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## Newcomer challenging cleantech darling's primacy

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Just as Boston clean technology darling EnerNOC Inc. seemed to have secured its place leading the nascent energy management field known as "demand response," a fellow Massachusetts firm began a quest to re-invent the industry and change the prospects for companies in the space.

By some indications, it's starting to happen.

World Energy Solutions Inc., based in Worcester, has mostly been known for running online exchanges for energy procurement and carbon emissions trading. But earlier this year, the firm did a test run of using an exchange as a way to initiate demand response contracts.

Demand response refers to an event in which businesses and other large energy users are paid to lower their electricity during peak demand periods, avoiding blackouts and the need for new power plants. Pike Research has put the demand response market at \$1.4 billion this year, growing nearly six-fold by 2020, to \$8.2 billion.

The World Energy auction, which piloted from February to May, was the first of its kind, with demand response contracts going to the highest bidder among providers of the service. The full launch of the auction starts this fall for contracts covering 2011.

The auction approach contrasts with the way EnerNOC and other demand response providers do business — setting what share of the demand response payment a customer can receive. Typically, providers take about 40 percent of the revenue (paid

by the local grid operator) while giving the other 60 percent to the customer, said Jevan Fox, an analyst with Pike Research.

At World Energy's auctions, however, demand response providers usually end up dishing out 88 percent of the revenue to customers, said company CEO Richard Domaleski.

"We felt this is truly a commodity, and belonged on an exchange," Domaleski said. "We think we can get you a much better deal."

EnerNOC declined to comment for this story, but company executives have previously argued in media reports that demand response is a specialized service, not a commodity that can be traded by auction.

Still, Fox believes auctions will likely become the dominant way demand response contracts are inked in the future. World Energy already claims 80 percent of demand response providers as participants, and that could affect major providers such as EnerNOC and Georgia-based Comverge Inc., he said.

"In theory this will definitely create competition, and it will drive down the cost of demand response services," Fox said.

Fueling his optimism is World Energy's biggest win yet in demand response — a deal with Maryland-based Alban Engine Power Systems, a major Caterpillar dealer, that allows World Energy to auction up to 1,500 megawatts of demand response capacity. That's equal to the size of several power plants, and nearly a third of the total capacity EnerNOC has reported having under agreement.

The way the deal works is this: partici-

pating Alban Engine customers agree to be on call to turn on their backup generator and cut the flow of power from the grid during a peak demand event.

That means this variety of demand response isn't quite the same as having a business shutting off the lights completely and reducing emissions, though the benefit for the grid is the same.

The deal was announced this month by World Energy (Nasdaq: XWES), which has a staff of 60 and saw revenue of \$8.4 million for the first six months of the year. Alban looked past working directly with demand response providers such as EnerNOC in cutting the deal, Fox noted.

As of June 30, EnerNOC reported having more than 4,800 megawatts of demand-response capacity under management — easily making it the market leader. The company is often touted as the top success story of the Massachusetts cleantech industry, and expects to receive \$273 to \$285 million in revenue in fiscal 2010.

If World Energy succeeds at changing the way demand response is sold, it doesn't necessarily mean that EnerNOC revenue suffers, however, according to Fox. If the auctions can bring new demand response capacity to market that wouldn't have been there otherwise, providers such as EnerNOC might see lower payments but make up for it with more business, Fox said.

If they decide to take part in the auctions, that is.

"I'm assuming the EnerNOCs and Comverges have to start looking at it a little more seriously," Fox said.