WEC Energy Group

Reliability and Infrastructure

An Interview with Gale E. Klappa,
Chairman and Chief Executive Officer, WEC Energy Group

Gale E. Klappa

EDITORS' NOTE *Gale Klappa is Chairman and Chief Executive Officer of Milwaukee-based WEC Energy Group, one of the nation's premier energy companies, serving 4.4 million electric and natural gas customers in Wisconsin, Illinois, Michigan, and Minnesota. He also is Chairman and Chief Executive of WEC's principal utility, We Energies. He has held these roles since June 2015 when Wisconsin Energy acquired Integrys Energy Group. Klappa held the same positions for Wisconsin Energy Corporation and We Energies between May 2004 and June 2015. 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. He is a member of the board of directors of Badger Meter Inc. and Joy Global Inc. He serves as a director of the Edison Electric Institute, and was a trustee for the Electric Power Research Institute from 2008 to 2015. He also serves on the executive committee of the Greater Milwaukee Committee, the board of trustees of the Medical College of Wisconsin, the UWM School of Business Advisory Council, and the board of directors of the United Performing Arts Fund.*

COMPANY BRIEF *WEC Energy Group, based in Milwaukee, is one of the nation's premier energy companies, serving customers in Wisconsin, Illinois, Michigan, and Minnesota. The company's principal utilities are We Energies, Wisconsin Public Service, Peoples Gas, North Shore Gas, Michigan Gas Utilities, and Minnesota Energy Resources. The company's other major subsidiary, We Power, designs, builds, and owns electric generating plants. WEC Energy Group (wecenergygroup.com), a component of the S&P 500, has nearly $29 billion of assets, 9,300 employees, and approximately 60,000 stockholders of record.*

To what do you attribute the consistent strength of WEC Energy and how will you make sure to continue on that strong course?

The short answer is our laser-like focus on the fundamentals. We constantly remind ourselves that our success is tied to executing on the fundamentals of our business. That starts with a strong daily effort to satisfy customers. It extends to experienced, effective construction management.

At day's end, our business is about two things: reliability and the infrastructure we need to build – building that infrastructure on time and on budget.

For example, since 2003, we have invested $9.9 billion on energy infrastructure to serve our region. Some of the projects have come in slightly over budget, some have come in under budget. But all told, we have built $9.9 billion of infrastructure on time and on budget. That is incredibly important to our success and to keeping our company cost competitive for our customers.

With your merger with Integrys, how do you make sure that culture stays at the forefront?

The most direct and influential way we are working to ensure that our existing culture and focus remain at the heart of what we do is through the selection of the new leadership team for the combined company.

We were fortunate in that we were able to work our way through approvals for the acquisition in four states – Wisconsin, Illinois, Michigan, Minnesota – and two federal agencies, all in just 53 weeks. We were fortunate to move through the process that quickly.

As we sought these regulatory approvals, we also developed a new organizational structure for the combined company. Shortly before we closed the transaction, we selected proven leaders for the top 70 positions in the combined company.

I believe this was the most direct and immediate way to maintain our culture – because every one of those leaders has proven they have the right focus.

What impact will these two organizations coming together have for the future?

At $9 billion, this acquisition was the largest non-bank acquisition ever made by a Wisconsin company. The benefits that we believe we can deliver from the acquisition are twofold:

First, we are in an era of low-demand growth. As costs for infrastructure continue to rise, companies like ours need to have scale and scope, a broad reach, and technical depth to successfully participate in what is likely to be a consolidating industry going forward.

This acquisition gives us all of those things. We will now be serving 4.4 million customers across four states; we will be the eighth largest natural gas distribution company in America; and in terms of investor-owned utility systems, we will be one of the 15 largest in the United States.

This gives us a strong platform of geographic reach and depth that is needed to be one of the best performing utility systems in the country.

Second, the acquisition gives us a real opportunity to continue the investment growth we have experienced over the past decade for our shareholders.

For example, with the infrastructure needs of this company and the company we have acquired, capital spending will probably be in the range of $1.3 to $1.4 billion per year for as many years going forward as the eye can see. That is double the investment opportunity that Wisconsin Energy had as a stand alone.

Going forward, will all energy companies need to have substantial scope to survive?

Over time, the smallest players will have more difficulty being cost-competitive for their customers because there are so many fixed costs in our business. In a low-growth environment, we have to find a way to spread those costs over a broader base of customers.

This was very much a part of our thinking. For example, we have said publicly that in Wisconsin alone, we think there will be more than $1 billion in cost savings for customers over the next decade from this acquisition.

How hard is it to find the balance with projects when sometimes seeing results takes years?

I have never looked at it as short-term versus long-term. What's most important is that we properly project our investment needs for infrastructure development. I have found over the years that if we clearly explain what our longer term plan is and we deliver on that plan, the short-term takes care of itself.

How critical is it to maintain a service business mentality?

It is at the core of everything we do – so it's important that I will personally take customer calls if there is a concern.

All success in our business is local. All success in our business derives from customer satisfaction.

How do you stay on top of the regulatory matters today?

All of us who have had some modest success in this industry have grown up in a regulatory framework. It's part of our daily life. I believe the key to success for a regulated company is transparency.

There should be no surprises. Success requires building a relationship of trust, doing what we say we're going to do, and keeping our regulators fully informed.

How critical have the investments in technology been to the continued success and is technology a differentiator in this industry?

Technology has not always been a differentiator in our industry, although it is probably becoming more of one as we go forward.

