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PUBLIC UTILITIES FORTNIGHTLY

"In the Public Interest"

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Following the Combo of SEPA with Sharon Allan's SGIP (shown right)

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Cover photo: At the Washington DC offices of the Smart Electric Power Alliance, SEPA. From left to right, Julia Hamm, CEO, SEPA and Sharon Allan, CEO, SGIP. Photographer: Jason Turrisi.

Leadership Lyceum Podcast

The Lincoln Leader

A Conversation with WEC Energy Group President and CEO Allen Leverett

Allen Leverett, with Tom Linquist

This is a second feature in a series introducing CEOs that were appointed within the past year. It's my pleasure to join Allen Leverett, President and CEO of WEC Energy Group for this conversation.

Allen was appointed President and CEO of WEC Energy Group in May of 2016. As one of the youngest CEOs of investor-owned utilities, Allen brings verve to industry leadership, but also a deep respect for the past.

In some earlier era, he would have been called a man of letters and a humanist. He is a curator of the best of the past, from restoration of architectural treasures to the application of history to his role as CEO. As a Lincoln-phile, he continually draws on a treasure of leadership examples from Abraham Lincoln.

Allen and I met in his company's vintage boardroom inside the elegantly renovated Public Service Building in downtown Milwaukee, a beaux-arts/classical revival masterpiece. It opened in 1905 as the downtown interurban passenger train depot for The Milwaukee Electric Railway and Light Company.

WEC Energy Group, based in Milwaukee, is one of the nation's premier energy companies, serving 4.4 million customers in four states: Wisconsin, Illinois, Michigan and Minnesota. The company's principal utilities are We Energies in Milwaukee, Wisconsin Public Service in Green Bay, Peoples Gas, serving the City of Chicago, North Shore Gas, which serves Chicago's northern suburbs along the lakeshore of Chicago, Michigan Gas Utilities and Minnesota Energy Resources.

Here's a timeline to illustrate the evolution of the company. Ten years ago, Wisconsin Public Service, at the time a separate company, completed its merger with Peoples Energy (Peoples Gas and North Shore Gas) in Chicago, forming Integrys Energy.

One year prior to that, Wisconsin Public Service had purchased the Michigan and Minnesota gas utilities from Aquila. We Energies purchased Integrys in the summer of 2015. What a difference a decade makes.

Tom Linquist: Allen, just over a year ago you were appointed president of the company under CEO Gale Klappa. Then a little less than a year ago, in May of 2016, you were appointed CEO of the entire company.

As CEO you preside over a uniquely different company compared to the one you joined fourteen years ago. What do you think about the company in these still early months of your tenure?

Allen Leverett: You use the words 'uniquely different' and maybe we'll just talk about the differences. I think that naturally gets into how we think differently about the business since the Integrys transaction.

We have a much larger natural gas business than before. Certainly, Wisconsin Public Service, before they bought the Aquila properties and merged with Peoples, had a gas business of their own because they were a combined utility in Green Bay. We were also a combined utility in Milwaukee, but when you put Integrys and legacy Wisconsin Energy together, we're the eighth largest natural gas utility in the country.

Nearly half of the business, in terms of capital expenditures, is committed to natural gas.

All of a sudden, we were most certainly not just running an electric utility with an afterthought of a natural gas utility. We were running a very large natural gas enterprise. That causes us to think differently about capital allocation.

Nearly half of the business, in terms of capital expenditures, is committed to the natural gas business. And it's only a quarter of our rate base, right now. We're going to take the natural gas business on a rate base basis from being roughly a quarter of our business to being nearly a third of our business over the next five years.

Another opportunity we have is in the area of natural gas storage. Historically, the gas utilities in Wisconsin never owned underground natural gas storage of their own. They had to have a collection of short and long term leases, but they never actually owned any storage of their own.

Our Illinois and Michigan utilities have owned storage and delivered big benefits to customers and provided nice investment returns for the investors. That caused us to look very seriously at underground storage for our Wisconsin utilities. Now, the geology in Wisconsin won't support building storage in the state. We've got a proposal in front of the public service commission where one of our subsidiaries would buy a very large field in southeastern Michigan.

