



Gale E. Klappa

EDITORS' NOTE Gale Klappa is also Chairman, President, and Chief Executive of Wisconsin Energy's principal utility, We Energies. He has held these roles since May 2004. Klappa joined Wisconsin Energy as President in April 2003. He was elected to the company's Board of Directors in December 2003. Prior to joining Wisconsin Energy, he served as Executive Vice President, Chief Financial Officer, and Treasurer of Southern Company in Atlanta, Georgia. Previously in his career, Klappa was Southern Company's Chief Strategic Officer, the North American Group President of Southern Energy Inc., and President and CEO of South Western Electricity, Southern Company's electric distribution utility in the United Kingdom. Before his assignment in the U.K., he was Senior Vice President of Marketing for Georgia Power Company, a subsidiary of Southern Company. Klappa is a 1972 graduate cum laude of the University of Wisconsin-Milwaukee (UWM), with a bachelor's degree in Mass Communications.

COMPANY BRIEF Based in Milwaukee, Wisconsin Energy Corporation (www.wisconsinenergy.com), is one of the nation's premier energy companies, serving more than 1.1 million electric customers in Wisconsin and Michigan's Upper Peninsula and 1.1 million natural gas customers in Wisconsin. The company's principal utility is We Energies. The company's other major subsidiary, We Power, designs, builds, and owns electric generating plants. Wisconsin Energy, a component of the S&P 500, has more than \$14 billion of assets, approximately 4,500 employees, and more than 41,000 stockholders of record.

What makes this company so special?

The founding fathers of the company in the late 1800s had a strong belief in business planning and in planning for contingencies well before that became business vogue.

At one time, our headquarters building was to Milwaukee what Grand Central Station is to New York.

Powering Wisconsin

An Interview with Gale E. Klappa, Chairman and Chief Executive Officer, Wisconsin Energy Corporation

Because Milwaukeeans came through this building to hop on and off electric trolleys, there are working vaults all over the building for handling the cash and coins to pay fares. In one of the working vaults, years ago, legend has it that one of our people found a handwritten business plan by the founding fathers of the company.

According to the plan, they had an alternative in mind in case this "newfangled" electric business failed, which was to turn this grand building into a magnificent railroad hotel, a la the great railroad hotels of Europe.

So the roots of prudent management and business planning, and thinking about alternative scenarios on behalf of shareholders and customers, goes back to the founding of the company.

How challenging is it to differentiate as a utility company today?

The electric industry today, particularly in the U.S., is based on a patchwork quilt.

We have 26 or so states that have tried some form of deregulation of our industry, which has not turned out particularly well.

Some states, like ours, have stayed with a traditional form of regulation where fully integrated utilities serve customers in the state.

So the first point of differentiation for us is that we're still a fully regulated, fully integrated company with franchise responsibility to serve customers at the lowest possible cost; this is compared to those that are in states where the rules are different and outcomes have varied greatly.

The second point of differentiation is a consistent track record of performance. Since 2003, we have spent \$8.5 billion on infrastructure that was badly needed in the Midwest. Some of those projects have been very large – we have a \$2.3-billion power plant that came online in 2010 and 2011.

As you know, it's difficult to nail a construction cost estimate and consistently deliver major infrastructure projects on time and on budget. But we have built one of the most talented and effective construction management teams in the world. That has been our differentiating point.

Even during challenging times, you have continued to make those investments.

Some companies might have pulled back, but we firmly believed – as did our regulator – that the projects we were building were going to be needed for the long term.

In our industry, the assets have very long lives, so in many ways, we were planning for a future where 40 to 50 years out, we knew these assets would continue to serve customers really well.

Our new natural gas-fired power plant – two units – we brought in at \$609 per unit of capacity. Today, if you were to build that same plant with the same technology, it would cost at least \$1,000 per unit of capacity.

We brought our new clean burning coal-fired power plant into service for under \$2,000 per unit of capacity; today, one very fine company in the Southeastern U.S. just finished a plant, same technology, at \$2,500 per unit of capacity. The Federal Department of Energy is saying, if you could build a new clean burning coal-fired power plant from scratch today, it would cost \$3,000 per unit of capacity.

How are you able to keep costs so low?

It's what I call fuel diversity. An important lesson from the history of our industry is that you really need the entire spectrum of technology, at any point in time, to serve your customers cost competitively.

Today, natural gas prices in the U.S. are extraordinarily low, but if we had 100 percent of our power generated by natural gas in 2006 or 2007, the prices would have been astronomical, because natural gas peaked at \$14 per million BTU – it's roughly \$3.60 per million BTU today.



Oak Creek Expansion Units, Oak Creek, Wisconsin

There have been times when natural gas has been banned as a fuel for power plants.

So we have about 20 percent of our energy generated by nuclear; 50 percent by coal; 20 to 25 percent by natural gas; and the remainder is produced by renewables, such as wind and biomass.

We have a full suite of technologies and this has been hugely helpful to us.

We also have a strong focus on financial discipline in the company. We keep our operation and maintenance costs under control and we challenge our managers to get more efficient every year. We have done very well by pairing technology with pure, old-fashioned financial discipline.

