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Overseer's Undercurrent: Peter (Darbee's) Principles

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Bob Glynn, Jr., in mid-December made the surprise announcement that he was stepping down as CEO of PG&E Corporation but would remain as chair of the board for one more year until taking full retirement. Named in his place as CEO was Peter Darbee, PG&E Corp.'s senior vice-president and chief financial officer.

The changes at PG&E's top level merit interest as an indicator of the prevailing trends in utility CEO successions. Among the two dozen most recent CEO successions at major utilities since 2002, the vast majority were hired from positions within the company or recruited from other utilities. Many of them, however, possess skills and experience developed outside of the industry.

Glynn is, of course, the quintessential utility insider, not only a working engineer but also the son of another long-time PG&E executive. Darbee, in contrast, arrived at PG&E in 1999 with a varied résumé that included time with Citibank, Salomon Brothers, AT&T, Pacific Bell, and Advanced Fiber Communications. Darbee does "speak the language of competition," but he also knows the jargon of regulation and the lexicon of bankruptcy courts.

Darbee was on the job as CEO for just about one month when we spoke. I began the interview by asking him to describe the elements of his prior experience that would be most valuable to his new job.

Darbee: I think the principal element that my background brings to PG&E is a nice mix of experience in regulated companies and experience in unregulated, highly competitive companies. About half [my time was spent] in the regulated world and half in the nonregulated world. That brings with it an understanding of how the competitive world works and what the demands are on competitive companies. But it also brings a demonstrated track record of being able to work effectively in regulated companies. To my mind, it represents the best of both worlds.

Whether or not PG&E is deregulated, the expectations regarding its performance will be set by competitive companies; we need to rise to that challenge.

Overseer: PG&E has undergone many changes in the past couple of years, creating a holding-company structure and trying to diversify but then having serious setbacks with bankruptcies. How has that changed the mission of the organization?

Darbee: Previously we had a very substantial merchant generating business which also had a trading arm associated with it, based in Bethesda, Maryland. That business now has been severed. The Chapter 11 filing here in California [for the utility] was an extraordinarily difficult challenge and tremendous test for management, and the experience with the National Energy Group resulted in the virtual liquidation of the National Energy Group. That's about as bad as it gets.

Overseer: I understand that you had a role in making the decision to go into bankruptcy for the utility.

Darbee: Fortunately, I'd had experience in the workouts and bankruptcy group at Citibank, and they held the view there that bankruptcy was not the end of the world but rather another form of operations. You don't approach the filing of a Chapter 11 as an emotional event, but rather as an objective and fact-driven event.

What we did here was we built a model that predicted the value of the company if we remained outside of bankruptcy versus in bankruptcy. In the winter-spring of 2001, we were losing about $10 million a day. When it became clear that it was not possible to reach an agreement with Governor Gray Davis or the [California Public Utilities] Commission under Loretta Lynch's leadership, we concluded that the value of the firm would be best preserved by filing for Chapter 11.

Overseer: What's your main priority now?

Darbee: Customer service. We are very focused on the issue of providing better service, faster and more cost-effectively for our customers. We?re involved in a process of evolving the culture of the company toward a competitive standard or environment, as well as revisiting all of our hundreds if not thousands of processes and reengineering them. That?s job number one, but let me outline my five priorities.

[The first] is to complete the financial restoration of the consolidated companies, and we will do that through the securitization [PG&E sold about $1.9 billion in bonds this week]. What that will do is to bring cash into the company; we'll be able to reduce debt and right-size our balance sheet. We'll be able to recommence the payment of dividends in the second quarter.

The second is the transformation of customer services.

The third one is making sure we have the procurement situation fixed for the state of California and for our territory in particular and make sure that new power plants are permitted and constructed. Our view is that it's most important that our customers have power. If, out of that solution, a good investment opportunity is created for PG&E, that's fine. But the most important thing is that we avoid another California energy crisis and rolling blackouts.

The fourth element of the plan is communication. I think we need to communicate more effectively what our priorities are, what our strategies for enhancing customer service are, and the time frame, and how we do relative to that time line.

The fifth is generating significant cash flow as we go forward. Do we reinvest that cash flow in generation, electric transmission, advanced metering, or if there is sufficient cash that after these investments we repurchase shares of stock?

Overseer: On Diablo Canyon and the plant refurbishment, do you expect much difficulty getting that approved at the CPUC?

Darbee: I think there will be significant intervention from different parties that oppose nuclear power, but in the end I think we will persuade the PUC that Diablo is a tremendous asset for the people of California. The cost of the power is between one and two cents per kilowatt-hour. In a time when we have somewhat of a scarcity of power and certainly don?t have an abundant surplus, this is cheap power that does not aggravate the greenhouse gas problem.

Overseer: Let's look at shareholders and the financial community. What are your goals for them?

Darbee: It think we ought to be performing in the top quartile among our peers. As I see it, there are three principal constituencies: the customer, the employees, and the shareholders. If we can move ourselves up to the first quartile in terms of operational performance, the customers are going to feel better about the company. They will communicate their satisfaction to the commission, and therefore we will have an easier time getting a fair return for the investments that the shareholders have made.

I'm about three weeks into the job. There's a tremendous amount that I need to learn about being a CEO. In my first 100 days, I?m spending a lot of time talking with employees, whether they be union or nonunion employees, about what they think needs to be done to improve our business, what obstacles they see getting in the way of providing good service, and what suggestions that have for me to help the company to achieve those goals.

There's a lot to learn; however, I believe I'm well qualified for the position.

Overseer: In the transition, Bob Glynn remains chair of the board, so we have a split between the chair function and the CEO. It's not a clear trend across the country, but we're seeing more of that splitting up the "Imperial CEO." What do you think is going to happen after a year?

Darbee: It's my impression that historically, there have been transition periods in the company where the CEO has moved up to just being chairman and the new person has been president and CEO. Then the chairman retires and the CEO becomes chairman/CEO and president. Obviously that's a question the board will address at the end of the year because Bob Glynn has communicated his intent to retire.

Overseer: How long in advance had this been planned?

Darbee: I think Bob had been thinking about it for some part of the year 2004. The board has addressed the question of succession planning for quite a period of time, and from what I understand, I'd been on that list. The board evaluated this for about half the year. I would say that the reason this was considered unexpected was that Bob has been a very vigorous and in-charge CEO.

Overseer: What advice would you give to a colleague who is considering taking on a job as CEO of a large energy company?

Darbee: Create your plan before you get into the job. Set clear priorities and manage them vigorously. Err toward informality; don't depend on your position for authority. Finally, recognize your constituencies and get to them early to establish a relationship.

—Arthur O'Donnell is editorial director for Energy Central.

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