

S.A., Reno leaders for Tesla battery factory



By [Greg Jefferson](#)

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San Antonio and Reno, Nev., are the strongest contenders for Tesla Motors Inc.'s planned \$5 billion "gigafactory," say experts and people involved in the site-selection process.

Still, nothing's certain in one of the strangest economic development projects to come along in years, prone to unexpected twists.

Like this one: Tesla Chairman and CEO Elon Musk told Bloomberg News last week, "We are going to proceed with at least two locations in parallel, just in case one of them encounters some issues after breaking ground."

However, at least one traditional component of the corporate site search remains: the incentive.

San Antonio area officials have offered the electric-vehicle maker incentives valued at nearly \$800 million, according to two people familiar with the package. They're hungry for the 6,500 jobs Tesla would create and the prospect of bringing a new industry to the city — lithium-ion battery production.

That package doesn't include an offering from the state.

By comparison, Toyota received incentives totaling \$133 million in 2003 to locate a pickup plant on the South Side.

The gigafactory would be bigger in scope if it's developed as Silicon Valley-based Tesla has described.

“This is the most significant economic development project in North America right now,” said John Boyd, head of New Jersey-based Boyd Co., a site-selection consulting firm.



Billy Calzada, San Antonio Express-News

The factory to build batteries for Tesla's electric cars is likely to be in Reno, Nev., or San Antonio.

But, he added, “the smart money” is on Reno, not San Antonio.

Sizing up

When Tesla disclosed plans in February for the gigafactory, which will produce lithium-ion for its electric cars, the company said it would choose between locations in Arizona, Nevada, New Mexico and Texas.

Reno is probably the site closest to Fremont, Calif., where Tesla's manufacturing plant turns out the luxury, all-electric Model S sedan. The cities are connected by highway and rail. Reno (pop. 231,000) also is near an active lithium mine.

Tesla has said it wants to source the raw material for its battery packs — such as lithium, cobalt and graphite — in North America.

Mike Kazmierski, president and CEO of the Economic Development Authority of Western Nevada, isn't saying much publicly about Reno's chances.



JERRY LAMPEN, AFP/Getty Images

Elon Musk, co-founder and CEO of American electric vehicle manufacturer Tesla Motors, poses with a Tesla during a visit to Amsterdam on January 31, 2014. The European Tesla Service is based in Tilburg and the European headquarters is in Amsterdam. AFP PHOTO / ANP/ JERRY LAMPEN - NETHERLANDS OUT--JERRY LAMPEN/AFP/Getty Images

“As you know, we cannot discuss a project we are working on with the media,” he said in an email. “We are excited to see that Nevada is one of four potential sites and we believe that Reno-Sparks as a growing manufacturing hub in the West is the best place for this facility.”

Another plus for Reno is that Nevada law doesn't bar automakers from selling directly to consumers, which is Tesla's distribution model. Texas and Arizona, on the other hand, require manufacturers to sell their vehicles through franchised dealerships.

But it's not all golden for Reno. The city's biggest challenge would be finding enough workers to fill the gigafactory. In 2012, factories employed 10,300 people in the Reno-Sparks-Tahoe region in western Nevada, according to Kazmierski's organization.

For San Antonio, available workforce is a strength, said Vishal Sapru, energy and environment research manager at Frost & Sullivan, a market research firm. Sifting through 2012 census data, he said Bexar County is home to about 46,000 workers in manufacturing.

Like many local officials, Sapru's point of reference is Toyota and the 21 suppliers that followed the automaker to San Antonio. Combined, they employ more than 5,000.

"We were able to support them with the workers they needed," he said. "We have the advantage as far as our workforce."

CPS Energy also works in San Antonio's favor. It's the largest municipally owned utility in the country, and it can offer discounted "Super Large Power" rates to huge industrial customers. With City Hall looking over its shoulder, Sapru said, "CPS can set up very competitive pricing for Tesla."

The utility also has the capacity to meet the company's requirement that most of the power for the 10 million-square-foot factory come from wind and solar generation.

It helps, too, that CPS has made a big push into renewable energy over the last several years. The utility's aim is to draw 20 percent of its electricity from wind and solar sources by 2020. Musk is more or less on the same page; apart from heading up a company that makes zero-emission vehicles, he's also chairman of California-based SolarCity, one of the largest U.S. installers of rooftop solar systems.

Tesla "would find the forward-looking policies of (Mayor Julián Castro) and CPS attractive," Sapru said.

Musk also founded SpaceX, making news Friday with his surprise announcement that the company intends to build a launchpad for commercial rockets near Brownsville, pending an environmental study.

