

spotlight

No. 402 – October 28, 2010

DEMAND MANAGEMENT

Social engineering by any other name ...

KEY FACTS: • Over the past decade the “demand side management” (DSM) model of public policy has crept into the state of North Carolina’s approach to regulation.

• The idea is to use public policy and government force to control the purchases and consumption habits — i.e., the behavior and choices — of citizens.

• According to the U.S. Energy Information Agency, the purpose of DSM when applied to energy is “to encourage consumers to modify their level and pattern of electricity usage.”

• The direct application of that in N.C. is SB 3, which sets limits on the amount of electricity that can be consumed and mandates how much electricity can be consumed from various sources.

• According to Duke Power, the point of its SB3-inspired “Save-a-Watt” program is to “affect the nature of the energy-efficiency market such that customer *behavior*, vendor *behavior*, and even manufacturer *behavior* is altered.” (Emphasis added.)

• The stated purpose of Transportation Demand Management (TDM) is “to provide citizens of North Carolina specific opportunities and strategies for sustainable economic growth.”

• According to the Department of Transportation, “For transportation planning ... sustainable development primarily means reducing our dependence on personal vehicles to balance mobility needs with commitments to use less energy, improve air quality, preserve land and conserve limited resources.”

• TDM is an umbrella term for government management of people’s driving habits, land use, and housing choices.

• The advocates of DSM are clear in making explicit their goals of social engineering and the rearrangement of lifestyles. The language in their guiding documents are replete with references to “behavior modification” and “restraining and restricting” certain activities or lifestyle choices.

• DSM is inconsistent with a free society, where the role of government is to respond to constituent demands, not manage and control them.

200 W. Morgan, #200
Raleigh, NC 27601
phone: 919-828-3876
fax: 919-821-5117
www.johnlocke.org

The John Locke Foundation is a 501(c)(3) nonprofit, nonpartisan research institute dedicated to improving public policy debate in North Carolina. Viewpoints expressed by authors do not necessarily reflect those of the staff or board of the Locke Foundation.



Over the past decade the “demand side management” (DSM) model of public policy has crept into the state of North Carolina’s approach to regulation at both the state and local level. Currently this approach dominates energy, transportation policy, land use, and water policy.

The purpose of such policies, of course, is to manage consumer demand. But what does that mean? What is the philosophy behind this approach, and is it appropriate in a free society, a society where government is supposed to be the servant, not the master?

What Is Demand Side Management?

In order to understand the appropriateness of DSM policies, we must understand what economists mean by *demand*. Demand refers to people’s decisions about what and how much of a particular product or service to purchase and consume. That is contrasted with the *supply*, which refers to decisions by producers regarding what and how much to produce. In markets, the two are linked by the fact that suppliers decide what to produce based on their expectations about what demanders will want at different prices.

In other words, demand is manifested in human behavior and choices, and the act of supplying is an attempt to accommodate those choices. In this sense, free markets are dominated by what might be called “supply side management” by consumers. If those operating on the supply side of markets do not strive to provide what demanders want, they go out of business.

In a free society, government should take that same perspective. For those goods and services that the government provides — parks, libraries, transportation and education services, etc. — the role of government is to substitute for the suppliers, or the producers in the market place. That is, government should assess the needs and wants of the citizenry and then devise methods to satisfy those preferences.

The advocates of DSM turn this relationship between government and citizens on its head. Examining the statements made and policies pursued by those who advocate DSM as an approach to public policy, one finds that they take “demand management” literally. In their view, demand is not something government is meant to respond to; it is there for government officials to manage.

DSM advocates’ approach is to use public policy and government force to control the purchases and consumption habits — i.e., the behavior and choices — of citizens.

While not always the case, most of this control is done indirectly by managing and manipulating supply. After all, people can consume only what is produced. When government officials want to control people’s choices with respect to where they live or how large their house or lot size is, they control the location, density, and size of homes that developers can build. If they want people to use certain modes of transportation rather than others, they manipulate the system of roads and public transportation and mandate the kinds of cars that can be built.

An exception to this kind of control sometimes occurs when government officials want to manipulate people’s consumption decisions regarding electricity usage. So-called energy efficiency standards, such as those that were adopted by North Carolina in 2007 as part of its renewable energy portfolio and efficiency standards, often impose direct restrictions on the amount of electricity people can use, leaving the implementation of the policy and restrictions up to the public utilities (more on this below).

Unfortunately, state government and many local governments in North Carolina have fully embraced the DSM mindset, apparently with no reservations or moral qualms. The two areas where the approach is most prominent are energy and transportation, which are both used as umbrella issues to justify the manipulation of demand in other areas.

