Organization Level O&M**  
Operations  
Energy Efficiency & Customer Services (Excludes Low Income)  
Regional Services & Community Affairs  
Energy Resources/Energy Portfolio Management  
CFO/Controller/Treasury/HR  
Regulatory & Governmental Affairs/Legal
- B. Electric Energy Cost Per MWH**  
Manage electric portfolio to reduce cost per MWH  
*Goal Team Lead: Ryan*
- C. Gas Cost per MMBtu**  
Manage gas supply to reduce cost of gas per MMBtu  
*Goal Team Lead: Ryan*
- 3 Safety**  
Promote Company safety performance by encouraging safe work practices and behavior, thus reducing injury and lost time rates.  
*Goal Team Lead: McLain*
- 4 Customer and Constituent Satisfaction**  
Achieve the overall average scores on surveys of Major Account Customers and Key Constituents at or above 2003 levels. Improve percentage of highly satisfied customers.  
*Goal Team Leads: Bussey/Henry*
- 5 Acquire Appropriate Electric Supply Resources to Serve Load**  
**A.** Acquire by supply contract, asset acquisition and/or construction, wind resources consistent with the Least Cost Planning process.  
**B.** Acquire by supply contract, asset acquisition and/or construction, baseload electric supply resources consistent with the Least Cost Planning process.  
*Goal Team Leads: Markell/Wiegand/Harris*
- 6 Energy Efficiency & Green Power**  
Achieve energy efficiency targets in support of resource acquisition strategy. Increase participation and market acceptance of the Green Power Program.  
*Goal Team Lead: Henry*

- 7 Building a Great Place To Work**  
The 2003 measures were tied to survey result improvements. In 2004, the measures will be focused on progress towards initiatives that will make PSE a Great Place To Work.  
*Goal Team Lead: Clements*
- 8 Regulatory Initiatives Support**  
Ensure employees have a clear understanding of regulatory initiatives and provide timely and effective support.  
*Goal Team Leads: All Officers*

# 2004 Goals & Incentive Plan Measurements

## INCENTED GOALS

### Goal 1 - PSE Earnings Per Share (EPS) - Financial Goal

Incented Goals Goal Title	Goal Baseline	Threshold	Target	Outstanding
<p>Manage the Company to achieve 2004 PSE earnings per share at levels described.</p> <p><b>Modifier</b> <b>Service Quality Indices (SQIs)</b> The following SQIs will be used to modify EPS:</p> <p><b>Customer Satisfaction</b></p> <ul style="list-style-type: none"> <li>Customer Access Center</li> <li>Gas field services</li> <li>WUTC complaints</li> </ul> <p><b>Customer Service</b></p> <ul style="list-style-type: none"> <li>Calls answered "live"</li> <li>On-time appointments</li> <li>Disconnects for non-pay</li> </ul> <p><b>Safety &amp; Reliability</b></p> <ul style="list-style-type: none"> <li>Gas emergency response</li> <li>Electric emergency response</li> <li>Non-storm outage frequency</li> <li>Non-storm outage duration</li> </ul>	<p>2004 Planned EPS of \$1.55</p> <p>90% satisfied (rating of 5 or higher on a 7-point scale) 90% satisfied (rating of 5 or higher on a 7-point scale) 0.50 complaints per 1000 customers</p> <p>75% of calls answered by a live representative within 30 seconds 92% of appointments kept 0.030 disconnections per customer for non-payment of amounts due when WUTC disconnection policy would permit service curtailment</p> <p>Average of 55 minutes from customer call to arrival of field technician Average of 55 minutes from customer call to arrival of field technician 1.30 interruptions per customer per year 136 minutes per customer per year</p>	<p>EPS of \$1.55</p> <p>Trigger: PSE EPS must be at least \$1.50, including incentive accrual, for payout on any goal.</p> <p>No payout for SQIs: used to modify EPS goal. 10% reduction in EPS payout for each SQI we don't achieve.</p>	<p>EPS of \$1.60</p> <p>Trigger: PSE EPS must be at least \$1.50, including incentive accrual, for payout on any goal.</p> <p>No payout for SQIs: used to modify EPS goal. 10% reduction in EPS payout for each SQI we don't achieve.</p>	<p>EPS above \$1.60 will increase the participant's EPS target incentive 10% for every \$0.01 of earnings above \$1.60. EPS of \$1.70 achieves the maximum payout.</p> <p>Trigger: PSE EPS must be at least \$1.50, including incentive accrual, for payout on any goal.</p> <p>No payout for SQIs: used to modify EPS goal. 10% reduction in EPS payout for each SQI we don't achieve.</p>

### Goal 2 - Operating Costs - Financial Goal

Incented Goals Goal Title	Goal Baseline	Threshold	Target	Outstanding
<p>Manage the Company's O&amp;M budget and energy costs to achieve financial results.</p> <p><b>2A. Corporate O&amp;M</b> Corporate O&amp;M must be at or below budget to receive any goal payout, regardless of the Organizational Level modifier as described below.</p> <p><b>Modifier: Organization Level O&amp;M</b> If Corporate O&amp;M is at or below budget, Organizational Level actuals must be at or below budget to achieve 100% of the Corporate O&amp;M goal payout. If Organizational Level actuals are over budget, payouts for Corporate O&amp;M will be adjusted to 75%.</p> <ul style="list-style-type: none"> <li>Operations</li> <li>Energy Efficiency &amp; Customer Services (Excludes Low Income)</li> <li>Regional Services &amp; Community Affairs</li> <li>Energy Resources/ Energy Portfolio Management</li> <li>CFO/Controller/Treasury/HR</li> <li>Regulatory &amp; Governmental Affairs/Legal</li> </ul>	<p>\$290.5M less Low Income Expense</p> <p>\$94.0M \$66.1M \$38.3M \$60.6M \$24.3M \$9.5M</p>	<p>Within 2004 budget</p> <p>Within 2004 budget or better results in a 100% modifier for goal 2A</p> <p>Modifier for goal 2A payout: 100% Modifier for goal 2A payout: 100% Modifier for goal 2A payout: 100% Modifier for goal 2A payout: 100% Modifier for goal 2A payout: 100% Modifier for goal 2A payout: 100% <i>(Note: Incremental O&amp;M that generates additional margin may be considered when measuring Organizational Level results.)</i></p>	<p>1% below 2004 budget</p> <p>N/A</p> <p>N/A</p> <p>N/A</p> <p>N/A</p> <p>N/A</p> <p>N/A</p>	<p>2% below 2004 budget</p> <p>N/A</p> <p>N/A</p> <p>N/A</p> <p>N/A</p> <p>N/A</p>

# 2004 Goals & Incentive Plan Measurements

## Goal 2 – Operating Costs – Financial Goal (continued)

Incented Goals Goal Title	Goal Baseline	Threshold	Target	Outstanding
<b>2B. Electric Energy Cost Per MWH</b> Manage electric portfolio to reduce cost per MWH.	2004 Forecast	\$35.506 per MWH	\$35.381 per MWH	\$35.256 per MWH
<b>2C. Gas Cost per MMBtu</b> Manage gas supply to reduce cost of gas per MMBtu.	2004 Forecast	\$5.460 per MMBtu	\$5.423 per MMBtu	\$5.386 per MMBtu

## Goal 3 – Safety

Incented Goals Goal Title	Goal Baseline	Threshold	Target	Outstanding
Promote Company safety performance by encouraging safe work practices and behavior, thus reducing injury and lost time rates.  The PSE safety program is built upon a culture of planning, focus, and continuous improvement. The intent of the safety program is to ensure each employee a safe and healthy work environment. Measurement is achieved through complete, accurate and timely reporting of workplace accidents, injuries and unsafe conditions.  (In the unfortunate event that a fatality does occur, the goal will remain in effect; however, the payout will be capped at Target.)	2003: 4.17 Recordable Injury Rate (RIR) per 100 employees  2.34 Lost Workday Case Rate (LWCR) per 100 employees  2.57 Workers' Compensation Claims Rate (WCCR) per 100 employees	1) OSHA Recordable Injury Rate at 4.07 recordables per 100 employees or lower (2.5% improvement over 2003), and 2) OSHA Lost-Workday Case Rate at 2.22 cases per 100 employees or lower (5% improvement over 2003), and 3) Workers' Compensation Claims Rate for back and shoulder body parts at 2.44 claims per 100 employees or lower (5% improvement over 2003).	1) OSHA Recordable Injury Rate at 3.96 recordables per 100 employees or lower (5% improvement over 2003), and 2) OSHA Lost-Workday Case Rate at 2.11 cases per 100 employees or lower (10% improvement over 2003), and 3) Workers' Compensation Claims Rate for back and shoulder body parts at 2.44 claims per 100 employees or lower (5% improvement over 2003).	1) OSHA Recordable Injury Rate at 3.75 recordables per 100 employees or lower (10% improvement over 2003), and 2) OSHA Lost-Workday Case Rate at 1.87 cases per 100 employees or lower (20% improvement over 2003), and 3) Workers' Compensation Claims Rate for back and shoulder body parts at 2.44 claims per 100 employees or lower (5% improvement over 2003).

