NEXTera ENERGY RESOURCES

Economic Development Tax Incentives Study

Comments on

Sales Tax Exemption on Electric Generating Facilities

NextEra Energy Resources Representative:

Angela Pitale, Regional Director, Business Management, NextEra Energy Resources, LLC

Mr. Chair and members of the committee, my name is Angela Pitale, Regional Director, Business Management for NextEra Energy Resources, formally known as FPL Energy. I am a Certified Public Accountant and have a Master Degree in Accounting with a specialty in tax. Until recently, my entire career was as a tax professional. In my current role, I am focused on the impact of state tax policies on NextEra Energy Resources. NextEra Energy Resources is one of the primary subsidiaries of NextEra Energy, Inc. a leading clean energy company with consolidated revenues of approximately $17.0 billion and approximately 44,900 megawatts of generating capacity. In addition to NextEra Energy Resources, NextEra Energy's other principal subsidiary is Florida Power & Light Company, which is one of the largest rate-regulated electric utilities in the United States.

NextEra Energy Resources owns, develops, constructs, manages and operates electric generating facilities in wholesale energy markets primarily in the U.S., as well as in Canada and Spain. NextEra Energy Resources is one of the largest wholesale generators of electric power in the U.S., with approximately 20,052 megawatts of generating capacity, with several hundred more megawatts under construction, across 25 states, 4 Canadian provinces and 1 Spanish province as of December 31, 2015.

NextEra Energy has often been recognized by third parties for its efforts in sustainability, corporate responsibility, ethics and compliance, and diversity, and has been named No. 1 overall among electric and gas utilities on Fortune's list of "World's Most Admired Companies" for eight consecutive years, which is an unprecedented achievement in its industry.

NextEra Energy Resources owns and operates 11 wind farms in North Dakota, totaling approximately 850 megawatts and representing a capital investment of approximately $1.8 billion. With roughly 75 full-time employees in North Dakota, we spend approximately $6 million annually in payroll, $2.2 million annually in property taxes and $5 million annually in lease payments to local landowners.

NextEra is a diversified energy company and we value our partnership with the State of North Dakota, which has been an important one for our company. We strive to be a good partner with local communities and landowners. NextEra continues to seek opportunities to invest and grow our business in North Dakota. Since 2012, we have expanded our portfolio in North Dakota, consisting of investments of approximately $400 million in gas gathering and transportation pipelines. Our newest gas pipeline, the Flicktertail pipeline in Divide and Williams Counties, aids in eliminating flaring from drilling projects in the area. Our Wheatland oil pipeline reduces trucking and road congestion in McKenzie County. We are currently targeting to invest an additional $700 million in future energy

projects in North Dakota, including a 150 megawatt wind project in Stark County and additional oil and gas investment opportunities.

I am here today to provide our comments on retaining a sales tax exemption for power plant construction and production equipment pursuant to section 57-39.2-04.2 of the North Dakota Century Code, more particularly, for new wind-powered electrical generating facilities under subsection 1.c(2) of that statute, which expires on January 1, 2017.

In addition to the sales tax exemption for electric wind generators, the committee is also reviewing the sales tax exemption for all new electric generators. The sales tax exemption for other generation types does not expire. The continuous pattern of expiration and extension of the exemption creates uncertainty for the industry. For example, as we evaluate our development pipeline for years beyond 2016, we cannot assume that there will be a sales tax exemption available because it is uncertain whether the exemption will be extended. Therefore, the expiration of the exemption on January 1, 2017 is impacting investment decisions that are being made today.

It is NextEra's experience that North Dakota policymakers have recently moved in a direction to implement more consistent tax policies across fuel types. During the 2015 legislative session, for example, the legislature passed legislation (SB 2037) that changed how wind generators will pay property taxes in the future that will result in a significantly higher tax liability for NextEra's wind facilities. In lieu of property taxes, wind generators will pay a generation tax using the equivalent methodology that is used for other fuel types such as natural gas. To maintain equitable tax policy, the legislature should apply the same sales tax exemption for new electric generation consistently across all fuel types.

NextEra Energy Resources' decision to invest in renewable projects is influenced by North Dakota's market framework and business friendly policies for renewable energy, which includes a sales tax exemption for wind energy devices.

