

Magellan – In The Know: Episode 26

Powering up — The vaulting potential of WEC Energy Group

Announcement ([00:00](#)):

The information contained in this podcast is for general information purposes and does not constitute investment advice. You should seek investment advice tailored to your circumstances before making an investment decision.

Host ([00:14](#)):

This is In The Know, a monthly investment podcast brought to you by Magellan Asset Management, experts in global investing. We bring you timely, unique and thought-provoking insights to help you make sense of today's investment landscape.

Gale Klappa ([00:31](#)):

For every two EV's that customers buy in Wisconsin and command to being charged in our system, every two EV's equals the demand and the energy usage of a whole new household. Think about hundreds of thousands of EV's being purchased by customers, being charged by our network, and think about the growth that that is going to provide in terms of energy usage.

Host ([00:56](#)):

That's Gale Klappa, the executive chairman of the WEC Energy Group, outlining why his high performing power company is on track to enjoy some exponential growth.

Host ([01:12](#)):

Welcome to Magellan In The Know. In this episode, Gale Klappa explains how diversifying into several green technologies is already providing a more reliable energy supply to his 4.6-million customers, including many of America's biggest manufacturers.

Host ([01:28](#)):

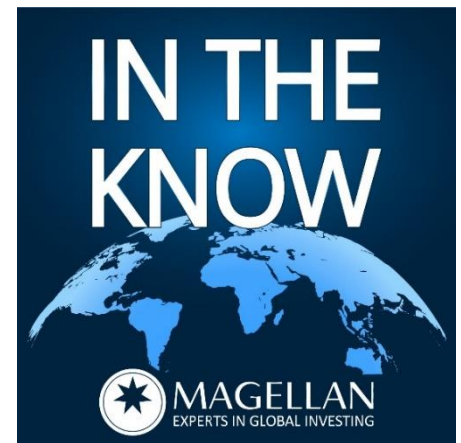
He speaks with Magellan infrastructure team portfolio manager, Jowell Amores, and head of infrastructure, Gerald Stack, about how WEC balances the desires of shareholders, regulators and customers and the potential risks of weather events and cyber security, but first, a warm welcome from Jowell Amores.

Jowell Amores ([01:49](#)):

Welcome to our podcast, Magellan In The Know. I'm Jowell Amores, a portfolio manager in the infrastructure team here at Magellan, and I'm joined by my colleague Gerald Stack, the head of infrastructure.

Gerald Stack ([02:00](#)):

Thanks Jowell. I'm delighted to be here.



Jowell Amores ([02:03](#)):

Today we're speaking with **Gale Klappa**, the executive chairman of WEC Energy, one of the largest investor owned utilities in the US, serving gas and electric customers across parts of Wisconsin, Illinois, Michigan and Minnesota.

Jowell Amores ([02:15](#)):

WEC Energy's been in the portfolio for more than a decade and has generated some of the most attractive and consistent returns across the infrastructure space. In fact, 9% earnings kegar over the last 18 years, and they've grown dividends at a similarly attractive rate.

Jowell Amores ([02:32](#)):

Gale, thanks for joining us. Perhaps we can start off by asking you to tell us a bit about yourself, how you went from a radio newscaster at university, to executive chairman of one of the best run utilities in the US?

Gale Klappa ([02:44](#)):

Well, looking back over the number of years that I have been in this industry, time really has flown, but I did work my way through university, through college as a radio newscaster. In fact my degree really was in journalism with a minor in economics. Actually, a long story short, my first job out of college was a morning news anchor in Minneapolis and then moved to Atlanta as news director of a chain of radio stations.

Gale Klappa ([03:13](#)):

The honest truth is, one day on a Sunday, I was just paging through the Atlanta newspaper and I happened to see a line box ad that said, "Fortune 500 energy company seeks spokesperson," and I thought, "Gosh, that might be interesting, just on a lark, to see what that might be like." I sent in my resume, was hired by Southern Company in Atlanta and actually was very, very fortunate, the then CEO of Southern Company, a gentleman who's now passed away by the name of Alvin Vogel, who is by the way a World War II hero and consulted on the movie The Great Escape with Steve McQueen, if any of you remember that, that great movie.

Gale Klappa ([03:54](#)):

He, for whatever reason, took me under his wing and really taught me the business, and for some reason saw potential in me, and without his mentorship and without his grooming I'm unlikely to be in a position like I am today. Essentially over the many years at Southern Company, I think I had 29 years at Southern before joining WEC Energy, back in my home state of Wisconsin, I believe I had 14 different roles over the course of that period of time, including a stint in England when Southern bought a regional electricity company in the UK.