## Goal 4 – Customer and Constituent Satisfaction

Incented Goals Goal Title	Goal Baseline	Threshold	Target	Outstanding
Achieve the overall average scores on surveys of Major Account Customers and Key Constituents at or above 2003 levels. Improve percentage of Highly Satisfied Customers, based on customers who had contact with the Company within the prior six months, as measured by counting only customers who respond to the satisfaction survey at the two highest response levels.	Major Account Customer Average: 8.0  Key Constituent Average: 7.5  Highly Satisfied Customers: 51.5%	Major Account Customer Average: 7.8  Key Constituent Average: 7.3  Highly Satisfied Customers: 52%  All three surveys at Threshold.	Major Account Customer Average: 8.0  Key Constituent Average: 7.5  Highly Satisfied Customers: 55%  All three surveys at Target or two at Outstanding and one at Threshold or Target.	Major Account Customer Average: 8.2  Key Constituent Average: 7.7  Highly Satisfied Customers: 58%  Two surveys at Outstanding and one at Target or Outstanding.

## Goal 5 – Acquire Appropriate Electric Supply Resources to Serve Load - Financial Goal

Incented Goals Goal Title	Goal Baseline	Threshold	Target	Outstanding
<b>5A. Acquire by supply contract, asset acquisition and/or construction, wind resources consistent with the Least Cost Planning process.</b>	N/A	<ul style="list-style-type: none"> <li>Sign Joint Participation Agreement(s) (or equal) and/or Power Purchase Agreement(s) for at least 100 MW of nameplate capacity via the Wind RFP.</li> <li>If appropriate, file for regulatory approval or acceptance by December 31.</li> </ul>	<ul style="list-style-type: none"> <li>Sign Joint Participation Agreement(s) (or equal) and/or Power Purchase Agreement(s) for at least 150 MW of nameplate capacity via the Wind RFP.</li> <li>If appropriate, file for regulatory approval or acceptance by December 31.</li> </ul>	<ul style="list-style-type: none"> <li>Sign Joint Participation Agreement(s) (or equal) and/or Power Purchase Agreement(s) for at least 300 MW of nameplate capacity via the Wind RFP.</li> <li>If appropriate, file for regulatory approval or acceptance by December 31.</li> <li>If applicable, execute material Engineering, Procurement &amp; Construction (EPC) agreements for at least one project by December 31.</li> </ul>

**Goal 5 – Acquire Appropriate Electric Supply Resources to Serve Load (continued)**

Incented Goals Goal Title	Goal Baseline	Threshold	Target	Outstanding
5B. Acquire by supply contract, asset acquisition and/or construction, baseload electric supply resources consistent with the Least Cost Planning process.	N/A	No Threshold level for Goal 5B	<ul style="list-style-type: none"> <li>Sign Purchase &amp; Sale Agreement(s) and/or PPA(s) for at least 300 MW of capacity and energy via the All Source RFP.</li> <li>If appropriate, file for regulatory approval or acceptance by December 31.</li> </ul>	<ul style="list-style-type: none"> <li>Sign Purchase &amp; Sale Agreement(s) and/or PPA(s) for at least 300 MW of capacity and energy via the All Source RFP.</li> <li>If appropriate, file for regulatory approval or acceptance by December 31.</li> <li>If applicable, execute material EPC agreements for at least one project by December 31.</li> </ul> <p>In addition to meeting the above requirements, the Outstanding level of performance requires senior management and Board approval, who may consider other related factors than those above. (Pertains to Goals 5A &amp; 5B.)</p>

**Goal 6 – Energy Efficiency and Green Power**

Incented Goals Goal Title	Goal Baseline	Threshold	Target	Outstanding
Achieve energy efficiency targets in support of resource acquisition strategy. Increase participation and market acceptance of the Green Power Program.	<ul style="list-style-type: none"> <li>Electric Energy Savings: 15 aMW (131,400 MWH)</li> <li>Gas Energy Savings: 1,800,000 Therms.</li> <li>Green Power: 27,000 MWH</li> </ul> <p>(Baseline is achievement as of year-end 2003.)</p>	<ul style="list-style-type: none"> <li>Electric Energy Savings: 16 aMW (140,160 MWH)</li> <li>Gas Energy Savings: 2,100,000 Therms.</li> <li>Green Power: 35,000 MWH</li> </ul> <p>All three Programs at Threshold.</p>	<ul style="list-style-type: none"> <li>Electric Energy Savings: 17 aMW (148,920 MWH)</li> <li>Gas Energy Savings: 2,200,000 Therms.</li> <li>Green Power: 40,000 MWH</li> </ul> <p>All three Programs at Target or two at Outstanding and one at Threshold or Target.</p>	<ul style="list-style-type: none"> <li>Elec. Energy Savings: 18.5 aMW (162,060 MWH)</li> <li>Gas Energy Savings: 2,400,000 Therms.</li> <li>Green Power: 45,000 MWH</li> </ul> <p>Two Programs at Outstanding and one at Target or Outstanding.</p>

**NON-INCENTED GOALS**

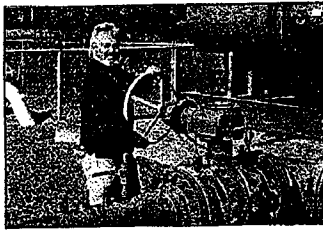
**Goal 7 – Building a Great Place To Work**

Non-Incented Goals Goal Title	Goal Baseline	Threshold	Target	Outstanding
<p><b>Building a Great Place to Work</b></p> <p>The 2003 measures were tied to survey result improvements. In 2004, the measures will focus on accomplishing initiatives in the following areas:</p> <ul style="list-style-type: none"> <li>Collaboration</li> <li>Two-way Communication</li> <li>Appreciation</li> <li>Fairness</li> </ul> <p>The next employee satisfaction survey is planned for Spring 2005, based on an 18-month cycle, similar to many Great Place To Work Institute clients.</p>	N/A	N/A Measured at Target only	<p><b>Organization</b></p> <ul style="list-style-type: none"> <li>Implement four corporate programs to improve organizational performance</li> <li>Conduct mini-surveys to evaluate programs</li> </ul> <p><b>Workgroup</b></p> <ul style="list-style-type: none"> <li>Ensure full participation by management in creating, implementing and sharing GPTW action plans for all work groups</li> </ul>	N/A Measured at Target only

**Goal 8 – Regulatory Initiatives Support**

Non-Incented Goals Goal Title	Goal Baseline	Threshold	Target	Outstanding
Ensure employees have a clear understanding of regulatory initiatives and provide timely and effective support.	N/A	Using Leadership Meeting evaluation results, measure employee understanding and awareness of regulatory initiatives during 2004.  Average score of 4 on scale of 1 to 5.  (No payout for this goal)	Using Leadership Meeting evaluation results, measure employee understanding and awareness of regulatory initiatives during 2004.  Average score of 4.25 on scale of 1 to 5.  (No payout for this goal)	Using Leadership Meeting evaluation results, measure employee understanding and awareness of regulatory initiatives during 2004.  Average score of 4.5 on scale of 1 to 5.  (No payout for this goal)