Investment decisions by companies such as NextEra Energy Resources are determined by the profitability and the investment returns on the capital that is being deployed. As a fast growing and diversified company, there is internal competition for investment capital to fund new projects. Taxes, in particular sales and use taxes that are being discussed today, factor into the cost of the investment. In order to compete for capital, a project that incurs sales tax on the cost of its construction materials will require a higher price for its product, in this case electricity, in order to meet a target return and receive approval for capital to be allocated to develop and build the project. Higher costs to build a wind energy facility will result in higher prices for the electricity to be generated, or could prevent the facility from being built.

In addition to internal competition for capital, many states in the Great Plains region are competing for additional investments in renewable energy projects and offer a variety of tax incentives to encourage such investments. The incentives include property tax reductions, sales tax exemptions and/or income tax credits. North Dakota continues to be competitive for additional energy and

infrastructure investments and NextEra continues to explore opportunities for additional investments in the state. Higher costs to build a wind energy facility in North Dakota relative to other states would factor into NextEra's investment decisions. Continued investment in a diversified energy portfolio balances the economic environment in the state for all the citizens and businesses in the state.

Wind generation projects provide important economic benefits to North Dakota and its citizens. Direct economic benefits of wind projects include lease payments to land owners, payroll and employee benefits, local property taxes and construction jobs. North Dakota State University studied the economic impacts of wind energy and identified specific economic benefits of the Langdon Wind Energy Center to North Dakota. I have included a copy of the study with my comments for reference.

NextEra is one of the largest investors in North Dakota, and tax policies that encourage the development of renewable energy and wind projects is important to our continued future development in the state. NextEra believes that it is vital that the state's tax policy continues to be business friendly and supports continued development. NextEra is asking North Dakota to continue to provide a sales tax exemption for wind facilities to encourage additional development and reduce energy costs for North Dakota.

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Socioeconomic Impacts of Developing Wind Energy:

The Langdon Wind Energy Center

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Construction of the Langdon Wind Energy Center began in July 2007 and was completed on Jan. 12, 2008

Concerns about the long-term environmental effects of consuming fossil fuels, together with the rising costs of oil and natural gas, have led to rising interest in renewable energy sources. Wind power in particular has been experiencing rapid growth.

Wind generally is considered the lowest cost renewable energy source for the Great Plains region, and both a federal production tax credit (PTC) and state renewable portfolio standards (RPS) have favored expansion in recent years.

Together, 11 states that lie within the Great Plains region account for 63 percent of total national wind generating capacity. The Plains region is rated as having the highest project capacity factor and lowest costs for wind generation in the country.

In addition to their role as a source of renewable energy, wind energy installations also may offer economic development opportunities for rural areas.

The purpose of this publication is to summarize the socioeconomic effects of the recent development of a wind energy center on nearby communities.

The project chosen for analysis, the Langdon Wind Energy Center, consists of 106 turbines, each with a generating capacity of 1.5 megawatts (MW), for a total nameplate capacity of 159 MW, mounted on towers 262 feet tall. It is near the town of Langdon in northeastern North Dakota. At the time of its completion, the project was the largest wind farm built in North Dakota *(Figure 1, page 2)*.

