Economic Development Rates: Theory & Practice

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...TO LOCATE YOUR BUSINESS

HERE.

Definition: In Theory

- Economic Development: Attraction *and* Retention
- Economic Development Rates ("EDRs") are a vehicle for the utility to provide an incentive to large commercial or industrial customers to locate a facility in the utility service territory.
- Incentive is in the form of a discount from the utility's standard tariff rates, terms or conditions.
  - Demand / Energy / Customer charges
  - Charges for Infrastructure / CIAC

Definition: In Practice

- Essentially a political *Site Selection Contest*
  - Contest between countries, states, or cities
  - Contest between utilities
- Numerous parties have an interest in Economic Development – the utility is but one of many stakeholders at the table
  - No stakeholder operates in a vacuum
  - Stakeholder objectives do not necessarily align

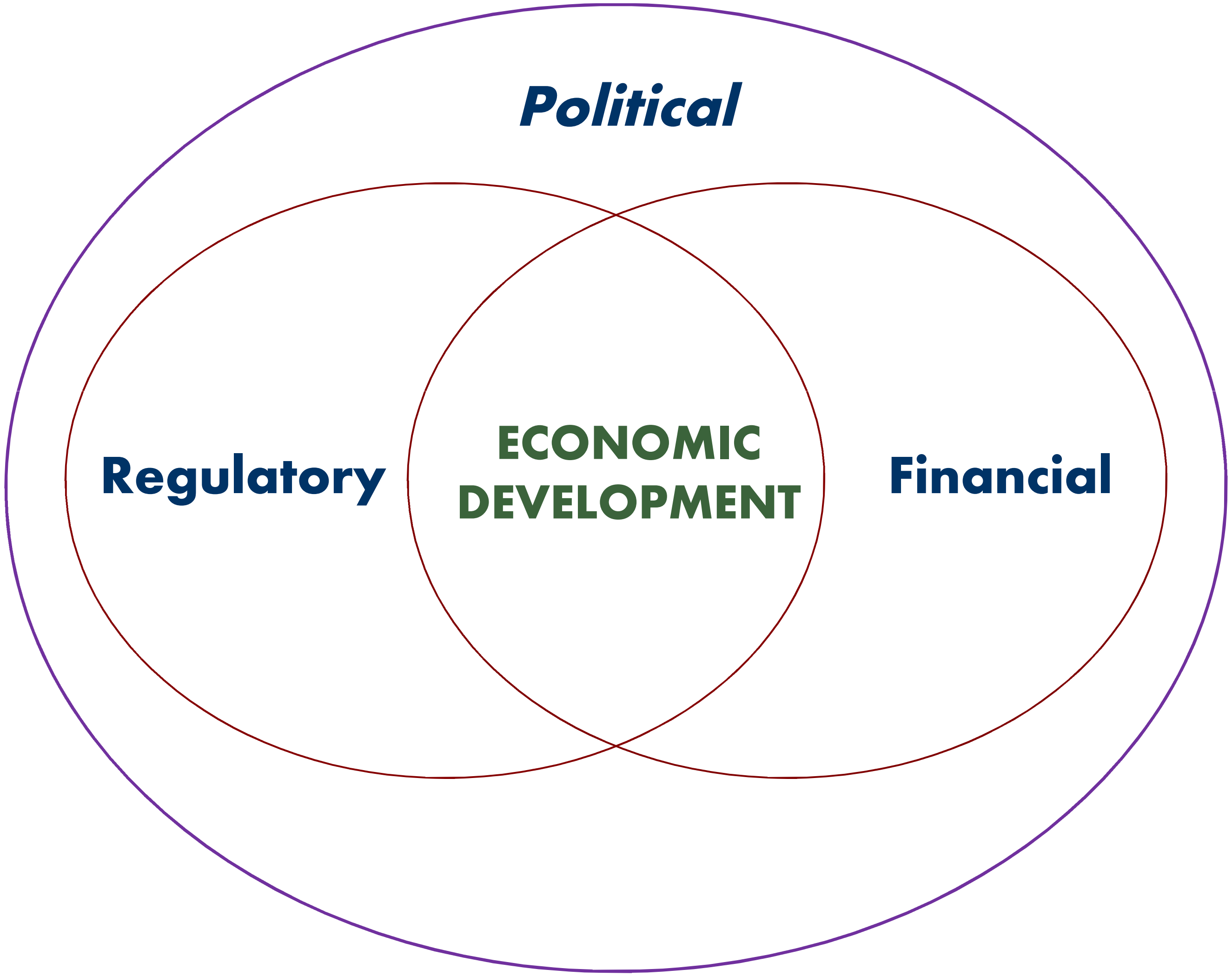

LET'S
MAKE
A
DEAL

Site Selection Drivers

1) Labor Costs
2) State and Local Incentives
3) Highway Accessibility
4) Availability of Skilled Labor
5) *Energy Availability and Costs*
6) Proximity to Major Markets
7) Tax Exemptions
8) Occupancy/Construction Costs
9) Corporate Tax Rate
10) Availability of Buildings
11) Environmental Regulations
12) Availability of Land
13) Access to Major Airport
14) Expedited Permitting
15) Proximity to Suppliers
16) Low Union Profile
17) Available ICT Services
18) Shipping Costs
19) Available LT Financing
20) Right-to-Work State

Source: Area Development Magazine, 2010 Consultant Survey, Chart P, September 2010.

Economic Development Paradigm



Financial

- Utility
  - Earnings and Cost considerations
- Government:
  - Tax Revenues
  - Costs associated with increased public services
  - Direct, Indirect, & Induced economic effects
- Customer – start-up and on-going operation costs
- Other Ratepayers – benefits?

Political

- State and Local Government
  - Executive & Legislative branches
- Chambers of Commerce / Economic Development Agencies / Area Development Districts
- Election Year Politics
- Media Coverage

