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Smart Grid Technology: Profit from Digital Electricity's Global Boom

BY DR. KENT MOORS, EDITOR, *OIL & ENERGY INVESTOR*

Dear Reader,

The world will spend \$200 billion on smart grid technology in the next four years.

That's three times NASA's total price tag to put Neil Armstrong on the moon, in 2011 dollars. But Neil wasn't nearly as influential as smart grid will be.

Smart grid technology makes power plants efficient and saves billions of dollars each year for electricity companies and their customers. But introduction of this new system requires a complete overhaul of the patchwork, 19th century electrical grid that currently spans the globe.

And the major infrastructure for this new technology is going in right now, with government and private spending reaching a fever pitch by mid-2011. If you hurry, you can still find great ways to profit from global smart grid investment before the overhaul reaches its peak.

Smart grid spending in the U.S. will double in the next three years. In the same time, China's market will triple. Combined, the two countries could be doling out more than \$120 billion for smart grid upgrades in the next four years.

Add to that governments in Europe, Russia and India, all of which have major projects in the works, and you start to see how big smart grid technology is going to be.

However, you can't jump into just any smart grid company with the hopes that it will be a winner. Like the first wave of all new technologies, there's a glut of companies coming onto the market right now, and most of those won't make a cent for their investors.

But I can give you an advantage over other investors. As a 30-year veteran of the energy sector, I'm on the inside of the smart grid industry. And in my research, I've uncovered the best way you can make safe gains from smart grid tech.

But before you buy anything, you should know exactly what you're buying into.

Energy Overhaul

Every year, electricity companies waste nearly \$150 billion on the inefficient, obsolete power system that spans the U.S. Integrated smart grid technology could reduce that spending to nearly nothing.

The new technology will make electricity smarter and save money for power plants, customers and everyone in between.

A significant amount of the electricity generated in any traditional power plant is lost in transmission or due to wasteful use and the inability to store it. That's energy and money thrown out the window of every electrical plant in the world each day because the systems that generate and move electricity aren't sensitive enough or quick enough to respond to changes immediately.

Smart grid technologies could make almost instant response possible. They could create an efficient, lower-cost power system that can respond to changing needs on an almost instantaneous basis.

Smart, Economical, Efficient

A smart grid is an electrical network that uses digital technology. When fully installed, a smart grid comprises an integrated power generation, transmission, and distribution system.

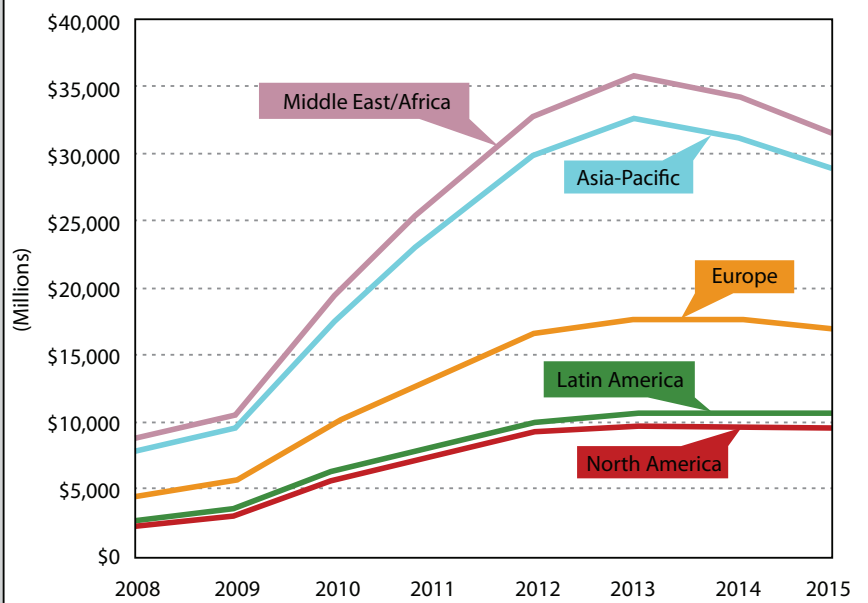
Companies can put in single components of the system at a time and receive benefits, while spreading out costs. This makes the system a much better sell to electricity utilities. And over time, all utilities will move to entire smart grid systems.

Basic to smart grid design is a two-way communication channel that allows for greater evaluation, control, and direction – by both the power company and the consumer. The system is “smart” because it allows for real-time monitoring of an entire network's operational status, while providing a quick, often automatic, response to changes in conditions and usage.

