

2013 HOUSE FINANCE AND TAXATION

HB 1382

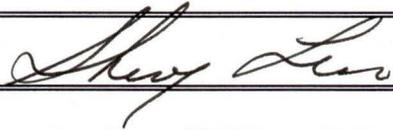
2013 HOUSE STANDING COMMITTEE MINUTES

House Finance and Taxation Committee Fort Totten Room, State Capitol

HB 1382
January 30, 2013
Recording Job# 17994

Conference Committee

Committee Clerk Signature



Explanation or reason for introduction of bill/resolution:

A Bill relating to sales tax exemption for a wind-powered electrical generating facility.

Minutes:

Attached testimony #1, 2, 3

Chairman Belter: Opened hearing on HB 1382.

Representative Mark Owens, District 17, ND Legislative Assembly: Introduced bill.

1:36

Representative Marie Strinden: In the previous bill, we were talking about sales tax incentives for generation units; and this is sales tax exemptions for generating facilities. What's the difference between the two?

Representative Owens: The previous bill was talking about an income tax credit for the purchase and installation of these units; and not a sales tax exemption. So it's two totally different things; although, this covers a little more and it covers the same equipment.

John Olson, Elite Minnesota Power: Testified in support of HB1382 and gave further explanation of the bill.

4:59

Representative Kelsh: When we first enacted this exemption in 2001, there was no sunset on it; and then the committee chose to put a 10 year sunset on it, and it was extended until 2011. In 2011 we added a 4 year extension. I'm wondering why we can't make it a longer period of time.

John Olson: That's a good question. Last session EmPower did come in with removing the sunsets on these exemptions. I think that it was the Senate that just wanted to go a little bit at a time. We are certainly not opposed to taking the sunsets off entirely.

Representative Froseth: The projected fiscal note is \$23.4 million for HB1517. Do you have any knowledge of what we might expect?

John Olson: If a facility doesn't get built then there is no tax exemption to worry about; so sometimes I wonder about fiscal notes.

Dave Schmitz, General Manager of Renewable Operations in North Dakota for ALLETE/Minnesota Power: See testimony Attachments 1 and 2.

21:10

Representative Klein: I assume you're looking at the 300 megawatts in the central part of the state?

Dave Schmitz: That's correct.

Representative Klein: Are you planning to build transmission?

Dave Schmitz: No. We have adequate to move the generation from central North Dakota to Minnesota using the existing DC transmission line; that was built in 1970. That line has been moving all of the power from Milton I. Young station into Minnesota; since Milton I. Young II was built. Minnekota Power is building a 345 CVAC transmission from Center to Grand Forks; that will pick up the power that has been moving on the DC line, from the coal units. It will move to the AC line and then the DC line will then be available in the next year or two for additional wind power movement.

Representative Klein: You're saying that 400 DC line will have some excess capacity on it?

Dave Schmitz: If we build this additional wind generation of 300 megawatts, there won't be any left over after that; it will use up the capacity of that line.

Vice Chairman Headland: You mentioned a Minnesota mandate and I'm wondering if construction of this project will allow for more coal generated electricity to flow into Minnesota? There seems to be some regulations on the Minnesota side that won't allow for out coal generated electricity; and I'm trying to determine whether this increase in wind energy would allow for more coal energy.

Dave Schmitz: I don't know the answer to that.

Representative Trottier: Do you know how much any of these units generate for local property tax where the wind towers are?

Dave Schmitz: I don't know.

Representative Trottier: There is substantial local property tax that comes from that, is there not?

Dave Schmitz: I don't know the answer to that.

Representative Trottier: Can you determine as an end user whether you're getting coal generated electricity or wind generated energy?

Dave Schmitz: No. As an end user it all goes into the same system into the grid.

Representative Trottier: I understand Minnesota has put a stop on coal energy power?

Dave Schmitz: I'm not familiar with their legislation there.