Gale Klappa ([04:28](#)):

A lot of varied background and great experience and mentorship from some really terrific people who understood the business.

Gerald Stack (04:39):

As Jowell outlined, WEC has quite an extraordinary track record of achievement under your tenure. For those listeners who might not be familiar with WEC Energy, can you tell us a bit about WEC and the environment it works in and the key issues you face?

Gale Klappa (04:50):

Well, as Jowell mentioned in the very beginning of our podcast, we serve 4.6-million customers across the great heartland of America. We are in the upper middle western part of the United States. We're headquartered in Milwaukee, for those of you who know a little bit about the US, we're 90 miles north of Chicago and in a terrific center of the country if you will, particularly for manufacturing customers.

Gale Klappa (05:16):

The state that we serve, particularly Wisconsin, where we have almost 70% of our assets, Wisconsin has a great history of supporting manufacturers. In fact, you name the major manufacturing company in America and we serve that company, ranging from basically Komatsu, which has just built a brand new state of the art manufacturing campus for heavy mining equipment, to ABB, to Amazon, to Foxconn, to Harley-Davidson, you name it, we have a wide variety of major manufacturing customers.

Gale Klappa (05:51):

In addition to that, we have a growing customer base in terms of our natural gas distribution business. Many customers are converting from oil or propane to our natural gas distribution network, so we really are, as Jowell mentioned early on, an electricity and natural gas company with about 70% of our assets in the electricity piece of the business and about 30% of our assets in the natural gas distribution business, which we believe still has a very, very strong future.

Gale Klappa (06:22):

When you think about, your second part of your question about challenges, Gerald, and I was thinking about this the other day. A company like ours is really at the intersection of a functioning economy, because really no wrench turns, no manufacturing line moves without energy. We're at the intersection of a functioning economy, public policy and basically technological change, and that makes for a company like ours to be a very interesting place to work, but also a company with greater investment opportunity that I have seen actually in my nearly 40 years in the business.

Gerald Stack (07:01):

When you say greater investment opportunity, you mean today there's an enormous investment opportunity?

Gale Klappa (07:05):

Yes, absolutely, and a much broader spectrum of investment potential than we've had even 15 or 20 years ago. Ranging from battery storage, which is in our plan for the first time, so storage of electricity at utility scale, so ranging from battery storage to solar panels to wind farms to biomass plant and to even more efficient natural gas power generation.

Gale Klappa (07:31):

Then of course on the horizon is the potential for hydrogen to be a power plant fuel if you will, and even carbon capture, which is being experimented around the world. Again, we see a broad array of investment opportunity and continued necessary growth as we continue to decarbonize the economy.

Gerald Stack (07:50):

I'm sure that's a theme we'll talk more about in this podcast, but that's a great start to get a picture about the breadth of WEC's activities.

Jowell Amores (07:57):

Now, Gale, just a little bit more about the utility business. Now, there's somewhat of an unfair view or a notion that running a utility is simple, we'd actually argue that it's anything but simple. I'd actually argue that it's really a job for experts, for those with expertise in balancing and mediation, and when we're talking about that we're talking about balancing reliability versus affordability and then mediating between the needs of regulators, customers and shareholders.

Jowell Amores (08:27):

Now, can you give us some insight into some of those challenges, how you manage to get that right balance, and then more importantly, how you've been able to maintain this harmony for so long?

Gale Klappa (08:37):

Well, that's a great question, Jowell. Let me say this, a long time ago I learned I think an important lesson about how to continue to have a company like ours be on the right track and meet its commitments to its stakeholders. The first is that like any other business it all starts with the customer and that's our fundamental view.

Gale Klappa (09:02):

As we look at how to plan our business and how to basically continue to, as you say, balance the needs of regulators, consumers and shareholders, really if you line them up, and the objective is basically to meet the needs of all three, what you really find is those needs are not different.

Gale Klappa (09:24):

We sum it all up by, every decision we make now, particularly on capital allocation and capital investment, we sum it all up with basically what I call the ARC. Every capital decision we make, it has to follow the prism of the ARC, which stands for affordable, reliable, clean.

Gale Klappa (09:44):

Our shareholders want affordable, reliable and clean because that's the only way to sustain shareholder returns over time. Our regulators want affordable, reliable and clean, because they want to make sure public policy is followed in terms of the decarbonization of the economy, and our customers want affordable, reliable and clean.