** * * Political Consequences * * **

Regulatory

- Economic Development Rates and Load Retention Rates have existed for decades
  - Prevalent in 1980s
  - Interest waned during economic boom of 1990s
  - Returning to prominence due to current economy
- Body of regulatory deliberations is extensive
- Well established set of principles emerged for evaluation of incentive / discounted rates

Common Criteria for EDRs

- Discount must be ***Necessary***
- Discount must be ***Sufficient*** (but not *too* sufficient!)
- Discounted rate must ***Exceed Marginal Cost*** of providing service
- Discounted rate must ***Benefit Other Customers***

…but how to demonstrate?

Common Features of EDRs

- Discounts are Phased Out Over Time
  - *e.g.* a discount of 50% that declines by 10% each year so that after 5 years there is no discount
- Minimum Incremental Load and/or number of jobs
- Target the re-use of existing vacant property (“Brownfield Tariff”)
- Tariff requirements to prevent “Free Riders”

Cautions: EDRs

- When does the rate commence?
- What happens after phase-out of the rate discount?
- Is the offering non-discriminatory? Will existing customers want the same deal, via a similarly-structured Load Retention Rate?
- If utility is regulated, what is the rate treatment for the “lost revenue” resulting from the discount? Will other rate classes pay the difference at the next general rate case?

Cautions: Economic Development

- Game Theory
  - Risk of Over-Commitment
    - Considerable pressure on all parties to commit to do their part. No one wants to be the roadblock to a deal. All the parties say they can deliver. Can they? Can *you*?
  - Quick Turnaround Time on Cost Estimates
  - A relocation customer shows an interest in moving to your service territory. Is it legitimate?

How It Starts….

Kentucky Is Only Alternative For Harley Plant

Louisville Courier-Journal

November 4, 2009

" 'The company has now narrowed the focus of its alternatives site analysis to Kentucky, and expects to make a final decision on whether to relocate or remain in York by the end of the year,' the Company said in a statement.."