The subsidiary would own the field and have service agreements back to the Wisconsin utilities. But because of the overall ownership structure of these companies, effectively they'd own, or they'd have something that would look very much like ownership of those assets.

Lincolnphile Leverett: Integrity

At one point during the Civil War, President Lincoln was pushed by his cabinet to confront the realization that many people who were thought to be Union patriots were actually spies providing key information to the Confederacy.

Not only was the situation a security concern, but Lincoln was particularly distressed at the obvious lack of loyalty and honesty from so many people who were believed to be Union supporters.

After presenting the overwhelming evidence, Secretary of War Edwin M. Stanton turned to the president for direction. Lincoln, who had been silent and visibly disturbed, expressed his feelings with a story about the dilemma of an old farmer who had a very large shade tree towering over his house.

"It was a majestic-looking tree, and apparently perfect in every part – tall, straight, and of immense size – the grand old sentinel of his forest home. One morning, while at work in his garden, he saw a squirrel [run up the tree into a hole] and thought the tree might be hollow.

He proceeded to examine it carefully and, much to his surprise, he found that the stately [tree] that he had [valued] for its beauty and grandeur to be the pride and protection of his little farm was hollow from top to bottom.

Only a rim of sound wood remained, barely sufficient to support its weight. What was he to do? If he cut it down, it would [do great damage] with its great length and spreading branches.

If he let it remain, his family was in constant danger. In a storm it might fall, or the wind might blow it down, and his house and children be crushed by it. What should he do?" As he turned away, he said sadly, "I wish I had never seen that squirrel."

– An excerpt from *Beecher's Magazine*, 1870, paraphrased by D.T. Phillips in his 1992 book *Lincoln on Leadership*.

We certainly view these natural gas investments as a very large opportunity for our investors. There are a lot of very good projects that bring benefits to customers in terms of infrastructure renewal, primarily. There are large benefits for customers, but also something that's a very attractive proposition for investors.

The other big difference, for us, is really having multiple states. Historically we operated in two states. We had some operations in Michigan, but most of the company was in Wisconsin.

But now we have significant operations in four states. I think that has enabled us to create many more opportunities for our management employees to move around between the companies. That's certainly something I saw at Southern Company, my former employer. I certainly think that makes for good development of executive management employees.

It also brings some regulatory diversity for the investors. Whereas before if you were buying legacy Wisconsin Energy, it was overwhelmingly a Wisconsin-based company. We still have two thirds of our company by rate base in Wisconsin, but now we have some additional diversity across some other very supportive jurisdictions that balance the interest of customers and investors very well.

Tom Linquist: Your forecasted capital expenditures over the next five years are about ten billion dollars. You mentioned earlier that half of that allocation is going to the gas business.

It sounds to me like a big lift and a big responsibility to manage effectively and efficiently. How does that compare to prior years? Perhaps it's not fair to compare because you're such a different utility.

Allen Leverett: It's hard to compare because the company is so much bigger, certainly, than it was before. If you looked at our total rate base, at the end of last year we were at about eighteen billion. Now you certainly will have depreciation over the next few years, so you're not adding ten to eighteen, but it's something on a net basis that's much smaller than that. Although ten sounds large, and it is, on a base of eighteen billion that's something that we view as being very manageable.

We view these natural gas investments as a very large opportunity for our investors.

When you look at the spending, quite a bit of the spending is in a handful of very large programs. An example of that would be the pipe replacement program down in your city, Chicago. That's a cast iron system that was largely built between the 1910s and the 1940s. It was low pressure.

The meters were inside the premises. It's going to be, before we're done, a thirty-year program. We're going to spend between two and three hundred million dollars a year on a long-term program to bring all that cast-iron pipe out of the ground, replace it with modern materials, higher pressure, and move meters outside the premises.

You look at it alone in that five-year program that we talked about, easily a billion and a half of that ten billion dollars is in that single program. It's manageable from a finance standpoint. We have a strong balance sheet.

Tom Linquist: You're not alone. A lot of your peer companies are facing or undertaking massive capital expenditure programs as they look forward five years. I would imagine that, for some, that's a big challenge. One issue is the availability of seasoned project management personnel. Some of these companies may not have engaged in a program of that scale for decades.

