



EXECUTIVE UPDATE-Q1, 2010

Not Like Any Prior Period

In June of 2009, I gave a presentation to the Committee of Chief Risk Officers, the group of executives who head the risk function in major energy firms. I was not optimistic about jobs in the near term, but had some good things about the environment in 2011 and better things in 2012.

The audience's reaction was one of disappointment. They wanted to hear some good news, particularly about jobs in the risk function.

Unfortunately, this has been a perfect storm in jobs, even in the energy business, which has had bright spots in most years since energy deregulation started in the late 80's ----except for the period right after Enron's meltdown. Even then, other players began to move into the vacuum caused by Enron's bankruptcy, and things picked up relatively quickly.

In the current situation, four factors have been root causes: 1) lack of capital flowing into the sector from banks and other entities 2) the US economy's negative impact on energy demand 3) the slow recovery of the financial players such as hedge funds and 4) the regulatory uncertainty of carbon and financial legislation.

To a large extent, that environment is not going to go away quickly. Moreover, the low US natural gas and power prices are not expected to move up for at least a year, possibly longer.

Better News But Still Not Great

The first half of 2009 was extremely weak since firms either cut staff or put expansion on hold, but since mid 2009, hiring has picked up as firms began to see their way past immediate problems, and credit concerns began to abate. Firms like Constellation have stabilized, and while no strong growth seems apparent there, further cuts seem remote. In other cases, firms have finalized sales of assets or books of business (Integrus for example), and that removes some uncertainty.

In addition, we have had global energy trading firms/banks like Gazprom (Russia), Macquarie (Australia), JP Morgan, Noble (Hong Kong), Gunvor (Russia), Mercuria(Geneva/Cyprus) begin or continue to expand in the US and abroad.

The hedge fund front is fairly quiet as money stays on the sidelines.

One private equity manager explained another fact of life—many of the asset plays that hedgefunds were involved in are now in workout. Until those have been dealt with, investing in new projects will be modest. In addition, banks that used to finance a very large proportion of these deals are insisting on much larger stakes by the private equity firms.

Firms with merchant plants are still under pressure because of low prices and the electric utilities appear to be in a state of consolidation or slow recovery (see the E.ON/LG&E sale and the FirstEnergy/Allegheny merger).

The commercial and industrial market is doing rather well because of the spread between wholesale and retail. In addition, energy efficiency and demand management programs keep growing.

The renewables sector is perking up, with financing of solar, wind and biomass project beginning to bloom. The renewable portfolio standards are one bright spot on the regulatory front.

Too Negative?

Many years ago, I did some sales forecast staff work at Shell, working for SVP Bob Hart, a rising management star who later went on to be on the Board of Directors of Royal Dutch Shell.

Bob said, “in times of optimism, managers forecast too high, and in bad times, forecast too low.” A year or two later, he was proved right on his adjustments to my forecasts.

So, we should guard against negative thinking that might color our forecasts, and try to focus on the bright spots. But clearly but we do need a number of things to happen to increase the profit outlook and move the jobs needle. It is beginning to happen, but better times are at least a year away. .

One Can Still Make Money

While the current environment doesn't easily reward the purely directional trader, I have been assured by knowledgeable people that experienced traders are making money—making money on spread trading, making money in options trading, making money in extracting optionality from various types of portfolio.

With asset prices at historic lows, it's also a time to look at asset acquisition.

Employers Are Facing Longer Time To Hire and Thin Talent Pools

There are jobs that are open and being recruited for, but it is taking time to fill these positions.

It would seem to be counter-intuitive given the weak job market. But, there are reasons.

- 1) Employers have less headcount and are asking that new hires fit the job description on at least 8 out of 10 measures. Even in ordinary times, this lengthens the interview process. You don't have to compromise, but be realistic about the time required to get the right fit.
- 2) Candidates are very conservative about taking new jobs that require relocation or taking a chance on a new role. This is particularly true for those people with more than 8-10 years of experience. Those are the Enron-era veterans who were frequently disappointed with a new job, or the multiple relocations that ensued. Now, of course, many are older and have families---further inhibiting job shifts.
- 3) There have been few new people entering the energy job market. Enron, El Paso, Dynegy, AEP and many others were growth engines up to 2002. They hired and trained many people. Those talent incubators don't exist any more. Most segments of the talent pool are truly thin. When hiring picks up, shortages will develop.
- 4) The banks have been job growth engines, but mainly to a limited degree. Furthermore, the startup jobs in most banks don't provide the exposure to physical markets that can round out a person's work experience.
- 5) Compensation is about the same as it was 10 years ago and job descriptions are about the same. So many firms don't have an enticing story to attract the veteran. It's the same old, same old.

6) The housing market is still weak, so one can't flip a recent home purchase and make money.

Hiring Solutions

Grow your own—restart or expand your associates program;

Hire the more senior people, but hire less of them and couple them with new employees who will be trained by them. Re-write job descriptions to make them more of a stretch and learning experience. Many experienced people truly want to be challenged.

Find out what kind of people are available and see if you can create a job that will fit them and still get the required corporate results.

Remember that it's not just about compensation. That's one aspect of a job, but most candidates want to get back on the learning track, or "help build something." Be prepared to provide as much information as possible about why it's a great opportunity.

Have a staffing plan that extends beyond the first and second quarter—if top quality people don't get new jobs by June 2010, they may well be more interested in new employment opportunities in early summer.

The Next Time To Check The Pulse

Without considering the general US economy, a good time to reflect on the state of the energy business will be Fall 2010.

Power companies are hoping for a hot summer to boost air-conditioning demand; natural gas producers and traders will be looking at storage results, and hopefully some of the local and national regulatory issues will have been addressed.

Look forward to talking with you then.

Charles Bamford, Managing Partner

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