### GOAL RULES

- ◆ PSE earnings per share (EPS), including incentive accrual, must be at least \$1.50 for payout on any goal.
- ◆ Three measurable performance levels have been established for the 2004 Goals & Incentive Plan: "Threshold", "Target", and "Outstanding."
- ◆ The first level a payment becomes available is called "Threshold." The incentive award is doubled for higher "Target" level performance.
- ◆ When EPS is above Target, an EPS multiplier will be applied to increase the goal payment for the EPS goal and each other goal which has achieved the "Outstanding" level of performance.
- ◆ Goal 7-Building a Great Place to Work and Goal 8-Regulatory Initiatives Support, are not financially incented goals.
- ◆ For maximum incentive payout of two times target, PSE's EPS must reach the maximum of the "Outstanding Level" and each other goal must achieve "Outstanding."
- ◆ Standard goal allocation percentages have been established as follows: Goals 1 and 2: 30% each, Goals 3, 4, and 6: 10% each, Goals 5A and 5B: 5% each.
- ◆ The standard allocation for Goal 2 is 30% for Goal 2A. A limited number of areas will be allowed to distribute the 30% allocation among Goals 2A, 2B and 2C.
- ◆ Supervisors will meet with each employee to develop a specific action plan to link day-to-day work with goal achievement.
- ◆ Please review on-line at the 2004 Goals & Incentive website the "fine print" section of the plan which describes additional rules.
- ◆ PSE reserves the right to change, amend or terminate the plan at any time.

### PERFORMANCE LEVELS REQUIRED FOR PAYOUT

	Threshold	Target	Above Target
EARNINGS PER SHARE	Threshold	Target	EPS Multiplier/Outstanding
O&M, ELECTRIC, GAS COSTS	Threshold*	Target*	Outstanding and EPS Multiplier
SAFETY	Threshold*	Target*	Outstanding and EPS Multiplier
CUSTOMER AND CONSTITUENT SATISFACTION	Threshold*	Target*	Outstanding and EPS Multiplier
ACQUIRE RESOURCES	Threshold*	Target*	Outstanding and EPS Multiplier
ENERGY EFFICIENCY & GREEN POWER	Threshold*	Target*	Outstanding and EPS Multiplier

\* Also requires PSE EPS to be at least \$1.50, including incentive accrual. If EPS is at least \$1.50 but below Threshold, non-EPS goals capped at Target.

The EPS Multiplier increases the payout level for EPS above the target level and other goals which achieved Outstanding.

The calculation is: Target level payout x EPS Multiplier = Payout

### EPS Multiplier

PSE EPS above \$1.60 will increase the participant's EPS Target incentive 10% for every \$0.01 of earnings above \$1.60. EPS of \$1.70 achieves the maximum payout.

For non-EPS goals which achieve Outstanding, the payout above Target is calculated using a sliding scale for each \$0.01 of PSE EPS performance above Target. The sliding scale is called the EPS Multiplier.

EPS	EPS Multiplier
\$1.62	120%
\$1.64	140%
\$1.66	160%
\$1.68	180%
\$1.70	200%

2003

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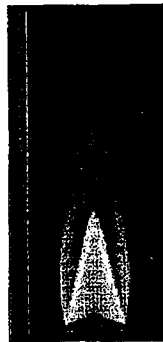
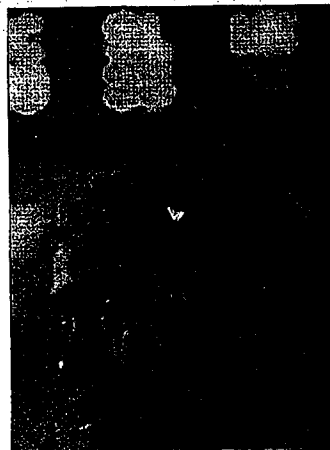
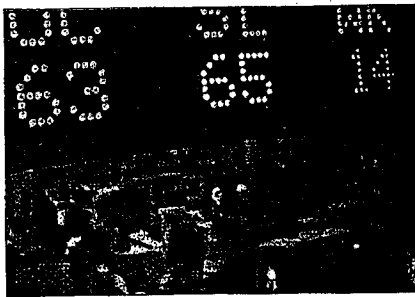


Exhibit No. \_\_\_\_ (MNC-3)  
Page 9 of 23

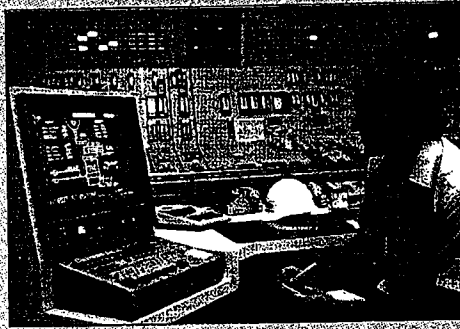
*The energy to do great things.*

**PSE**

PUGET  
SOUND  
ENERGY

# 2003 Goals & Incentive Plan

*Puget Sound Energy: The Energy To Do Great Things*



## Summary of Strategic Objectives

- ◆ Focus on regulated utility business
- ◆ Add generation and delivery infrastructure to meet customer need
- ◆ Rebuild financial strength to fund energy infrastructure, manage energy portfolio
- ◆ Attract equity by providing attractive return to Puget Energy investors
- ◆ Manage PSE to achieve earnings growth

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PSE's strategic objectives are to be a regulated gas and electric utility business with available generation to meet our long-term energy needs. Our 2003 Goals & Incentive Plan reflects these strategies along with our continuing goals of providing a safe and reliable energy infrastructure, cost efficient operations and superior levels of employee, customer and constituent satisfaction.

A total of seven corporate goals have been established for 2003; three "core" goals (these core goals will remain a key focus from year to year) and four "supplemental" goals (these will likely vary from year to year depending on the strategic emphasis for that year).

Having fewer goals than in the past will help us better communicate what we need to do to be successful. While there are fewer goals, your earning opportunity remains the same. Your individual daily activities combined with collaboration and teamwork across all departments will result in these goals achieving their highest levels.

As always, it is only through the combined efforts of our outstanding workforce that PSE can accomplish its highest objectives!

Exhibit No. \_\_\_(MNC-3)  
Page 10 of 23

# 2003 Goals & Incentive Plan Measurements

## Goal 1 – PSE Earnings Per Share (EPS)

Baseline	In The Money	Target	Outstanding Range
2003 EPS of \$1.40	EPS \$1.40	EPS \$1.50	Earnings above \$1.50 will increase the participant's EPS target incentive 6.7% for every \$0.01 of earnings above \$1.50. EPS of \$1.65 achieves the maximum payout.
<b>Modifier</b> <b>Service Quality Indices (SQIs)</b>	No payout; used to modify EPS goal. 10% reduction in EPS payout for each SQI we don't achieve	No payout; used to modify EPS goal. 10% reduction in EPS payout for each SQI we don't achieve.	No payout; used to modify EPS goal. 10% reduction in EPS payout for each SQI we don't achieve.
<b>Customer Satisfaction</b> <ul style="list-style-type: none"> <li>• Customer Access Center — 90% satisfied</li> <li>• Gas Field Services — 90% satisfied</li> <li>• WUTC Complaints — 0.50 complaints per 1000 customers</li> </ul> <b>Customer Service</b> <ul style="list-style-type: none"> <li>• 75% of calls answered by a live representative within 30 seconds</li> <li>• 8% of appointments missed</li> <li>• 0.030 disconnections/customer for non-payment of amounts due when WUTC policy would permit service curtailment</li> </ul> <b>Safety &amp; Reliability</b> <ul style="list-style-type: none"> <li>• Gas Emergency Response — Average of 55 minutes from customer call to arrival of field technician</li> <li>• Electric Emergency Response — Average of 55 minutes from customer call to arrival of field technician</li> <li>• Non-storm Outage Frequency — 1.30 interruptions per customer per year</li> <li>• Non-storm Outage Duration — 136 minutes per customer per year</li> </ul>			

## Goal 2 – Operating Costs

Baseline	In The Money	Target	Outstanding Threshold
<b>A. Corporate O&amp;M</b> 2003 budget	2003 budget	1% below 2003 budget	2% below 2003 budget
<b>B. Organization Level O&amp;M</b> 2003 budget	2003 budget	1% below 2003 budget	2% below 2003 budget
Note: Incremental O&M that generates additional margin may be considered when measuring the Operating Cost goals			
<b>C. Power Costs</b> Electric Margin of \$619,001,000	Electric margin of at least \$619,001,000 (excluding PCA deferral, settlement on the California receivable, changes to rates or municipal taxes.)	Electric margin of at least \$629,847,000 (excluding PCA deferral, settlement on the California receivable, changes to rates or municipal taxes.)	Electric margin of at least \$640,693,000 (excluding PCA deferral, settlement on the California receivable, changes to rates or municipal taxes.)

