MONTANA-DAKOTA
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Political Subdivision Taxation Committee

Wednesday, January 13, 2016

Representative Jason Dockter, Chair

Testimony from Jay Skabo, Vice President of Electric Supply

Montana-Dakota Utilities

Good afternoon Chairman Dockter and members of the Interim Political Subdivision Taxation Committee.

My name is Jay Skabo. I am the Vice President of Electric Supply for Montana-Dakota Utilities, headquartered here in Bismarck, North Dakota. We serve a total of 143,000 customers in North Dakota, South Dakota, Montana, and Wyoming, 92,000 of those are in North Dakota. Thank you for the opportunity to comment on the sales and use tax exemption for electrical generating facilities. I will be addressing my comments toward three questions that have been posed to the industry.

1. How does the incentive impact North Dakota customers?
2. How does the incentive impact the financial viability of a project?
3. How does the incentive impact whether a project happens in North Dakota or another state?

1. How does the incentive impact North Dakota customers?

First, we need to make it clear that this incentive actually does little or nothing directly for an Investor Owned Utility company or its shareholders.

The benefit of the incentive is passed on to customers in the form of reduced rates. So, we are here asking to keep the electric generation sales and use tax exemption on behalf of our customers. The benefit occurs through the reduction of the rate base (our capital investment) that the Public Service Commission (PSC) uses to set rates and determine the amount of revenue the company can collect. Taxes are included in the rate base. The tax incentive

reduces the rate base. Thus, the PSC can approve lower revenue for our company, which in turn results in lower retail electric rates for our customers and for North Dakota consumers.

Since our customers include manufacturing and retail operations, lower rates for those companies also translates into lower costs to consumers of the goods and services they provide. Lower electricity prices in the manufacturing sector also lead to the ability to be more competitive, which can lead to more employment opportunities.

MDU used the sales and use tax exemption three times in the last 6 years. We used the exemption on our Cedar Hills wind farm in 2010 resulting in savings of $1.8 million, which was passed on to our customers. Collectively, these three projects resulted in a dozen permanent, full-time jobs, not to mention the hundreds of construction jobs during the construction phase and build out.

In 2014 the exemption saved our customers $1.4 million on a $55 million gas turbine generator at the Heskett Plant in Mandan.

The sales and use tax exemption was also used by Allete Clean Energy in the construction of the Thunder Spirit Wind farm which was just completed and which we purchased at the end of December. Had they not had the tax exemption, our cost would have been $6-7 million higher, which our customers now do not have to pay.

And one last point on this question - the EPA's Clean Power Plan will require additional generation. The addition of these new generation units will be costly. Anything we can do to reduce the impact to customers will be important. And, that's why retaining this sales and use tax exemption for electric generation is one of those things that can be done to help reduce those future, unknown costs.

2. How does the incentive impact the financial viability of a project?

It definitely has an impact, just as other key factors do; such as the proximity to a natural gas pipeline, cost of coal, wind capacity factor, proximity to electric transmission, and availability of water. That being said, reducing the sales tax on a project creates significant upfront savings, which can be the deciding factor in the financial viability of a project and whether a project goes forward.

3. How does the incentive impact whether a project happens in North Dakota or another state?

MDU, like other utilities in the region, serves multiple states. These states having varied tax policies. And each potential location is reviewed for many factors that impact the total cost of the project. So the tax environment is important and can be a deciding factor.

North Dakota currently sits very well as far as total taxation on generation projects compared to MDU's other states. But considering just the sales tax, I am sure you are aware that Montana does not have a sales tax, so that is pretty tough competition, and removing the exemption certainly will not help future projects get sited in North Dakota. And in South Dakota, companies don't pay personal income, corporate income, inheritance, business inventory taxes.

The bottom line is it that the electric generation sales and use tax exemption gives North Dakota a competitive advantage in the selection of a project location, but moreover, especially for an investor owned utility like Montana-Dakota Utilities, it is the savings that it produces for our customers.

So we respectfully ask that as your committee does its work of reviewing tax incentives for elimination during this interim that you do not eliminate the electric generation sales tax exemption.

Thank you. I am happy to answer any of your questions.