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Hello Chairman Wardner and members of the Interim Energy Development and Transmission Committee.

My name is Jay Skabo. I am the Vice President of Electric Supply for Montana-Dakota Utilities, headquartered here in Bismarck. I have also represented MDU while serving as a member of the Empower North Dakota Commission for the past 2 ½ years.

Thank you for the opportunity to appear before you today in support of the sales and use tax exemption for wind devices, contained in section 57-39.2-04.2 of the North Dakota Century Code, which is set to expire at the end of this year, and to encourage your favorable consideration of the bill that would extend the tax exemption.

MDU serves 143,000 electric customers in North Dakota, South Dakota, Montana, and Wyoming, 92,000 of those customers are in 150 communities in North Dakota. MDU has roughly \$1.4 billion in assets in North Dakota, 567 full and part-time employees representing an annual payroll of \$49.7 million, and, for 2015, we paid \$3.7 million in property taxes in the state.

Included in our \$1.4 billion in assets in North Dakota are two of MDU's wind farms. Our Cedar Hills wind farm, near Rhame, has a capacity of 19.5 megawatts of electricity, and our newest wind farm, Thunder Spirit near Hettinger, has a capacity of 107.5 megawatts. These two wind farms represent approximately \$256 million in capital investment.

Not only has the state of North Dakota and its communities benefited from the capital investment associated with these two projects (and many others developed by other power companies), wind generation projects provide important local economic benefits, such as property taxes and lease payments to landowners. Including our estimate for 2016, MDU has paid nearly \$360,000 in property taxes to Bowman County for our Cedar Hills wind farm during the past six years. Our Thunder Spirit wind farm is subject to the in-lieu-of tax based on capacity and actual production and will pay Adams County approximately \$275,000 for 2016 and approximately \$500,000 annually beginning in 2017. And, during this same period, MDU has paid landowners in these counties nearly \$775,000 in lease payments for the use of their land. Beginning in 2017, MDU's lease payments to landowners for both wind farms will amount to approximately \$493,000 annually.

So, why am I here today on behalf of MDU advocating for the sales and use tax exemption for wind devices and encouraging your favorable consideration of the bill before you?

Customer Savings

First, it's about our customers. This incentive actually does little to nothing to directly benefit an Investor Owned Utility company, like MDU, or its shareholders.

Rather, the benefit of the incentive is passed on to customers in the form of reduced rates. So, we are here asking to keep the sales and use tax exemption on behalf of our customers. The benefit occurs through reducing our capital investment, which is part of what the Public Service Commission uses to set rates and determine the amount of revenue that our company is authorized to collect. Taxes are included in the cost of a project, and thus are also included in the rate base. With the sales and use tax exemption, the project costs are lower, which allows the PSC to approve lower revenue for our company, in turn resulting in lower retail electric rates for our customers.

Since our customers include manufacturing and retail operations, lower electric rates for those customers translate into reduced costs that are passed on to the consumers of the goods and services they provide. Lower electric rates also help the manufacturing sector be more competitive, which can lead to growth and employment opportunities.

MDU used the sales and use tax exemption for wind devices on our Cedar Hills wind farm in 2010, resulting in savings of \$1.8 million that was passed on to our customers. Allele Clean Energy also used the sales and use tax exemption for wind devices in the construction of the Thunder Spirit wind farm, which MDU purchased at the end of 2015. Had Allele not had the tax exemption, our purchase cost would have been \$6-\$7 million higher, which our customers would have had to pay through rates.

Collectively, our two North Dakota wind projects resulted in a dozen permanent, full-time jobs, not to mention the hundreds of jobs created during construction.

Keeping North Dakota Competitive for Wind

The second reason I am here today advocating for the sales and use tax exemption is to keep North Dakota competitive for wind development. We are sometimes asked, do these incentives make a difference in whether a project happens? They do. The cost of the project, including taxes, is considered along with other key factors, such as proximity to electric transmission and the wind capacity factor. Reducing the sales and use tax on a project creates significant upfront savings, which can be the deciding factor in the financial viability of a project.

And, the availability of incentives, like the sales and use tax exemption, can have a significant influence on where a project occurs. MDU, like other utilities in the region, operates in multiple states. These states have varied tax policies, which are part of the consideration as potential locations are reviewed for factors that impact the total cost of a project. So the tax environment and incentives are important and can be a deciding factor.

Recognizing that the wind industry has matured in North Dakota during the past decade, the state has phased out both the income tax credit for installing wind devices and the reduced property (ad valorem) tax rates in exchange for a production-based tax, which is based on capacity and energy that is comparable to the tax on other generation sources, including coal and natural gas. MDU was supportive of these tax changes, but North Dakota risks becoming less competitive and less attractive for wind development without the incentives. That's why extending the sales and use tax exemption is so important to us and other companies that are looking to develop wind projects in North Dakota in the future. The sales and use tax exemption is the one remaining incentive for wind that keeps North Dakota in the running for future development.

Of the states where MDU operates, Montana does not have a sales tax, so that is pretty tough competition. And, in South Dakota, companies don't pay income taxes; plus, during the past few years, South Dakota has changed its property tax structure, making it more attractive for wind development.

In addition to the economic reasons to encourage wind development in North Dakota, wind generation may be an important component in complying with the Clean Power Plan, and it would hurt to lose potential projects to another state.

Tax Fairness

Finally, I ask you to support the sales and use tax exemption for wind projects because it creates fairness and parity in our tax system. Sales and use tax exemptions exist permanently for all other electric power

production sources in North Dakota that generate 100 kilowatts or more, including coal plants. Likewise, the state provides a sales and use tax exemption for other sectors of the economy, such as:

- construction materials used in building an agricultural processing facility;
- machinery/equipment used for manufacturing, ag commodity processing or recycling;
- tangible personal property used to construct or expand a system to compress, gather, collect, store, transport, or inject CO₂;
- tangible personal property used to construct or expand a coal gasification facility;
- computer and telecommunications equipment;
- building materials, equipment, and other tangible personal property used to construct or expand a gas processing facility; and
- tangible personal property used to construct or expand a liquefied natural gas facility.

Presumably, these exemptions were intended to incentivize the development of these industries in North Dakota, and we feel the state should also want that for wind energy.

Even the Empower North Dakota Commission, which consists of representatives from all significant energy sectors, recognized the need for parity and has unanimously recommended that the sales and use tax exemption be made permanent for all forms of energy generation. It puts generation sources on a level playing field with respect to state policy, allowing our utilities to plan for the type of generation that is best for their customers and the market in which they operate.

The bottom line is that extending the sales and use tax exemption for wind devices is good for North Dakota consumers, including MDU's 92,000 electric customers. It keeps electric bills lower, keeps North Dakota competitive as a location for wind projects, and it promotes fairness and certainty in our state tax system, which is inherent to a good business climate.

Thank you again for allowing me to appear before you, Chairman Wardner and members of the Committee, and I respectfully encourage your favorable consideration of the bill before you today that would extend the sales and use tax exemption for wind devices.