

PLUGGED IN

An interview with Mike Morris, current nonexecutive chairman and former president and CEO of American Electric Power



Mike Morris

A pioneer in the energy industry, Mike Morris recently retired as president and CEO of American Electric Power (AEP) and currently serves as the company's nonexecutive chairman. He is recognized as an industry icon and vocal proponent of sound energy policies that reflect the needs of the country, as well as the electric consumer. He is also renowned for applying local perspectives in his management of the utility, demonstrating a commitment to area-specific needs combined with political and regulatory deftness.

Morris is credited with helping AEP weather the recession without layoffs and for leading the largest equity offering in history for the U.S. electric utility industry. Under his leadership, AEP piloted the world's first integrated carbon dioxide capture and storage system at a U.S. power plant. In 2011, Morris was named the recipient of the *EI Distinguished Leadership Award* by the Edison Electric Institute and the United States Energy Award from the *United States Energy Association*. In addition, he serves as a director of the boards of Alcoa, Battelle, Limited Brands and The Hartford Financial Services Group. Spencer Stuart consultants Mark Ciolek, Pat Walsh and Jeff Hylar recently spoke with Morris about the current state of the U.S. utility industry, what a national energy policy should include, and his guidance for boards and tomorrow's industry leaders.

Given the current political climate, some argue that the discussion about a national energy policy and environmental legislation/regulation has become stymied. Are you surprised at the lack of progress?

It really is amazing. I got in the energy business in 1976 at American Natural Resources. In every one of those decades since, we've called for a national energy strategy going back to the statements of Nixon with the '73 and '79 oil embargos, and we still have nothing. We will continue to consume an inordinate amount of time and energy because it's the fuel of our economy. It's the freedom to work in Los Angeles and live 45 miles away, or maybe the pain of living in L.A. and living 45 miles away. But it's almost unconscionable when you think about it and look at some of the other challenges of late, such as global warming, for us to start dictating what China and India ought to do after we've had our own industrial revolution without a policy other than "make it cheap and make it available."

What *should* be included in a national energy policy?

Oddly enough, I would parrot what most folks say: I would have all facets of the energy industry involved. I'd include renewables, though they're not anywhere near competitive right now, but we can improve in that regard. I would surely take full advantage of coal. At AEP, we decided to demonstrate that carbon capture storage is viable and we did it. I would also develop the shale gas resource base that this country has. I'm a big fan of T. Boone Pickens. He started off on the wind side, but he ended up supporting natural gas for big semis

and cars. I would push for electric and hybrid vehicles for those who want it for cities. It's great technology and it will only get better and better.

I would develop the oil resource base of this country for obvious reasons. I would allow for LNG (liquefied natural gas) exports. Can you imagine the lunacy of saying you've got this resource that's priced \$3 per million BTUs (British thermal units) here and \$12-\$14 per million BTUs in the world market and we aren't going to let you take it offshore? I've also been an advocate for energy efficiency, but probably have been softer than I should have been over the years. Every new house or building was more natural gas energy efficient than the stock it replaced because the technology was just better. When they redid the Sears Tower and the Empire State Building, it comes to me that there's money to be made here. So we did a mini energy plan in Ohio and, of course, my friends in Toledo who sell insulation made sure to point out what you can do with better window technology and better insulation, so I would be an advocate for all of the above, but I would mean it. I wouldn't pick a winner. I'd let the market pick the winner.

Over your career, we have seen disaggregation and the growth of large multi-state utilities. Looking out five to 10 years, how do you see the evolution continuing from a structural perspective?

That's a pretty deep question. Almost everywhere, they're fractured. The big money machine has always been the generation. When you fracture away the generation from the delivery companies, you create an interesting dichotomy that doesn't sustain over a long period of time. This is probably an industry

that lends itself to a monopoly structure and a controlled cost structure, so I've always been a big believer that the regulatory construct in the 50 states was a better approach for the vitality of the integrated utility. You're seeing what happens when you split them in spades. The whole East Coast quadrant segregated about a decade ago and now no one is building generation, and that causes prices to go up. With the intervention of a maybe good-intentioned, but overly zealous attack on coal, you may see as much as 70,000 megawatts come off the system. We are going to have a supply/demand imbalance in electricity, so, eventually, I think you're going to have to come back to a hybrid model, which is what California moved to in the '90s.

One of your hallmarks as a CEO has been your ability to work effectively with regulators. How have you accomplished this?

This stems from early life lessons at American Natural Resources. I had my first rate case about six months after I took that job. What I learned early on was that regulators are very decent people who are doing work for the good of the people. At the time, American Natural Resources owned Michigan Consolidated Gas and had a very constructive relationship with Michigan Public Service Commission (MPSC). I asked the guy who did that work how he did so well with the MPSC. He said, "Because I respect them. I build relationships with them when I don't need anything so that when I really do need something, I've got a human to contact; they know who I am and we've built that trust." So I've always believed in building that relationship and showing respect.

One of the fellows who worked for me years ago said the balance of a regulator is to make sure that the shareholder doesn't get too big of a bite, nor do the customers pay too heavy of a price. I was always looking for that 52/48 or 53/47. Obviously, I wanted the five, but if you go in and try to gouge, you never get over it. Once you've lost trust in that environment, it's almost impossible to recreate.

What advice would you give to someone who is aspiring to be a utility CEO?

