

Interview

High Hopes for Energy

An Interview with Robert B. McGehee, Chairman and Chief Executive Officer, Progress Energy, Raleigh, North Carolina



Robert B. McGehee

EDITORS' NOTE After joining Progress Energy (formerly Carolina Power & Light Company) in 1997 as senior vice president and general counsel, Bob McGehee served in a number of senior management positions and assumed his current posts in 2004. Previously, he served as chairman of the board of Wise Carter Child & Caraway, a law firm in Jackson, Mississippi, and as a lieutenant in the U.S. Navy. The recipient of a B.S. degree from the United States Naval Academy in Annapolis, Maryland, and a law degree from the University of Texas School of Law, McGehee serves on the board of directors and is vice chairman of the Nuclear Energy Institute, is vice chairman of the Atomic Energy Committee of the Public Utility, and is a board member of Edison Electric Institute, among other professional affiliations.

COMPANY BRIEF Headquartered in Raleigh, North Carolina, Progress Energy (NYSE: PGN) is a Fortune 250, diversified energy company with more than 24,000 megawatts of generation capacity. The company's holdings include two electric utilities serving approximately 2.9 million customers in North Carolina, South Carolina, and Florida, and nonregulated operations covering merchant generation, energy marketing, natural-gas exploration, fuel extraction, rail services,

and broadband capacity. The company reported sales of \$9.7 billion and net income of \$759 million in 2004.

Was Progress Energy severely affected by the recent economic downturn, and if so, how well has business rebounded?

Business has come back strongly. We certainly saw an impact during the downturn, but we weren't as badly hit as a lot of companies in our sector. This was largely because we weren't as invested in the nonregulated side of the business to the degree that some other companies were. So when the economy turned down and wholesale prices sank, we had to regroup, but certainly not to the extent that others did. Additionally, the Carolinas and Florida are still very strong growth areas, which certainly helped us during the downturn.

You're known as a leader in the southeastern United States. Is that region the company's key focus?

Our business in the southeast constitutes our core business. Specifically, we focus on our two utilities in the Carolinas and Florida. Our wholesale business is located primarily in Florida, Georgia, and North and South Carolina, and we intend to keep it that way.

How difficult is it to differentiate in those markets?

It's a challenge in our part of the country, because this sector is regulated throughout the southeast. All the competition is at the wholesale level, and we have found that the way to differentiate there is to focus on excellence. By that I mean we focus on what we do best and don't get overextended in other areas. In order to achieve that, we place a great deal of emphasis on the way we recruit and train our people, so we can consistently perform at the highest level.

Are talented young people excited about joining the energy sector?

Yes, they are. Attracting high-caliber employees has not been an issue for us. We operate in areas that are very desirable places to live, and I think people still find our industry very exciting.

Do you think Wall Street has fully understood the unique qualities of Progress Energy?

Yes, I think analysts understand our differentiation well. They know that we have very strong service areas, where we have seen considerable growth. Of course, our location is something else that differentiates us from our competitors, and I think that's appreciated on Wall Street.

Where will your growth come from in the next three to five years?

Over the next three years, I expect most of our growth to come primarily from our regulated businesses, which generate about 80 percent of our net income. In both Florida and the Carolinas, we predict growth of between 2.5 and 3 percent. On the wholesale side, we expect slightly higher growth, although that side of the business contributes a smaller proportion of our net income. But certainly, if the economy continues to improve and wholesale prices continue to rise, we'll see only higher growth in that area.

How has the new regulatory environment affected Progress Energy, and your role as chairman and CEO?

It has certainly affected how I spend my time. Progress Energy was one of the leaders in setting up a governance committee on our board, and in having an all-independent board – now the CEO is the only insider. We were also quick to comply with all the requirements of Sarbanes-Oxley. All this has led to me spending more time on governance issues.

You were a lawyer before moving into the energy sector. What prompted you to make the move?

When I was an attorney, I represented a number of public utilities in the eastern part of the United States, so I became very familiar with electric utilities over the years. About eight years ago, an opportunity arose at Carolina Power & Light Company, which is now Progress Energy. I had done quite well in the practice of law, and I thought it might be fun to go someplace else in the country and try something new. So I took the opportunity, and it worked out well for me. ●