Big demands, rewards

Tesla wants to open the gigafactory in 2017 and ramp up production to 500,000 battery packs annually by 2020. It's an aggressive timetable, which has led some local officials to conclude that Tesla will have to pick a site in the next couple of months if it wants to stay on schedule.

The company, which did not return phone calls or an email seeking comment, has said it'll pay \$2 billion for the factory and rely on partners to cover the other \$3 billion. Musk suggested Panasonic, which currently supplies lithium-ion batteries to Tesla, could be one of those partners in a late-February news report.

Then came an unexpected twist.

Panasonic's president, Kazuhiro Tsuga, told reporters in Tokyo on March 26: "Elon plans to produce more affordable models besides Model S, and I understand his thinking and would like to cooperate as much as we can. But the investment risk is definitely higher."

The episode, and the uncertainty it created, highlights that Tesla is a young company and its chief executive is brash.

Tesla may be the fourth largest U.S. automaker, but it only began selling its Model S in 2012 and had moved about a little over 25,000 of them in North America by the end of 2013.

Former City Attorney Michael Bernard, who worked on numerous economic development deals for the city before stepping down in December, noted Tesla's upstart status. "It's perhaps not as safe as (an automaker) with an established track record," he said, "but you don't need 20/20 vision to see where it's going."

The gigafactory part of that vision won't come cheap — either for Tesla or the city that lands it.

"The cost is going to be awfully high. Their demands from state and local government are going to be big," said Bernard, a partner at Bracewell & Giuliani's San Antonio office. "I'm guessing (state and local officials) are going to be as aggressive as they need to be."

The bundle of local incentives, valued at approximately \$800 million, includes the purchase of land for Tesla, property tax abatements and discounted CPS Energy rates, according to sources who asked for anonymity because they weren't authorized to discuss the package.

It was unclear where the property is located.

Free, or at least low-cost, land for Tesla is assumed to be part of every competitive proposal for the gigafactory.

For San Antonio to land a project of this size, Bernard said, the state will have to do a lot of the heavy-lifting. Indeed, Gov. Rick Perry reportedly has been in talks with Tesla about the gigafactory, but the company has required nondisclosure agreements.

On Friday, Perry spokeswoman Lucy Nashed said in an email: "As a rule we don't comment on any potential ongoing negotiations."

Both Bernard and John Boyd, the site-selection consultant, expect Perry to press hard for the factory. He's made job creation the dominant theme of his governorship. He's traveled to blue states to try to convince companies to move to Texas for its low taxes and unimposing regulatory structure; one of his trips was to California, the only state with which Tesla has strong business ties.

And Perry may be gearing up to seek the GOP presidential nomination in 2016 after leaving the Governor's Mansion at the end of this year.

"If he can walk out the door having landed Tesla," Bernard said, "there's no downside for him."

Perry, Lt. Gov. David Dewhurst and House Speaker Joe Straus control the Texas Enterprise Fund, the aim of which is to close corporate relocation and expansion deals. Nearly \$140 million remained in the fund at the end of 2012.

In San Antonio, observers say Castro likewise is pushing behind the scenes for the project, and that he, too, is cultivating a national following, though among Democrats, and is looking to higher office.

Castro did not return a phone call seeking comment.

Twists

While Reno and Nevada are generally seen as the front-runners for the gigafactory, other locations could still be in play.

It's not even clear that San Antonio is the only remaining Texas contender. Close observers of the site-selection process say Hutto, a city of nearly 20,000 in Williamson County, could also be in the running.

While it's small, Hutto is rapidly picking up new residents as Austin, to the south, grows at a breathtaking pace.

Reached Friday, Hutto Mayor Debbie Holland declined to comment, saying, "I really am not at liberty to discuss any economic development project for which we may be under consideration."

Her city, however, wasn't on the list of remaining sites that the Phoenix Business Journal ran on its website April 16. Those locations included: San Antonio; Reno; Tucson, Pinal County and Buckeye in Arizona; and Albuquerque, N.M.

The story quoted a Tesla spokeswoman as saying, "The original four states — Arizona, New Mexico, Texas and Nevada — are still in the running, and those are the only states we are considering for the Tesla gigafactory."

Then came an unexpected twist.

A week ago, a columnist for the Sacramento Bee wrote that California maybe still had a shot at the gigafactory. Simon Sproule, Tesla's vice president for communication and marketing, told Dan Morain: "Yes, California has shown interest. And, yes, conversations are going on with the state."

Not surprisingly, some local officials feel a little off-balance, accustomed to more traditional site-selection processes — not one in which the company announces at the outset which states it'll consider, only to apparently add another state later.

"Just when you think you know where they're going," one official said, "they take it in another direction."

gjefferson@express-news.net