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Tenaska is a powerhouse at 25

By Steve Jordon
WORLD-HERALD STAFF WRITER

Tenaska is jumping into alternative energy, including Nebraska's largest wind power farm, near Bloomfield. Here, a turbine is being installed.

No surprise that longtime Omaha construction and mining company Kiewit Corp. is the 26th-largest privately owned company in the nation, based on its $9.94 billion in revenue last year.

But you might be surprised to know that another Omaha-based company tops Kiewit on that Forbes magazine list, making it the biggest privately owned company in Nebraska or Iowa.

Tenaska Inc., ranked 25th with $9.95 billion in revenue, is a home-grown company that, coincidentally, is marking its 25th year of carving its own way in the energy industry by bringing big money into big projects.

Tenaska's public profile locally is modest because of its private ownership, which precludes it from most projects in Nebraska's network of public power utilities. But its power plants elsewhere provide electricity to more than 5 million homes in North America, and its partnerships over the years have funneled more than $15 billion into the continent's energy system.

Tenaska's projects sometimes attract considerable attention elsewhere, however.

A group called Texans Against Tenaska argues that a coal-fired power plant planned near Sweetwater, Texas, would use too much water and pollute the air. In Taylorville, Ill., opponents of a proposed $3.6 billion coal-fired plant include agricultural giant Archer Daniels Midland Co., which objects to the long-term electricity purchase contracts that utilities would sign with Tenaska.

The opposition and long approval processes haven't stopped the Tenaska corps from completing or starting 44 large-scale energy projects since 1987, when Howard Hawks, Thomas Hendricks and four other Enron Corp. officers decided to stay in Omaha rather than move to Houston.

“They're good for their word,” said Gary Gates, CEO of Omaha Public Power District. “When they're building something or providing a product, that's going to happen. They have consistently proven that.”

Tenaska, which acts as an energy broker for OPPD and many other Nebraska utilities, also is innovative, Gates said, such as its early work in clean-coal and shale gas projects. And Tenaska does an excellent job evaluating potential products.

“They've done their homework, so the probability of success is very high when you're going to invest with them,” Gates said. “That trust and that track record have to be there, or you won't get people to give you the money.

“Howard Hawks deserves credit. He set the framework for the company, the way they're going to do business, and that continues today.”

Although OPPD has no plans to build a power plant, Gates said, “we would be very comfortable being a partner with them.”

For the future, Hawks and his two top executives say, Tenaskans will build on their expertise in power plant development and operation; buying and selling electricity, natural gas and biofuels; finding, producing and delivering natural gas; and putting together billion-dollar financial deals.

The company also is jumping into alternative energy, including Nebraska's largest wind power farm, near Bloomfield, and two solar energy facilities in California that, together, will cost $1 billion.

“We always built businesses that had a connection with the businesses we already had,” said Paul Smith, vice chairman of Tenaska and CEO of its

Tenaska Capital Management division, which assembles investment groups to finance Tenaska-affiliated projects.

The company's history is rooted in people that Hawks and Hendricks attracted when they left Enron. Hawks' team coined the name Tenaska to combine Nebraska, tenacity, Texas and 10 (for high quality). They planned to parlay their experience and contacts in the natural gas business and finance into the private energy field.

Enron eventually collapsed under a corporate scandal that sent some of its executives to prison.

But Tenaska grew, adding people and acquiring companies with energy-related expertise. Tenaska's first plant, in Paris, Texas, was designed to generate electricity for a Campbell Soup plant. Other U.S. and international developments followed, including development power plants in Bolivia and Pakistan.

Smith was in Pakistan for a project and realized that people around him were carrying Kalashnikov rifles. “Why don't I have an AK-47?” he wondered to himself, realizing that it was time to limit Tenaska's focus to the United States and Canada.

Jerry Crouse, Tenaska's other vice chairman, said the success of Tenaska's first projects gave the company credibility. Tenaska's reputation opened more doors, and Hawks needed more staff. Early on, he found potential hires in his old employee directory from Northern Natural Gas Co., where he had been an executive.

Once the first gas-fired power plants were operating, Smith said, “It was natural to add gas marketing as a profit center,” followed by trading in electricity and, for the past five years, biofuels such as ethanol.

Hawks' determination to keep Tenaska privately owned meant he couldn't issue stock for acquisitions. So Tenaska raised the necessary capital from cash-rich partners such as insurance companies, pension funds and banks. Financing for its latest solar project is from banks in Japan, Spain, Germany, Great Britain, Canada and the United States.

Tenaska Capital Management, formed nine years ago, now manages $4 billion in assets.

Usually Tenaska's plants pre-sell their electricity through long-term contracts with nearby utilities, such as San Diego Gas & Electric Co.'s 25-year agreement to buy electricity from the California solar energy projects.

“They're committed to getting the job done,” said San Diego Gas spokesman Art Larson. “Tenaska had to resolve the issues and avoid the pitfalls that come with essentially starting a new industry in a new region,” he said. That included “a lengthy and challenging cycle of negotiating large power contracts and getting them approved by the regulators.”

Tenaska's Crouse said the company's private ownership means it can invest the time and manpower needed to succeed in the long term, which helps attract people with that mindset. “We're here because we want to be here,” he said.

Smith said most utilities fall under rate controls by state commissions that guarantee profits but that can restrict flexibility and limit geographic reach. Tenaska's nonregulated status means that while its returns are not guaranteed, it can operate anywhere and be innovative and flexible in its approaches to energy.

Tenaska hasn't built power plants in Nebraska because state law requires power plants to be owned by public utilities such as OPPD. Tenaska's business model calls for it and its partners to own power plants and for Tenaska to operate them for many years, although it also sells some of its older power plants to utilities.

Tenaska's management system has evolved since its founding. Hawks retired from his executive duties in 2010 but remains chairman, with Hendricks as executive vice president. A 19-member “board of stakeholders” is the governing body, and other boards oversee its divisions. Decision-making is pushed downward, Crouse said, with major strategic moves percolating up to the top board.

Smith said the divisions work smoothly with one another, with members collaborating, ironing out details and resolving potential problems before they arise. “Consensus has served us well,” he said. “We prize what I call the conflict of ideas,” as staff members argue until they agree.

“It's pretty easy,” Hawks said, “to get everybody's real opinions. We trust people to speak their minds, positive or negative.”

Crouse and Smith said economic cycles, technology, environmental regulations and government policy will affect Tenaska's future.

For example, new technology has uncovered vast new domestic resources of natural gas, driving the price down and, with it, Tenaska's revenue from trading natural gas.

Last week, Tenaska altered its plan for a power plant in Illinois to use natural gas instead of coal. The change would cut costs, including the plant's initial proposal to use innovative technology to store the coal's carbon dioxide emissions underground.

Although government tax incentives make solar projects viable, Crouse said, improved technology means “the cost of solar energy has come down dramatically” and is close to competing straight up with traditional power plants.

Restrictions on environmental emissions will make some coal-fired plants obsolete, opening opportunities to build new gas-fired plants.

As for wind energy, Tenaska can act as a partner but can't take full advantage of federal tax incentives. Its profits are passed through to its individual owners, who can't claim the energy credits on their tax returns.

Tenaska doesn't say how many shareholders it has, but Smith said nearly all employees have a chance at ownership, profit-sharing or some other form of compensation tied to the company's overall success.

The company's employees are active in community affairs, from Hawks' position as a University of Nebraska regent to individual members of churches and civic groups.

Tenaska brings about 500 people to the College World Series each year, most of them out-of-towners who work with the company's projects one way or another. “It creates some great camaraderie,” Hawks said.