

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

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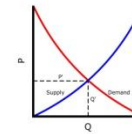
*Pwrcast* Presentation

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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