Allen Leverett: In terms of the talent we have here it's also

Wisconsin Energy People at Work

very manageable. Large construction programs were, really, a core competency for us.

Again, not on the magnitude of ten billion dollars in five years, but if you look back to what the legacy Wisconsin Energy Company did between the four power generation units that we built and brought online in 2010 and 2011, we had very recent experience.

These were two plants: one gas plant and one coal plant. Those were the largest infrastructure projects outside of state government projects in Wisconsin's history. We have very good people that managed those projects. As an enterprise, we did a good job with those programs. We have a core competency, and that's something we brought to the Integrys acquisition.

Tom Linquist: What's happening on the electric side of the business?

Allen Leverett: The biggest initiative that we have going on in the electric business is reshaping the generation portfolio. We have three key criteria for the set of changes we want to make with the generation portfolio.

> **We built the largest infrastructure projects outside state government in Wisconsin's history.**

First and foremost, we want those changes to save our customers money, so we want to reduce costs. Second, we want to preserve a reasonable degree of fuel diversity.

We certainly don't want to be completely dependent on any one source of energy for producing power, so we want to preserve a reasonable amount of fuel diversity. The third thing we want to do is reduce our carbon emissions. Because I believe, very strongly, that some form of carbon regulation is inevitable.

Being on a path where we can reduce carbon emissions, I believe, is the right path to be on, if we can reduce costs and preserve a reasonable amount of fuel diversity at the same time.

Tom Linquist: It's interesting, your third area – reducing carbon emissions. Last month my interview featured Pedro Pizarro, CEO of Edison International in California. He discussed his progressive stance on the legislation in California with SB32 and its stringent requirements for reducing carbon emissions by 2030.

Lincolnphile Leverett: Humor

It seems that there was this colonel, who when raising his regiment in Missouri, proposed to his men that he should do all the swearing for the regiment. They assented; and for months no instance was known of violation of the promise.

The colonel had a teamster named John Todd, who, as roads were not always the best, had some difficulty in commanding his temper and tongue. John happened to be driving a mule team through a series of mudholes a little worse than usual, when he burst forth into a volley of profanity.

The colonel took notice of the offense and brought John to account. "John," said he, "didn't you promise to let me do all the swearing for the regiment?" "Yes, I did, Colonel," he replied, "but the fact was the swearing had to be done then or not at all, and you weren't there to do it."

– A Lincoln anecdote from *Political Humor* by Charles E. Shultz, paraphrased by D.T. Phillips in *Lincoln on Leadership*.

You're approaching this proactively without legislation requiring action. It seems that you are taking a pragmatic approach. As long as those first two criteria are being met you're looking for opportunities to reduce carbon.

Allen Leverett: That's right. I think right now we're being very much driven by the economics, and so part of that is the economics of solid fuel plants versus gas plants. We're looking at a set of changes.

Some changes we have already announced. Others we're looking at that we're not prepared to announce.

One of the things that we've already announced, is that we're going to retire approximately three hundred sixty megawatts of older, coal-fired capacity in the Upper Peninsula of Michigan. We would replace it with roughly half again as much natural gas capacity, which would be very flexible, reciprocating internal combustion engine type technology.

This is flexible in terms of operation; modular in terms of size. There's an example where, going back to my three criteria, we're going to save approximately forty million dollars a year in expenses, which is nearly seven percent of the operations and maintenance budget for the electric portion of We Energies.

We're going to save customers a significant amount of money. Even with this change, retiring some coal and having a little more gas, we're still going to have a very reasonable amount of coal in the mix at We Energies and we're going to reduce our carbon footprint at the same time.

Part of our approach to new power generation is also driven by the picture of electric demand. If you look at our kilowatt-hour sales, and the volume of electricity that we sold to our customers in 2008, well, we're not back to where we were then.

That's why I call 2008 the high-water mark with my employees. Part of what's going on here, and I think the reason that we can take a pragmatic approach, is because we have to realistically look at what the coal-gas economics are, and are expected to be, for a very long time.

We can also look at where we are in terms of the demand that we're realistically going to serve for quite a while. That allows us to make a set of changes that permit us to check each of those three boxes: save our customers money, preserve fuel diversity, and reduce carbon emissions.

