EXHIBIT NO. ___(DDW-4)
DOCKET NO. UE-04_____
2004 PSE PCA 2 COMPLIANCE
WITNESS: DURGA D. WAITE

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Petition of PUGET SOUND ENERGY, INC. For Approval of its 2004 Power Cost Adjustment Mechanism Report	Docket No. UE-04_____

THIRD EXHIBIT TO PREFILED DIRECT TESTIMONY OF DURGA D. WAITE (NONCONFIDENTIAL) ON BEHALF OF PUGET SOUND ENERGY, INC.

AUGUST 31, 2004

Ragen MacKenzie
A Division of Wells Fargo Investments, LLC
MEMBER NEW YORK STOCK EXCHANGE

Equity Research

MAY 20, 2004

Highlights of the
2004 Investment Conference

The companies listed below were represented at Ragen MacKenzie's 23rd Annual Investment Conference on May 18, 2004 at the Bell Harbor Conference Center in Seattle, Washington. Following are brief summaries of their presentations.

Presenting Companies:

Alaska Air Group, Inc.
Albertsons Inc.
ID Biomedical Corporation
Microsoft Corporation
Nordstrom, Inc.
Puget Energy, Inc.
Washington Mutual, Inc.

A webcast of the 2004 conference will be available until June 18, 2004 at the following address:
http://events01.activate.net/ragenmac/10464/

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REQUIRED DISCLOSURES ARE ON THE LAST PAGE OF THIS REPORT

Alaska Air Group, Inc.

(NYSE-ALK-$20.12, BUY)
Brad Tilden – Chief Financial Officer and Executive Vice President—Finance

Analyst: Peter S. Jacobs, CFA
Brad Tilden, Alaska Air's Chief Financial Officer, updated us on the Company's position in what he termed as an industry in chaos. With the rise of low-cost carriers and other competitive and structural factors, real ticket prices (adjusted for inflation) for the airline industry have been cut in half over the past 25 years and continue to trend down. Alaska Air management recognizes that in order to achieve consistent profitability in this kind of environment, the Company must reposition itself by lowering unit operating costs without compromising its high standards for reliability and service.

On a positive note, it appears that most of the Company's non-fuel operating metrics (i.e. traffic growth, load factor, unit revenue, competitive position in market place, and non-fuel operating costs) are trending positively and we believe the Company is making good progress toward achieving its long-term revenue and profit growth goals.

However, on a negative note, the Company continues to face a significant earnings headwind due to high fuel costs. Mr. Tilden indicated that Alaska Airlines is currently paying about $1.45 per gallon for fuel (unhedged) versus a historical average of $0.70–$0.80 per gallon, which reflects high overall prices for crude oil as well as much larger-than-normal premiums for West Coast fuel relative to East Coast and Gulf Coast prices. Despite some help from fuel hedges, current prices will likely produce a loss for the quarter and, if persistent, perhaps a loss for the full year, which could make our current estimate of break-even for the second quarter and a modest profit of $0.25 for the year too optimistic.

Looking out longer-term, Mr. Tilden emphasized that Alaska management is keenly focused on improving the operating metrics it can control, particularly non-fuel operating costs. The Company's vision over the next 5–6 years is to achieve annual growth of 8%–10% and to eventually produce a pretax profit margin of 10% through cost-reduction initiatives. The Company is making good headway on the cost front, in our opinion, but will continue to pursue efficiencies through measures such as technology initiatives, reduced turn times at the gate, and renegotiation of labor contracts.

We maintain our positive long-term view of Alaska Air Group and believe the shares are attractive at current levels, trading at about a 15% discount to the current book value of approximately $24 per share. In our view, the Company remains one of the best operators in the industry with a balance sheet second only to Southwest (NYSE-LUV-$14.83, not rated) when compared with other major airlines and has strong liquidity with about $26 per share cash. Also, despite the prospects of another unprofitable year, we expect the Company to be roughly cash flow neutral this year due to decreased capital expenditures.

VALUATION
Our price target is $28–$30 per share based on the stock trading at about a 15% premium to estimated year-end book value of $25–$26 per share and about 11x–12x the mid-point of our view of the Company's longer-term earnings potential of $2.00–$3.00 per share.

RISKS
In our opinion, the primary risk factor that could impede achievement of our price target is another setback in the recovery of the airline industry. Additionally, persistently high fuel prices could impact the Company's ability to achieve our longer-term earnings forecasts. Other risk factors include potential competitive pressures factors from low-cost airlines and/or the Company's inability to reduce non-fuel operating costs (including labor costs) over the next few years.

Albertsons, Inc.