### Goal 3 – Safety

Baseline	In The Money	Target	Outstanding Threshold
No fatalities	1. No occupational fatalities and	1. No occupational fatalities and	1. No occupational fatalities and
5.11 Recordable Injury Rate	2. OSHA recordable rate at 4.98 recordables per 100 employees or lower, and	2. OSHA recordable rate at 4.85 recordables per 100 employees or lower, and	2. OSHA recordable rate at 4.60 recordables per 100 employees or lower, and
3.00 Lost Workday Case Rate	3. OSHA lost-work-day case rate at 2.93 cases per 100 employees or lower.	3. OSHA lost-work-day case rate at 2.85 cases per 100 employees or lower.	3. OSHA lost-work-day case rate at 2.70 cases per 100 employees or lower.
	A 2.5% improvement over 2002	A 5% improvement over 2002	A 10% improvement over 2002

### Goal 4 – Customer & Constituent Satisfaction

Baseline	In The Money	Target	Outstanding Threshold
Key Customer Average: 7.3	Key Customer Average: 7.6	Key Customer Average: 7.8	Key Customer Average: 8.0
Key Constituent Average: 5.4	Key Constituent Average: 6.4	Key Constituent Average: 7.0	Key Constituent Average: 7.5
Highly Satisfied Customers: 56%	Highly Satisfied Customers: 57%	Highly Satisfied Customers: 59%	Highly Satisfied Customers: 62%
	All three surveys at In-the-Money.	All three surveys at Target or two above Target and one at In-the-Money.	All three surveys at Outstanding or two above Outstanding and one at Target.

### Goal 5 – Optimizing Growth from New Gas Customer Additions

Baseline	In The Money	Target	Outstanding Threshold
Average of 11 years	Achieve our regulated rate of return by year 7.	Achieve our regulated rate of return by year 6 or sooner.	Achieve our regulated rate of return by year 5 or sooner.

### Goal 6 – Acquire Appropriate Electric Supply Resources to Serve Load

Baseline	In The Money	Target	Outstanding Threshold
N/A	<ul style="list-style-type: none"> <li>Executed term sheet(s) for asset acquisition and/or Power Purchase Agreements (PPA)</li> <li>Board approval of term sheet(s)</li> <li>Executed Purchase &amp; Sale Agreement (PSA) and/ or PPA for such resources</li> <li>Board approval of PSA and/or PPA</li> <li>Closing of the PSA or PPA</li> </ul>	<ul style="list-style-type: none"> <li>Achieve In-the-Money and</li> <li>Obtain any appropriate regulatory approval or acceptance of such resource commitments.</li> </ul>	<ul style="list-style-type: none"> <li>Achieve Target and</li> <li>The acquired resources do not increase PSE's retail electric rates by more than 3%.</li> </ul>

### Goal 7 – Building a Great Place to Work (No payout related to this goal)

Baseline	In The Money	Target	Outstanding Threshold
Score of 42	N/A	Increase the survey score to at least 52.	N/A

**1 PSE Earnings Per Share (EPS)**

Manage the company to achieve 2003 PSE earnings per share.  
*Goal Team Leads:* Reynolds/McKeon

**Service Quality Indices (SQIs)**

The following SQIs will be used to modify EPS:

**Customer Satisfaction**

- ◆ Customer Access Center
- ◆ Gas field services
- ◆ WUTC complaints

*Goal Team Leads:* Henry/McLain/Brady

**Customer Service**

- ◆ Calls answered "live"
- ◆ On-time appointments
- ◆ Disconnects for non-pay

**Safety & Reliability**

- ◆ Gas emergency response
- ◆ Electric emergency response
- ◆ Non-storm outage frequency
- ◆ Non-storm outage duration

**2 Operating Costs**

Manage the company's O&M budget and power costs to achieve financial results.

**A. Corporate O&M**

*Goal Team Lead:* Wiegand

**B. Organization Level O&M**

Operations

Energy Efficiency & Customer Services (excludes Low Income Program)

Regional Services & Community Affairs

Energy Resources/Energy Portfolio Management

CFO/Controller/Finance/Corporate Planning/HR/Legal

Regulatory & Government Affairs

*Goal Team Leads:* All Officers

**C. Power Costs**

*Goal Team Leads:* Ryan/B. Gaines

**3 Safety**

Promote safe work practices and behavior, reducing work-related injuries.

*Goal Team Lead:* McLain

## SUPPLEMENTAL GOALS

**4 Customer and Constituent Satisfaction**

Improve the overall average scores of Key Customer, Key Constituents and highly satisfied customers from 2002 levels. Highly satisfied customers will be measured by counting only customers who respond to the satisfaction survey with the two highest response levels.

*Goal Team Leads:* Henry/Hogan

**5 Optimizing Growth from New Gas Customer Additions**

Proactively target the most cost effective prospective gas customers and execute line extension services that ensure new customer additions meet or exceed the regulated rate of return over a targeted timeframe.

*Goal Team Lead:* Henry

**6 Acquire Appropriate Electric Supply Resources to Serve Load**

Acquire by supply contract, asset acquisition and/or construction base-load electric supply, resources consistent with needs identified in the Least Cost Planning process.

If appropriate, obtain regulatory approval or acceptance of resource commitments in a form and content satisfactory to the Company.

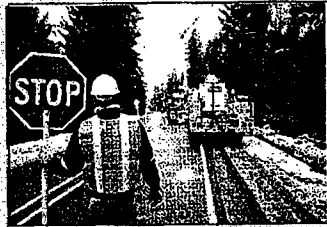
*Goal Team Leads:* Markell/B. Gaines/Harris

**7 Building a Great Place To Work**

Improve employee satisfaction as measured by at least a ten point increase in the 2003 Employee Satisfaction Survey to the question regarding the PSE Organization, "Taking everything into account, I would say this is a great place to work."

*Goal Team Leads:* Graham/Hogan/Swofford





### GOAL RULES

- ◆ Three measurable performance levels have been established for the 2003 Goals & Incentive Plan: "In-the-Money", "Target", and "Outstanding Range".
- ◆ The first level a payment becomes available is called "In-the-Money." The incentive award is doubled for higher "Target" level performance.
- ◆ "Outstanding Range" is a sliding scale of goal payment based on PSE's EPS performance. When EPS is above target, an EPS multiplier will be applied to increase the goal payment for each goal which has achieved the "Outstanding Threshold" level of performance.
- ◆ Goal 7, Building a Great Place to Work, is not a financially incented goal.
- ◆ For maximum incentive payout of two times target, PSE's EPS result must reach the maximum of the "Outstanding Range" and each other goal must reach its "Outstanding Threshold" performance level.
- ◆ Each officer will determine goal weightings for his/her area among goals: EPS, O&M, and Power Cost. (60% total).
- ◆ Everyone is assigned goal weights of 10% Safety, and 30% evenly distributed to the supplemental goals 4, 5, and 6.
- ◆ Supervisors will meet with each employee to have a "goals line-of-sight" conversation. During the conversation, the employee will help develop a specific action plan to link day-to-day work with goal achievement.

### PERFORMANCE LEVELS REQUIRED FOR PAYOUT

	In-the-Money	Target	Outstanding Range
EARNINGS PER SHARE	ITM	Target	EPS Multiplier
OPERATING COSTS	ITM	Target	Outstanding Threshold
SAFETY	ITM	Target	Outstanding Threshold
CUSTOMER SATISFACTION	ITM	Target	Outstanding Threshold
NEW GAS CUSTOMERS	ITM	Target	Outstanding Threshold
ACQUIRE RESOURCES	ITM	Target	Outstanding Threshold

The EPS Multiplier increases the payout level for EPS at the target level and other goals which have met the Outstanding Threshold.  
 The calculation is: Target level payout x EPS Multiplier = Outstanding Range payout

### The Outstanding Range of Performance and Payout is new this year. Here is how it works.

Payout in the Outstanding Range requires PSE EPS to be above Target AND the Goal's Outstanding Threshold performance must be met.

