



TOP UTILITY STRATEGIES FOR SUCCESSFUL ECONOMIC DEVELOPMENT

By John Wolfram

According to recent reports, economic development and site selection consultants believe the U.S. economy is already on a continuous growth track, which is reflected in the new facility and expansion plans of their clients.¹ If utilities adopt a creative economic development strategy, they can accelerate the success of such growth through regional attraction, retention, and expansion efforts.

Utilities play a significant role in economic growth. Expansion of commercial and industrial business can result in increases in energy consumption, and is often also directly related to the extension of utility infrastructure. Under traditional rate regulation, utilities benefit from increasing production, transmission or distribution infrastructure, by increasing the rate base upon which the utility has an opportunity to earn a fair rate of return; thus the utility has an economic incentive to support commercial and industrial growth in the service territory.

Utilities can support economic growth in many ways. Historically, the primary requirement was to provide reliable service at low cost. However, in the current economic climate, power quality and price alone are not enough to fully support the attraction, retention and expansion of commercial and industrial enterprises. To be a leader in economic development, the utility must do more.

To reach the next level, the utility must formulate a comprehensive *Economic Development Strategic Plan*. Such a strategic plan should recognize and even capitalize on certain fundamental facts about economic development and the political domain in which it operates. Successful strategies will also remove the limitations that were essentially self-imposed over the years by utilities – i.e. anything that falls under the “we’ve never done that before” umbrella -- and encourage the utility to assist new enterprises in ways that reflect a genuine, unlimited partnership. This partnership should be a relationship not constrained to issues of power quality and price, but *unbounded* and centered on helping the new business *in any way possible* to decide to locate its new facility or expand within the utility service territory.

The purpose of this paper is to describe the top utility strategies for successful attraction, retention, and expansion efforts. Utilities that develop creative approaches for supporting business attraction efforts will reap both financial and public relations rewards. Utilities implementing these comprehensive strategic plans with specific tactical steps can be positioned to optimize public relations advantages and, more importantly, to help enhance and protect the revenue streams from large customers.

¹ *Area Development Magazine*, 12th Annual Corporate Survey (Q1 2016), at www.areadevelopment.com

Utility Economic Development in Context

Before a strategic plan can be formulated in detail, the overall role of the utility in the business attraction effort must be placed in the appropriate context. The paradigm for economic development for utilities – including the attraction, retention and expansion of significant business enterprises – is comprised of political, regulatory, and financial components. These three facets of utility economic development are highly interdependent. All three elements are critical to the formulation of a sound strategy.

In most areas of the U.S., a state or local government agency is officially tasked with leading business attraction efforts for a particular community. This agency -- referred to here as the economic development official -- establishes collaborative relationships with all of the parties that can impact a business attraction or retention initiative. The parties include other branches of government, businesses dealing with utility service or transportation, and other relevant civic or business coalitions. The economic development official takes the lead role when working with a business and with the consultants retained for major plant location or re-location exercises. The utility sometimes has direct interaction with the business or the consultant, but more often than not, the economic development official manages all communications very closely as part of its leadership role.

A Seat at the Table

Utilities are but one participant in a process that usually involves many parties. These include elected officials, economic development officials and coalitions (including all of the groups formally working to advance a prosperous economy in a region), port authorities, other utilities (including water, sewer, telecommunications), state or local revenue cabinets, environmental agencies, railroads, commercial real estate developers, universities, and others.

Public relations are the root of successful utility economic development. To be effective in the process, the utility must be viewed by all entities -- including the potential new customer -- as a *committed partner*, willing to do whatever it can to help all of the parties succeed in attracting and retaining the customer.

In the recruiting stage, economic development officials offer appealing incentive packages to lure companies to their communities. They pledge tax breaks, real estate deals, low interest loans, job training funds, or other benefits to attract new employers. The utility typically assists in this effort by offering an incentive rate (usually in the form of reduced demand charges, or in the form of reduced up-front costs for transmission or distribution interconnections). When comparing these offers, however, the bottom line is only one factor for the new business to consider. Of equal importance is whether the new enterprise believes that the community – and the utility – will be committed to delivering on those promises after a deal is announced.

With this in mind, the utility should staff its economic development team with qualified experts-- preferably with certified economic development professionals. Doing so not only demonstrates that the utility staff members have the breadth of knowledge to perform at the top level in the

profession, but also enhances the visibility of the utility relative to other competitors for attraction and expansion opportunities.

The utility is well advised to capitalize on the public relations nature of these activities, by staffing project teams with all of the experts whose skills support the effort. In this way the utility economic development professionals leading the team have the support of subject matter experts from all across the utility throughout the entire effort.

Site Selection Drivers

Even though the utility has an important seat at the recruitment table, it should also acknowledge that factors other than energy normally drive site selection.

Year after year, energy costs and availability are recognized as significant drivers by firms in the site selection process, but they are usually outweighed by other factors including cost and availability of skilled labor, state and local incentives, tax exemptions, and accessibility to highways, airports, or major markets. See Table 1. Thus the utility should recognize the true nature of the site selection process -- which is, in its most basic form, a *site selection contest* between competing cities, states, utilities, and other service providers – and avoid overestimating the influence that any special utility offerings will have on the customer's ultimate decision.

Table 1. Site Selection Drivers	
1) Availability of Skilled Labor	9) Accessibility to Major Airport
2) Labor Costs	12) Energy Availability & Costs
2) Proximity to Major Markets	13) Training / Tech Schools
4) State / Local Incentives	14) Proximity to Suppliers
5) Available Buildings	15) Occupancy/Construction Costs
6) Highway Accessibility	16) Low Union Profile
7) Available Land	17) Environmental Regulations
7) Tax Exemptions	18) Right-to-Work State
9) Fast Track Permitting	19) Water Availability
9) In/Out Shipping Costs	20) Corporate Tax Rate

Source: *Area Development Magazine*, 2015 Consultant Survey, Chart W, Q1 2016.