Do the public and the legislators understand what nuclear can offer today?

I don't think the potential opportunity for the next generation of nuclear reactors is fully appreciated yet.

The Environmental Protection Agency recently came out with proposed rules for CO₂ emissions that will likely make it extraordinarily difficult, if not impossible, to cost-effectively build a new coal-fired power plant in the U.S.

My fear is that regulation and the lack of current understanding about the positive impact that the next generation of nuclear plants could deliver is beginning to narrow the choices for companies like ours to serve customers.

If you had to build a new power plant today, you would choose to have it fueled by natural gas. But we have all seen the swings and there is no guarantee that we're going to have \$3.50 natural gas as far as the eye can see.

So we're big believers in fuel diversity and I'm hoping with continuing work, we can help shape public policy so we can really serve customers with a diverse technology suite going forward.

Why can't the U.S. come to an understanding on energy policy and is the industry effectively being brought into the discussion?

It's frustrating to all of us that there hasn't been a coherent energy policy for decades now.

Part of the issue is that the government is not particularly adept at picking technology winners. So if the government gets involved, which it has to in terms of defining energy policy, many times the policy ends up being a bit off the mark in terms of what market conditions call for.

Today, even though many believe we don't have an energy policy in the U.S., de facto, we do have one; and de facto, there is a huge emphasis on renewables and building more transmission since the locations where renewable energy is most productive are not where the customers and the load centers are. If we're going to develop more renewables, we need more transmission to transport the energy from where it's produced to the major cities and the load centers.

My belief is that we need a broader approach; we need the entire suite of technologies to serve customers effectively over time, and that's what we'll keep campaigning for.

Is it well understood how much this industry contributes overall?

We measure our success in terms of customer satisfaction. People just want the lights to go on when they walk in the room and flip the switch. If we're doing our job, we should in that sense be invisible.

The best measure of how well we're doing is how satisfied our customers are, and we have come a long way in our customer satisfaction.

How successful have you been in driving that customer orientation out to your people?

Our folks understood that if we were going to be successful in building \$8.5 billion of infrastructure – which would require some price increases to fund – that we were going to have to do a better job of satisfying customers.

I believe that changing the culture requires a consistent focus from the top. For example, as a company we make at least 3,000 calls to our customers every week. I see a roll up of those calls at noon every day. I look at that summary no matter what I'm doing. If I see something I'm concerned about, I will call into the organization.

Everybody in our company knows that customer satisfaction is a vital priority for us.

Is next generation of talent finding this an attractive industry and is the diversity of your workforce growing?

You can make real, measurable progress if you focus on it the right way. We measure diversity as one of our core goals. I'm pleased to report that we had the most diverse leadership team in the history of the company at the end of last year.

We did it by identifying people we thought had real potential and grooming them, giving them opportunities, and moving them into areas outside of their comfort zone. We put together a clear developmental plan for each of them and moved them around the company to let them see things from different perspectives.

We're also seeing strong interest among women and diverse candidates with engineering degrees.

This is also a company with a culture of community engagement. Is the focus within that segment aligned with the business?

It's part and parcel of who we are – we touch one out of every two citizens in the state of Wisconsin. With a broad base of employees living all over the region, we ask our people to be good citizens wherever they serve and to contribute in ways that are beyond our bottom line.

For example, there are hubs around the nation that raise money to fly World War II veterans to see their memorial in Washington, D.C. Now in their late 80s or early 90s, many of these veterans pass away every year. Our foundation was the first in Wisconsin to contribute to this organization, called Stars and Stripes Honor Flight.



Port Washington Generating Station, Port Washington, Wisconsin

This and many other projects demonstrate our belief that it's about more than the bottom line.

How is the economy faring today and is the U.S. in a true recovery?

Our energy sales are a good barometer of economic activity. At best, we are treading water. We've heard a lot of optimistic talk and I would like to believe it, but right now the data doesn't support it.

If you look at electricity consumption among our large commercial and industrial consumers, we are still about 15 percent below where we were in 2008.

The fact that we have climbed back and are still 15 percent below where we were in 2008 for that segment of customers is indicative of a tepid recovery at best.

What makes a successful CEO today?

The most important responsibility of a CEO is to grow the talent that can take the company to the next level after you leave.

As a tenured CEO, there are times when I think I absolutely know the answer to a problem and it would be easy to say, this is what we need to do, let's rock.

But my management style is collaborative, so I'll tend to bring the senior people together and we will talk through the solution. I want to make sure that our senior team is agreed on the solution, because they will be carrying out whatever it takes to reach it.

I also want to make sure they learn as we think through these issues and as we take action, so that they can bring perspective and insight to the table down the road.

It's clearly important to serve as a mentor and to choose the right people that have the right chemistry to work as a team; I'm big on high competence and low ego.

What is it that makes this industry one that you are clearly so enthused about?

I love the public responsibility of the industry, the intimacy of the consumer contact, and the challenge of the technology. Our industry stands at the intersection of customer service, technology development, and public policy.

I can't think of a more exciting place to be if you like a challenge, at the intersection of those three elements.

So every day is a challenge and I enjoy particularly helping really good people reach their potential. ●