Representative Trottier: So if it's incorporated into this transmission line, they won't know whether it's coal or wind.

Dave Schmitz: The system is metered so that you know how much generation at beginning and at the other end where it comes out. The end consumer doesn't know whether it was a kilowatt hour or coal.

Representative Trottier: If you were to rate the cost of the sources of electrical energy; coal, water, wind and gas, how would they be cost wise? What's the most efficient or cheapest?

Dave Schmitz: There are so many variables in all these; it depends when you take the cut in time. Because hydro, once it's built, it's very cheap; just like wind, once it's built, there's no fuel cost.

Representative Trottier: I understand that WAPPA is the cheapest, current source of power?

Dave Schmitz: Correct.

Representative Hatlestad: Can you tell me of the power you produce here in North Dakota; what percentage is consumed in North Dakota?

Dave Schmitz: The power that Minnesota Power is producing all goes to Minnesota.

Alan Anderson, Commerce Commissioner for North Dakota Department of Commerce: See attached testimony #3.

31:39

Vice Chairman Headland: Could you speak about the Minnesota mandate and the question of allowing more generation wind power if that helps us to export more of our coal generated power. In my district sits a coal generation plant not producing; and I believe it's because of Minnesota regulations, if I'm wrong I'd like to be corrected on that. I think all the energy available to us should be available to them.

Alan Anderson: I probably can't get you the whole answer you're looking for. We are trying not to pick winners and losers; we're trying to open it up so you can truly greater energy independence. The only way you do that is to try and incentivize all of the different forms of doing so. I think we've had 440% increase on our exports; so we're keeping the

lights on to some neighbors that maybe don't have the best policy set forward. EmPower represents all of the different energy players of the state; including the coal folks.

Representative Marie Strinden: I agree with you that this is a fairness issue and the exemption is working. I also agree with Representative Kelsh that it doesn't make sense to have to come back and ask for this exemption every two years. I'm wondering if the reason this exemption is treated differently is because there's a fear that wind energy will hurt the coal and gas industries.

Alan Anderson: There is competition among all the forms; particularly when we have a limit with regards to transmission lines and things like that. It becomes an unfair issue if some states say they're only going to take this energy source; it can put pressure on others. Whether it's natural gas driven energy, coal, wind; they're all competing for those customers. We're trying to keep it as fair as possible so everyone can succeed.

Chairman Belter: Isn't it true that wind energy is not the low cost energy source?

Alan Anderson: I don't have the stats with me but I could get them for you. It depends on what part of the country you are in. The other part is the timing of the investment and looking at that as a whole. It isn't going to rank as the cheapest electrical cost today in a lot of areas. Technology is breaking through and EmPower supports the continued RND. Although wind may not be the cheapest today; sometime down the road it may be.

Chairman Belter: My concern is that we're seeing the Chinese and India who are going after coal reserves all over the world. China's putting in a new coal fired plant about every 10 days. I believe that there's coal being shipped out of the United States to India as well as to China and other countries. Yet we're allowing a natural resource that we have; that produces low cost energy, and trying to subsidize industries that aren't low cost. Consequently, I see us as losers in this arena.

Alan Anderson: I don't disagree that wind is not as mature as other industries and why would we have incentives on it. There's a huge demand for energy across the world. One of the reasons oil prices are going up so high is demand in India or China; similarly on the coal. With those prices going up, if we truly want to be independent as a nation, don't we want all of those energy sources competing as fair as we possibly can to serve our customer's needs; rather than trying to purchase it from afar.

Andy Peterson, Greater North Dakota Chamber: Testified as to why he is in support of HB1382. You can elect to buy wind generated electricity at your home or residence in Minnesota; it's about four times the cost of regular energy. I don't think that Minnesota's policy is one that's business friendly; they're raising costs for businesses and residences. Our issue is that we will benefit from Minnesota's energy policy by producing more energy. Eventually, things will change in Minnesota. What we like about this particular situation is that it's got a sunset clause on it; it's not forever.

