

# CFO Roundtable

More Strategy in the CFO's Responsibilities

**Part II**

Bob Frenzel, CFO, Xcel Energy  
Drew Marsh, CFO, Entergy  
Marty Lyons, CFO, Ameren  
With Jan Vrins, Navigant





eing a CFO is not an easy job. A balancing act, some might call it, continuing to serve customers within an accelerated and changing energy landscape, where the business complexity has exponentially increased.

In part two of our roundtable discussion with the CFOs from Ameren, Entergy, and Xcel Energy, we discussed long-term climate risk and resiliency (how can we not?), as well as physical and cyber-attacks.

We heard from our CFOs on what keeps them up at night and what their organizations are doing to prepare for a broad set of potential incidents and threats. On a lighter, but intriguing note, we also asked our executives what it's like to be a CFO of a very large utility.

Along with all of the changes occurring in the utility industry, the position of the CFO has significantly changed. CFOs now need to understand the impact and possibilities of new technology, changing policies and regulations, increasing climate and security risks, evolving customer needs, new products and services, changes in operations, and much more.

We hope you enjoy the open, frank, and behind-the-scenes insights from these CFOs, who are leading some of the largest utilities in the country!

— *Jan Vrins, managing director and leader of Navigant's global energy practice*

**Jan Vrins:** As a utility CFO, what is your perspective about the importance of resiliency? How do we deal with that as utilities, or as a country?

Second, on both physical and cyber security, what is your perspective on that? What are your utilities doing?

**Marty Lyons, Ameren:** Resiliency is important. Today, more and more of our customers' lives and businesses are increasingly dependent upon energy being reliable one hundred percent of the time.

We've seen recently natural disasters that have caused major disruptions to service. This has underscored the importance of investments to make the grid stronger, smarter, and more secure.

Smart grid investments raise the level of reliability and resiliency. Other forms of technology have been deployed to help respond when natural disasters occur.

We've also seen the benefit of our industry's mutual assistance platform – how the industry comes together and partners in times of crisis to get customers restored quickly.

We help where we can in restoration efforts in other parts of the country, knowing that other energy companies will step up and help us and our customers during times of need.

Mutual assistance is great. As an industry we coordinate very well to do what we can to make sure that customers get power restored as quickly as possible. We know how vital it is.

**Drew Marsh, Entergy:** We were impacted dramatically by Harvey. We had some extensive flooding in the Beaumont, Port Arthur and Orange areas in southeast Texas.

We've been thinking a lot about these resiliency issues. Storms are always rolling through.

It's a big topic that we continually visit. It is very expensive to harden the system by undergrounding lines or putting up a bunch

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— *Marty Lyons*

of concrete poles, especially in south Louisiana where they're going to sink into the ground and get struck by lightning and everything else.

That's part of the solution in targeted areas. Leveraging technologies that are available now is another key way for us to work on hardening the system. We are also working on ways that when things go down we can isolate and identify them. We can get trucks, people, and resources to the right spots much more quickly and efficiently.

The value of reliability is increasingly important. We have invested in reliability, but when it's offline, it can be not only inconvenient, but extremely expensive for our customers.

In residential, if the power is out, you don't get to do what you want to do. If you're an industrial customer, an outage could be something much more impactful. It'll disrupt processes. It can ruin inventory. It can cause damage to equipment.

The cost of an outage can be extremely high. We recognize that. We want to find ways that we can drive our reliability to another level so that it is an extremely rare event.

In the face of a weather disaster or something of that nature, the mutual assistance programs are critical.

Entergy is a huge participant, not only because we use mutual assistance programs whenever the storms come to us, but we try

to make sure we send people to help everywhere as well.

**Jan Vrins:** We see the investment community getting more interested in long-term climate risk. Are your stakeholders, boards, and executive teams asking more often about how well prepared we are for long-term climate risks?

**Drew Marsh:** We've had climate goals around carbon dioxide for fifteen, almost twenty years now. We wanted to stabilize at twenty percent below 2000 levels. We've achieved that. That's been an ongoing focus for us for many years.