If you are in a regulated utility — the vertically integrated model that is still dominant in this country — you absolutely have to go through the rate process. You need to be a witness in a rate case or prepare a rate filing. In unionized utilities, you need to respect the men and women who really make the business go. I used to tell the guys from the UWUA and the IBEW that we help make the business possible, but you folks really make it work. These are very dangerous jobs, so get to know who does the work and get to know what they do. I've always been a big believer in spending time in the field. If you can, you have to have exposure to the financial side to be able to truly articulate a story about what you believe in and what value you might bring to that job if and when it comes.

Is mentoring helpful to an aspiring leader in the industry?

I'm always amazed at people who say, "Well, gee, do I need a mentor?" Mentoring is an interesting thing. It will find you, you can't find it.

As both a former CEO and current board member yourself, what do you think makes an effective board?

For a really well-functioning board, the members need to be collegial. They need to find a way to respect each other and then collectively deal with two critical issues at a board, not a committee level: Understanding and co-owning the strategic plan and succession planning. A good board member would be someone who is somewhat familiar with the business, but not someone who has necessarily been in the business because they may bring their own views — so enough knowledge to really understand, but not enough to develop the plan. They need to understand the plan enough to have that little voice in their ear saying, “This doesn’t sound right.”

For example, for a while we (AEP) were all over the world and we weren’t doing that well all over the world, so we came back home. A friend of mine came to me proposing a great investment opportunity with power production facilities down in South America. And I said, “How could I ever take that to my board?” If I were a board member and the boss came in and said the strategic plan is X and then 18 months later said, “I’d like to buy a half-billion dollar power plant in you-pick-a-place.” That’s not inside the scope of the plan. The board needs to ask: Does that fit with the plan?

The second thing is be prepared for succession planning. You’d better have some flavor for the depth of skill-sets. You see it all the time — 50-year-old men die, 50-year-old women die, people get in accidents, people make mistakes. Even when I got to Northeast Utilities and was barely 50, I thought, “Be prepared,” so I always had an envelope.

What advice would you give a new CEO about driving succession planning?

You’ve got to be cautious because each generation is getting more impatient about succession planning. Once you get serious about it, start moving people around about five years out from when you plan to retire. We had timelines about moving folks and testing them.

Where does risk management fall in the board’s purview?

It was almost nonexistent years ago, but within the last five or 10 years, enterprise risk management has moved right up there. I think it’s better dealt with at an audit committee level, but it needs to be communicated to the total of the board and the board should examine the business and overall risk that the industry is in. After the Texas City issue that BP had, several of our directors came in to the next meeting and the first thing they asked was, “Where is our most vulnerable explosion? Tell me about the plant where something could go wrong and we’d blow up a quarter of a town, or just pick an issue.” It was a really eye-opening meeting for them. This is a risky business, this is a dangerous business. Our product, when it’s out of control, would take your life in two seconds, so that’s an important part of it.

Another whole level of risk is the social media aspect. We all saw the plane land on the Hudson River. Before U.S. Air admitted they had a plane down, it was on T.V., and everybody and their brother saw it. That was such a huge eye-opener for us. We decided that if something happened at any of our facilities, we would be the first ones to get the story out. Being a lawyer by training, I understand the whole notion of lawyers always

saying, “Don’t say anything now, we’ll pay for it later.” You’re going to pay for it later anyway.

What qualities make an exemplary director?

I have had some tremendous directors in my time. Then I came here, and I am blessed with what I think is probably the best director I’ve ever seen in my life, someone I surely model myself after as a board member. His opening salvo at every meeting was, “I know we’ve all familiarized ourselves with the pre-read.” That’s all that was said. If you would ask a question that was two pages deeper in the pre-read, he had this knack of saying, “I think that’s coming up in about three pages,” which really said, “You didn’t do your pre-read.” So do your homework. He kept his comments to a limit and would not say many things, but the things he said were really meaningful and then he would always close the comment with, “At least that’s a single director’s view.”

What about the composition of the board as a whole? Do you want a collection of CEOs or do you like the idea of a whole symphony?

I think the symphony makes sense. If you’re a drum and bugle corps, you’re going to be blind in a lot of areas. Having one or two CEOs on the board is perfect because they know exactly what you’re going through.

As a CEO, how do you make sure you’re getting the right information from your board and your team?

You build a relationship with those who feed data to you with the understanding that failure is OK, sugar-coating isn’t. We also always had a rule: If I make a mistake, tell me.

It’s hard to tell your boss.

Tell me in my office, don’t tell me in public. But do tell me. The most meaningful things that I see from those who I interact with every day is anyone willing to come in and say, “Boss, I think you’re wrong. I think you really should have looked at it this way.” Another thing that I treasure is when one of them will come in and say, “Gosh, I’m really wrestling with an issue. I’ve been offered a job at X, Y and Z.” I take that as a huge compliment that they’re coming to ask my advice about their own career decision.

Wow! And you don’t hold it against them?

Never, and I’m always honest. I say, “I can’t promise you that job on this timeline and that’s a great company and a big step for you and you really should do that.” Or, “You probably ought to think that through because you’ve got a lot of runway here and I’m not making any promises, but you’ve got a lot of opportunity.”

It takes a pretty trusting relationship to have someone come tell you that.

The final thing I appreciate is if something goes wrong on their watch and they’re coming in to tell me and at the end of the conversation, they’ll say, “The thing that really is troubling about this is I think I let you down.” That’s just the ultimate. But there are days when you sit there by yourself in the office and you’ve got to make a decision and you know it’s going to affect someone’s life in a negative way, but you need to do it for the good of everybody. The sooner you do that, the better off the organization is because everyone knows who is delivering and who isn’t, and that’s part of the obligation you have and you have to be able to do it.

ABOUT SPENCER STUART

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