Political Verses Market Efficiency

Economic conservation of energy consists of actions and investments that make sense. Political conservation is wasteful government-directed energy measures with huge overhead costs spread over the general ratepayers. The term Demand-Side Management, "DSM," has been taken over by the proponents of political conservation. Those who support the reasonable efficiency and the elimination of waste should let the political conservationists have the DSM term and use other words to describe what we favor.

DSM rose to regulatory prominence during the late 1980s following the disastrous nuclear generation construction programs of the electric utilities. The confidence of the utility industry and its regulators in high-cost building programs had been shaken, and they were open to other approaches to meet future energy demand. The DSM zealots made assertions like "if everybody used super-duper light bulbs, umpteen power plants could be shut down." The notion sounded plausible; perhaps high efficiency could eliminate or at least reduce the need for future power plants. But to get "everybody" to do these nice things, it was assumed only a coercive tax-and-spend program with all-around regimentation of consumers would work.

Apocalyptic environmentalism was and remains the major driver of early DSM initiatives. The environmentalists see the crisis of global warming as being caused by fossil fuel consumption, which should, therefore, be curtailed to save the world. For these zealots conservation was too serious a matter to be left to voluntary efforts. In their view consumers were just too dumb to know what was good for them. The environmental activists entered the regulatory arena with visions of catastrophe dancing in their heads, as they put forth an agenda of central planning, social engineering and meddling in the household budget. The utilities and the regulators in general did not buy the disaster scenario of the environmental lobby. However, they were attracted by the prospects of expanding the scope of state regulation. They saw a chance to increase and intensify their control over customers, reduce the threat of competition and guarantee returns on poor investments.

Through processes known as "Integrated Resource Planning" utilities and state regulatory agencies tried to determine the least cost choices between supply-side options and demand-side options for making investment decisions. DSM programs are an assortment of give-away programs to retrofit buildings and subsidize energy-using equipment; they have high administrative overhead and provide sizable incentives to the managing utility. By the mid-1990s America's utilities had spent tens of billions of dollars of their customers' money on DSM programs with little to show for it. The electric industry was facing competition on the retail level and had excessive DSM costs shown as "regulatory assets" on its books. With competition on the horizon and DSM largely shown to be worthless, the utilities wanted to clean up their books by getting rid of the burden of DSM expenditures. The prospect of new competitors without the burden of expensive DSM carrying costs was perceived as a serious problem. DSM programs in America's utilities went through a drastic reduction in the late 1990s as managed competition called "deregulation" was tried for retail power customers in many states. With the later collapse of managed retail competition, DSM made a comeback. It seems the opponents of DSM had failed to drive the proverbial wooden stake into its political heart. The threat of competition had played a larger part in the hiatus than DSM's failure to deliver or the persuasiveness of its opponents.

The mandatory cross-subsidy of DSM can only be accomplished in a strictly regulated sector of the economy where the political machinery exists to shift money without consumer consent. The environmental lobby has not attempted such programs in other relatively free sectors of our economy. The environmentalists are staunch supporters of regulation, and they oppose any moves toward competition. DSM agitation waxes and wanes in a counter-cyclic manner to the viability of competition in the electric utility industry.

In the first round of DSM programs, the industrial customers generally opposed their implementation during regulatory proceedings. Industrials did not believe the hype about conservation being an alternative to building new generation; they argued that industrials could best do their own conservation and that industrials could not bear the tax necessary to subsidize others. The industrials, and the sound economists they employed, made amazingly accurate predictions about DSM's failure. In many states industrials were allowed to opt out of paying for DSM programs. Most DSM programs are aimed at residential electricity users. In today's comeback stage, the environmental lobby has left out the politically powerful industrials as a source of money for their pet spending programs. It is now the much less politically powerful commercial customers who are expected to bear a substantial portion of the subsidy burden.

Most of the improvements in energy efficiency in the economy are due to competition between suppliers of goods and services rather than mandates and utility-managed programs. It was entrepreneurs that developed fluorescent and LED technologies to meet consumer demand. Innovations in air conditioning were being made by competing manufacturers long before efficiency improvements were mandated. Government appliance regulations increase costs, stifle innovation and reduce competition. Government rules reduce the incentive to improve products beyond the dictated standards and protects incumbent producers from newer producers.

State and federal energy efficiency regulations can only tax, subsidize, mandate and prohibit. It is the market that brings consumer benefits.

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