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– *Bob Frenzel*

South Louisiana is highly impacted by climate change issues. It is going to be an ongoing focus area for us.

**Bob Frenzel, Xcel Energy:** “Obligation to serve” and “reliability” are not phrases we take lightly in our business.

The industry takes the impact of the loss of our product to the gross domestic product of the country, or the states that we serve, very seriously. Sometimes we appear to move slowly, so we can study a situation to ensure that our resiliency and reliability are high. I think they are higher now than they have ever been.

What is interesting is that the speed of recovery has been reduced across the industry. This is a real customer enhancement and recognition that the goods and services we provide are critical. The technology we're putting into place to achieve these goals is important. Advanced grid information systems allow us to

isolate a fault and deliver a new piece of equipment and a crew to the right place at the right time.

Compare this year's natural disasters to those in the mid-2000s, and our relative speeds to recovery. You'll see a significant improvement in how we're handling them relative to the earlier hurricanes – Katrina, Rita, Hugo, Andrew – when recovery periods lasted much longer.

We have made a significant amount of investment in systems and mutual aid coordination. We should continue to make these appropriate investments, system by system, company by company. Making the right investments in the right areas can really drive this area forward for us.

**Marty Lyons:** Ameren is focused on driving down the frequency and duration of outages. The frequency of outages goes down when investments are made in strengthening and hardening the grid.

Some of our customers have businesses that are highly automated and highly dependent upon computer controlled equipment. They tell us that even a momentary outage in power flows to their business will cause five and six hours of down time. Their equipment is dependent upon our product to be able to run.

That certainly merits a higher level of investment. We need to be working closely with our customers to understand their dependency on our product. Also, we need to be working with the regulators to make sure that they understand the business case for greater investment in the grid.

At the end of the day, greater investment in the grid is producing value for our customers in terms of reduced outage frequency and duration, when outages do occur. But, in our part of the country, we've seen ice storms, tornadoes, and powerful wind storms that do still knock out power to our customers.

We've invested a lot in making sure that we've got capital spares ready to go. We've got tractor-trailers loaded with repair material ready to move into locations where outages have occurred, so that we can get power restored quickly to our customers. We've also put outage teams on stand-by and move to anticipated impact areas when storms are predicted.

In Illinois, we've been deploying smart meters. It gives us much greater visibility than we had before into whose power is on and whose power is off.

We can quickly get to those that are in need and get power restored quickly. We've made large investments in Illinois and the payback is showing up in our improved outage duration statistics.

**Jan Vrins:** What about the difference between cyber and physical safety? Any perspectives on that? How important is cyber? What are you doing on cybersecurity?

**Marty Lyons:** Cybersecurity is hugely important to our

industry. In the past several months, we've seen, thankfully outside of our industry, some very high-profile breaches. Seems like every day when you pick up the paper there is another breach being reported. There are lessons learned for us as an industry.

One thing we have to appreciate is that we do have critical infrastructure. The lives of our customers depend on our product. The businesses in our regions depend on our product and us being there. We have to protect that critical infrastructure from bad guys.

We also have certain customer and employee data and other sensitive data that needs to be protected. Those are two critical things – critical infrastructure and company data.

We've got to learn lessons from these breaches. We have to have defenses in depth. We have to have physical and cybersecurity to make sure they don't get in. You have to make sure that you have the right controls in place – two-factor authentication, firewalls and the like.

Within the company, you have to have a culture of awareness that when you see something get through, if it doesn't look right, you stop and you report it. You don't click on something that is from an unknown source. We have a security awareness program at Ameren to instill and promote that culture of cybersecurity awareness and action.

You have to have the right kind of programs in place to sensitize people and systems to make sure that if something bad does get through, something valuable doesn't get out. Critical infrastructure is protected by layers of technology; however, the right processes are also part of an effective program.

You have to have a sense of urgency about patching known vulnerabilities. Some of the high-profile cases that have been reported involved known patches that were required, but companies failed to have a sense of urgency around patching those known vulnerabilities.