(NYSE-ABS-$22.85, HOLD, Value Recommended List—Appreciation/Income: HOLD/HOLD)
Felicia Thornton – Chief Financial Officer and Executive Vice President

Analyst: Laurie J. Breidenbach, CPA

While the Southern California labor dispute and competition from non-traditional food retailers have depressed earnings in recent periods, Felicia Thornton, Albertsons' CFO, provided the Company's roadmap for driving sales and earnings growth going forward. Her presentation centered on the five key initiatives for achieving this: dual-branding; neighborhood marketing; focus on fresh; private label; and supply chain management. In addition, she discussed some of the technological tools that Albertsons is currently test-marketing to provide a more personal shopping experience and faster checkout, such as Shop & Scan.

In light of the recent acquisition of Shaw's, a New England-based chain, she stated that management regards all of its regional banners (Jewel/Osco, Osco Drug, SuperSaver, Sav-on, Shaw's, and Star Market) as having brand equity of their own and therefore the Company sees no need to embark on a large rebranding effort to pull more stores under the Albertsons banner.

On the labor front, she related that although there is always the potential of another dispute, the Company has been renegotiating and signing new labor contracts in various areas before and after the recent dispute in California. The Southern California dispute represented a unique event as it was the largest in the history of the grocery industry and was ultimately unsuccessful on the part of labor as the contract they eventually signed was essentially the one the companies offered at the beginning of the dispute.

The key thought we took away from the conference was that the Company has a viable roadmap for driving its sales, decreasing its costs, and increasing efficiency which is not dependent on a decrease in the current competitive environment.

VALUATION & RISKS

Our price target is $26, which we believe is appropriate given the current risks surrounding the Company. It is based on a P/E of 12x our normalized earnings estimate of $2.20. Over the past 15 years, the Company has typically been valued at a P/E multiple of 14x–22x and current earnings are depressed. The primary risks to our target price include: the speed of the economic recovery, over-aggressive competitive pricing, rising employee labor costs, the impact past or future labor strikes and the ability to negotiate more favorable terms with the unions, all of which could negatively affect the Company's sales and earnings growth. Additionally, there may be increased integration risk in the proposed acquisition of Shaw's.

ID Biomedical Corporation

(NASDAQ-IDBE-$10.22, BUY)
Anthony F. Holler, MD – Chief Executive Officer and Director

Analyst: Taunya R. Sell
ID Biomedical Corporation is a biotechnology company based in Vancouver, B.C. with a focus on the development of non-live vaccine products. Tony Holler, CEO and Director, began his presentation with an overview of the Shire acquisition, which transforms ID Biomedical from an R&D company into a fully integrated vaccine company with the ability to manufacture its own products.

Starting with the financial terms of the Shire deal, he then went on to discuss the strategic benefits of this transaction, which include an antigen supply for *FluINsure*, manufacturing and research facilities, the expertise of more than 400 people as well as the acquired vaccine products. With an antigen source (influenza proteins) for *FluINsure*, ID Biomedical now has the capability to manufacture this product entirely on its own, which will help the Company retain better margins on *FluINsure* upon marketing approval. The acquired Shire facilities will provide ID Biomedical with inception-to-production capabilities in addition to a team of skilled individuals with research, manufacturing and production expertise. In addition to several pre-clinical vaccine programs, ID Biomedical also expanded its vaccine pipeline with *FluViral*, an intramuscular influenza vaccine marketed in Canada, and a pneumococcal vaccine in Phase 1 clinical development. Importantly, the Company believes there is a clear path to *FluViral* marketing approval in the United States and expects FDA approval of this product by 2007. Overall, this acquisition increases both the Company's capabilities and product pipeline, propelling the Company forward in the growing vaccine market.

Dr. Holler then provided an update on the developmental progress of *FluINsure* and *StreptAvax*. We should expect clinical results from both the *FluINsure* Phase 2/3 field study and the *StreptAvax* Phase 2 trial sometime this summer. Later this year, the Company should begin a bridging study for *FluINsure*, incorporating the new Shire antigen into the product, which should be followed by a pivotal Phase 3 trial that will begin in 2005. In its *StreptAvax* program, the Company expects to begin clinical studies in children early in 2005.

VALUATION & RISKS
We rate ID Biomedical a BUY with a 12- to 18-month price target of $18. Based on a discounted cash flow model, our price target is based on what we think *FluINsure* alone could be worth a couple of years before marketing approval with a continuation of good results. We view ID Biomedical as a speculative stock, and therefore, only appropriate for the high-risk portion of a portfolio. The main risk to our target price for ID Biomedical would be if *FluINsure* has a lack of efficacy or significant side effects that resulted in clinical trials for this product being halted or significantly delayed. Any side effects or efficacy-related problems associated with the Company's adjuvant Proteosome™ platform technology would likely have a significant impact on the stock price. Additionally, execution risk related to the integration of the Shire business now exists.