Gale Klappa (10:04):

If you start with that fundamental premise, that basically the interests of all three of those, what might, and some people view as a disparate group, they all line up together if you have that right approach to

making sure that the needs of all three are met and aligned, and in affordable, reliable and clean we believe they all align.

Jowell Amores (10:26):

Now, Gale, would you say that that balancing act has become increasingly difficult over the years, given events such as COVID, and you've had extreme weather events across your service territories, as well as obviously the constantly evolving energy space?

Gale Klappa (10:42):

I'm not sure Jowell, that COVID, in retrospect now, since let's hope, most the COVID pandemic is behind us. We did learn some lessons from COVID, but I'm not sure in many ways it made it more difficult. I think it actually unveiled some things and I'd be happy to talk about two of them.

Gale Klappa (11:00):

The first is, I was so amazed by the resilience and the creativity of our employees. As you know, particularly our corporate office staff, like yours, had to work remote, but our service people, our line crews, our engineers, our technicians, basically had to work in the office and in the field through COVID, and they were just fantastic at how they did it.

Gale Klappa (11:25):

First of all, I think we learned that there was an even greater depth of creativity and commitment among our employees, and that was just a terrific thing to see. In addition to that, I think the COVID experience redefined for many customers, what reliability means. With many people working from home, perhaps if there was an outage at one o'clock in the afternoon, pre-COVID, and they were in the office, they didn't even know about it, we could fix it before they got home.

Gale Klappa (11:53):

With people working from home, reliability became even more important, so we learned, I think just how important in an evolving economy, we always knew reliability was important, but we learned in an evolving economy how much more important reliability of electricity is. I think those things were really clear lessons from COVID.

Gale Klappa (12:14):

In addition to that, many people are now reflecting on the decarbonization of the economy, how quickly that can continue in the right direction. As you know, during COVID, we had a polar vortex that hit parts of the United States. My goodness, in February two years ago, the temperature dropped to, are you ready? Minus 42 degrees Fahrenheit in the northern parts of our service area, it never got above zero degrees Fahrenheit for an entire week.

Gale Klappa (12:50):

We learned there, when the Texas energy system fell apart, and very, very unfortunately people died, we learned how important again, reliability is. Our system was frankly stressed to the max, but we made it. We kept people warm, we kept the economy moving, and again it underscored for us the need for fuel diversity. Without fuel diversity we would not have made it through the polar vortex.

Gale Klappa (13:19):

No question that we can continue on the path of decarbonization, we are and we will and we can make some very aggressive goals, we can bring those goals to reality by 2030, but to get to net zero we've got a long way to go. Again, we're committed to doing that, but we cannot, and I think it's a lesson of both COVID and the polar vortex's, we cannot take our eye off the ball of reliability. It is a core responsibility, a moral obligation and we will continue to fulfill that obligation.

Gerald Stack (13:51):

Perhaps then, when you talk about COVID like that and the experience the pandemic threw at you, and you rightly talk about reliability being so important to communities, and it is something that communities take for granted. In Australia, like in the US, I think the reliability of the system is something like 99.99 something percent, so we take this for granted every day.

Gerald Stack (14:09):

It means I guess that generation is really at the core of the energy transition. Can you talk to the opportunities, well, you've already touched on this today already, but can you talk about the opportunities for investing in less traditional sources of generation?

Gale Klappa (14:22):

Absolutely, and I think those less traditional sources of generation fall into three buckets. I mentioned utility scale battery storage, very helpful that the technology has developed to the point where we can actually, for certain applications, particularly at high demand times for energy, we can actually use utility battery storage to get through a four hour peak demand.

Gerald Stack (14:46):

In an economic way, Gale?

Gale Klappa (14:48):

In an economic way, exactly, a four hour peak demand. Now, battery storage alone will not get you through a polar vortex, but the reason why, for the first time as part of our five year capital plan, why we're investing in utility scale battery storage, is to your point, we can get through a four hour peak demand economically. That's one thing that we couldn't have said 10 years ago even, so that's one bucket.

Gale Klappa (15:13):

The second bucket is, and this might surprise some, because it's not overly sunny in Wisconsin, but we are going to not only double the amount of renewables on our system over the next five years, but much of that investment will come in the form of solar, utility scale solar. What we learned is pretty simple but powerful, no pun intended. What we learned is that we've never hit a new peak demand for energy from our customers, which is usually always in the summertime unless the sun was shining.

