

# Energy Boards Get Proactive

**By John McKay and Richard Preng**

THE EFFECTS OF regulation designed to eliminate the offenses of a few have reverberated throughout boardrooms of energy companies around the world, making change inevitable for all. Responses to Korn/Ferry International's 31st Annual Board of Directors Study: Supplement on Energy showcase energy directors' dedication to initiating change in the interests of shareholders.

In comparison to peers in other industries, energy company boards meet more frequently without the CEO present, spend more hours working on board matters, and are more likely to have a mandatory retirement age in place.

To achieve a balanced and effective board, many energy companies are now taking a "tapestry" approach to director selection, selecting candidates who offer fresh perspectives and possess diverse business backgrounds. Commercial expertise, global/international experience and financial acumen are in particularly high demand.

Additionally, energy companies are beginning to split the executive and non-executive chairman roles. By separating the positions of chairman and CEO, energy companies are increasingly creating non-executive chairman roles.

Sarbanes-Oxley has prompted nearly four of five (79 percent) energy company boards to update or develop management succession committees and processes. Korn/Ferry has witnessed a visible increase in requests from energy industry clients looking for assistance in fulfilling their succession plan requirements.

Responses to this year's supplement reveal that energy directors will not be deterred from fulfilling their roles as corporate stewards. Three-quarters of respondents serving on energy company boards feel their board is working more independently than in the past.

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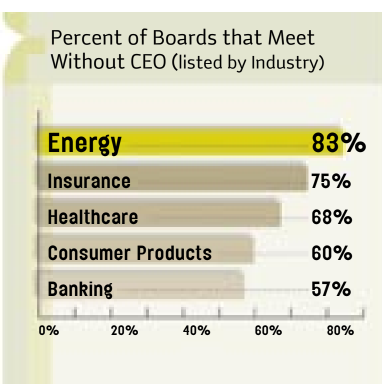


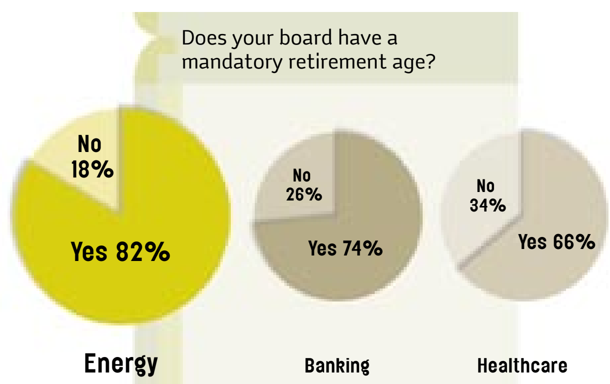



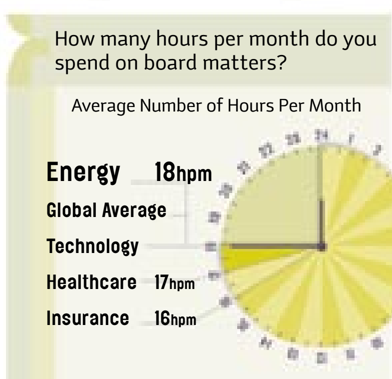


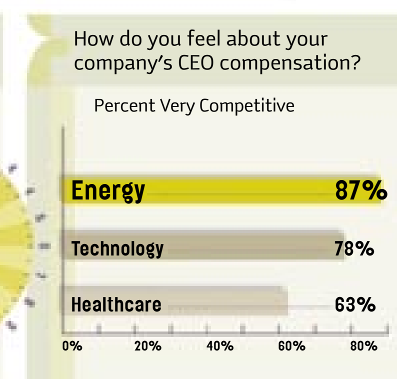


Source: Korn/Ferry International

# Industry Credit Ratings Stabilize

THE POWER INDUSTRY is stabilizing its finances and bolstering its creditworthiness, according to Fitch Ratings, the global ratings agency.

"Two years after the credit inferno that affected the power and gas sector in late 2002, Fitch Ratings continues to see broad signs of the industry's recovery," Fitch reports. "Within this context, the near-term rating outlook for investor-owned electric utilities and affiliate generating companies continues to be stable in 2005, while Fitch's rating outlook for diversified energy merchants over the same period has shifted to positive from stable."

Municipal and cooperatively owned utilities "remains well positioned, reflecting the industry's continued focus on serving its core customers while maintaining strong financial parameters," Fitch reported.

The agency said that utilities will boost spending on its transmission and distribution grid in coming years to improve reliability, so improved credit worthiness will be a significant help to them.

**RATING OUTLOOK SUMMARY**

Positive / Stable / Negative

| Segment | Number of entities | 2003 (percentages) | | | 2004 (percentages) | | |
|---|---|---|---|---|---|---|---|
| | | Positive | Stable | Negative | Positive | Stable | Negative |
| Parent Companies | 56 | 2 | 76 | 22 | 7 | 84 | 9 |
| Integrated Utilities | 58 | 7 | 83 | 10 | 9 | 86 | 5 |
| Public Power | 135 | 3 | 91 | 5 | 7 | 89 | 4 |
| Distribution Networks | 56 | 4 | 88 | 8 | 5 | 88 | 7 |
| Merchant Traders/ Gencos | 22 | 6 | 65 | 29 | 10 | 76 | 14 |
| Natural Gas Companies | 14 | 7 | 64 | 29 | 14 | 57 | 29 |

Source: Fitch Ratings

# America's Infrastructure

## Investment needs

AMERICA NEEDS TO spend $50 billion over the next five years upgrading its electric power grid. While a substantial sum, the need is eclipsed by demands to upgrade other infrastructure, according to a newly released report by the American Society of Civil Engineers. Officials of the organization say it is time that we develop a comprehensive plan for addressing about $1.6 trillion worth of projects needed over the next five years rather than approach the enormous task on a haphazard basis.

| CATEGORY | 5 YEAR NEED |
|---|---|
| Aviation | $67 billion |
| Dams | $5 billion |
| Drinking Water/Wastewater | $115 billion |
| **Electric Power Grid** | **$50 billion** |
| Hazardous Waste | $41.6 billion. |
| Navigable Waterways | $50 billion |
| Public Parks and Recreation | $3.3 billion |
| Rail | $61 billion |
| Roads / Bridges | $628 billion |
| Schools | $268 billion |
| Solid Waste | No reliable estimate |
| Transit | $219.5 billion |
| 2% Annual Inflation | $124 billion |
| TOTAL INVESTMENT NEED | $1.6 trillion |

Source: Diverse sources, compiled by the American Society of Civil Engineers