….And How It Ends

Harley Plant Unlikely For Kentucky

Louisville Courier-Journal

December 3, 2009

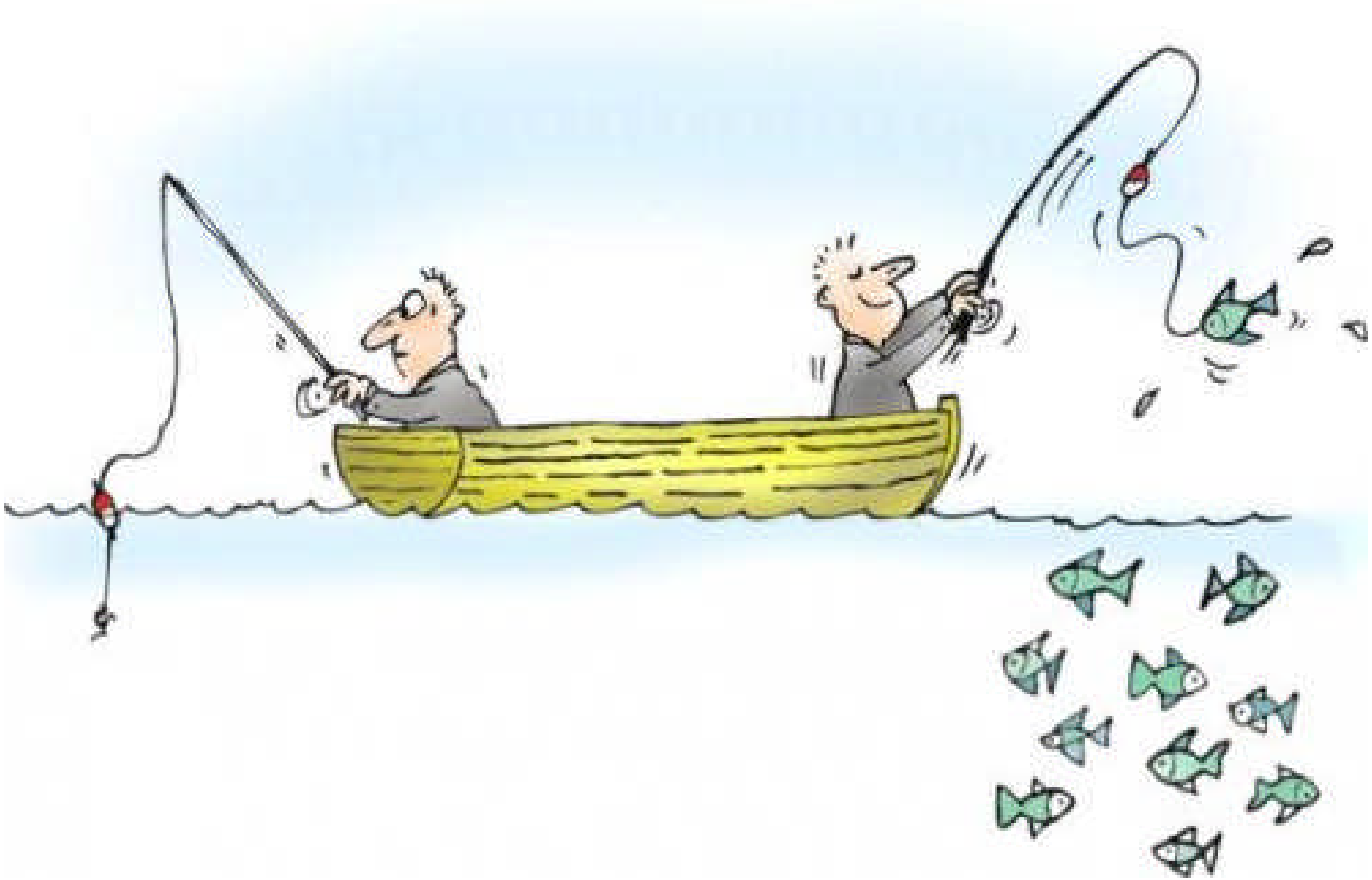
" 'Today's ratification of a new seven-year labor agreement by our employees in York represents a significant step in the plan to restructure Harley Davidson's York Vehicle Operations for future success,' the company said."

Other Forms of Economic Development

- Loan Programs
- Discounts or extended pay-back for infrastructure
  - Redundant feeds
  - Enhanced System Protection
- Coordination/Support for On-Site Generation
- Environmental Assessments
- Other Support & Overall Partnership

Recent Activity

- Rural Economic Development Loan and Grant Program – U.S. Dept. of Agriculture: March 2011
  - Interest-free loans to co-ops to pass on to local business to create and retain jobs in rural areas
- Florida Power & Light: May 2011
  - Rate for incremental load and jobs
- Ohio PUC proposed tariff: July 2011
  - Rate for increased payroll, jobs, investment
- Mississippi Power: Aug 2011
  - Rate for start-ups & expansions



Conclusion

- Economic Development Rates, if designed and implemented properly, can benefit the utility, the customers, and the community at large
- Utility rates are an important part of a coordinated business attraction strategy, but other parties and factors typically drive the site selection process
- Success requires a thorough understanding that Economic Development operates primarily in the political domain and a genuine willingness to assist in unconventional and innovative ways.

Questions?

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