Energy Demand Management

“Demand-side management (DSM) programs consist of ... planning, implementing, and monitoring activities ... to encourage consumers to modify their level and pattern of electricity usage.”
— U.S. Energy Information Agency¹

In North Carolina and many other states, policymakers and regulators have taken this US EIA definition to heart. In 2007 the state passed Senate Bill 3 (SB3). This law has two sections. The first part places an upper limit (or cap) on the amount of electricity that can be generated by low-cost energy sources such as coal, natural gas, and nuclear. It does that indirectly by putting a lower limit (or floor) on the amount of electricity that has to be generated from high-cost sources such as wind and solar power (supply side management). The floor for SB3 is 7 percent.

The second part of SB3 goes to the heart of the DSM mission. It is referred to as an “energy efficiency” standard and mandates an overall reduction in electricity consumption of 5.5 percent. Indeed, this portion of the legislation goes beyond the EIA dictum “to *encourage* [emphasis added] consumers to modify their level and pattern of electricity usage” and actually *mandates* reductions on the part of the citizens of North Carolina.

Throughout SB3 the terms “energy efficiency” and “demand side management” are envisioned as two aspects of energy demand management. The legislation uses “demand side management” to refer to programs meant to shift energy demand from high-use to low-use periods, and it uses “energy efficiency” to refer to programs meant to manipulate the kinds of appliances and equipment that people use.

According to SB3:

“Demand-side management” means activities, programs, or initiatives undertaken by an electric power supplier or its customers to shift the timing of electricity use from peak to nonpeak demand periods.... “Energy efficiency measure” means an equipment, physical, or program change implemented ... that results in less energy used to perform the same function.²

There is no question, however, that both terms refer to the centralized control of North Carolinians’ energy use. SB3 in large part makes it the responsibility of electric utility companies to manipulate the energy usage of their customers to meet the energy consumption goals of the politicians. As a result of SB3, we end up with a rather bizarre and perverse situation where the sellers of a product — i.e., electric utility companies — are encouraging their customers to purchase less of their product and then rewarding them for doing so. It is akin to McDonald’s, Hardee’s, and Burger King encouraging people to eat fewer hamburgers and rewarding them if they do. Hence we end up with programs put in place by Progress Energy and Duke Power to induce people to use less electricity.

SB3 was put in place with no discussion about what the right amount of energy usage is — i.e., the amount that accommodates the demonstrated wants and lifestyles of North Carolinians. The governing assumption behind it was that citizens are using more than they need to — the “right amount” apparently having been predetermined by the politicians who voted for the legislation and the special-interest groups who supported it.

In other words, they threw out the idea that supply should respond to demand and replaced it with idea that electricity demand should be shaped by “visionaries” in Raleigh (themselves, of course) who are somehow able to divine the correct amount of energy that citizens should consume. Duke Power summed up that mentality in support of its SB3-inspired Save-a-Watt program, making it quite clear that the purpose is choice manipulation and social engineering:

Over time, the Duke Energy Carolinas’ energy-efficiency programs can affect the nature of the energy-efficiency market such that customer *behavior*, vendor *behavior*, and even manufacturer *behavior* is altered.”³ (Emphasis added.)

That is the essence of demand side management.

Transportation Demand Management: “to deal with the modification of travel behaviors”

“Transportation Demand Management is...intended to encourage the use of alternatives to driving alone.... Most TDM strategies deal with the modification of travel behaviors.”
— N.C. Department of Transportation⁴

To understand the basis of TDM, it is necessary to understand its connection to what is referred to as “sustainable transportation” and “sustainable growth.” Part of the stated “mission” of TDM is “to provide citizens of North Carolina specific opportunities and strategies for sustainable economic growth.”⁵ In other words, advocates see TDM as a tool of transportation planning to advance what they call “sustainable growth” or “sustainable development.”⁶ TDM must be viewed, therefore, in this context.

According to North Carolina’s Department of Transportation (DOT):

For transportation planning and decision-making, sustainable development primarily means reducing our dependence on personal vehicles to balance mobility needs with commitments to use less energy, improve air quality, preserve land and conserve limited resources.⁷

From the perspective of sustainability and therefore TDM, transportation is seen as an umbrella issue encompassing not only human mobility, but land-use planning, energy-use management, air quality, zoning, and lifestyle management. Much of it centers on “reducing dependence on personal vehicles” (automobiles); i.e., “[encouraging] the use of alternatives to driving alone,” which implies expanding the use of public transportation and especially rail.

In fact, when TDM practitioners are faced with a problem such as congestion that has an obvious solution, but a solution that does not “reduce dependence on personal vehicles” (building more lanes and roads), they ignore the solution, not because the approach would be ineffective, but because it would reduce the need for TDM.

For example, in one TDM document, the DOT lists a series of what it calls “threats” to TDM and laments that “continuing on a path of predominantly highway construction only reduces the need for and opportunity for TDM’s success.”⁸ In other words, DOT acknowledges that highway construction — which would accommodate people’s transportation desires — would work and would reduce the need for the manipulative tactics of TDM. Managing people’s transportation demands is not a means of accommodating people’s transportation choices, but instead is *an end in itself meant to manipulate those choices*.