Tom Linquist: Let's turn to you. I find it fascinating the way you've come up in your career. Your foundation is in finance, planning, and treasury-related experiences. When you came to Wisconsin Energy fourteen years ago, you came in as CFO and then developed into the CEO.

Allen Leverett: I don't want to talk about ancient history, but I was giving a talk a few weeks ago to a group of executive MBA students. When I was preparing my talk, I suddenly came to the astounding realization that I've been in this industry for thirty years. I guess to understand my development you have to go back almost thirty years and talk about the preparation that I had back at Southern Company.

We're going to save approximately forty million dollars a year in expenses.

I would certainly say that the types of things that I had the opportunity to work on were very important, but even more important were the people that I was able to work with at Southern.

Tom Linquist: Let's cover the things first and then explore the people and influences.

Allen Leverett: I actually did a very wide range of things at Southern. Believe it or not, I started on the engineering side of the company. That's where most of my academic training was focused.

Tom Linquist: You did your bachelor's degree in engineering at Vanderbilt. What field of engineering did you study?

Allen Leverett: I did a B.S. in electrical engineering at Vanderbilt. I did a Master's degree in electrical engineering at Stanford. As a result, I started in the really technical part of the business and then after about seven or eight years, I had the opportunity to go over into the finance group.

When I look back at my roughly fifteen-year career at Southern, about half of it was in the technical part of the business.

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The other half was in finance. As I think back, in terms of a base of experience to bring to Wisconsin Energy in July of 2003 when I came here, in my view it was solid training to step into a senior officer role at an IOU. As you mentioned, my first job here was as CFO.

In 2011, when I stepped over to be responsible for the generation part of our business, in a sense I was kind of coming almost full circle. I was going back, in a way, to the sorts of things that I did in that first six to eight years of my career at Southern.

Tom Linquist: Let's go back to your Southern experience, because you mentioned Southern earlier with your description of the WEC Energy business. Now that WEC has a larger business and jurisdictional diversity, this creates opportunities to develop leaders and give people more experiences.

How did you experience executive development at Southern and how are you thinking about it here at WEC?

Allen Leverett: At Southern, they started with multiple states and with multiple utilities. I think the very clear expectation was that to move up, you're going to have to move around. My guess would be the expectation is the same now.

Move around means, move around physically to different companies. I started, for example, at Southern Company Services in Birmingham and in 1994 I went over to Atlanta to Southern Company Services.

It was made very clear to me that if I wanted to move up beyond that in the company, then I needed to go to one of the operating companies, so that's how I ended up at Georgia Power for a while.

That's very much what we're trying to foster here now. We have quite a number of examples currently. We had a number of people that we sent down to Peoples Gas.

We've actually sent, at last count, about twelve people of varying seniority levels to Chicago to run that big program to improve the operations of the gas utility, to improve customer service that we talked about. At some point, I'm expecting some of those people back in Wisconsin, Michigan, or Minnesota. That's certainly what we're trying to create here, because I think it worked very well at Southern.

Tom Linquist: Let's turn back to the people that were contributors to your development.

Allen Leverett: I think of three in particular: Bill Dahlberg, former Chairman and CEO of Southern Company, Allen Franklin, also a former Chairman and CEO of Southern Company, and Larry Westbrook, former CFO of Southern Company. These gentlemen had three things in common: they were models of integrity, they had a rich set of life and professional experiences, and they were intelligent decision-makers.

Early in my career to have exposure to people like that has been much more impactful than the projects I got an opportunity to work on.

Tom Linquist: You say that they were models of integrity. Integrity is always demanded of leaders, but it is a rather elusive concept. Discussed in context it becomes more concrete. What is integrity?

Allen Leverett: I'm kind of an amateur student of history. One of my favorite historical figures is Abraham Lincoln. Very often my talks with employees are heavily influenced by the leadership practices of Abraham Lincoln.

Certainly, Lincoln's integrity is the stuff of legend. There are numerous reasons that Lincoln was so successful as a President. For me, two areas come to mind: his integrity and his tremendous ability to learn from people and his recognition that in his job he needed to learn from people without being threatened: his humility.

You can talk about integrity in a lot of contexts: in politics, in business, in your personal life. Let me talk about it in terms of the business context. In a business and company context, to me integrity means, first off, that you treat the resources and the assets of the company with a very high standard of care.