We work with government agencies individually and through the ESCC, the Electricity Subsector Coordinating Council, to make sure that we're on top of a changing threat landscape. We're continuing to evolve our cyber defenses. We have to keep up with the changes in the threats that come our way.

**Bob Frenzel:** We talk about defense in depth. It starts with culture, and behavior. And then migrates to the physical side of monitoring – whether we do that individually or collectively across organizations like E-ISAC, the Electricity Information Sharing and Analysis Center, and the Electricity Subsector Coordinating Council.

The attacks aren't going to stop. The question is, "how do you mitigate them when they occur?" and "how do you operate the



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*– Marty Lyons*

electric grid and the electric generation assets safely?"

We practice operating "blindly" – without technology that could be impaired by a cyber-attack. We practice running generation plants in the absence of generation control and the ISO interfaces in a case of potential breaching.

We're making sure that we have contingency plans in place to continue to deliver critical goods and services in case of a breach to ensure that we can still run physical assets safely, reliably, and effectively.

We're doing that by partnering with our companies, sharing common information and technology in real time, minimizing costs while protecting the critical infrastructure that we operate.

**PUF's Steve Mitnick:** What is it like to be a CFO of a large utility? What's a typical day like?

**Drew Marsh:** I think it has changed. When I came into the role, my expectations involved financial planning, controls, talking with investors, and some strategy elements. I thought that encompassed the role of the CFO.

There's a lot more leadership that has to come into it, whether it's leadership from a people perspective or leadership from an

innovation perspective, helping the organization move ahead.

That's been a big change in my expectations. Maybe this is part of Entergy's journey as much as it is a CFO's journey. There's a lot of focus on how we're developing people, how we're driving teams, how we try to manage performance, and how we're thinking about processes.

Given where the industry is going, the transformation and speed to change have become increasingly important. That is very different than it was five years ago.

Five years ago, the idea of solar as a distributed resource was expensive and not practical. Other things like that have come a long way since then. Price, cost, perspective, from a policy perspective.

Other technologies are now impinging on the system. The expectations for a digital economy have changed. Speed-to-market, technological change, digital change, all these things are accelerating. We've had to think differently about how our company runs, how it's operated, what its future is.

The job description's come a long way from, "Okay, so you're now the CFO of a utility that's been here for a hundred years, so just make sure it gets through the next few while you're at the helm as the CFO. Shouldn't be too tough."

It's very different now, in terms of all the expectations for change that are out there, the leadership expectations to go along with the more traditional role of managing the controls. We are focused on capital, accessing the markets and funding the business from a liquidity and long-term investment perspective.

These will continue to be critical as we plan for the future.

**Bob Frenzel:** I think the job of the CFO is one of the most interesting jobs in the industry.

The CFO role requires a breadth of knowledge in many areas. It provides an opportunity to participate in the leadership and the strategy of the companies. It also involves significant stakeholder engagement, whether it's investors, regulators, and increasingly legislators and politicians as they impact the business.

Balancing it all and finding where I can be most impactful with my time and energy is the most compelling and challenging part of the job.

**Marty Lyons:** A large part of our role these days is helping our companies shape the strategy, where we're headed, and then aligning the resources to ensure that there's good strategy execution.

A lot of our role is communicating with the stakeholders, people outside the company, and our coworkers. Being able to tell a compelling story about where we're headed, why we're headed there, what the critical success factors are that will allow us to thrive in the future.

It's also about the customers and the value that we will add

for them and shareholders. Increasingly, that's what I find myself doing – communicating with multiple stakeholders to make sure that everybody's aligned on where we're headed, how we're going to do it, and how we're going to be successful at doing it.

**PUF's Steve Mitnick:** How'd you get to be a CFO? How did you get to this point in your careers?

**Marty Lyons:** Each of us probably have taken a little bit of a different track. As I look around at peers at other companies, I've found that various kinds of backgrounds can lead you to a successful career as a CFO.

I spent nearly fifteen years in public accounting. I was an auditor. I spent, on an annual basis, anywhere from fifty to a hundred percent of my time auditing utilities and other energy companies.

