LEADERSHIP FOR THE NEXT GREAT GAS RUSH

U.S. domestic natural gas production is proliferating at a pace not seen in decades, thanks to technology advancements and growing demand. As the market continues to expand so too is the leadership profile of the executives driving the industry's growth.

Although the characteristics that have traditionally defined leadership continue to be valued among natural gas distribution and transmission companies, the old definition is no longer enough.

What skills and attributes must leaders possess today? That's among the questions Spencer Stuart explored in recent interviews with top executives at natural gas transmission and distribution companies from across the U.S.

From their responses, this was clear: To move ahead, natural gas transmission and distribution companies will need leaders who are ready and willing to step beyond traditional industry boundaries. Along with regulatory acumen, cost management and other conventional skills, today's leaders also must be adept at advocating for business-critical issues with local, regional and national policymakers. They must excel at finding and capitalizing on innovation and market opportunities, creating and enthusiastically embracing an entrepreneurial "commercial" culture within their organizations, all while achieving their primary mission of providing safe, reliable and affordable service.

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The rush is on, redefining the industry and its leaders

By all measures, the next great gas rush is on. Production of new domestic reserves is soaring, and the supply of natural gas continues to gain a larger share of the energy mix both in the U.S. and abroad. *BP Energy Outlook 2030* forecasts that natural gas will represent almost 26 percent of the global energy mix in 2030, compared with less than 22 percent in 2009.

"We have a unique opportunity to really transform our industry in a way that we've not seen in a long time — and this puts even more of a premium on getting the right people who can figure out the opportunities and turn them into value," said Larry Downes, CEO of New Jersey Resources.

Transforming opportunities into value requires leadership skills above and beyond conventional ones, Downes and his colleagues agreed.

Asked which new skills are most coveted, SoCalGas Chairman & CEO Anne Shen Smith said, "Natural gas leaders need to be at the policy table," advocating passionately and proactively for their companies and the industry in front of industry regulators and policymakers.

Smith said with the current abundance of low-priced natural gas, new opportunities for gas usage will continue to grow. How this growth is enabled and which companies can most successfully capture the inherent value will be largely determined by federal, state and local regulations. As a result, gas company leaders need to be at the forefront of the policy debate, Smith said.

Natural gas companies won't be successful in the policy arena unless their leaders have a strong understanding of the opportunities — and threats — that the natural gas rush present, executives said. This, in turn, requires leaders who are good strategists with strong commercial skills, primed to grow the company instead of just minding the status quo.

"We find that a diverse portfolio of skills and experience is essential — a mix of 'homegrown' talents and outside hires, including people from all facets of the energy and related service industries who are complementary and synergistic," Smith said.

Flexibility and the willingness to challenge assumptions to make sure they reflect current reality are among the attributes Downes prizes in the leadership team at New Jersey Resources.

"What I challenge my leadership team on is number one: 'Do you have a definitive view of this business, and what is your plan of action?'" Downes said. "And number two: 'Are you constantly challenging that plan of action and that view of the business to make sure they reflect reality and not some past time?'"

Pacific Gas and Electric Co. (PG&E) consistently rejects would-be executives who are seen as "minimally compliant people," said Executive Vice President Nick Stavropoulos. "We've had plenty of people come in here who have run companies, and their whole mantra is 'Let's just do the minimum that we need to do,'" Stavropoulos said. "We don't want to go anywhere near those people."

Leadership: stiff competition for talent

Talent is in short supply at virtually all levels in the natural gas industry, executives agreed.

"We're not opposed to bringing people in, but we'd like to see more people internally when we're talking about leadership," said NiSource CEO Robert Skaggs. "Right now, we have critical mass, but we just don't have any depth and we don't have flexibility."

Skaggs said NiSource is making a concerted effort to groom mid-level managers to move up to the next level. "It's kind of recalibrating everyone to grow, developing inventory and projects and developing people," he said.

