



Energy Development and Transmission Interim Committee

August 30, 2016

Testimony of Carlee McLeod

Chairman Wardner, members of the committee, my name is Carlee McLeod and I am president of the Utility Shareholders of North Dakota. USND is an association comprised of the three investor owned utilities serving customers in North Dakota and their shareholders. Represented within my membership are two current EmPower Commissioners and one ex-officio commissioner: Jay Skabo, Montana-Dakota Utilities; Mark Nisbet, Xcel Energy; and Mark Bring, Otter Tail Power Company. With their electric service alone, these companies serve over 214,000 North Dakota households and businesses. We come before you today to support the permanent extensions of the sales and use exemptions provided for electric generation in North Dakota.

Currently, electric generation by coal has a permanent exemption, as does any generation above 100 kilowatts by a source other than coal or wind generation that provides electricity for resale of consumption in a business activity. However, prior legislative bodies have maintained sunset provisions for wind generation, the latest of which is set to expire at the end of the year. We believe the sunset should be removed and this exemption should be made permanent in order to provide parity in tax policy. Further, we believe this exemption benefits North Dakotans in a variety of ways, including expanded property tax revenue to counties, revenue to the land owners on whose land wind generation is located and subsequent income tax revenue to the state from those payments, and the protection of North Dakota consumers from elevated generation costs incurred from higher taxes.

Tax Parity. Years ago, when ND's economy was in need of diversification and the wind industry was young, the legislature offered a variety of incentives to attract wind projects to the state, including sales and use, income, and property tax incentives. Over the previous interim, EmPower worked to reform those incentives and put all generating sources on the same level. The result was a bill proposed in the 2015 session that did the following four things: 1) Established a generation and capacity method of taxing wind property that was on par with other generation sources; 2) Ended the wind income tax incentive; 3) Made the sales and use tax incentive for wind development permanent; and 4) Corrected language needed for clarification in the permanent coal generation sales and use tax. In the passed legislation, only objectives 1, 2, and 4 were met, leaving disparate tax policy intact. The bill before the committee today is the last piece to creating a tax policy that puts all generation sources on the same playing field.

Customer Cost Mitigation. North Dakota investor-owned utilities generate or purchase electricity to serve their customer base. When a regulated utility files a rate case with the ND Public Service

Commission, its capital investments, including taxes, comprise the rate base, which the PSC uses to determine the revenue the company can collect. Incentives like this sales and use tax exemption reduce the rate base, therefore lowering retail electric rates for customers. This incentive does nothing to benefit the utility directly: the incentive benefits the customer directly through lower electric rates. Since utilities provide electricity to businesses, as well, lower electric rates can also translate to lower costs of goods and services provided by those consumer businesses. Lower electricity prices in the manufacturing sector also lead to the ability to be more competitive, which can lead to a strong economy and more employment opportunities.

Property tax revenue. As with any incentive, the legislature must consider the return on the investment to the state and its citizens. With each wind project, there are benefits. Counties in which wind projects are located are receiving property tax revenue created, literally, out of thin air. Using a recently completed project as an example, the Border Winds Farm in Rolette County, approximately \$605,000 in annual property tax revenue has been generated. The Courtenay wind project, on which construction began in September 2015, will generate approximately \$850,000 in annual property tax revenue.

Job creation and income tax revenue. Each wind project creates good paying jobs during and after construction. At peak construction, there were 150 people employed at the Border Winds project, with 11 full time permanent jobs created. The Courtenay project will employ 10 full time permanent jobs and 200 during peak construction. Income tax revenues from those jobs and landowner payments create a stream of revenue to the state that would not exist without these projects.

Landowner payments. In addition to the revenue stream for local political subdivisions, landowners receive lease payments for allowing wind development on their land. Again, using the Border Winds project as an example, the project will provide over \$13.3 million in landowner payments over the course of 20 years. Most windfarms coexist with agricultural operations, as is the case with both Border Winds and the Courtenay projects. With the recent downturn in commodity prices, these lease payments can make the difference between maintaining a family farm and selling it. Anecdotally, I heard the firsthand impact of a new windfarm from a stranger whose family members were affected by wind development. I struck up a conversation with a fellow UND hockey fan last winter after a game. Without realizing my connection to this issue, the man told me he had recently visited family in the Courtenay area. He told me about the wind farm being built on their land and how grateful he was for the lease payments to the family who wouldn't have to worry as much about keeping their farm. As someone only a generation removed from a family farm, I am proud to work with an industry helping families preserve their farms for future generations.

For these reasons, and for the reasons discussed by my colleagues, I urge you to support this bill.

Thank you