Gale Klappa (15:49):

Essentially for peak demand purposes, the combination of solar and battery storage really, really should keep us very reliable, so we're really thinking about solar in terms of its most cost effective application being in the high demand times of the summer. That solar capacity really will replace peaking units that would either run on natural gas or oil, so a very cost effective way we believe to meet peak demands.

Gale Klappa (16:20):

Then the third piece would be wind technology, wind farms. There you can't rely on wind in the summertime in Wisconsin for peak demand, but you can rely on it for a lot of energy in the wintertime, because the winds are most prevalent in the upper mid-western part of the US at night and in the wintertime. The combination is we plan our system, the combination of those three we think will very much continue along the road of decarbonization and fit very well within the ARC, affordable, reliable, clean.

Gerald Stack (16:55):

I was going to ask you, given you've mentioned the ARC, so do each of those three technologies meet those ARC criteria?

Gale Klappa (17:01):

They absolutely do meet that criteria, yes, they meet the criteria.

Gerald Stack (17:04):

Then what about energy sources such as hydrogen or indeed such as nuclear?

Gale Klappa (17:09):

Well, let me take hydrogen first if you don't mind. Hydrogen has, I think a great deal of potential. In fact, as a large energy player in the US we want to be very active in helping to shape the future of clean energy. One of the things that we're doing, which we've talked about considerably and we're about to go into the field with the experiment, we are going to, in October, try a blend of hydrogen and natural gas in what we call our new RICE units, and let me explain that.

Gale Klappa (17:41):

RICE stands for reciprocating internal combustion engines. There's a European company called Wärtsilä, that has developed this technology. They run today, they're modular power plants. You can actually put them on wheels, which is just amazing, the first time I've ever seen a power plant that could be on wheels, but they are modular power plants that are very cost effective.

Gale Klappa (18:03):

Today they run on natural gas, and we're using them extensively to serve iron ore mines in the upper peninsula of Michigan, where we also serve customers. The manufacturer, the developer of the technology, Wärtsilä, believes that the technology that we're using, which burns natural gas today, is quote, unquote, hydrogen ready.

Gale Klappa (18:26):

We're going to find out, we're going to blend natural gas and hydrogen, for the first time anywhere in the world with this technology, in October, in the upper peninsula of Michigan, and we'll see how it goes. We've gathered a number of industry partners, including Wärtsilä, including some major engineering organizations and the Electric Power Research Institute, which is the premier research institute in our industry, and together as a team we're going to test this technology and we will make, with hydrogen, and we're going to make the results public, so fingers crossed.

Gale Klappa (18:58):

That's an example of how we're trying to be a part of the solution going forward, and if hydrogen, clean hydrogen, green hydrogen could become a power plant fuel of the future, it would make a huge, huge step forward in decarbonizing the economy.

Gerald Stack (19:14):

One more part of, I guess, of diversifying your supply, so that under different conditions you've got a portfolio that can meet the reliability requirements that you have?

Gale Klappa (19:23):

Exactly, you've nailed it. Then you asked about nuclear, and the future there, and I believe there should and will be a future for nuclear energy. As you know, there are a number of technologies that are being developed. Bill Gates has been a leader in investing in small modular reactor technology. We are following that development very closely.

Gale Klappa (19:47):

I will say to you, we do not believe in trying to do something with what I call serial number one, because of the absolute need for reliability, but we are following the small modular reactor technology and progress very, very closely, and if the technology works and it's cost effective down the road, think about the power plant sites where we've retired older coal fired power plants, they could be ideal sites. They have the transmission connections, they're already established as power plant sites, they could be easily the **Host** of small modular reactors 10 or 15 years from now.

Gale Klappa (20:25):

I would simply just add and reinforce, we won't be serial number one because of our absolute need for reliability.

Jowell Amores (20:32):

Fantastic. Now Gale, if we could step back for a second here, we're obviously talking about energy transition and I believe the US climate czar, John Kerry had called it the greatest economic opportunity since the Industrial Revolution. Now, few would argue that WEC is really at the forefront of this revolution so to speak, and you're exposed practically in every investment opportunity imaginable here.

Jowell Amores (20:58):

In addition to that, we look at utilities as really leading the efforts in limiting global warming. Obviously when we look at emission numbers, it doesn't look great, but at the same time you're well positioned to lead that global warming fight.

Jowell Amores (21:13):

Now, as investors, are you able to frame the size and the scale of the opportunity, particularly for WEC, and going back to your earlier comments, what does this potentially mean for us as long-term investors?