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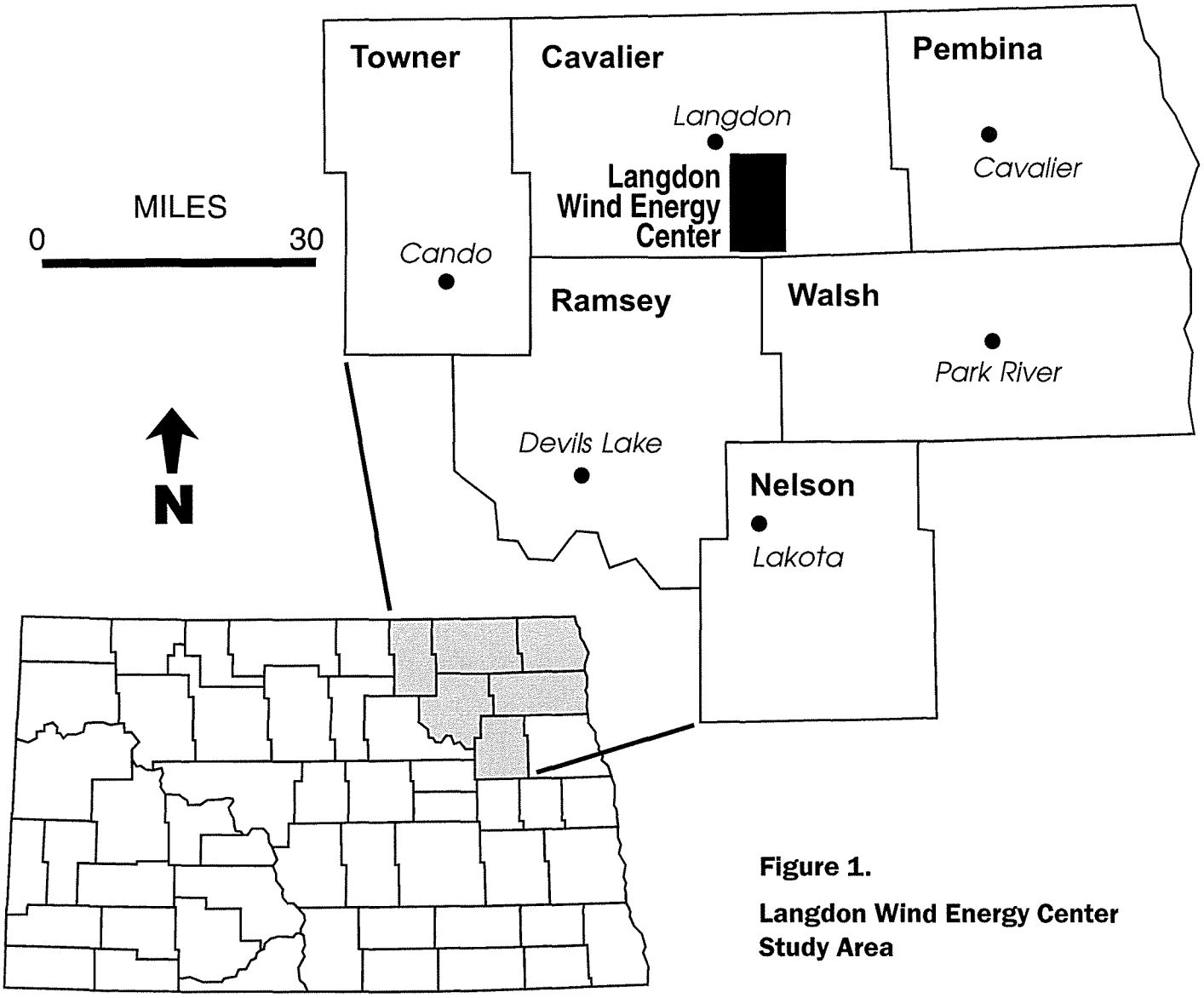

Figure 1.

Langdon Wind Energy Center Study Area

Langdon Wind Energy Center – Project Background

The Langdon Wind Energy Center is owned by FPL Energy and Ottertail Power Co.; FPL Energy was the project developer. The wind-generated electricity is purchased by Ottertail Power and Minnkota Power Cooperative Inc. FPL Energy, with headquarters in Juno Beach, Fla., has been a leader in wind power development both in the North Dakota and nationally.

Construction of the Langdon Wind Energy Center began in July 2007 and was completed on Jan. 12, 2008. The peak construction work force was 269 workers. A force of 10 permanent employees will operate and maintain the energy center. All but two of these permanent employees were hired from the local area.

As the construction labor force grew, the market for temporary housing and accommodations became tight. The workers used all available local housing. The motels were full and all rental housing was taken. The trailer court also was full and RVs were parked in the city park. The city and the Chamber of Commerce helped workers find temporary housing. Local leaders have indicated that local businesses did well during construction.

Construction of the Langdon Wind Energy Center is estimated to have resulted in direct payments of $9.4 million to entities in the Langdon area (Cavalier County and adjacent counties) and an additional $47 million to entities elsewhere in North Dakota (Table 1). The major items

purchased elsewhere in North Dakota were wind towers and blades, which represented a total of $42 million. During operation, the facility will make payments of about $1.4 million annually to North Dakota entities, including payroll and employee benefits and landowner payments. Although not shown in Table 1, another significant economic contribution will be local property taxes, which are estimated to total $456,000 annually for all entities, with $191,000 to the county and $265,000 to the school district.