Payout in the Outstanding Range is calculated using a sliding scale for each \$0.01 of PSE EPS performance above target. The sliding scale is called the EPS Multiplier.

EPS	EPS Multiplier
\$1.51	107%
\$1.52	113%
\$1.53	120%
\$1.56	140%
\$1.59	160%
\$1.62	180%
\$1.65	200%

Exhibit No. \_\_\_ (MNC-3)  
 Page 14 of 23

(Note each \$0.01 increase in EPS increases the EPS Multiplier by 6.67%, up to 200%)

# index of 2002 goals

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PSE has three overarching strategic business objectives:

- "Be the Best" energy distribution company anywhere
  - Highest quality service
    - Reliability
    - Customer choice & convenience
  - Lowest cost
- Grow the business of providing services to other utilities
- Build public understanding about our business

The purpose of these goals is to help achieve these business objectives.



**Legend:**

**FI** Financial Goals

**NF** Non-Financial Goals

**CORPORATE GOALS**

**1 - Being The Best Energy Distribution Company** **FI**

Provide the highest quality service at the lowest cost.

**A) SQIs**

- Overall Customer Satisfaction
- WUTC Complaint Ratio
- Non-Storm SAIDI
- Non-Storm SAIFI
- Telephone Center Answering Performance
- Telephone Center Transactions Customer Satisfaction
- Gas Safety Response Time
- Field Service Operations Transactions
- Disconnection Ratio
- Missed Appointments

**B) O&M Cost Per Customer**

Drive non-production O&M cost per customer levels down in order to become the most efficient combination utility (2001 budget was \$155); in the USA, as measured by FERC data.

**C) Customer Choice**

Provide customers with proper price signals resulting in efficient use of energy, lower costs, and a sustainable energy ethic.

*Goal Leads:* Officers

**2 - Build Understanding** **NF**

Build public understanding and recognition of:

- 1) PSE as the best and lowest-cost energy distribution company.
- 2) The benefits of the Personal Energy Management Program (time-of-use (TOU) and real time pricing) and the key role customers play in the management of energy.
- 3) Public advantages of maintaining financially healthy utilities.
- 4) Company actions as being consistent with core Northwest values.

*Goal Leads:* Officers

**3 - Grow Non-utility Businesses** **FI**

Grow to achieve financial goals in 2002 based on net income.

*Goal Leads:* Officers

**4 - Earnings Per Share (EPS)** **FI**

Manage the company to achieve 2002 earnings per share at levels described.

*Goal Leads:* Officers

**ENERGY SUPPLY GOALS**

**5 - Personal Energy Management (PEM)** **NF**

**A)** Attain benefits for both customers and the company by empowering residential and business customers through Personal Energy Management, a lifestyle of choice and convenience in managing energy usage through information, incentives, tools, and services.

**B)** Provide PEM services through Contractor Referral Services and positive net earnings (positive contribution to earnings). Achieve net revenue and program participation levels.

**C)** Incorporate new and modified approaches in tariffed conservation programs to allow expanded customer assistance services including tools for informing and responding to time-of-use price signals. Examples of tools are water heater timers and home automation technologies. Achieve consensus with WUTC staff and public purpose advocates to allow inclusion of time-of-use customer assistance services in conservation programs funded through the electric rider.

*Goal Leads:* Gullekson, Pollom, Tada, Customer Services Director

**6 - Energy Supply O&M** **FI**

Perform Business Unit functions at a cost that is less than the 2002 budget (adjusted for approved scope additions, reductions or cancellation).

*Goal Leads:* B. Gaines, Ryan, Wiegand and Direct Report Teams

**7 - Energy Supply Capital Budget and Schedule Performance** **FI**

Complete power production and gas storage capital projects at a cost less than the approved 2002 budget; complete Colstrip capital projects at a cost less than the approved 2002 budget (adjusted for canceled projects, approved changes in scope and/or approved additions).

**A)** Complete Energy Production & Storage projects at a cost within the 2002 budget.

**B)** Manage the Colstrip expenditures at a cost within the 2002 budget.

*Goal Leads:* Schild, Olson

**8 - Contract Restructuring & Management** **FI**

Generate pre-tax savings through affirmative actions taken to achieve contract restructurings and cost reductions.

*Goal Lead:* Olson

**9 - Portfolio Risk Management** **FI**

**A) Portfolio Risk Management**  
Managing Profit at Risk in the Core Power Portfolio.

**B) Energy Risk Management System Implementation**  
Successful implementation of the Energy Risk Management System.

*Goal Leads:* Ryan, Monardi, Story, PSO Director, GSO Director

**10 - Gas Optimization** **FI**

Generate savings for Core Gas Customers. PSE's activities in optimizing storage and transportation capacity in off-system transactions will yield savings for the customers.

*Goal Leads:* Ryan, GSO Director

**11 - Electric Optimization** **FI**

**A) Electric Optimization Short-term**  
Generate contributions to earnings from power system optimization in real-time and short-term markets (up to one month in duration).

**B) Electric Optimization Medium-term**  
Generate contributions to earnings from power system optimization in medium-term markets (one month to one year), based upon economic dispatching of resources that have optionality and flexibility. Includes contracts with variable take provisions, CTs, NUG displacements for medium term and hydro storage.

*Goal Leads:* Ryan, PSO Director, GSO Director, Monardi

**12 - Load/Resource Strategy** **NF**

Develop and implement strategic load/resource planning and procurement.

*Goal Lead:* Harris

**13 - California ISO Receivable** **FI**

Achieve acceptance by Southern California Edison and by the PG&E bankruptcy court of PSE claims for power sold to those utilities in 2000 through the California ISO, as well as a plan for payment of the claims.

*Goal Leads:* McKeon, Harris

**14 - Combustion Turbine Availability** **FI**

Achieve optimum reliability on a plant by plant basis for simple-cycle combustion turbines.

*Goal Lead:* Schild

**15 - Jackson Prairie Deliverability** **FI**

Manage Jackson Prairie state of readiness to meet contractual deliverability requirements.

*Goal Lead:* Schild

**16 - Hydro Availability** **FI**

Achieve optimum generating unit availability.

*Goal Lead:* Schild

**DELIVERY BUSINESS UNIT - OPERATIONS GOALS**

**17 - T&D Combination Gas & Electric O&M Cost per Customer** **FI**

Drive non-production T&D O&M cost per customer levels down in order to become the most efficient combination utility in the USA, as measured by FERC data.

*Goal Lead:* McLain

**18 - CDC Implementation** **FI**

The Delivery Business Unit will complete established 2002 CDC transition tasks.

Tasks

1. Execute steady state contracts with service Providers for NCC, System Work, O&M and Storm.
2. Specific work transitioned to service providers.
3. DBU steady state staffing in place.

*Goal Lead:* McLain

**19 - Employee Safety** **NF**

Improve compliance driven reporting and documentation of workplace injuries. Monitor accident trends to promote reduction in injuries and effectively target cost centers that have

increasing or elevated frequency of injuries while staying within budget.

- No job related fatalities.

AND

- Timely submittal of injury paperwork.

AND

- Accurate reporting of injury statistics. Recordable Injury Rates (RIR) should be equal to or greater than Workers' Comp rates.

AND

- Lost Workday Case Rate. (LWDCR)

Goal Leads: Gilbertson, Peck

## 20 - Gas Customer Growth **■**

Achieve profitable gas customer growth throughout PSE's service territory. Achieve profitable gas customer growth through PSE's service territory per the "natural" growth forecast and through additional business development & marketing activities.

Goal Lead: Tada

## 21 - OASIS Earnings **■**

Generate contributions to earnings from open access OASIS operations and wholesale electric transmission contracts.

