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Smart Plays on Smart-Meter Makers

By Stockpickr Guest Columnist
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Editor's note: This column was submitted by Stockpickr member Winston Kotzan.

As global power grids face a capacity crunch, a new bull market is emerging in a nascent industry, called demand response.

This new field of demand response systems is still a maturing market, and the definite leaders have yet to be determined. A few of these pure-play companies may prosper, but it is also likely that some will sink and disappear. If you want to play these stocks from a speculative standpoint, I suggest taking small positions in each as a basket of stocks.
Smart-meter systems are similar to the electricity gauges found in most home basements, but more sophisticated. They have the ability to communicate with the utility, providing reports and automation that the customers can use to manage energy during peak hours, when electricity is most expensive.

Eventually, smart meters will allow tiered pricing plans under which utilities can adjust energy prices according to real-time grid demand, and the meters will respond to such changes in costs.

Energy reduction programs take preventive steps to prevent rolling blackouts. During peak energy usage times, building administrators have agreements with the utility company to reduce energy usage in return for payments or discounts on electricity. Smart meters are often used to facilitate such programs.

Demand Response's Stock Beneficiaries

Driven by volatile energy prices, demand response programs have taken off in Europe and Asia. The U.S. is also launching pilot programs, which, according to IDC's Energy Insights, a research-based consulting firm, could result in the installation of as many as 51 million electric and gas meters. Energy Insights asserts that this industry can grow from $2.3 billion to $5.5 billion by 2011, with 22% growth in hardware sales.

Here are a few stocks that stand to benefit from this industry's growth:

Itron (ITRI - Cramer's Take - Stockpickr) is the clear-cut pure-play leader in smart metering. The Liberty Lake, Wash., company provides meters and power grid forecasting and management software. Along with low debt and improving operating margins and profitability, this company is in a stronger financial position compared to other pure plays.
Itron earlier this year acquired Actaris, a competitor in Europe.
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Comverge (COMV - Cramer's Take - Stockpickr) and **EnerNOC** (ENOC - Cramer's Take - Stockpickr) are two companies that recently became public and that provide energy reduction solutions for utilities.

Both of these companies manage programs and networks that help add power grid capacity to utilities during times near overload. They work by providing hardware and economic incentives encouraging customers to cut back on power-draining devices such as pool pumps and HVACs during peak times.

Because these companies have been public only a fewl months, not much financial data is available. These companies have yet to generate positive earnings per share, so are hard to value based on price-to-earnings multiples. While I consider these speculative stocks, I believe that over the long run this type of service will benefit from the rise in solar power as more customers will have the capability of adding electricity back to the power grid.

I consider **Echelon** (ELON - Cramer's Take - Stockpickr) the most speculative demand-response stock, but I believe it has the greatest short-term potential. The stock comprises 5% of the **WilderHill Clean Energy ETF** (PBW - Cramer's Take - Stockpickr).

Echelon specializes in automation technologies that help businesses reduce energy consumption by more effectively controlling lighting, HVACs and other energy-intensive appliances.

In an interview with *TheStreet.com TV* in June, Echelon's chief operating officer, Bea Yormark, said the company's product is differentiated through horizontal integration and interoperability.
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