The secondary economic impacts (multiplier effects) of the wind energy center were estimated using an input-output model whose coefficients simulate the linkages among sectors of the state economy. The $56.4 million in statewide direct impacts during the construction period resulted in an additional $169 million in secondary (indirect and induced) impacts for a total, one-time construction impact of $225.7 million (Table 2).

Sectors receiving substantial impacts during construction included *manufacturing* ($73.6 million), *households* ($44.6 million) and *retail trade* ($35.2 million). The $1.4 million in annual direct impacts associated with project operation led to an additional $3 million in secondary impacts for a total annual impact of $4.4 million. This includes $2.1 million of additional *household* sector gross receipts, which indicates that personal incomes of area residents would be increased by about $2.1 million each year during project operation (roughly $520 per county resident).

Project construction was estimated to create 1,656 secondary jobs statewide in addition to the 269 peak construction jobs (Table 2).

Table 1. Estimated direct expenditures by the Langdon Wind LLC Project in the Langdon area, elsewhere in North Dakota and total for construction and operational phases, 2007-08.

Input-Output Sector	Construction Phase: Langdon	Construction Phase: Elsewhere in N.D.	Construction Phase: Total N.D.	Operational Phase
	$000			
Community and public utilities	85	—	85	40
Manufacturing (towers and blades)	—	42,000	42,000	—
Retail	2,055	635	2,690	15
Finance, insurance and real estate	320	250	570	100
Business and personal service	4,985	3,775	8,760	50
Professional and social service	100	75	175	—
Households	1,853	250	2,103	1,208
TOTAL	9,398	46,985	56,383	1,413

Table 2. Direct, secondary and total economic impact of Langdon Wind Energy Center.

	Direct	Secondary	Total	Employment: Direct	Employment: Secondary
	$000				
Wind farm construction					
Langdon area total	9,358	15,876	25,274	269	223
Statewide total	56,383	169,342	225,725	0	1,656
Wind farm operation total	1,413	2,952	4,365	10	21

Given the relatively brief duration of the construction phase, some of this secondary employment may have been reflected in longer hours and associated overtime pay for present employees, as opposed to new job creation. During the operation of the project, an estimated 21 secondary jobs are created in addition to the 10 workers employed by the project.

The public service effects of the project appear to be negligible because during the construction phase, very few workers brought families to the area and most of the permanent operations and maintenance positions were filled by local workers. The housing needs of the construction work force were for temporary accommodations, which were met by motels, RV parks and rental housing available in the area. School enrollment effects amounted to just a few students during construction and should be negligible during operation.

Given the minimal effects on public service needs, the fiscal effects for various governmental units primarily reflect the increased tax revenues associated with the project. During operation, the county is expected to receive $191,000 in direct property tax payments while having negligible increases in costs. The same pattern is repeated for the Langdon School District, where an estimated $265,000 in property tax revenues will be received annually from the project during the operations period. This represents an approximately 13 percent increase to the district's local revenue.

Discussion and Conclusions

As communities examine the prospect of a commercial wind farm in their area, having a realistic understanding of the likely effects of a wind project is helpful. The case study presented in this publication documents the socioeconomic effects of the development of a wind energy center.

The findings indicate that the primary local economic benefits of a wind project will be payroll and expenditures associated with project operation, easement payments for landowners and local property tax payments.

The project resulted in 10 permanent jobs and local expenditures of $1.4 million annually, or about $8,900 per MW. While the number of permanent jobs is not large, these jobs offer pay rates that are attractive to local residents.

The local expenditures included easement payments to landowners of $413,000 the first year, or about $2,600 per MW. In addition, the project is expected to make annual local property tax payments totaling $456,000, or about $2,900 per MW. Further, these payments represent a net gain to local budgets because few local government costs seem to be associated with wind farm operation. A possible exception might be damage to local roads during construction. Local officials felt that road impacts had been minimal but planned to survey their roads in the spring. In any event, the developer had agreed to be responsible for any needed road repairs.

The project also made a substantial, albeit one-time, contribution to the state economy through purchases of towers and blades manufactured in North Dakota.

For more information on this and other topics, see: www.ag.ndsu.edu

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