Goal Lead: Lehenbauer

## 22 - INTOLIGHT Earnings **■**

Generate contributions to earnings from regulated street and area lighting and recovered revenue from audit back bill.

Goal Lead: Ferencz

## 23 - Pole Attachment & Wireless Earnings. **■**

Generate contributions to earnings from Pole Contacts, Personal Communication System Site Leasing and Construction, AND by specific dates.

- A) Wireline

- B) Wireless

Goal Lead: Ferencz

## 24 - Parts & Appliance Repair Earnings **■**

Generate contributions to earnings through appliance repair and service initiatives.

Goal Lead: Lehenbauer

## 25 - System Optimization (Total Energy System Planning) **■**

Optimize gas and electric assets by maximizing the benefit of capital and maintenance investments.

1. Achieve cost per customer outage minute target.
2. Achieve cost per customer outage target.
3. Achieve desired 2002 Gas system utilization.
4. Achieve desired 2002 Electric system utilization rate.
5. Reduce overall customer outage minutes.
6. Reduce the number of gas system leaks.
7. Reduce preventative maintenance costs for substation circuit breakers and transformers.

Goal Leads: Gilbertson, Hofkamp

## 26 - Contractor and Project Management **■**

A) DBU Asset Management/Service Provider Plan Implementation for Pilchuck. Task List:

1. Achieve desired total Pilchuck area residential NCC cost per customer. (1)
2. Achieve desired total Pilchuck area commercial NCC cost per customer. (1)
3. Achieve desired Pilchuck scope gas O&M cost per customer.
4. Complete 90% of gas system improvement projects over \$50,000 within Pilchuck's scope, at or below 110% of final work order estimate.
5. Meet a minimum number of operational metrics for all Pilchuck service contracts.
6. Meet all Pilchuck contract compensatory metrics. (2)

(1) Adjusted for actual mix of commercial and residential customers.  
(2) This task (task number 6) must be met to qualify for Target or Outstanding.

B) DBU Asset Management/Service Provider Plan Implementation for Quanta.

1. Achieve desired total Quanta area electric residential NCC cost per customer. (1)
2. Achieve desired total Quanta area gas residential NCC cost per customer. (1)
3. Achieve desired total Quanta area electric commercial NCC cost per customer. (1)
4. Achieve desired total Quanta area gas commercial NCC cost per customer. (1)
5. Complete 90% of electric NCC system projects over \$50,000 within Quanta scope, at or below 110% of final work order estimate.
6. Meet a minimum number of operational metrics for all Quanta service contracts.

7. Meet all compensatory metrics for Quanta's service contracts. (2)

(1) Adjusted for actual mix of commercial and residential customers.  
(2) Task #7 must be met to qualify for Target or Outstanding.

Goal Lead: Stockton

## 27 - O&M Budgets **■**

Perform Business Unit functions at a cost that is less than the 2002 budget (excluding catastrophic expenses e.g. earthquake, storms).  
Goal Leads: Lehenbauer, Hofkamp, Ferencz, Stockton, Gilbertson, Bowman

## 28 - Capital Budgets **■**

Manage the DBU Capital Budget to cost effectively complete capital projects and programs (adjusted for canceled projects, approved change in scope and/or approved additions).  
Goal Leads: Stockton, Gilbertson

## 29 - Fleet Transportation Costs **■**

Reduce average monthly fleet Transportation cost 24% by October 2002 with an annual cost not to exceed \$14,944,917.

Goal Lead: Hofkamp

## 30 - Delivery Services Engineering **■**

New Delivery Services Engineering Department is focused on providing engineering and engineering support services for complex, non-routine construction, O&M and emergency activities in an efficient and cost-effective manner. The department's efforts will be focused on ensuring that time is spent on production work to the greatest extent possible and that time is directly charged to projects. At the same time, efforts will be focused on improving practices to lower the overall engineering costs.

Goal Lead: Ferencz

## 31 - Cold Weather Action For Gas **■**

Manage gas cold weather and peak demand costs through identification and completion of system improvement projects, cost effective cold weather action and system planning.

Goal Lead: Hofkamp

## 32 - Emergency Cost Management **■**

Reduce overall O&M storm costs for electric outage over 2001 baseline.

Goal Lead: Lehenbauer

## 33 - Map Quality and Performance **■**

Improve the accuracy and delivery of data, maps and records for use in DBU operations.

Task #1: Maintain 30-day or less average turn-time for mapping new facilities and plant (once all required data is received).

Task #2: Improve map quality by mapping field revisions. 50% increase in field revisions mapped (baseline to be established from 2001 data).

Task #3: Deliver map products by published deadlines 90% of the time.

Task #4: Decrease number of "bad" as-builts received by Maps & Records (M&R) by 30% January to December 2002.

Task #5: Decrease number of unmappable revision requests received by M&R by 30% January to December 2002.

Task #6: Eliminate mappable Gas Services D-4 backlog by year-end 2002.

Goal Lead: Lehenbauer

## 34 - Locate Accuracy **■**

Reduce number of hits to PSE facilities as a percentage of locate requests for PSE facilities.

Goal Leads: Gilbertson, Stockton

## 35 - Inventory Management **■**

Reduce the inventory level for PSE's material inventory and maintain backorders at a below established level. Achieve this inventory level by 6/30/02 and maintain on the average at this level or lower through year-end.

AND

Maintain Backorder level.

Goal Lead: Ferencz

## 36 - Reduce CAIDI (the average outage time per non-storm customer outage). **■**

Reduce the average outage time per non-storm customer.

Goal Lead: Lehenbauer

## 37 - Electric Emergency Response Times **■**

Achieve average response time to electric emergencies while remaining under budget.

Goal Lead: Lehenbauer

## 38 - Gas Emergency Response Times **■**

Achieve average response time to gas emergencies while remaining under budget.

Goal Lead: Lehenbauer

## DELIVERY BUSINESS UNIT - CUSTOMER SERVICES GOALS

### 39 - Customer Satisfaction **NE**

*CS Goal #39* - Achieve an overall customer satisfaction rating which reflects that customers served by PSE are satisfied with the services provided.

*CS Goal #39A* - Customer Access Center Satisfaction

*CS Goal #39B* - Customer Field Service Satisfaction

*CS Goal #39C* - New Customer Construction Satisfaction

*CS Goal #39D* - Commercial / Industrial Customer Satisfaction  
*Goal Leads:* Lehenbauer, Stockton, Customer Services Director

### 40 - Service Level **NE**

Achieve service level, and on a department-wide basis, achieve standard for being in/available, and logged into the system.

*Goal Leads:* Customer Services Director

### 41 - O&M Budgets **E**

Perform Business Unit functions at a cost that is less than the 2002 budget (excludes storm costs) and less catastrophic expenses e.g. earthquake.

*Goal Leads:* Pitman, Pollom, Henry, Customer Services Director

### 42 - APUA Write-off Revenue Ratio **E**

Effectively manage active and closed account collections to control APUA. Measure performance as blended percentages of gas and electric write-offs to revenue, while staying within budget.

*Goal Lead:* Customer Services Director

### 43 - Customer Billing **E**

Resolve all pended charges and load new meter information in a timely manner.

Resolve all pended charges on the Pended Charge Work Queue to assure that our customers receive an accurate bill for each billing period.

AND

Timely loading of all new gas and electric services in ConsumerLink to assure that our new customers are stated promptly.

*Goal Lead:* Customer Services Director

### 44 - Payment Receipt Processing **E**

Process non-exception payments on the same day they are received, and reduce cost per transaction.

*Goal Lead:* Customer Services Director

### 45 - Integrated Customer Solutions **E**

Integrated Customer Solutions provides services to utilities. Its goals for 2002 are three fold: increase number of contracts, broaden the product offerings, and contribute to earnings.

*Goal Lead:* Tada

### 46 - Customer Internet Access **NE**

Make the internet a vital part of normal business in customer-facing parts of the company. Incorporate Internet into functions that will utilize it to reduce cost and enhance corporate image.

*Goal Leads:* Ringel, Pitman

### 47 - Meter Information **E**

Attain benefits for both the company and our customers through the effective conversion to automated meter reading (AMR) and provide accurate meter reading via network and manual read processes.