Microsoft Corporation

(NASDAQ-MSFT-$25.73, BUY)
Curt Anderson – Senior Director, Investor Relations

Analyst: Jonathan S. Geurkink
Curt Anderson, Director of Investor Relations for Microsoft, laid out a high level view of recent results and the outlook for Microsoft's businesses. To begin, he described the industry as very healthy. Worldwide PC demand is expected to continue to grow at a healthy clip, likely somewhere in the range of 13%–14% over the near term. Where consumers drove PC demand in the first half of this year, the Company is beginning to see business demand picking up and refresh of corporate PCs and notebooks is likely to fuel growth moving forward. He also emphasized the diversity of Microsoft's business beyond PCs in servers, video games, mobile phones, and online access and advertising.

In FY04 (ends June 2004), Microsoft expects double-digit revenue growth in six out of seven of its core businesses. With these seven core segments, which have executive level managers responsible for each segment's P&L statement, the Company has created what Mr. Anderson described as an accountability culture that encourages each business unit to look for ways to improve profitability. Through cost efficiency and efficacy measures, management believes it can improve operating margins by a couple of percentage points in FY05.

He also addressed Microsoft's balance of more than $70 billion in cash and investments. The Company has put some business and legal risk behind it this year with settlement of a number of outstanding litigation issues. While issues remain, Mr. Anderson reiterated the Company's commitment to address plans for its cash and investment balance, which could include increased share repurchase and/or cash dividends, by its investment analyst meeting in late July. He did note that Microsoft will likely always maintain a large balance of cash to maintain high levels of R&D investment and retain flexibility to grow both organically and through acquisitions.

We continue to view Microsoft as one of our top picks in the technology sector.

VALUATION
Our 12- to 18-month price target of $35 reflects a P/E on forward operating earnings, excluding stock-based compensation expenses, of approximately 25x. We believe Microsoft's dominant position in desktop software, solid profitability and cash flow generation warrant a significant premium to our secular growth rate estimate of 15%.

RISKS
Key risks include a protracted decline in PC units, weakness in corporate spending on information technology, potential erosion in the *Windows* desktop standard from competing operating systems such as *Linux*, and ongoing litigation, factors that could negatively affect the attainability of our price objective.

Nordstrom, Inc.

(NYSE-JWN-$37.23, HOLD)
Peter E. Nordstrom – Executive Vice President and President, Full-Line Stores

Analyst: Laurie J. Breidenbach, CPA
Peter Nordstrom, the President of Nordstrom's full-line stores, provided an insightful picture of the turnaround his company has experienced over the past two years. While the presentation did cover the major financial metrics that most investors focus on, such as revenues, earnings, and comp-store sales, it was the details of the Company's operational side that we found most useful in giving us confidence that investors holding the stock will be further rewarded.

Nordstrom's ability to market itself and its products (which has always been a strength of the Company) was in review in a seven-minute commercial of various video clips showing new store openings over the past two years. (Literally, mobs of people waiting for the stores to open…) While the Company's marketing remains as strong as ever (in our opinion), the true improvement which turned around the financial results is the increased operating efficiencies behind the scenes. Mr. Nordstrom gave multiple examples of how much room there was to improve the Company's operations two years ago; from having 8% of inventory in transit between stores at any one time to having 300+ styles of men's suit pants when only nine of them represented 50% of sales.

The cornerstone of the turnaround has to-date revolved around better inventory management. Only after updating the Company's IT systems over the past two years has the Company actually been able to analyze the patterns of its business in enough detail to make fact-based inventory decisions. Mr. Nordstrom stated that Nordstrom is only in the second year of a five-year plan to increase the operational efficiency at the Company, indicating further improvement ahead. We concur.

Addressing one question, Mr. Nordstrom indicated that home accessories could, at some point, become one source of additional sales growth at Nordstrom, but the Company was only now experimenting with the idea.

Going forward, investors should expect management to carefully consider any decisions to add to the store base. As rapid expansion of the store base and poor store-size decisions lead to problems in 2001-2002, management examines any new build decisions with a more critical eye.

Puget Energy, Inc.

(NYSE-PSD-$20.75, HOLD, Value Recommended List—Appreciation/Income: HOLD/HOLD)
Stephen P. Reynolds – President and Chief Executive Officer

Analyst: Greg M. Stevenson
Puget Energy CEO Stephen Reynolds presented the Company's business strategy. He highlighted the Company's focus, which includes: 1) being a low-cost provider of energy while providing high service levels; 2) adding diverse rate-based generation to minimize reliance on volatile spot markets for supplies; and 3) creating a collaborative relationship with regulators. Puget has one of the lowest operating costs per customer among its peer group and very high and improving service levels.

