

The new boss

The “pipes and wires” scheme for delivering electricity, natural gas, and water to end users was one of the big technological successes of the last century. Now, however, this model is being strained by price volatility. The problem is particularly acute for electricity, a commodity that has been so affordable in the West that most citizens have hardly given it a thought. In the U.S. and much of Europe, however, the complex, regional, monopoly power system structure developed over the last hundred years is now being scrapped by free-market proponents.

After watching the introduction and effects of competition in the U.K., Scandinavia, and Australia, U.S. utility executives now find themselves the targets of consumer wrath. Every time a business or general-interest magazine or newspaper runs an article with a title like “My higher electricity bills” or “Mutiny on the meter,” they must feel a bit more sheepish. Although the executives aren’t to blame for higher electric bills, they must also feel at least a little sorry for consumers, who are paying the price for freeing bulk electricity pricing from rate constraints. Who’s to blame? Regulators and politicians, who seem to have abdicated their responsibility for making sure that enough new power plants and transmission lines are built.

The recent collapse of the latest round of climate change negotiations in The Hague, Netherlands, put many talking heads—talking about energy—on TV. After one pundit observed—correctly—that U.S. consumers won’t reduce their energy consumption simply because someone tells them they should, another remarked—also correctly—that only a big jump in energy

Residential and small-business users may not buy as much energy as industrial customers, but there are far more of them

BY CHRISTOPHER BERGESEN

prices would change consumer behavior. Well, that’s what we’re seeing now in electricity and natural gas, and consumers’ anger at higher utility bills is slowly giving way to resignation that cheap energy may be a thing of the past.

This change in the collective consciousness of the American consumer represents both a threat and an opportunity for energy executives. They’d be well advised to keep close track of what consumers are thinking, because consumers make their market, and the customer is always right—right?

“Meet the new boss/same as the old boss,” sang Roger Daltrey of The Who in the 1971 rock classic “Won’t Get Fooled Again.” Indeed, small customers are both the new boss and the old boss of the energy business. Residential and small-business users may not buy as much energy as industrial customers, but there are far more of them, and their opinions and actions—voting, for example—will ultimately shape the political will and actions of legislators and regulators to make the energy supply system work.

Retail customers are a fractious and unpredictable lot, and predicting how they will behave en masse is challenging, but not impossible. In fact, customers have shown that they quickly respond to price signals, good advertising and public relations, and—last but not least—prompt, effective, and courteous customer service.

However, many customers believe that an affordable bill should be an essential part of the service their utility provides. Now that more of their complaints about this element of “service” are falling on more sympathetic ears of those in power, it’s becoming clear that three big changes will take place in the restructuring retail energy business. First, political pressure will eventually be brought to bear to minimize price volatility. Second, big companies that do a good job of delivering energy will be more profitable than small companies that do an equally good job—in other words, size will continue to matter. Third, energy prices will ultimately go up—not down.

During the boom years of “new economy” businesses on the stock market—an era that suddenly ended last year—observers marveled at how easily many companies raised money and attained stratospheric valuations without much in the way of products, customers, or sales. Now that many of these virtual firms have seen their names scraped off the doors of their real offices, it will be left to business-school professors and students to study why they failed. But in most cases, there is only one, simple reason: they didn’t have enough customers because they didn’t offer products that enough people wanted to buy. Since everybody buys energy, here’s a bit of advice for the managers of energy companies—schedule some face time with the new boss as soon as possible, and find out what he wants. ■