The primary goal of TDM is to use land-use and other regulations, taxes, and subsidies to manipulate people out of their cars and onto forms of mass transit. According to the NCDOT, “The new vision for transit ... includes a wide range of initiatives designed to promote ‘transit-friendly’ development.” They can accomplish that vision only by manipulating lifestyle choices, however, because that “vision extends far beyond public transportation. It embraces notions of how we want to live in the 21st Century and what we want our neighborhoods and communities to become.”⁹

Note the claim that the plan for sustainable transportation and TDM is to “embrace notions of how *we* want to live.” The reality is, it is all about how *sustainable development and TDM advocates* want other people to live. The DOT under the heading of “livable communities” describes their ideal of how people should live, listing six goals associated with its vision of what makes communities “more livable”:

- Accommodate pedestrians
- Enhance streetscapes
- Create visually attractive public spaces
- Preserve natural areas
- Restrain and restrict motor vehicles and traffic in heavily developed areas and activity centers
- Provide extensive, fully-integrated public transportation¹⁰

This ideal contains no recognition that the concept of “livable” or even what is an “attractive public space” is subjective and that different people have different lifestyle and aesthetic preferences. The TDM/sustainable transportation approach requires state and local bureaucrats to define what is “livable” and “attractive” and then manipulate people’s choices — i.e., manage demand — by designing a transportation system meant to accommodate the state’s vision of how people should live rather than a transportation system based on how people want to live.

Again, that is made clear by the DOT listing “threats” to TDM. From the same document quoted above, the DOT states that a “threat” exists in the fact that “the RTP [Research Triangle Park] development pattern [chosen by home-builders and home buyers] is one of lower density and plentiful parking” and that “this may need to be revisited to make TDM-based decisions work.”¹¹ In other words, “low density living with plentiful parking” is seen as a *threat* to the way TDM advocates want people to live and therefore “may need to be revisited” — meaning they may need to reengineer people’s lifestyles.

Conclusion

If nothing else, the advocates of Demand Side Management are bold. They tend to be quite clear in stating their goals of social engineering and the rearrangement of lifestyles. In documents such as those cited here, they obfuscate neither their ultimate ends nor their chosen means to achieve them. The language in these documents are replete with references to “behavior modification” and “restraining and restricting” certain activities or lifestyle choices.

Nor do they ever consider the idea that their goals and means are thoroughly inconsistent with a free society, where the role of government is to accommodate people’s choices rather than manipulate them is not considered or recognized. Nevertheless, that is the fundamental question that needs to be debated. DSM is not about the environment or transportation or energy use; it is about the role of government in a free society. Unfortunately, it is very unlikely that its advocates will ever engage in debate on that crucial issue of principle.

Dr. Roy Cordato is Vice President for Research and a resident scholar at the John Locke Foundation.

End Notes

1. U.S. Energy Information Administration, *Electric Utility Demand Side Management 1999*, Executive Summary, www.eia.doe.gov/cneaf/electricity/dsm99/dsm_sum99.html.
2. See Session Law 2007, Senate Bill 3, www.ncga.state.nc.us/Sessions/2007/Bills/Senate/HTML/S3v6.html.
3. Testimony of Richard G. Steve, Ph.D., for Duke Energy Carolinas, In the Matter of Application of Duke Energy Carolinas, LLC for Approval of Save-a-Watt Approach, Energy Efficiency Rider and Portfolio of Energy Efficiency Programs, North Carolina Utilities Commission, Docket No. E-7, Sub 831, April 4, 2008, p. 29, ncuc.commerce.state.nc.us/cgi-bin/webview/senddoc.pgm?dispfmt=&itype=Q&authorization=&parm2=FAAAA89080B&parm3=000126792, as quoted in Daren Bakst, “Energy Behavior Modification: The Failure and Arrogance of Centrally Planned Energy-Efficiency Programs,” John Locke Foundation Spotlight No. 357, August 21, 2008, www.johnlocke.org/research/show/spotlights/208.
4. North Carolina Department of Transportation (NCDOT), “Statewide Transportation Demand Management Plan,” April 2004, www.ncdot.org/Transit/transitnet/TDM/TDMFinalReport22Aug0_.pdf.
5. *Ibid.*
6. I have dealt with the philosophy and ideology of sustainable growth elsewhere and will not do so here. See “Sustainable Growth: Principles and Policies,” John Locke Foundation *Nathaniel Macon Research Series*, No. 3, May 2008, www.johnlocke.org/research/show/policy%20reports/170.
7. NCDOT, Transit 2001 Technical Report, Chapter 5, “A New Vision for North Carolina,” submitted by the Transit 2001 Commission to Governor James B. Hunt Jr., February 1997, www.ncdot.org/transit/transitnet/Activities/T2001/TechReportSec_1.html.
8. *Op. cit.*, note 4, p. 19.
9. *Op. cit.*, note 7.
10. *Ibid.*
11. *Op. cit.*, note 4, p. 16.