*Team Goal: Part A* - Enable electric and gas meters for AMR at a cost lower than budgeted.

Continue enabling meters for automation per prescribed plan. All electric meters to provide active input to the outage system.

*Team Goal: Part B* - Convert AMR enabled meters to billing per prescribed plan.

*Team Goal: Part C* - Provide consistent and accurate manual meter reading to support customer service goals and AMR conversion. Obtain accurate manual meter reads.

*Team Goal: Part D* - Utilize network meter information to achieve additional benefits, to positively impact business processes as recognized in the AMR business case.

*Goal Lead:* Pollom

## CORPORATE SERVICES GOALS

### 48 - General Rate Proceeding **E**

Successful recovery of net power cost in the case for Interim Rate

Relief and a successful outcome in the General Rate Case.

*Goal Leads:* D. Gaines, Odell, Pohndorf, Ringel, Secrist

### 49 - O&M Budget **E**

Perform business functions at a cost that is less than the 2002 budget.

*Goal Leads:* Officers, Direct Reports

### 50 - Business Unit - Capital Budgets **E**

Operate within 2002 Capital Budgets.

A) *Corporate Facilities Construction Projects* Complete capital projects at a cost less than the 2002 budget (adjusted for canceled projects, approved change in scope and/or approved additions).

B) *Capital Budget - Information Technology* Complete Information Technology (IT) projects at a cost that is less than 2002 budget

(adjusted for canceled projects, approved change in scope and/or approved additions).

*Goal Leads:* McNulty, Collins

### 51 - PSE Property Transactions **E**

Generate revenue from transactions (e.g. permits, easements, leases) for compatible uses of PSE's Operating Properties, and identify/process surplus properties for transfer or sale which, when sold, will produce pre-tax gains for the Company.

*Goal Lead:* McNulty

### 52 - PWI Net Income **E**

Achieve PWI net income after taxes.

*Goal Lead:* Eldredge

### 53 - External Affairs Below the Line Expenses **E**

Operate within the 2002 below-the-line expense budget.

*Goal Lead:* Tracy

### 54 - Tax and Interest Savings **E**

A. Generate tax and interest savings in excess of related O&M costs.

B. Successfully defend or settle the Tenaska tax issue.

*Goal Lead:* Moreton

### 55 - Damage Claim Billing **E**

Achieve billing rate of 90% and collection rate of 88% or better.

*Goal Lead:* Main

### 56 - Average Collected Balance **E**

Exceed the "Average Collected Balance per Billion Dollars of Revenue."

*Goal Lead:* Leong

### 57 - Investor Relations **E**

Ensure the Company's common stock is fairly valued in the financial community.

*Goal Lead:* Williams

### 58 - Information Technology (IT) Service Levels **NE**

Meet or exceed the IT Service Level Agreements (SLA) established in 2000 and implemented in 2001.

*Goal Lead:* Collins

### 59 - Information Technology (IT) Strategic Plan **NE**

Develop a long term strategic plan for IT to address customer support, network and desktop requirements, applications, voice, data and wireless requirements.

*Goal Lead:* Collins

### 60 - Non-DBU CDC Implementation **E**

Develop and implement similar plan in non-DBU business units to provide better service at lower cost.

*Goal Leads:* Direct Reports

### 61 - Intergovernmental Initiatives **NE**

A) Advance public policy that reduces cost and/or enhances operating efficiencies and profitability.

B) Advance local/regional/federal public policy that reduces cost and/or enhances operating efficiencies and profitability.

*Goal Leads:* Tracy, Oxley, Odell

### 62 - Public Recognition: Financially Healthy Utilities **NE**

Achieve state recognition of the need for financially healthy utilities through administrative actions.

*Goal Leads:* Tracy, Oxley

### 63 - Occupancy Plan Implementation **NE**

Organize and implement the PSE strategic occupancy plan for office space requirements in the Bellevue CBD.

*Goal Lead:* McNulty

# PUGET SOUND ENERGY

## 2002 GOALS & INCENTIVE PLAN

Puget Sound Energy's comprehensive goals & incentive program is designed to keep in sharp focus the results we need to accomplish for "Being the Best." Like last year, all employees -- represented and non-represented -- participate in the Goals and Incentive Plan and are linked to the Puget Sound Energy goals.

This means we all focus on the same set of goals.

We all receive the same information to gain understanding about the company's continued direction.

We all are encouraged to contribute ideas and efforts to achieve goals.

We all have an opportunity to contribute to the success of our company and to share in that success.

### RULES OF THE GAME

- |   |   |
|---|---|
| <ul style="list-style-type: none"> <li>• Three measurable performance levels have been established for each 2002 Incentive Plan goal.</li> <li>• The first level a payout becomes available is called "In-the-Money." The incentive award is doubled for higher "Target" level performance, and <i>doubled again</i> for performance at the "Outstanding" level.</li> <li>• The company determines each employee's goal assignments, with an emphasis on pointing a substantial majority of an employee's award potential to financial goals.</li> <li>• The incentive plan "pays for itself" when financial goals are achieved.</li> </ul> | <ul style="list-style-type: none"> <li>• Supervisors will meet with each employee to have a "goals line-of-sight" conversation, identifying which goals the employee will point to for 2002.</li> <li>• An important outcome of these "goals line-of-sight" conversations is the specific action plan that links each employee's day-to-day work to goal achievement.</li> <li>• An employee typically will have no fewer than three but no more than five goals.</li> <li>• Actual payout depends upon level of performance and the amount of incentives assigned to each goal.</li> </ul> |
|---|---|

### REPRESENTED EMPLOYEES: HOW THE PLAN WORKS

- Incentives are expressed as a dollar amount.
- Total incentives available assuming all assigned goals are achieved at the same level:
 

	IBEW	UA
• In-the-Money:	\$1,000	\$1,500
• Target:	\$2,000	\$3,000
• Outstanding:	\$4,000	\$6,000

### NON-REPRESENTED EMPLOYEES: HOW THE PLAN WORKS

- Incentives are expressed as a percentage of base pay.
- Total incentives available assuming all assigned goals are achieved at the same level:
 

• In-the-Money:	5% of base pay
• Target:	10% of base pay
• Outstanding:	20% of base pay

**EXAMPLE: REPRESENTED EMPLOYEE - IBEW**

Incentive Plan Goal	"In-the-Money"	Dollar Award "Target"	"Outstanding"
Goal "A"	\$300	\$600	\$1,200
Goal "B"	\$400	\$800	\$1,600
Goal "C"	<u>\$300</u>	<u>\$600</u>	<u>\$1,200</u>
<b>Total Possible</b>	<b>\$1,000</b>	<b>\$2,000</b>	<b>\$4,000</b>

Here's an example of the 2002 incentive award for a represented employee, assuming goal "A" is achieved at the "Target" level; goal "B" at the "In-The-Money" level, and goal "C" at the "Outstanding" level:

Goal	Result	\$ Amount
Goal "A"	Target	\$600
Goal "B"	In-the-Money	\$400
Goal "C"	Outstanding	<u>\$1,200</u>
<b>Total</b>		<b>\$2,200</b>

**EXAMPLE: NON-REPRESENTED EMPLOYEE**

Incentive Plan Goal	"In-the-Money"	Dollar Award "Target"	"Outstanding"
EPS (earnings)	1.5%	3%	6%
Goal "A"	1%	2%	4%
Goal "B"	.5%	1%	2%
Goal "C"	<u>2%</u>	<u>4%</u>	<u>8%</u>
<b>Total</b>	<b>5%</b>	<b>10%</b>	<b>20%</b>

Here's an example of the 2002 incentive award for a non-represented employee with a base salary of \$40,000, where goal EPS was achieved at the "Target" level; goal "A" was below the payout level; goal "B" at the "Target" level; and goal "C" at the "Outstanding" level:

Goal	Result	\$ Amount
EPS	Target	\$1,200
Goal "A"	Below	\$0
Goal "B"	Target	\$400
Goal "C"	Outstanding	<u>\$3,200</u>
<b>Total</b>		<b>\$4,800</b>