Gale Klappa (21:26):

Sure, I'll be happy to give that a shot, Jowell. It reminds me of an old Beatles song, "So you say you want a revolution," right. Well, first of all, the next major steps in decarbonization I believe, is a lot has already been done with this industry.

Gale Klappa (21:42):

For example, our goal at WEC, is an 80% reduction in CO2 emissions from power generation, 80% reduction by the end of year 2030, and we have an operating plan to do it that does not rely on new technology. We have an operating plan to get to an 80% reduction by the end of 2030.

Gale Klappa (22:05):

When you look more broadly, I think the transportation sector all over the world is probably the next sector where there's going to be the greatest bang for the buck in terms of decarbonization. Putting it simply, that means electric vehicles. Now, in our part of the world, in the upper part of the middle western US, there's very, very little penetration right now. I'll bet we have less than 8,000 electric vehicles of any kind in the state of Wisconsin.

Gale Klappa (22:34):

As we move, and as the car manufacturers and vehicle manufacturers, many of them have set goals to basically have hundreds of thousands of EV's sold in the next 10 years, the adoption of electric vehicles in our service area could make a huge difference.

Gale Klappa (22:51):

Let me give you an example. What we're learning so far is that for every two EV's that customers buy in Wisconsin and command to being charged in our system, every two EV's equals the demand and the energy usage of a whole new household. Think about hundreds of thousands of EV's being purchased by customers, being charged by our network, and think about the growth that that is going to provide in terms of energy usage.

Gale Klappa (23:23):

Two for one, two EV's equal a whole new household in terms of energy usage. I was actually blown away by that comparison, but we're finding that that actually may even be conservative. That's just to give you an example.

Gale Klappa (23:37):

Now, there's a follow on to that and that is that let's say you live in a cul-de-sac with eight houses and three of those houses get EV's, well, we're going to have to put in a larger transformer and probably upgrade the grid into your street and into your neighborhood, so there's tremendous investment follow on opportunity here, and you can see it essentially, Jowell, in our capital numbers.

Gale Klappa (24:02):

The five year plan that we rolled out late last year, we call it our ESG progress plan, but we plan to invest \$17.7-billion in what we call efficiency, sustainability and growth. That's the largest five year capital plan by far in our history. Now, as we update that plan as you know, Jowell and Gerald, every fall, so as we go to October and November, you'll see us roll out a new five year capital plan that would cover the period 2023 through 2027, and I would be shocked if you don't see an even higher capital investment opportunity number.

Gale Klappa (24:41):

That just gives you a sense, and by the way, we're very fortunate that our cash flows are such that we can finance say the \$17.7-billion capital plan, with no new equity, and I think that is very much a differentiator for WEC right now.

Gale Klappa (24:57):

I just wanted to give you a sense of that, so tremendous investment opportunity as the economy continues to decarbonize and as more and more electrification takes place.

Jowell Amores (25:09):

That's a tremendous amount, some of these figures that you bring out. Again, it goes back to the earlier points that we were discussing, about balancing the certain needs of various stakeholders. I'm actually curious here to get some insight as to how yourself and the board think about formulating a long-term strategy, again, being able to maximize the investment opportunity and returns and then balancing this out with affordability and reliability.

Gale Klappa (25:38):

Yeah, and it's something we talk routinely with the board about. Let me give you two pieces of, I hope insight that might be helpful. Because again, we are very committed, as I mentioned, to looking at everything we do through that prism of the ARC, affordable, reliable, clean.

Gale Klappa (25:55):

Actually when you look at the investments that we're going to be making, particularly in renewable generation and battery storage, because you can eliminate fuel costs as opposed to adding more fossil fuel generation, because you can eliminate a lot of fuel costs and because today the technology has evolved to the point where it can be cost effective, we actually, compared to the status quo, believe that over 20 years the net present value of these investments that we're making will actually save customers a billion dollars, compared to the status quo.

Gale Klappa (26:33):

That's a net present value number based on a 20 year look, and that's an astounding number. Actually, we really have to credit two things, one, the improvement in the technologies and the efficiency of these technologies today, the higher cost of fossil fuels, and actually at nine or \$10 natural gas, those numbers could be even conservative.

Gale Klappa (26:56):

It's really helpful when you think about the balancing act if you will, about affordable, reliable, and clean, but A, being affordable. That balancing act is really helped by the fact that the economics are really driving these kinds of good decisions.

