

XCEL'S FOWKE: — THE DEMANDS — of FINANCIAL LEADERSHIP

A top-notch utility chief financial officer must be a strategic thinker adept at risk management and a skilled communicator.

So says Ben Fowke, vice president and chief financial officer of Xcel Energy.

Xcel is a combination electric and natural gas utility with customers in 10 Western and Midwestern states. Last year, it posted \$8.2 billion in revenues and \$356 million in net income.

Fowke previously oversaw operations of the utility's commodity trading and marketing operations and held several finance positions at FPL Group.

Periodically, *EnergyBiz* will touch base with CFOs to elicit the views of leaders closest to the financial pulse of the energy sector. Fowke's observations follow.

energybiz: How are you fiscally preparing your company for an environment of rising interest rates?

FOWKE: We financed our higher cost debt a year ago. We are now extending the terms of our bank lines, and we have an initiative to work on reducing our working capital requirements.

energybiz: At one time, utility stocks were considered a safe harbor for widows and orphans. That is no longer the case and a new kind of investor holds utility equity. As a CFO, what challenges do you now face achieving and maintaining a proper debt to equity ratio as a result of complex changes in the utility industry?

FOWKE: From my perspective, there's nothing wrong with being a safe harbor for value investors. I think there are a lot of investors that would like to sleep comfortably at night, not having to worry about their investments.

Not that many years ago, the utility industry was relatively homogenous and you could generalize about the financial characteristics of companies and utility investors and not be far off. Today, that's not true. Regulatory regimes, asset bases and strategies are all very different. On the other side of the coin, you can't over generalize about investors. They also have differing priorities.

It all starts with a company's strategy. Strategy determines a company's financial characteristics; earnings growth, dividend and dividend growth and risk.

The challenge is to find the investors that want what the company can deliver. When you do that you have a great marriage.

energybiz: Utilities face different degrees of competition and regulation. Some are more diversified than others. What yardsticks can outsiders now use to best compare the financial condition of utilities?

Xcel Energy At A Glance

States Served: 10

Colorado, Kansas, Michigan, Minnesota, New Mexico, North Dakota, Oklahoma, South Dakota, Texas, and Wisconsin

Financial (as of 12/31/2004)

Electricity Revenue	\$6.3 billion
Natural Gas Revenue	\$1.9 billion
Nonregulated and Other Revenue	\$161 million
Total Operating Revenue	\$8.3 billion
Earnings per Share	\$0.87
Net Income	\$356 million
Total Assets	\$20 billion

Employees: 10,650
(includes subsidiary employees)



Photo courtesy of Xcel

News Flash>>

www.energycentral.com

XCEL BUILDING BOOM

Xcel Energy has embarked on several massive construction efforts, including a \$1 billion upgrade of three power plants in the Twin Cities area of Minnesota, a \$1.3 billion coal-fired power plant going into Colorado, and \$2 billion spent on other projects, reports the *St. Paul Pioneer Press*.

The efforts are part of the utility's efforts to get back to its basic core business of serving its electricity and natural gas customers.

FOWKE: The easy yardstick is return on equity or return on invested capital but it doesn't give you the complete picture. It doesn't tell you what the risk level is. You have to go back to basic finance theory; high returns are associated with high risks. Returns are easy to quantify but risks aren't. You have to understand what the company's strategy is and make an assessment of whether or not the company can execute the strategy. I don't know of any way to quantify the level of risk. I think it's probably fairly easy to develop a gut feel that the risk is very low or very high, but between the extremes is a difficult call.

energybiz: How has Sarbanes-Oxley legislation affected your responsibilities?

FOWKE: I think Sarbanes-Oxley raised the ante for a responsibility that has always existed. The challenge is making the process of attestation under Sarbanes-Oxley as efficient as possible.

energybiz: What kind of individual is best suited for the CFO position at an electric utility?

FOWKE: You should have a high energy level, an ability to grasp complex issues and simplify them, and strong communication skills. Also, it's important being a team player but also being a leader.

And of course, you should have strong finance and accounting skills.

energybiz: Describe what is new about the job of a utility CFO — tasks that CFOs in the 1980s and 1990s did not have to deal with.

FOWKE: Today's CFO has to be much more multi-dimensional. He has to be active in the development of a company's strategy. Every strategy has financial implications and risk parameters. Is a strategy financially sound? How will investors react to the strategy? Today's CFO has to be a risk manager. It goes back to my earlier comment that return and risk are correlated. If I can keep the same return level but reduce the risk, I've created value for our investors.

A CFO has to be a good communicator. He or she can't just sit in their office and think deep thoughts and send out proclamations. Command and control isn't an effective way to manage a large dispersed organization.

energybiz: What are the most exciting and challenging aspects of your job?

FOWKE: The most challenging aspect is that there aren't enough hours in the day to do everything I would like to do. The most exciting aspect is talking to analysts and investors about the company. ☒



You wouldn't offer a product that's
unreliable, inefficient and out of date.

So why would you want to
get paid that way?



Your product has kept up with the times. But getting paid by check is as unpredictable and error-prone as it's always been. It's also unnecessary. With MasterCard Recurring Payments you'll enjoy electronic payments on a regular schedule. Not only will you avoid the hassle of bounced or late checks, you can also improve cash flow and increase customer loyalty. Your subscribers will appreciate the simplicity and convenience of automatic payments. And best of all, you'll save money with a special incentive rate. To find out more, call **1-800-214-4531** today for your free Service Industries Incentive Program Merchant Kit.

*MasterCard
International*



MasterCard Recurring Payments. It's nice to know when you're getting paid.