Opinion: Time to pull the plug

By Larry Weitzman

In the Wall Street Journal on Aug. 7, there was a column by Christopher Mims entitled “Electric Car Hurdle: Not Enough Chargers.” It described the coming dilemma that there will not be enough public electric charging stations for all the coming millions of electric cars, courtesy of Tesla which says it will sell 500,000 EVs next year.

That will be a good trick, considering Tesla is current losing $13,000 per car according to the latest financial report, the second quarter of 2017. If you consider the loss per car for the first half of 2017, the loss per car goes up to about $14,500 per car produced.

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For the column, the author left out the two most important words regarding EVs and everything about them, “incentives and mandates,” for without those keywords there would be no EVs and their ghastly expensive attendant charging stations. The article even discussed making lampposts into charging stations. First it would be 110v and plugging in for even as much as an hour it would only add three to four miles of range. Think of the inconvenience, repairs and perhaps a public cost in people being electrocuted, like plugging in during rainy weather. This idea is absolutely brilliant, like

an inefficient incandescent lightbulb.

As to those incentives and mandates here is a partial list 1. federal tax credits; 2. state tax credits; 3. zero emitting vehicle credit; 4. federal and state requirements for the production and sale of EVs; 5. federal CAFÉ standards; 6. conventional car mandates, regulations, and requirements which raise the price of conventional cars; 7. gas guzzler taxes; 8. state EV car pool lanes; 9. potential new massive incentives from California Assembly Bill 1184 which is already halfway through the Legislature and there are many more, too numerous to list.

And then there are all the giveaways to Tesla. It has been estimated by many noted economists that Tesla has received in excess of $5 billion in total incentives. And for what, so Musk can continue to build his house of cards?

About a week ago Tesla released its latest earnings performance to roars of approval because it lost less money than expected, this time only $336 million. But there is an analysis done by Insideevs.com that says that the loss should have been over $400 million. So, what did the stock do? It went up. Insideevs.com also wrote that Tesla sold $100 million in ZEV credits (created by government mandate and incentives) which without would have extended their loss over $500 million for the quarter.

In the first quarter of this year losses were $330 million with no ZEV credit sales. In the second quarter losses were up to $400 million, including ZEV credit sales of $100 million, meaning that to compare the quarters, the actual losses from their business for the second quarter rose by 50 percent over the first quarter, $330 mil compared to $500. The loss per car actually rose from about $16,000 per vehicle to about $17,000 per unit (ZEV credit sales were $4,000 per vehicle) and overall income from the sale of cars actually dropped by about one percent. Total losses for Tesla have now grown to over

$2.4 billion.

Tesla is literally burning through cash like, not a drunken' sailor, but the entire crew of the aircraft carriers Harry S Truman, Carl Vinson, Teddy Roosevelt, Eisenhower, and the Nimitz combined. Last quarter's cash burn was over $1 billion ($1.16B) and it's expected to continue. Tesla's cash position of about $3 billion will be exhausted in less than three quarters especially with the ramp up of the Model 3, another losing proposition.

As a result of this dwindling cash position, Tesla is going to sell up to $1.5 billion in bonds to raise cash with about a 5.25 percent coupon. Yesterday, $600 million sold. Total debt for Tesla will reach close to $10 billion. At 5 percent, their debt service will be $500 million a year or $5,000 per car at the current rate of approximately 100,000 units. Even if they sell 500,000 cars, it will add $1,000 of cost to every vehicle. Ford and GM make from sales of 7-8 million vehicles a year a net profit of about $1,400 a vehicle. You can do the math.

But what about the Model 3, the new inexpensive EV Tesla has started producing and selling. They claim a base price of $35,000, but most will leave the factory at over $50,000. But why is the base Model 3 about half the price of the base Model S? And therein lies an interesting story.

If you stop and think about it, it should cost almost as much. In the long-range Model 3 the battery pack is about the same size and almost every other internal component of the Model S is used in the Model 3 or vice versa. Back in the late 1950s, it was said that it only cost $300 more to build a Cadillac than a Chevy, but the Cadillac sold for double the price. When you think about it, the parts and labor for each car cost the same, putting a door on is putting a door on, an a/c compressor is an a/c compressor as is an electric power steering rack, the only different is the amount of steel and

leather over cloth (base Model S does not have leather, anyway). A V-8 engine is a V-8 engine, no matter what the size, they essentially cost the same as the components are the same. Ditto for an electric motor. The amount of steel or aluminum in the cost of producing a car is insignificant. It's the cost of the components and the assembly labor and those are required for any car in similar amounts. Just because it is smaller, doesn't mean it costs that much less to build. It doesn't. In fact, most manufacturer's give away their compact cars so they can sell pickups, crossovers and SUVs for large profits because of, that's right, government regulations (CAFÉ) and intervention in the market place.

Tesla cannot survive because of the Model 3, you can't lose money on every sale and make it up in volume.

The sooner the government pulls the plug on Tesla incentives and mandates and leave the free market unto itself, the sooner this house of cards can come tumbling down. EVs are a pipedream until "unobtainium" is discovered. They only way EVs are even remotely succeeding is because of government's attempt at behavior modification. Fiddle with human nature at your peril.

Larry Weitzman has been into cars since he was 5 years old. At 8 he could recite from memory the hp of every car made in the U.S. He has put in thousands of laps on racetracks all over the Western United States.