Jowell Amores (27:11):

Now, these are some pretty ambitious goals, admittedly Gale, in and around this energy transition thematic. Now, where do you see the risks in this strategy? Surely there are risks out there that you deal with as a board?

Gale Klappa (27:24):

I think the risks are two, and the first is, particularly something we're facing right now, and that's availability of solar panels. We not only have supply chain issues coming out of COVID, but there are questions about whether or not some of the solar panels were produced by forced labor in Southeast Asia. There are risks to the timing of some of the solar projects around the US, not just with us, we're in pretty good shape, but there are risks to timing on some of these solar projects.

Gale Klappa (27:56):

Then frankly, we have to prove that the ramp up in the use and the application of renewables that replace dispatchable generation, we have to prove that we can maintain reliability through the ramp up. That's a risk that you're seeing play out in California, where they've had real issues. It's a risk in Texas, where their system, as we mentioned earlier, basically collapsed during a polar vortex.

Gale Klappa (28:21):

I think the pace, if you will, of the transition is really important, because we have to prove to ourselves, and without taking enormous risk for our customers, that the ramp up is on a pace that we can maintain reliability, and we are committed to that.

Gerald Stack (28:37):

Perhaps now we can talk a little bit about, just more broadly, what would you be looking for in a utility, Gale? If you are an investor like us today, what are the key things that you are looking for?

Gale Klappa (28:46):

It's a great question, and stepping back and looking at it from an investor standpoint, I think there are three clear things that I would look for and do look for. The first is customer satisfaction and reliability. That's the core of everything we do.

Gerald Stack (29:04):

Like all businesses, satisfying the customer is the key.

Gale Klappa (29:08):

Absolutely, and it's interesting, we have a franchise, we have, some would call it a monopoly. An old boss of mine once said, "The best way to be a successful monopoly for the long run is not to act like one."

Gerald Stack (29:19):

Yeah and infrastructure, it's a theme we see all the time. Infrastructure by its nature is essential assets typically provided through monopolies, but it's those businesses who don't behave like monopolies who ultimately maximize the value of that franchise, which we've seen with companies like yourself.

Gale Klappa (29:33):

Exactly, so our senior team looks at customer satisfaction and customer feedback literally every single day. I see a report by noon. We make thousands of we care calls, we call them we care calls, every week. We really have a good pulse on how we're serving customers, and if there's an issue what we're doing about it. I would start with a high commitment to customer satisfaction and reliability.

Gale Klappa ([29:57](#)):

Then the second is a track record of showing that you can deliver complicated infrastructure projects on time and on budget. I think that's so important, because as you see the size of these capital programs, I mentioned earlier our \$17.7-billion program, if you get regulatory approval for those projects and you bring them on as you promised, on time and on budget, then you're in great shape.

Gale Klappa ([30:25](#)):

If they go off the rails, if they are late or multiples over budget, then you're going to be facing some real issues in terms of write offs or the regulator not allowing you to earn a full return on that investment, so a track record of being able to deliver your infrastructure projects on time and on budget.

Gale Klappa ([30:45](#)):

There I will say to you, one of the things I'm personally very proud of, I think we have built over the years one of the best construction management teams in the United States bar none. Yet, over the 19 years I've been fortunate enough to be at the company, we've had some go over a little bit, some go under a little bit, but a long story short, for all of the billions of dollars that we have invested, we're on time and on budget.

Gerald Stack ([31:10](#)):

I get how we can measure that, we can see that track record, and as you say, it's a very proud record at WEC. If I go back to the first point you raised, which was customer focus, what are the guidelines for measuring that from an investor's perspective? Do we look to the performance under conditions of duress, during COVID, during significant storms, is that the way to measure it, or is there a more maintainable measure?

Gale Klappa ([31:30](#)):

No, it's not just storms, not just COVID, but I think it's performance day in, day out. There are a number of external firms that do surveying, customer surveying, public data. For example, there's a customer survey firm called E Source, every year does multiple customer satisfaction surveys. The reason I mention that is it'll give me a chance to brag. We've just been named, for the second year in a row, number one in America in terms of customer satisfaction among large business customers. There are multiple external sources of information that will give you a glimpse of what's going on in terms of customer focus and customer satisfaction.

Gale Klappa ([32:10](#)):

Then the third is financial discipline, and that won't be a surprise to you. Do you care about a strong balance sheet? Are there surprises along the way? A track record of financial discipline and delivering on your promises financially, to me those are the three criteria that I would personally look at.