At PG&E, Stavropoulos said, the challenge is straightforward: The available labor pool is extremely limited.

"We're robbing Peter to pay Paul right now," Stavropoulos said. "We're stealing from each other the gas engineers who do exist, and there is only a finite number of qualified welders out there to do the work."

Pipeline safety: top priority, investment opportunity

More than 80 years old in some regions, the nation's natural gas network is showing the strains of age, which will only be exacerbated unless natural gas companies change their way of thinking about infrastructure safety, the executives agreed.

"In the past, the MO for the industry was if there's a leak, go out and fix the leak, just put a clamp on it, cut out a small section, minimize your capital expenditure," said Skaggs. "That's no longer acceptable."

Smith agreed, stating that in the wake of the 2010 pipeline explosion in San Bruno, Calif., the American public has "zero tolerance for safety incidents."

Pipeline safety and infrastructure integrity is a top priority for natural gas companies.

"I think that before we talk about change, it's also a useful exercise to focus on what won't change — and that's the core mission of safe, reliable, affordable service," Downes said.

Although protecting consumers is certainly a primary driver, the opportunity to grow earnings is also motivating natural gas companies to upgrade and expand their infrastructure.

"What's really emerging here is an incremental infrastructure opportunity because it's logical to assume that lower prices are going to lead to increased demand in new markets," Downes said. "There should be an opportunity to provide a more diverse array of energy services that we have not been able to provide before, and it will all emanate from infrastructure."

Increased domestic supply: capturing new value

Amid changing economics and technology advancements, the natural gas industry has stepped up efforts to find new domestic supplies. The result has been, as Skaggs described, "a flood of shale gas" into the marketplace that is creating relatively low-cost production opportunities for natural gas companies.

As they tap into the new supply, companies are also unleashing significant benefits for the nation, said Stavropoulos.

"As an industry, we are uniquely positioned to add so much value to this country from a balance-of-trade standpoint," Stavropoulos said. "If we can be effective in deploying natural gas in more places, then we'll have the opportunity to displace imported fuel oil."

Stavropoulos also pointed out that increasing the domestic supply reduces the national security risks involved with importing energy from volatile nations.

"It also has huge benefits because we can use natural gas to take coal out, to take gasoline out of the vehicle fuel market and create enormous reductions in carbon emissions," he said.

While the benefits the U.S. can earn by increasing the domestic natural gas supply seem clear, what's not so evident is how gas companies, especially those that have decoupled, can best capture value.

"Right now, the challenge in front of us is how we translate a very different supply picture into opportunities for growth," said Downes.

Downes and the others argue that natural gas companies will need to change their business models — and be willing and ready to pursue opportunities in new and untraditional markets. To that end, natural gas companies are exploring a variety of options. Some are looking to advance the use of new natural gas applications, for example, fuel cells. Others are creating partnerships with commercial bus and truck manufacturers to promote natural gas as a more affordable and environmentally friendlier alternative to gasoline.

"There is so much gas coming into the market, and it's hard to predict exactly how and where the market will expand," Skaggs said. "For example, you see the electric generation load developing, but it's coming on slower than most folks thought, including me, and even if you do secure that load or pick up that load, you still have ongoing losses due to conservation and energy efficiency. That's not going to change. You're still going to need to develop additional markets for this gas, unless you believe that it's all going to be exported — and I'm skeptical that it will be."

What's ahead

Natural gas has been a significant part of the U.S. energy mix for more than a hundred years. Natural gas currently supplies more than half of the energy consumed by residential and commercial customers, and about 41 percent of the energy used by U.S. industry. By all indications, those numbers will grow significantly in the years ahead, representing historic growth opportunities for America's natural gas transmission and distribution companies. Gains will be few for companies that continue to follow the status quo and hold on to long-held industry practices. Gains will be many for those with leaders fully equipped to harness the trends that continue to impact the industry.

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