Residential smart grid meters act like more sophisticated, electricity-controlling versions of digital thermostats. They monitor electricity usage and modify the amount of power coming into the house or apartment accordingly. Current versions can reduce household electricity usage by more than 40%. Those coming down the pipeline will perform even better – because they will be hooked up to improved systems for the generation and distribution of electricity.

“Smart” here means “efficient.” These grids save electricity and save

Smart Grid Revenue by Region, World Markets: 2008-2015



Smart grid technology spending, especially in Asia, Europe and North America has reached a sustainable level in 2011. Growth continues to be strong and fast, but it's attained a comfortable level for safety-conscious investors, who can now find smart grid companies and funds that will grow steadily and reliably.

people money at the same time. They automate the patterns of electricity usage in your home and allow for the transfer of power as needed. That makes more effective use of electricity during the less expensive low-peak periods of the day and reduce the draw on the system during times of high usage.

Smart grids bring down power bills for the consumer. They conserve electricity for the power plant. And they move electricity around efficiently, meaning those pesky brown outs will be less likely in the future. Some smart grids even allow consumers to sell unused power back to the grid.

Most of the global power infrastructure is decades old, some dating back 80 years or more. And they're in desperate need of an efficiency redesign. Smart grid systems will become the standard for electricity utilities across the globe in coming years.

And I've found the three best ways to profit as power companies roll over to smart grid systems.

Don't Bet on the Big Boys

Major infrastructure projects, even those to install smart-grid systems, will remain the province of the big boys – the likes of **General Electric Co. (NYSE:GE)**, **Siemens (NYSE:SI)**, and **Philips (Royal Philips Electronics) (NYSE:PHG)**. These giants will see barely a blip in their profit statements from smart-grid integration.

But as these new infrastructures go up, demand for secondary providers, service companies, and equipment manufacturers will grow with them. These supporting players will introduce a range of applications for alternative and renewable energy sources into the projects, along with increasing the overall efficiency of each power plant.

It is with this new generation of companies that the average investor can get in first and benefit from their early growth.

Now, this does require a considerable amount of care. Investors can't run out and pick up the first smart-grid tech company they find. Like the birth of any industry, the smart-grid field is currently glutted with new businesses, many of which will not survive as the sector moves forward.

When it comes to smart-grid companies, I look for the technological advances of greatest benefit to the end user. These are likely to arise from research and development (R&D) companies. They may have great ideas but are often thinly capitalized and come with suspect management -- just like companies in every other technical breakthrough era the market has experienced.

I have lost count of the great inventions I have witnessed over the years brought forth by small companies led by brilliant scientific minds... who drove their companies into the ground for want of business sense.

So here's where I separate the wheat from the chaff for you.

Action to Take:

You can play the smart-grid revolution two ways. Or if you prefer, double-up on an ETF and a few small smart-grid tech companies.

- The **First Trust Nasdaq Clean Edge Smart Grid Infrastructure Index Fund (NasdaqGM:GRID)** is a new ETF designed for those who want a quick, overarching approach to smart grid investment.

It took a while to build up sufficient liquidity, but this fund has finally reached a point where it can serve as a barometer for the smart energy sector as a whole. The fund's holdings cut across the main segments in grid system needs and include some of the foreign players likely to have early impact in the industry.

I also recommend the average investor begin individual equity buys with businesses that have already gained a successful track record in smart technology or the application of that technology.

I would suggest investing in companies that provide applications focused on areas necessary to advance the smart grid as a whole. This is not the time to put your money into any business that doesn't provide required services. Here are two companies doing just that:

- **Quanta Services Inc. (NYSE:PWR).** This Houston-based engineering firm provides power transmission and distribution services. It specializes in smart-grid applications for high-voltage power lines and serves municipalities and companies across the U.S. and Canada.
- **EnerNOC Inc. (NasdaqGM:ENOC).** EnerNOC is a leading provider of smart energy management applications and services. The company offers applications that will do everything from reduce carbon emissions to manage energy demand, which helps prevent those pesky brown-outs. It also offers applications that reduce costs for both customers and electricity providers.

One thing to remember when dealing with smaller companies: Trading volumes can be low, which heightens the volatility already present in such a rapidly developing sector.

Sincerely,



Dr. Kent Moors

Dr. Kent Moors has been advising the world's largest and most active energy producers and buyers for 31 years, including six of the world's top 10 oil companies and high-level government officials from the U.S., Russia, Kazakhstan, the Bahamas, Iraq, and Kurdistan. Business clients include the Bank of England, Citicorp, AT&T, Deutsche Bank, the European Bank for Reconstruction and Development, the Russian Central Bank, and Westinghouse.

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