In 2004-2005, the Company is expected to achieve earnings growth from new resource generation additions and from customer growth, which continues to be almost twice the national average at 3% for gas and 2% for electrical. Downside protection comes from the fact that the Company has already reached the $40 million Power Cost Adjustment cap after which the Company can pass on 90% of the increased energy costs to customers.

On the regulatory front, progress is slow as the Company and its investors continue to be penalized by regulators for decisions made by previous management as much as 13 years ago. One of the key slides in the presentation shows a rapid increase in generating capacity needs for the Company around 2011, which corresponds to the end of a 20-year escalating fixed-price contract to purchase power from one generating facility for which the regulators have disallowed most cost-increase recoveries over the past decade. (In a related development the morning of the conference, the Company filed an 8-K revealing that regulators had denied $25.6 million in adjusted base revenue requested last year to account for increased costs at this particular facility.)

Mr. Reynolds believes that the dividend and current 60% targeted payout ratio from the utility's earnings is sustainable.

VALUATION & RISKS
Our target price is $25, or 14.5x our FY05 earnings estimate of $1.72 per share. Puget trades at a slight premium to a group of peer companies we assembled that are all combination gas and electric utilities. The higher forward P/E multiple compared to both average of its peers and the Dow Utility Average is probably due to Puget's higher yield and favorable growth profile from customer and new generation capacity. We believe that with regulatory uncertainty and little room for dividend growth in the next 18 months, near-term appreciation potential appears limited. Primary risks surrounding the stock include adverse regulatory rate case developments and rising third-party energy prices. While the PCA mechanism should allow the Company to pass most of these costs to the customer, the mechanism must be renewed in 2006, creating more regulatory risk that it will be changed at some point in the future.

Washington Mutual, Inc.

(NYSE-WM-$39.65, HOLD)
Deanna W. Oppenheimer – President, Consumer Group

Analyst: Greg M. Stevenson
Deanna Oppenheimer, President of Washington Mutual's Consumer Group, presented the Company's strategy for achieving its vision of becoming the leading retailer of financial services and balancing the business between retail, commercial, and mortgage banking.

Washington Mutual continues to roll out its low-cost *Occasio* branches which continue to provide positive returns in 18 months in new markets and 12 months in existing ones, on average. The Company has already achieved 30% household market share in 12 of the top 50 metropolitan statistical areas.

The Company believes its has priced its retail offerings, like Totally Free Checking, so that the customer pays for the services they value with no hidden fees. Branch personnel are uniquely enthusiastic and incentive-based to create high cross-sell results. Washington Mutual is leveraging its existing relationships with mortgage customers to try to establish a broad-based financial relationship. In short, these initiatives are fueling the Company's high organic growth which is the envy of other financial institutions.

VALUATION & RISKS
The stock is rated HOLD. Our price target remains $44 per share which represents a 9.6x P/E multiple on our 2005 EPS estimate of $4.60 and is the approximate mid-point of the stock's relative P/E range of 40%–70% of the S&P 500. Current earnings expectations for the S&P 500 suggest a 17.1x P/E for 2005. Risks to the price target include: higher credit costs, interest rate risk, including lag risk and operational risks. These would include the current restructuring of the Company's mortgage banking operations.

S&P 500: 1089.19

REQUIRED DISCLOSURES

PRICE HISTORY CHARTS

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PRICE TARGET VALUATION METHODOLOGY AND RISKS

The methods used to determine the price target are generally based on a multiple of earnings, cash flow, revenue and/or historical and relative valuation multiples. Risks that could impede achievement of our price target include, but are not limited to, changes in economic and industry conditions, consumer and business spending patterns, as well as geo-political risks. When a price target is used, please refer to the Valuation and Risks section in the body of the report for additional discussion on the specific valuation methodology and related risk factors as they pertain to this analyst's investment thesis.

RATING SYSTEM

BUY – Immediate purchase is recommended; the stock is expected to outperform the general market over the next 12-18 months.
HOLD – Holding the stock is recommended. The stock has moved out of our preferred buying range, but there is further upside to the share price; or stated objectives at the time of purchase have changed and share appreciation may take another 6-12 months.
SELL – The stock has reached the stated price objective and appreciation has been achieved; or certain company fundamentals have changed which warrant investors selling the stock to avoid price decline.

RATINGS ALLOCATIONS

Rating	% of covered companies with this rating	% for which IB Services have been provided
Analyst Coverage		
BUY	17%	10%
HOLD	78%	9%
SELL	5%	0%
Value Recommended List—Appreciation		
BUY	20%	0%
HOLD	70%	0%
SELL	10%	0%
Value Recommended List—Income		
BUY	0%	0%
HOLD	100%	0%
SELL	0%	0%
Growth Recommended List		
BUY	57%	0%
HOLD	43%	33%
SELL	0%	0%

Updated on 04/06/2004

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