Gerald Stack ([32:29](#)):

What about risk? All businesses face risk today. You've got to manage the regulatory risk, you've got to manage inflation in particular these days, cyber risk is a big issue for many businesses. What are the key risks that you think about on a day to day basis?

Gale Klappa (32:43):

Well, it's a great question, and the one you worry about the most is cyber. You worry about it the most because we have I think, outstanding cyber protection programs, but the attacks get more sophisticated. Some of the attacks, as you know, are sponsored by state governments, if you will. It is an element completely beyond our individual control, so that's the one thing I worry about a great deal.

Gale Klappa (33:07):

However, I will say this, in the US our industry has been designated a critical infrastructure industry, and as a result there is enormous focus and tremendous communication back and forth between Homeland Security, the FBI, a number of coordinated government agencies, that really have been extremely helpful to companies like ours. The communication, the upfront warnings when they see patterns of attacks, etc, etc, has been just tremendous.

Gale Klappa (33:41):

I can tell you that more than a year ago, our company survived, in very good shape, a cyber attack from what we believe was a state sponsored attack. We've seen firsthand the communication, the coordination, the fact that our systems were well, well guarded. I was really proud that we were able to survive that without any major disruption.

Gerald Stack (34:05):

It's a bit like looking at the track record of performance when you're under attack, it gives great confidence. There's something of a Donald Rumsfeld in there about that stuff, in that it's something of an unknown unknown, but that gives great confidence I think to investors, that you've got structures and processes in place that have been able to deal with what's been thrown at you to this point.

Gale Klappa (34:21):

Yes, and very good oversight from our board as well. One of our board members actually is a cybersecurity expert as well as a very good business person, so again, you never rest on your laurels, but it is something that we feel we have a good handle on today.

Gerald Stack (34:34):

What about regulatory risk, is that something that is just baked into the way that the company operates, or is this something that is a constant on your mind?

Gale Klappa (34:42):

Oh, absolutely. I would say the key to regulatory relationships is like the key to anything else, it's transparency and communication, and transparency and communication builds trust. Transparency, communication, trust and delivering on your promises. When you have those things in place you tend to have very supportive regulatory relationships.

Gale Klappa (35:07):

Right now, as you know, we have a major rate case ongoing for our Wisconsin Utilities. Staff testimony is just out, just very recently, I would say it's a very well balanced look, so we're looking forward to concluding that rate case with a very balanced and constructive conclusion.

Jowell Amores (35:26):

Now, Gale, Gerald had mentioned inflation perhaps being a more near term one and one that we've not seen in quite some time, or at least in my career. Now, our listeners are probably aware of the valuation implications, but can you provide us some insight on what this means for the business, its earnings impact and how the team manages it? I think, again going back to your point, how does this affect that customer relationship?

Gale Klappa (35:50):

Well, I think clearly, and we've done a lot of communicating with customers, they've seen what's happened to gasoline prices at the pump, they've seen what's happened to natural gas prices. Again, it goes back to I think being very clear and being as proactive as you can, to give customers a warning about what they might see on their future heating bills or their future electricity bills.

Gale Klappa (36:13):

Generally, in fact, I just saw a major article in The Wall Street Journal, where they did a nationwide survey and electricity prices are going up around the country, 15, 20, 25%, driven in part by the big, big uptick in natural gas commodity prices.

Gale Klappa (36:30):

Yes, you have to communicate with people, and I will say this, one of the things that we're very proud of is that we tell people upfront, our customers upfront, "If you have trouble paying your bill, talk to us right away. We have a number of programs that can help." In fact, to give you an example of how much help, each year, the federal government here basically funds something called the LIHEAP program, that stands for Low Income Heating Assistance Program.

Gale Klappa (37:00):

This past year, the funding by Congress was so generous that we were able to actually, think about this, we were able to wipe out the entire arrears of all low income customers that we serve natural gas to in Chicago. We're very active in trying to communicate with customers and trying to give customers as much help as possible.

Gale Klappa (37:21):

Then in terms of the regulatory environment, again it all goes back to communication and transparency and trust, and when you have that as a basis it helps you get through shocks like this.

Jowell Amores (37:34):

Yeah, fantastic. Now, I think Gale, before we wrap up, we thought it might be worth squeezing in one or two questions that some of our listeners might be interested in hearing about.

Jowell Amores (37:46):

Now, for our listeners, Gale has an ownership interest in the NBA team, the Milwaukee Bucks, which means he's the owner of a championship ring from the 2021 season.

Gale Klappa (37:56):

Oh, I should have worn my ring, I'm sorry.

