Economic Fundamentals – Underlying Framework to Pathway Forward for the Electric Energy Industry

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*Pwrcast* Presentation

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Economic Fundamentals

• Economic Framework to Achieve
  – Customer Value Objective – Focus point
    • Customer pays all desired infrastructure costs
    • Decisions on consumption aligned w/ cost
  – Supplier Value – cash flow, return, NPV
    • Supply/Demand Fundamentals
    • Clearing Price/Opportunity Price
      – Near term – Supplies when Variable costs < price
      – Long term – Revenues > Fixed and Variable costs
Current Conditions- Industry vs Fundamental View

• Industry Planning (IRP, Utilities, Regulators, Regional Planning Group
  – Near unanimous adoption of incremental view (avoided energy cost, opportunity value)
  – Nearly all fail to identify impact of pricing and impact of customer choice (price elasticity)

• Customer Pricing via Regulation
  – Pricing to recover “prudent” imbedded fixed and variable costs
  – Not dynamic of prevailing conditions
“Why” Fundamental View is Essential

• Provides basis for efficient path forward
  – Identifies available options and forecast of industry transition
  – Allows for basis for the comparison of viable options

• Consequence of non-observance creates random actions and unnecessary costs and losses
  – Cost incurred excessive (customer costs or investor loss)
  – Create distortion to efficient path (non-efficient alternatives take away incentive to efficient alternatives – market dynamics)

• Maximizing appropriate demand response to appropriate price signals aligns supply/demand
  – Conditions with abundant supply decreases incremental price and encourages consumption (supply/demand)
  – Increases value of renewables having variable generation subject to weather conditions