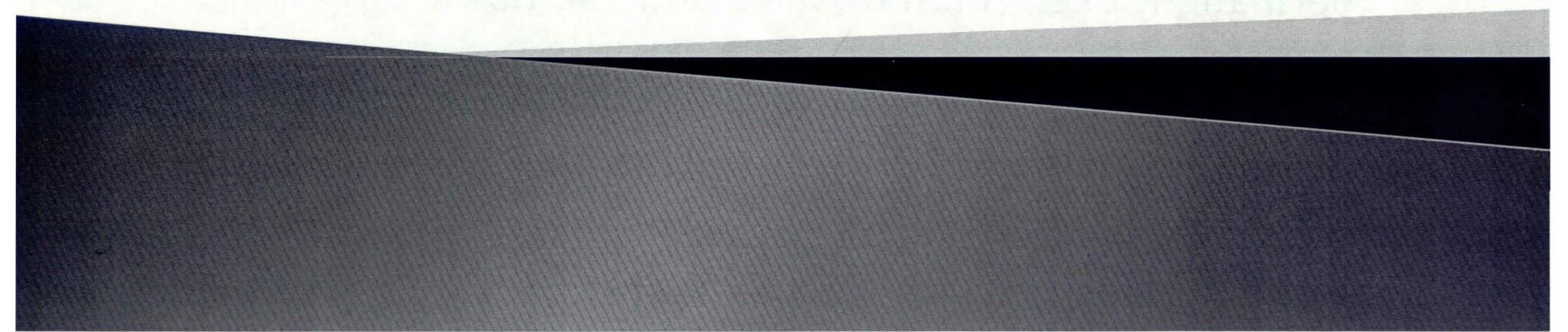


EmPower Regulatory Subcommittee

Sales and Use Tax Exemption – Wind Energy

Presentation to the Energy Development and
Transmission Committee

May 11, 2016

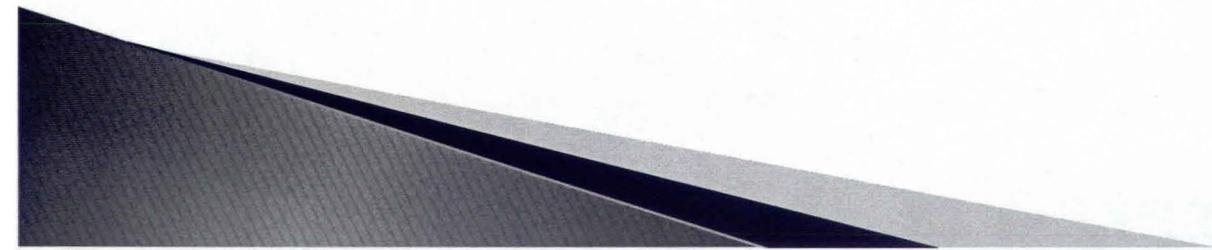


History

- A sales and use tax exemption for purchases of production equipment and other tangible personal property used to construct wind-powered electric generating facilities (wind energy facilities) was initially implemented in 2001
- The sales and use tax exemption for wind energy facilities has been extended twice, once in 2009 and again in 2013
- The existing sales and use tax exemption expires at the end of 2016
- All other fuel types used to produce electricity enjoy a permanent exemption of sales and use taxes

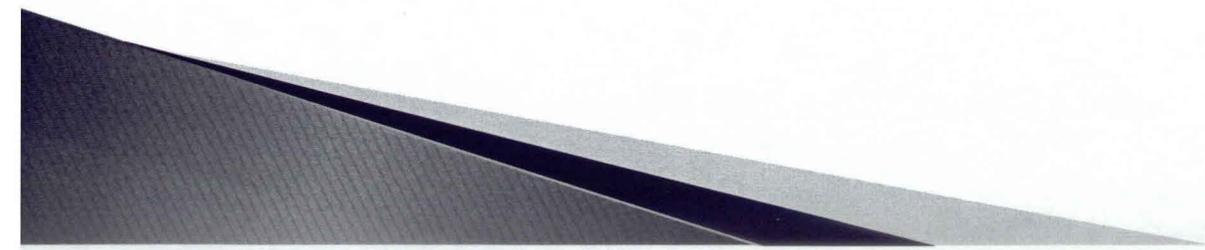
Investment Decision Impacts

- Sales and use taxes are a major factor in the cost of constructing a wind energy facility
- Temporary tax exemptions create contingent planning horizons for large capital projects
- Existing state laws are included in base assumptions when considering a major capital investment
- When a tax exemption has an expiration date, the decision to make a major capital investment assumes the tax exemption will expire per existing state law and will not be extended



Electric Consumer Impacts

- A project that incurs sales tax on the cost of construction materials will require a higher price for its product, in this case electricity
- As wholesale electric prices have fallen, the impact of a sales and use tax has increased as a percent of the total cost of building a new wind energy facility
- Higher costs to build a wind energy facility will result in higher prices ultimately results in higher electric prices for energy consumers
- Unpredictable tax policy yields an unreliable tax climate



Recommendation

- The sales and use tax exemption for wind energy facilities should be made permanent
 - North Dakota policymakers have recently moved in a direction to implement more consistent tax policies across fuel types
 - During the 2015 legislative session, the legislature passed legislation (SB 2037) that requires all wind generators to pay a generation tax using the equivalent methodology that is used for other fuel types such as natural gas
 - To further levelize the playing field among fuel types, the legislature should apply the same sales and use tax exemption for new electric generation consistently across all fuel types
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