That tremendous transparency and honesty with your owners is not always pleasant.

The second thing is, and this is particularly important at public companies, there has to be absolute transparency and honesty with the owners of the company. That tremendous transparency and honesty that you must have with your owners is not always pleasant, because you must tell bad news and good news with the same transparency.

Finally, there's integrity with employees – a level of openness and honesty with the employees. I learned my approach from Bill Dahlberg, who was tremendously transparent and communicative with the employees. Bill would not only share information, but he would also share his thought and decision process and how he arrived at a conclusion.

Tom Linquist: I imagine that his giving you a glimpse into how he thought about these things helped you in terms of forming your own pattern of thinking?

Allen Leverett: Yes. It's like having a very good teacher guiding you. You may have reached the same level of insight on your own, but because of a good teacher and a good example, you're able to get that insight so much faster.

Tom Linquist: Let's return to the application of another Lincoln precept, humility.

Allen Leverett: Let me start by saying it's very important, regardless of what job you're in, to be humble. If you're full of hubris you better watch out. I think regardless of what job you're in, at any level in a company, having a sense of humility is tremendously important because you always have something to learn.

Tom Linquist: Why do you think that hubris rages out of control?

Allen Leverett: It could come from having an executive level role. I'm very fortunate to have the job that I have. It's a big job and it's probably easy to let your ego get out of control.

Tom Linquist: A victim of your own success?

Allen Leverett: Perhaps that's right. Perhaps it's the authority. Perhaps it's the influence that one can have that just causes people to get full of themselves. Humility is so important. And back to Lincoln, humility is critical in business, as well as politics.

Humility is also important to learning and innovation. People who feel like they have to have all of the answers stifle learning and innovation. If somebody comes in that's smarter than they are, although they might be at a different level in the organization, they feel threatened.

I certainly want to have as many smart people as I can around me and in our organization. We need to learn from others and promote that in a way where you're not threatened. That goes as well for fostering an environment that allows initiative and expediency. It's all part of being humble. PUF

Supreme Test

"Most people can bear adversity; but if you wish to know what a man really is, give him power. This is the supreme test."

– From Robert G. Ingersoll's 1883 panegyric to Abraham Lincoln in *The North American Review.*

To hear the full interview, please link to the podcast at Leadership Lyceum: A CEO's Virtual Mentor, available at Apple iTunes. Search iTunes Podcasts, with the keyword Leadership Lyceum.

Communications Interfaces

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Businesses buy with an eye to ROI and risk reduction. The risk of deploying equipment that could have unsupported connectivity options will influence purchase decisions, as well as decisions to participate in load management programs and services.

Deployments with closed, proprietary, or indirectly-accessed communications interfaces are difficult to sustain due to different life expectancies of products. Adoption of open, standard, and direct-access communications interfaces reduces these risks as it increases the range of options.

Historically, loads were managed primarily by control switches, and the criteria for program eligibility were simple: the right device type and size, that is, wattage. With new connected devices, the criteria for program eligibility become broader, including device response characteristics, configurability, certifications, and communication interfaces.

We are all stakeholders who can influence the future of connected devices, particularly those devices enrolled in energy management and savings programs.

Utilities have a responsibility to be clear regarding the communication interfaces that lead to sustainable and scalable energy-interoperability of consumer devices. Device manufacturers have a responsibility to ensure their products support a responsive and future-proof architecture.

It is in society's interest to ensure that devices are built with the option of direct access through open standards, so they remain active elements and usable to consumers over their service lives – enabling resilient grid operations and cost efficiencies. PUF

For more information on this topic, please download our technical brief: "The Value of Direct Access to Connected Devices" at www.epri.com.

Is Good Utility Regulation in Jeopardy?

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This task is vital, as regulators make decisions affecting major infrastructures that contribute to a state's economic growth.

Should regulators, for example, aggressively promote renewable energy? Should they give special incentives to water and natural gas utilities to replace their old pipes for safety, reliability and economic reasons?

Good regulation helps the state's economy, its workers, and its utility ratepayers and shareholders. While adequate resources do not guarantee good regulation, in their absence good regulation becomes difficult or impossible. PUF