Competition Part 3: Eating the Pie

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During the Internet Boom of the late 90's I took sort of a side trip out of the utility industry and into the world of e-commerce and the Internet. The company I worked for was an energy-based software/internet company focused on utilities among other sectors, so I have to admit that I was not stepping completely away from the electricity space. But suddenly, doing "eye-ball" deals and talking to folks at AOL and Yahoo, I knew I was in a different arena.

Of the many interesting moments during my time in that world, one has always stayed with me because of the way it brings things down to earth on one of the most important aspects of competition.

It happened when I attended a major internet conference in Boston just as the e-commerce bubble was starting to inflate rapidly and steadily. It was a lovefest that featured some of the biggest names in e-commerce at the time, and everyone was talking about how much traffic and visitors their sites were getting and how much they would be getting in the future. The numbers they cited were large, and formed the foundation of many a fine-looking business plan.

During the plenary Q&A, a questioner from the audience stood up at the microphone and noted that since there were only 60 seconds per minute, 60 minutes per hour, and 24 hours per day, how could everyone's traffic forecasts be correct? When you added them all up it seemed there was not enough time in the day for all of them to get the visitors they were predicting. In other words, the people who made up these visitors had only so much time in a day to devote to the internet, and all of these new internet sites had to compete to have visitors be on their site instead of their competitors' sites. (Interestingly, the execs on the panel during that session laughed and uttered those now famous words "oh...you just don't get it...this is a new economy.")

The nice thing about electricity is that everyone wants it and both business and society continue to lean towards being electrified. Because of this, it seems like there should be a rising pie, er...I mean a rising tide and an expanding pie, that creates a large enough market for everyone to succeed, including all the newcomers in the DER arena. But the problem is that in the U.S. electricity demand is flattening, and climate-based regulations will continue to dampen demand. That means that intra-source competition would seem to be unavoidable. I am not just talking about natural gas replacing coal. I am talking about "new stuff vs. new stuff."

Take demand response and storage, for example. While both should be thought of as more than just peak-reduction options, this is a major value proposition for each. So at some point in some areas, they will compete as peaking products not just against gas-fired peakers, but against each other. At least that is what electricity sector audiences have thought when I have polled them at recent events I have put on.

Let's go next to solar and wind. Nice pairing when you are talking solar during the day and wind at night. But what about the two going head to head during the daytime when both are available on an intermittent and variable basis? Wind already gets spilled in some places at times because the grid can't handle it. What about when there is too much solar and too much wind at the same time, and storage hasn't evolved and/or been sufficiently deployed to accommodate it?

To be clear, none of what I just said has anything to do with utility vs. non-utility competition. It is resource type vs. resource type.

And what about the demand side, as traditional, device-embedded efficiency adds behavioral and technology aspects and morphs into intelligent, dynamic, dispatchable efficiency? When it does, it will be a more solid competitor vying to be chosen instead of a supply-side DER option.

This kind of competition is already happening to some degree in the ISO/RTO markets, where EE, DR, DER, etc. are allowed to bid into auctions. I don't think that it has really hit the retail sector or the world of resource planning such that the new resource types are competing against each other to a great degree. But it will happen.

Every company - including utility companies - offering DER will not automatically have a seat at the table. You will have to compete in the policy arena and in the marketplace. You will have to continually improve your products and services and likely offer them at lower costs.

You also will probably have to sharpen your focus on segmentation, including which types of electricity submarkets you are after, which areas of the country you target, and what types of customers you seek.

The internet and e-commerce are actually thriving today, but not because everyone is trying to be an Amazon, a Facebook or a CNN. Much of this sector's robustness comes from the vast number of sites that are trying to do the opposite: creating different places for different markets and different shoppers. These companies know there are still only 24 hours in a day and that, while they can't expand laws of time and space, they can compete, and do so quite nicely.

Since there is only so much electricity that will be consumed or saved, electricity sector companies may need to look harder at who their future competitors are. It may that guy with a fork next to you who is eyeing what you thought was your piece of the pie.

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