Alignment & Analytics

Any utility plan to attract business can only succeed if it aligns with the central corporate objectives and plans of the organization. The utility must ensure that its economic development strategy and tactics are consistent with the primary initiatives, brand management, and marketing that the utility undertakes, now and in the future. It must also align with the utility plans for investment in new production, transmission, and/or distribution facilities.

The commitment of the utility to economic development initiatives must be reflected in the financial forecast. As is the case for most initiatives, funding for the tactics that support the strategy must be sufficient to ensure success. A plan for supporting economic development will not succeed if the utility lacks the resources to execute it.

The strategy should also consider the importance of analytics. Analysis of relevant data is essential to understanding and prioritizing any utility-driven efforts. The tactics would include analysis of the following:

- Key Drivers, Metrics, & Benchmarking
- Existing Customers & Profitability
- Emerging Sectors & Waning Industries
- Site Availability & Certification
- Ratemaking Impacts
- Legislative Trends
- Internal & External Forecasts
- Utility Expansion Capabilities & Plans

Analysis may also include other assessments coupled with longstanding utility metrics, budgets, plans or analyses (including load forecasts, regulatory filings, integrated resource plans, system expansion plans, substation upgrade planning, or other emerging strategic initiatives). The budget should then include planned expenditures for internal analytic resources or funding for third party experts to conduct these analyses.

Partnership & Promotion

The utility should consider the importance of partnership. Partnering with external entities is an important component of successful economic development. The public relations value of partnering with business and government leaders on economic development cannot be overstated. Creating and maintaining *strong relationships* with state and local economic development groups, elected officials, and business leaders are necessary for success. The financial forecast should include funding of external affairs personnel and economic development professionals -- and a budget for those individuals to travel or attend events as needed.

The strategy should consider the importance of promotion. Promotional activities are coupled with partnerships and are also an important element of the overall strategy because of the role that developers, site consultants, and other third parties play in project evaluation and site selection. *Boosting awareness* of the advantages of the utility assists in the traditional project attraction process, and hosting or sponsoring promotional events for the participants in the site selection process provides a benefit to the utility. If the utility tactics include sponsorship of promotional events, the budget must include funding of sufficient magnitude to properly plan and run the event, and to conduct any follow-up initiatives that are needed to pursue leads or to advance promising new relationships.

Furthermore, many state and local governments no longer have the funding to support their attraction efforts like they did in decades past. Economic development officials used to sponsor conferences, recreational outings, or other promotional events for developers, site consultants, lenders, and other third parties involved in project evaluation and site selection. These events provided an opportunity for networking and for promoting the advantages of locating a business in the region. When the public budgets for these events disappeared, many utilities stepped in to sponsor or host similar events in order to maintain corporate awareness of the service territory. Promotional events are yet another way that utilities can provide creative support for economic development, not for a particular prospect but for the region at large. Sponsoring such events also enhances the relationship that the utility enjoys with many of the parties to the economic development process noted earlier.

Leverage Utility Strengths

Because of the importance of good public relations, and because the impact of energy cost and availability is somewhat limited, the utility must provide assistance *beyond the conventional boundaries of power quality and price*. The utility that seeks to provide unbounded value to the new enterprise -- providing assistance in any way possible to help drive the enterprise to locate its new or expanded facility in the utility service territory – will be more likely to effectuate positive outcomes.

In many ways the utility is uniquely positioned to assist the new business. Many utility companies are themselves large-scale organizations with first-hand experience in many areas that the new business may share. Utility expertise in right of way, environmental assessments, information technology, asset management, mapping, transportation, telecommunications, and procurement can be helpful to particular industries considering a site in the service territory. The expertise of the utility’s economic development team can unlock doors that simply cannot be opened directly by other participants in the process.

Utilities have recently undertaken several initiatives that leverage utility strengths in support of attraction, retention, and expansion. Some examples include the following:

- Provide leadership to state and local organizations
- Lead site certification initiatives
- Host educational forums with community partners
- Host “Select Us” seminars
- Improve web-based information interface
- Utilize social media
- Update industry reports and publications
- Prepare environmental assessments
- Offer discount or incentive rates (including Economic Development Rates and Load Retention Rates)
- Offer Green Source or Renewable Energy options
- Assist with LEED certification for energy efficient buildings
- Offer a “re-occupancy” incentive rate (also known as a “Brownfield” tariff)

- Offer discounts or extended pay-back for infrastructure (including redundant feeds or enhanced system protection schemes)
- Offer coordination and support for on-site generation
- Assist with compliance with EPA guidelines
- Offer loan programs

These or other creative steps could become key factors that separate a utility and its site from the rest of the field in the site selection contest.

Conclusion

In any economic climate, it is important for electric and gas utilities to formulate comprehensive economic development strategic plans. Recognizing that the paradigm for utility economic development is comprised of political, regulatory, and financial elements, utilities that capitalize on these facts and develop novel approaches for supporting business attraction efforts will reap both financial and public relations rewards.

Site selection for commercial or industrial facilities is a contest, and the utility must compete along with other political and commercial players. The utility with a successful economic development strategy will recognize that reliable and economic energy offerings have only a limited impact on the recruitment effort, and will augment such offerings by becoming a genuine partner with new enterprises -- and with economic development officials -- through the provision of creative assistance beyond the boundaries of the historic utility norms.

Utilities implementing comprehensive economic development strategies with specific tactical steps, including the provision of incentive rate offerings, can be positioned to achieve sustained success in attraction, retention and expansion efforts for the regional economy.

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