Our customers are best served with the full array of energy technologies. For example, we serve our customers with a mix of nuclear energy, natural gas fired energy, coal fired energy, hydropower, wind power, biomass-fueled energy and, to a modest extent, solar. There is no perfect fuel source. Our view has always been that customers are best served by using the entire array of technologies that are available to us.

Having said that, there are continual improvements in the efficiency of the technologies that we can use and, increasingly, ways to use technology to reduce costs in our industry. For instance, every year we do a thorough inspection of the boilers at our power plants. That is a time-consuming and costly effort that we carry out during planned downtime for the plants. Because these boilers are so large, it requires scaffolding to be built inside the boilers, and it requires specialists to come in once the scaffolding is built to examine the boiler walls for cracks or abnormalities.

Over the past 18 months, we have found a way to introduce the use of drones instead of always relying on humans to inspect those walls. We're getting a better-than-the-human-eye level of quality as we fly a drone around the boiler and use a high-resolution camera to inspect the walls. It takes a fraction of the time and it's far more cost effective.

We continue to apply technology in increasingly creative ways.

How concerned are you when you hear about cybersecurity issues?

Cybersecurity is clearly a high priority. We, like others in our industry, are in constant contact with the federal authorities regarding cybersecurity issues. We have done a great deal of work to protect ourselves from cybersecurity attacks. For example, we have a number of internal operating systems that are not connected in any way to the Internet.

However, the amount of hacking, the number of cybersecurity attacks, and the sophistication of those attacks continue to grow. We are working to ensure that if someone did infiltrate one of our systems, we could detect it quickly and minimize the damage.

How important is it to get the message out about what this industry offers in order to attract the next generation of leaders?

Contrary to what many think, this is an exciting and challenging industry in which to build a career. We stand at the intersection of technology development, energy policy, and public policy.

Obviously, an infrastructure company like ours needs a wide range of skills, from finance to IT to legal to government and customer relations. But a core skill is engineering. Fortunately, we're in a part of the country where we have strong engineering schools and great relationships with those institutions.

How important have you found it to be to surround yourself with top talent that really know how to run their businesses?

As a CEO, surrounding yourself with people who can carry out a function better than you could personally is the absolute key to success. I've been fortunate in that our board of directors has given me the freedom to build a first-rate management team. We have a good mix of individuals who have been at this company for many years along with those we've recruited from literally across the world.

This is not a company where lone rangers can succeed. We do things with a team orientation. I want the best ideas from our team debated openly where everyone feels like they're responsible for contributing. I may be biased, but I think I have the best young management team in the industry. ●

Geographical Diversification

An Interview with Allen L. Leverett, President-Wisconsin, Michigan, and Minnesota, WEC Energy Group

Allen L. Leverett

EDITORS' NOTE *Allen Leverett was appointed President of Milwaukee-based Wisconsin Energy Corporation, named WEC Energy Group in August 2013. He also served as President and Chief Executive Officer of We Generation since March 2011. Leverett joined Wisconsin Energy in 2003 as Chief Financial Officer. In May 2004, he was named Executive Vice President and Chief Financial Officer of Wisconsin Energy and We Energies. Leverett earned his bachelor's degree, summa cum laude, in electrical engineering and mathematics from Vanderbilt University. He also earned a master's degree in electrical engineering from Stanford University, and a Master of Business Administration degree with a finance concentration from Auburn University.*

What is the secret behind WEC's consistent strength?

Gale (Klappa, Chairman and CEO) and I have worked together for quite a while. One of the things we have learned from our experience is the need for a tremendous focus on customers – even in a regulated industry. A high level of customer satisfaction will translate into good regulatory relationships and with that, an environment that is going to translate into good shareholder returns or at least the ability to earn those if we manage operations well.

We're now embarking on a big geographical diversification in Illinois, Michigan, and Minnesota. Our customer focus and construction expertise will allow us to keep this moving.

When you acquired Integrys, how important was it to integrate the cultures to ensure a smooth transition?

Sometimes there are social issues between the senior management teams, but there were none between Wisconsin Energy and Integrys.

The only cultural difference that we had between the two companies was the Illinois operation. The people in Illinois want to be proud to work for that company and want to do a good job, but their execution needs to improve. We will bring our customer service culture to the Illinois operation.

How critical is innovation to the business?

Electricity and natural gas are very mature markets but innovation, even within a mature market, is very important.

Before the merger, tremendous innovation took place in moving away from manual-read meters. In Wisconsin, we currently have close to 100 percent automated meters. That has had a great impact on our costs and also on customer satisfaction, since automatic meter reads are more accurate reads.

We are now applying the same metering technology on capacitor banks on our electric distribution lines. The meters are capable of providing a low cost, real time, reliable option to monitor the health of the equipment to prevent voltage problems. As we install more sensors and devices on our distribution lines, we will be able to determine the location of an interruption much more quickly rather than waiting for a call and sending a troubleshooter to investigate. As a result we will require a more advanced operating system to manage all the data. Many vendors are spending a considerable amount on research and development for Advanced Distribution Management Systems to aid utilities in managing the inputs in a data rich environment.

What challenges lie ahead for the industry?

In our business, we have gas and electric utilities, and we have to think about those challenges separately because they are very different businesses.

On the gas distribution side, the big challenge is, in many ways, the age of the infrastructure. We're in better shape in Wisconsin than in Illinois, but updating that infrastructure is a huge challenge in terms of the amount of capital, and minimizing the impact on customers.

Also, the EPA just issued their Clean Power Plan, so we have to respond to that in such a way that doesn't make electricity unaffordable to our residential customers, and more importantly to our manufacturing customers. ●