Jowell Amores (37:59):

Well, it's quite modest, shall we say, right, Gale? In fact, so modest I think it comes with its own monthly utility bill. Tell us, Gale, how did the radio newscaster end up becoming an owner of an NBA franchise there? Again, maybe perhaps are there any parallels to an NBA franchise and an electric utility franchise?

Gale Klappa (38:23):

Well, I think there are parallels, Jowell, I really do. It's amazing, the Milwaukee Bucks were sold, they had been in the ownership of Herb Coal, who is a retired US Senator, had been a US Senator for many years, but he owned the Milwaukee Bucks, and as he decided to retire from the Senate, he decided to sell the Bucks as he got into his late 70's.

Gale Klappa (38:45):

A group of money management folks from New York banded together to buy the Bucks. They realized that they really didn't have any experience in the state of Wisconsin, that a number of things were going to have to happen, including the building of a new arena, and so they were good enough to basically search around to determine if there was any interest among some of the people who are more experienced in the state of Wisconsin, of becoming co-owners of the Bucks.

Gale Klappa (39:13):

I was interviewed by Wes Edens of New Fortress Energy, by Mark Lasry, who is the leader of Avenue Capital, by Jamie Dinan from York Capital, about whether I might be willing to join them in the ownership group.

Gale Klappa (39:28):

I had never experienced anything like that before, it was fascinating, so I thought, "What the heck, I'll give it a shot." I will tell you that the team went from, this was 2014 when the ownership change took place, the team had the worst record in the NBA that year and we went from the worst in the NBA to a national championship a year ago, and deep into the playoffs this past year as well.

Gale Klappa (39:52):

It's been a fascinating experience and Jowell, to your point about, is there a parallel? Yeah, no question about that. One of the things that I've been fascinated about is really the whole approach of Coach Bud. We have Mike Budenholzer, better known as Coach Bud as our head coach, and one of his mantras is, "You play the right way. You worry less about wins and losses, because those come if you play the right way and you're committed to improvement every single day. You focus on the details, you focus on the fundamentals, you execute and the rest of it takes care of itself."

Gale Klappa (40:28):

That's his mantra and it has really worked, and you can see it in the players, you can see it in their attitude, you can see it in their focus. Executing the fundamentals, focus on details, get better every day, those are things that I believe have great parallels, not only to an NBA team, but also to a company like ours, and any other business for that matter.

Jowell Amores (40:50):

Perhaps in 10 years time, Gale, which do you think will actually generate the better equity returns? WEC or the Bucks? Now be mindful of your answer here.

Gale Klappa (41:01):

Well, all right, let me think that through for a second. I think actually on a risk adjusted basis I like WEC. However, for my portfolio, a good chunk of WEC and a little chunk of the Bucks, that's a pretty good barbell approach.

Jowell Amores (41:19):

That's a very good balance, that's a very good balance. Now, we've got plenty of basketball fans as well as a large Greek community here in Australia, so why don't we end with your prediction for Giannis and the Bucks this season. You've got a particularly strong roster this season, which recently added Australia's own Joe Ingles English, so perhaps another ring this year?

Gale Klappa (41:38):

Oh, that would be wonderful. I will say this, I will just repeat to you what Coach Bud said to me, is, "You have to have three things to win a championship. You have to be good," and he thinks we're good, and I do too. "You have to have a little bit of luck," so we'll see how that goes, "And you have to stay healthy."

Gale Klappa (41:56):

If those three things are in place, which they were two years ago, we've got a great shot. We're delighted about Joe coming on board, and I have not met him yet, but as you know he's recovering from knee surgery, so I don't expect him to be on the opening day roster, but we do expect him to help out down the stretch.

Gale Klappa (42:14):

He's a great shooter, a great teammate. We're delighted to have him, and he's from Happy Valley Australia.

Gerald Stack (42:21):

Very good.

Jowell Amores (42:23):

Absolutely. Well, fantastic. Well again, thank you Gale, for joining us today.

Gerald Stack (42:27):

Yeah, Gale, that's been fantastic. Thank you very much.

Gale Klappa (42:29):

I always enjoy the conversation. Great questions and thank you so much for having us.

Jowell Amores (42:34):

Thanks very much, Gale.

Host ([42:35](#)):

That was Gale Klappa, the executive chairman of WEC Energy Group, speaking with Magellan infrastructure team portfolio manager, Jowell Amores, and head of infrastructure, Gerald Stack.

Host ([42:48](#)):

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