I've now spent more than half of my career at Ameren. I've been at the company a little more than fifteen years, most of the time working in the financial area.

I've had traditional responsibilities such as accounting, financial reporting and investor relations. I was hired in as the controller of the company and had investor relations as part of my initial job duties, but over time took on other traditional finance duties, including treasury and overseeing tax.



Over time I have picked up strategy development for the company, which is helping to align our leadership around a strategy for the future. I have taken on oversight of most of our business and corporate services functions, such as information technology, supply chain, and continuous improvement. It's a fun role. I've had the opportunity to go beyond traditional finance areas and oversee other areas of the organization.

One thing that I've wanted to point out, is that I've learned from so many great leaders, both in public accounting and within Ameren. I've tried to identify the greatest strengths of the folks I've worked for, so that I could emulate those strengths and improve on them over time.

I've still got a ways to go. I'm still learning from folks every

day. I think that's something you have to do. You have to critically assess your own strengths and weaknesses and continuously work to evolve and improve.

Last, as a CFO, you really have to be able to explain to multiple stakeholders the "why" behind actions and decisions, and work to help make sure the company's strategy and initiatives create a compelling vision – one that people trust. I think these goals are critical success factors behind an all-in culture.

**Drew Marsh:** I came to Entergy in a strategy role and an analyst role. My journey included stops at joint ventures. I was at Entergy Koch for a while.

I learned a lot about risks, commodities, commercial thinking, and had some fantastic mentors along the way. I'd done a lot of transaction work. I had operations experience.

There are a lot of different ways to get to a CFO role. All of them are going to involve strategic thinking these days. There's going to have to be some sort of commercial expectation. Increasingly, there is going to need to be leadership as a skill set, not just something that you pick up along the way. It has to be very directed and developed.

If you have a lot of breadth, I think that's helpful, the breadth of experience, talking with investors or stakeholders. Other stakeholders or operations experience, financial experience or some combination of those things. Along with good exposure, good understanding, maybe not the deepest subject matter expertise, but certainly good exposure and experience would be very helpful.

Our model for development is seventy percent experience, twenty percent relationships, ten percent training and trying to make sure that if you are aspiring to be a CFO, or for any other role, that you are getting experiences that will help you learn and develop along the way.

**Bob Frenzel:** I did come at this job from a slightly different path. I started my career as a nuclear engineer in the Navy on an aircraft carrier, which is akin to managing a thousand-foot transmission



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and distribution grid powered by two nuclear reactors.

I've held jobs in investment banking and management consulting. I've been "in-house" with two different power and utility companies and worked in commercial operations, supply chain, FP&A and corporate development.

All of those experiences provide relevant background for a CFO. It's not the path as much as a willingness to experience a breadth of challenges, different leaders and leadership styles, and diverse companies. Bringing a variety of experiences to the table can help leaders manage a job that is wide-ranging in the demands and skills required for it.

Xcel Energy has been incredibly active for the past eighteen months. It's a great time to be a CFO in this industry because it is changing and evolving. 

## SHAKESPEAREAN WORDS BY TVA'S CEO BILL JOHNSON IN APRIL'S PUBLIC UTILITIES FORTNIGHTLY

Two thousand and sixty-one years ago, Brutus, Cassius and conspirators assassinated Julius Caesar at the Roman Senate. Dramatized by William Shakespeare, Caesar's famous dying words to his close friend Brutus were "Et tu, Brute? Then fall, Caesar."

But Marc Anthony inspired "friends, Romans, countrymen" to war with Caesar's assassins. As the assassins' prospects worsened, Brutus wanted to act, and act now, before it was too late:

There is a tide in the affairs of men. Which, taken at the flood, leads on to fortune;  
Omitted, all the voyage of their life is bound in shallows and in miseries.

On such a full sea are we now afloat, And we must take the current when it serves, Or lose our ventures.

Bill Johnson, CEO of the Tennessee Valley Authority, quoted these words during his moving address to the recent national conference of the American Association of Blacks in Energy.