**THE FINE PRINT**

- To be eligible for incentive awards, employees must work at least 25% of the year (520 straight time hours)
- New employees participate on a pro-rated basis (assuming they have worked a minimum of 520 straight time hours during the year).
- Casual, part-time and/or temporary employees participate on a pro-rated basis (assuming they have worked a minimum of 520 straight time hours during the year).
- Participants who retire or go on Long Team Disability are eligible to receive a pro-rated award (assuming they have worked a minimum of 520 straight time hours during the year).
- Employees who are on Short Team Disability or Workers' Compensation for more than 520 hours will receive a prorated award (assuming they have worked a minimum of 520 straight time hours during the year)
- Employees who resign or are discharged during the 2002 performance period and then are subsequently re-hired during the 2002 performance period, may be eligible for a pro-rata award. The pro-ration calculation will be calculated on the number of straight-time hours worked as of the most recent hire date. (Note: must work a minimum of 520 straight-time hours from most recent hire date to end of performance period).
- Employees who resign or are discharged during the 2002 performance period are not eligible. Employee must be on the payroll, actively employed, and in good standing as of December 31, 2002 to be eligible for an award.
- Employees who change departments and/or jobs will have a new set of goals (if applicable) if their transfer is effective September 30, 2002 or earlier.
- Contractors, temporary agency workers and others not on PSE's payroll are not eligible.
- The award calculation will be completed as soon as practical after the end of the performance period.
- The salary used for calculating the award for full-time non-represented participants will be their annualized base pay salary as of the end of the performance period, December 31, 2002.
- Employees who change status from part-time to full-time (or vice versa) during the performance period will receive an adjusted award based on total straight-time hours worked during the year.
- All pro-rata calculations will be based on straight time hours worked divided by 2080 hours (result not to exceed 100%).
- The "Company" for purposes of the 2002 Goals and Incentive Plan means Puget Sound Energy, and does not include any other subsidiaries of Puget Energy.
- All normal taxes will be deducted. Earnings from this plan are eligible for normal 401(k) investment plan deductions and are considered eligible compensation for retirement plan purposes.
- The company reserves the right to amend, modify or discontinue the plan at any time.

**Puget Sound Energy**  
**"Map" of 2002 Strategic Business Objective and Goals Connections**

PSE has three overarching strategic *business objectives* developed by our officer team.

- "Be the Best" energy distribution company anywhere
  - Highest quality service
    - Reliability
    - Customer choice & convenience
  - Lowest cost
- Grow the business of providing services to other utilities
- Build public understanding about our business

The purpose of each goal is to help achieve one of these three business objectives.  
 The chart below shows the relationship between each goal and the objective it helps achieve.

<b>Goal</b>	<b>Business Objective</b>
<b>Corporate Goals</b>	
1 Being the Best Energy Distribution Company	"Be the Best" ...
2 Build Understanding	Build public understanding ...
3 Grow Non-utility Businesses	Grow the business ...
4 Earnings Per Share (EPS)	Build public understanding ...
<b>Energy Supply Goals</b>	
5 Personal Energy Management (PEM)	Build public understanding ...
6 O&M Budgets	"Be the Best" ...
7 Capital Budgets and Schedule Performance	"Be the Best" ...
8 Contract Restructuring & Management	"Be the Best" ...
9 Portfolio Risk Management	"Be the Best" ...
10 Gas Optimization	"Be the Best" ...
11 Electric Optimization	"Be the Best" ...
12 Load/Resource Strategy	"Be the Best" ...
13 California ISO Receivable	"Be the Best" ...
14 Combustion Turbine Availability	"Be the Best" ...
15 Jackson Prairie Deliverability	"Be the Best" ...
16 Hydro Availability	"Be the Best" ...
<b>Delivery Business Unit - Operations Goals</b>	
17 T&D Combination Gas & Electric O&M Cost per Customer	"Be the Best" ...
18 CDC Implementation	"Be the Best" ...
19 Employee Safety	"Be the Best" ...
20 Gas Customer Growth	"Be the Best" ...
21 OASIS Earnings	"Be the Best" ...
22 INTOLIGHT Earnings	Grow the business ...
23 Pole Attachment & Wireless Earnings	Grow the business ...
24 Parts & Appliance Repair Earnings	"Be the Best" ...
25 System Optimization (Total Energy System Planning)	"Be the Best" ...
26 Contractor and Project Management	"Be the Best" ...
27 O&M Budgets	"Be the Best" ...
28 Capital Budgets	"Be the Best" ...
29 Fleet Transportation Costs	"Be the Best" ...
30 Delivery Services Engineering	"Be the Best" ...
31 Cold Weather Action For Gas	"Be the Best" ...
32 Emergency Cost Management	"Be the Best" ...
33 Map Quality and Performance	"Be the Best" ...
34 Locate Accuracy	"Be the Best" ...
35 Inventory Management	"Be the Best" ...

<b>Goal</b>	<b>Business Objective</b>
36 Reduce CAIDI (the average outage time per non-storm customer outage)	"Be the Best" ...
37 Electric Emergency Response Times	"Be the Best" ...
38 Gas Emergency Response Times	"Be the Best" ...
<b>Delivery Business Unit - Customer Services Goals</b>	
39 Customer Satisfaction	"Be the Best" ...
40 Service Level	"Be the Best" ...
41 O&M Budgets	"Be the Best" ...
42 APUA Write-off Revenue Ratio	"Be the Best" ...
43 Customer Billing	"Be the Best" ...
44 Payment Receipt Processing	"Be the Best" ...
45 Integrated Customer Solutions	Grow the business ...
46 Customer Internet Access	Build public understanding ...
47 Meter Information	"Be the Best" ...
<b>Corporate Services Goals</b>	
48 General Rate Proceeding	"Be the Best" ...
49 O&M Budgets	"Be the Best" ...
50 Capital Budgets	"Be the Best" ...
51 PSE Property Transactions	"Be the Best" ...
52 PWI Net Income	"Be the Best" ...
53 External Affairs Below The Line Expenses	Build public understanding ...
54 Tax and Interest Savings	"Be the Best" ...
55 Damage Claim Billing	"Be the Best" ...
56 Average Collected Balance	"Be the Best" ...
57 Investor Relations	Build public understanding ...
58 Information Technology Services Levels	"Be the Best" ...
59 Information Technology Strategic Plan	"Be the Best" ...
60 Non-DBU CDC Implementation	"Be the Best" ...
61 Intergovernmental Initiatives	Build public understanding ...
62 Public Recognition: Financially Healthy Utilities	Build public understanding ...
63 Occupancy Plan Implementation	"Be the Best" ...



**PUGET  
SOUND  
ENERGY**

**BEING THE BEST  
PERFORMANCE MANAGEMENT  
2002 Goals Line-of-Sight**



<b>NAME:</b>	<b>DEPARTMENT:</b>
<b>EMPLOYEE NUMBER:</b>	<b>JOB TITLE:</b>

**2002 Line-of-Sight Goals**

**Instructions/Definitions:**

**Incentive at Target:** This is the amount or percent of incentive pay the employee will be paid when the goal is attained at the Target level.

**In the Money:** The first level performance that achieves an incentive pay-out. Fill in the performance measurement from Corporate, Business Unit or Team Goal.

**Target:** Fill in the performance measurement from the appropriate goal.

**Outstanding:** Fill in the Outstanding performance measurement from the appropriate goal.

Send completed form to HR Performance Management mailbox, GEN-03W, by February 15, 2002.

Goal Name	Incentive \$\$ and /OR % at Target	In the Money	Target	Outstanding
1.				
2.				
3.				
4.				
5.				
Total				

List below those activities the employee is assigned to work on during the upcoming year to accomplish goals.

- **Daily activities:** done on an ongoing routine basis using competencies that are standard for the position.
- **Challenge activities:** new areas of accomplishment to reach high performance.

Note: use 2002 Learning Plan to support skill development for performing Line-of-Sight activities in an innovative and cost efficient way.

<b>Daily Activities</b>
<b>Challenge Activities</b>

**Goals Line-of-Sight Approvals**

**IMMEDIATE SUPERVISOR**

<b>Signature:</b>	<b>Date:</b>
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**EMPLOYEE**

<b>Signature:</b>	<b>Date:</b>
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