

For immediate release

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News Release

Demand Side Management in electricity is the need of the hour for Sri Lanka

The “Utility-driven Demand Side Management Regulations, 2013 proposed by the Public Utilities Commission of Sri Lanka (PUCSL) is the need of the hour for Sri Lanka. With electricity demand growing at an average of 6% a year, Sri Lanka needs to start Demand Side Management (DSM) to be able to effectively ride out the supply shortage till Norochchalai II is operational. DSM can be considered as actions undertaken by utility providers to alter the end-use of electricity, whether it be to shift use between high and low peak periods, reduce demand, etc. in the overall interests of reducing utility and consumer costs. Consumer actions are key to reducing demand.

Market research is important, not least to understand the current extent of energy-conservation behavior by consumers as well as the penetration of energy-efficient products in the market. It is essential that all five distribution licensees coordinate their design of their respective surveys. Otherwise we might be comparing apples and oranges. For example we will get different responses if one survey asks “Would you use a CFL bulb if it can save you LKR 50 per month on your bill?” and another asks, “Would you pay an extra LKR 355 to purchase a Phillips 60W CFL bulb instead of your tungsten bulb, if it will reduce your monthly bill by LKR 50?”

Even with coordinated survey design, we will only know so much. Surveys are notoriously poor at predicting people’s preferences for things they have yet to experience. The activities that may occur under DSM, such as the promotion of a particular energy-efficient appliance, falls under this category of experience goods. Furthermore changing consumer behavior requires a scientific understanding of the motivations of people that are not always grounded on rational choices. This is what the science of behavioral economics teaches us. Whilst lessons such as people being loss averse (i.e. they focus more on loss than gains) can be leveraged, it needs to be understood from a Sri Lankan perspective. This is where Randomized Control Trials (RCTs) come in. RCTs are considered the gold standard of scientific experimental research and have been used to design and test public policy interventions, even in developing countries such as our neighbor India.

The combination of behavioral economics and RCTs provide authorities with a powerful tool to ‘nudge’ consumer behavior towards optimal outcomes and have been used to great success in developed countries. Our closest developed country, Singapore, has utilized behavioral economics and RCTs to trial different energy pricing packages, which are aimed at reducing consumption and price. In order to overcome the status quo bias (i.e. the fact that most consumers don’t switch energy plans, even if switching is possible and switching would save them money), the best (least cost energy plan) was calculated for each customer based on the household’s consumption patterns and presented as a ‘Recommended Offer’. When presented as such, majority of consumers switched their plans to the cheaper option.

Sri Lanka needs to leverage these tools in order for the electricity sector to not be crippled by burgeoning demand. Utilizing behavioral economics and RCTs in combination here in Sri Lanka, would allow for multiple DSM activities to be designed and trialed relatively quickly so as to ensure optimal energy conservation with the least cost to consumer and the utility.

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