

PSE's chief executive addresses foreign ownership, bonus, other issue... <http://www.ptleader.com/news/pse-s-chief-executive-addresses-forei...>

PSE's chief executive addresses foreign ownership, bonus, other issues

By Scott Wilson, Leader Staff Writer | Posted: Wednesday, October 8, 2008 12:00 am

Puget Sound Energy has been surprised by some of the criticism leveled at it in the course of efforts in three Washington counties - including Jefferson - to pull away from the state's largest private utility.

That's the word from PSE Chief Executive Officer Steven Reynolds, who visited Port Townsend last week. Reynolds is the latest of several PSE top managers who have come to this county - one of PSE's smallest service areas - in reaction to Proposition 1, which would allow the Jefferson County Public Utility District 1 to become the electricity provider. Ballots go in the mail to Jefferson County voters countywide Oct. 15 and will be counted Nov. 4.

Voters in two other counties, Skagit and Island, are also considering an expansion of public power at PSE's expense. PSE has more than one million electrical customers in Western Washington, 17,000 of them in this county.

Had he known, Reynolds said, that "foreign ownership" of PSE would become a primary issue for ratepayers' regard of PSE, he said he would have worked harder to find a reliable U.S. investor instead of the Macquarie Group.

"If I had known this was going to be the headline, I would have tried to find someone closer to home," Reynolds said.

PSE stockholders have already accepted the \$7.4 billion buyout offer from Macquarie, a consortium of banks and pension fund investors based in Australia. The deal has been approved by a federal agency but awaits the decision of state utility regulators of the Utilities and Transportation Commission (UTC). The UTC staff now supports the acquisition, but the consumer-advocate branch of the state attorney general's office opposes it as a bad deal for ratepayers. A decision is expected in the next few weeks.

The prospect of foreign ownership of PSE has been a primary rallying cry for Proposition 1 proponents. Their signs and other advertising prominently feature the contrast between a foreign-owned private utility and a local public utility.

From PSE's point of view, said Reynolds, getting a commitment from Macquarie seemed a perfect fit at the time it was put together in 2007.

"We thought it was a brilliant move," he said, given that Macquarie and the pension funds it represents specialize in making long-term investments in expensive infrastructure that can be

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counted on to offer a long-term, consistent return. Reynolds said they were "patient investors," a hard-to-find partner.

Multi-national investors

While the majority ownership of PSE will shift to the hands of a group of pension fund investors - some Australian, some Canadian and some American, including some U.S. unions and the Boeing pension fund - Reynolds also insisted that management and control of PSE would remain with the current staff in the current headquarters in Bellevue. The governing documents of the new ownership group require that at least three Northwest residents serve on the board of directors and that any of those three retains a virtual veto power over certain company decisions.

Proposition 1 proponents, however, have said the Macquarie has suffered in the recent financial meltdown and that it cannot be counted on to look out for local interests.

The impression that Australians might break up PSE or escape with its cash assets is false, said Reynolds. "It's hilarious to me, some of the representations," he said.

One aspect of the Macquarie deal that has drawn attention is Reynolds' own multi-million-dollar bonus package.

Documents filed with the Securities and Exchange Commission (SEC) say that Reynolds would personally be paid, through a variety of bonus arrangements, more than \$20 million if the merger goes through. A group of other top PSE executives stand to earn \$37 million as well.

Asked about this, Reynolds said most of those arrangements stemmed from his original employment contract with PSE, which he signed six years ago. Others stem from the merger itself.

Some of the compensation has come in the form of stock, which grew in value under Reynolds' leadership. If the merger goes through, that value is locked in at \$30 per share.

"I get a nice payout by virtue of the stock appreciation," he said. None of the money comes from ratepayers, Reynolds said, but only from investors in PSE.

But he added that his motives to work for the merger and to retain the three Northwest counties in PSE's network are not about the money. It's about providing reliable power and sustaining the company's long-term commitment to the area, he said.

Reynolds also said that a good portion of his bonus would be devoted to a charitable foundation established by PSE.

"I have no interest or reason to do this [merger] to make money," he said.

Local control

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Another avenue of challenge to PSE, Reynolds said, is that it has pulled back on its staffing and service commitment to Jefferson County. Proponents of Proposition 1 point to the increase in local jobs - estimated at between 50 and 67 - that would be based here if the PUD gets into the power business. PSE's staff shrank during the last decade as the company relied on centralized billing and administration while contracting much of the repair work out to other companies.

PSE started to rebuild its local employment a few months ago - after Proposition 1 was headed to the ballot via citizen initiative - by opening a call center in downtown Port Townsend and hiring Port Townsend Chamber Manager Tim Caldwell, a PT native, to staff it.

"We've tried to centralize and try different approaches," said Reynolds. But PSE has heard from many communities that they have felt abandoned, said Reynolds. While that was not the case, he said he understood the perception. "We lost the personal touch," he said. "And this is an area that likes a personal touch."

That's why PSE is glad to open the call center in Port Townsend. "This is exciting to us," he said. "This lets us get back to our roots." Other offices have been opened on Whidbey Island and on Vashon Island, he said.

Opening the office also gives county residents who like the idea of local control a place to go, he said. "Tim is here," said Reynolds. "Tell us what you want. With our leverage we'll try to get it for you." PSE has the size to be influential in assisting the county, he said.

Power rates

Regarding the prospect of a PUD taking over the power utility, Reynolds said he has great respect for PUDs and is engaged in partnerships with several of them across the state. "I have no animosity toward PUDs at all," he said. PSE purchases power from some PUDs along the Columbia River that own their own dams, he said.

He also said he liked the simplicity of a PUD's decision-making process, since they are not regulated by the UTC. "I sometimes wish I had a PUD form of government where I could sit down with two others and make a decision," he said. Rate cases before the UTC take 11 months to win approval, he said.

Regarding power supply, another misperception is that PSE is losing contracts to low-cost hydropower and replacing it with higher-cost power, such as that generated from fossil fuel plants, said Reynolds. Instead, he said, PSE is losing its higher-cost contracts and will replace them with less expensive ones.

"The ones we have not renewed are the ones we don't want," he said.

At one point in the interview, Reynolds said that PSE's power prices could fall. But he later acknowledged that PSE power rates are more likely to rise, especially as the company relies

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more heavily on generation plants that burn coal or natural gas. PSE's own estimates show power costs rising in the years ahead.

According to Reynolds, the prospect of PSE being bought out by the PUD in Jefferson County brings a mixed bag of expenses and risks.

For starters, he said, it means county ratepayers would be asked to purchase a power network that is already paid for and exists. Should the PUD decide to acquire PSE's power network, it would happen through a condemnation action that would set a price on the network that varying estimates place at between \$66 and \$106 million. The PUD would pay for the network by issuing bonds that would be repaid by future rates.

"The county will be spending a lot more money [on the power network] when it could be spent on transportation, on schools," he said.

Proponents of Proposition 1, however, contend that in a 10-year period, the cheaper hydropower available to a PUD would reduce the rates paid by county residents - even including the acquisition costs. That estimate is disputed by PSE.

The company is especially proud of its wind farms near Ellensburg that generate electricity through wind generation, said Reynolds.