

TESTIMONY REGARDING NATURAL GAS SERVICE**Economic Impact Committee****5/24/2016****Chairman Triplett & Economic Impact Committee Members:**

SB 2276 Legislative Management Study – Natural Gas Service in Underserved Communities. This is a timely discussion of a key development issue for North Dakota.

RECAP:

In previous committee meetings I had presented a success story regarding growing businesses along the highway 13 corridor west of Wahpeton in 2010. This plan extended the natural gas pipeline 3 miles to serve multiple customers, most notably Wil-Rich and Giants Snacks. The project was a matter of distribution and not necessarily capacity although both businesses are on interruptible rates. Key to the success of this project were the following:

- Customers committed to conversion to natural gas;
- Irrevocable letters of credit;
- Upfront cash contributions;

The Letters of Credit were shared between the two largest industries. Regional community partners, specifically Richland County JDA, City of Wahpeton, CDBG & Wahpeton CDC, all helped to fill the gaps in supporting the new customers in part with their upfront cash contributions and a guarantee. The surcharge and Letters of Credit were released in less than 5 years as the volumes were greater than originally estimated. [In some cases customers kept their propane source for backup]

But what happens when a project comes along and asks for more than what is available? Are we ready? Capacity readiness along with transportation of natural gas becomes the issue. The increase need in the resource brings many challenges that aren't easily fixed by just tapping and/or adding more pipe. Distance to tap a line is a problem. Right-sizing without a major anchor is a challenge and the time it takes to construct is often an inhibitor along with cost and risk.

BIG DEAL BREAKER:

All of these issues were brought to the front of the line recently with an unsuccessful courtship of a large ag processor. Utility rates were higher in about every category and most notably in natural gas. Currently, there is not enough gas from Great Plains to Wahpeton for a new ag processor. That's a gap. Distance to Wahpeton for clean uninterruptible service is a gap. Timing and securing large user commitments are gaps.

Let's say the natural gas resource for this project was 10 miles away. Using the million dollars per mile construction cost, the transportation cost to connect is \$10 million. This example is already 17 times larger than the Hwy 13 project.

To cover a \$10 million investment there would need to be a 7,000Mcf/day user at the other end of the line. Our ag processor was looking to use 2,500 Mcf in Phase I and 5,700Mcf/day for Phase II. The initial gap is 4,500 Mcf/day but there is still a gap even after a refinery is added. More demand for the product certainly will also help fill the gap. Remember the first bullet in the smaller project? We need industries committed to the conversion.

WAYS TO CUT COSTS, INCREASE CONVERSION:

In the Hwy 13 example, costs were reduced with small subsidies and risk was reduced through guarantees and Letters of Credit. Low interest debt financing from the Bank of ND may be something to consider as in a Public-Private partnership for future large projects. Using highway right-of-ways is another way to shorten the time gap in acquiring easements to lay pipe. And finding a way to reduce the risk [Loan Guarantees or Letters of Credit] needs some more thought and consideration as well.

The economic development community appreciates this committee's time and attention to a very challenging and complex issue, but one that is very important to advancing the diversification of our state's economy. Bottom line, we need to coordinate existing development resources and local and state government along with the private sector to close project funding gaps to attract primary sector industries who have significant regional economic impacts.

Thank you for your attention today. I am glad to answer any questions that you may have.

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