Chairman Belter: Closed the hearing on HB1382.

2013 HOUSE STANDING COMMITTEE MINUTES

House Finance and Taxation Committee
Fort Totten Room, State Capitol

HB 1382
February 6, 2013
Recording Job# 18442

Conference Committee

Committee Clerk Signature



Explanation or reason for introduction of bill/resolution:

A Bill relating to sales tax exemption for a wind-powered electrical generating facility

Minutes:

Representative Hatlestad: Made a motion for a Do Not Pass.

Representative Dockter: Seconded the motion.

Representative Owens: This bill doesn't cost anything because we're extended the only portion of entire law that has a sunset of 2015-2017. There are not any additional funds here necessarily. So I'll resist the Do Not Pass.

Vice Chairman Headland: I'm also going to resist the Do Not Pass. It's already a program that's in statute and we're just removing the sunset. I think it will only get used if a project gets built; and I think the political subdivisions can certainly use that additional revenue. So I'm going to vote against the Do Not Pass.

Chairman Belter: I'm going to support the Do Not Pass. I think the future projects that are going to be put in; that the emphasis on this particular bill was to fulfill a need for the state of Minnesota to meet their energy requirements, that they've mandated. That's pretty much true of any project that takes place in North Dakota. I don't see any reason why we should give up the 3% sales tax to a project that's most likely going to happen anyway. I'm going to oppose the bill.

Representative Kelsh: I agree 100% with Vice Chairman Headland. This is a necessary extension of a sunset. The original bills already passed in 2001 didn't have any sunset on them; and this is the only piece of electrical generating in the state of North Dakota that has a sunset on the sales tax exemption. So, I'm going to resist the motion as well.

Representative Zaiser: There really are no additional costs. So I am also going to resist the Do Not Pass.

Representative Drovdal: I'm going to support the Do Not Pass. Two years from now we'll still have an opportunity to look at this to see if we need this to encourage any more

House Finance and Taxation Committee

HB1382

February 6, 2013.

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development; because it doesn't sunset for another session or 2. I think a lot of things can change until then.

The clerk read the roll for a "Do Not Pass" on HB1382. 8 Nays 6 Yeas 0 Absent.

Representative Schmidt will carry the bill.

FISCAL NOTE
Requested by Legislative Council
01/21/2013

Revised
 Bill/Resolution No.: HB 1382

- 1 A. **State fiscal effect:** *Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.*

	2011-2013 Biennium		2013-2015 Biennium		2015-2017 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues						
Expenditures						
Appropriations						

- 1 B. **County, city, school district and township fiscal effect:** *Identify the fiscal effect on the appropriate political subdivision.*

	2011-2013 Biennium	2013-2015 Biennium	2015-2017 Biennium
Counties			
Cities			
School Districts			
Townships			

- 2 A. **Bill and fiscal impact summary:** *Provide a brief summary of the measure, including description of the provisions having fiscal impact (limited to 300 characters).*

HB 1382 extends the sunset for the sales tax exemption for a wind-powered electrical generating facility to June 30, 2017.

- B. **Fiscal impact sections:** *Identify and provide a brief description of the sections of the measure which have fiscal impact. Include any assumptions and comments relevant to the analysis.*

3. **State fiscal effect detail:** *For information shown under state fiscal effect in 1A, please:*

- A. **Revenues:** *Explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.*

There is no impact on revenues in the 2013-15 biennium. Currently, the federal credit has been temporarily extended for just a single year. There are considerable uncertainties for this industry relative to the federal credit. We are aware of fewer than five taxpayers that might be able to use the extended sales tax exemption authorized in this bill, given these federal uncertainties. We cannot provide any fiscal estimates given the small number of taxpayers involved. (The previous fiscal note originally assumed more taxpayers than are likely given the short window allowed in the federal credit extension.)

- B. **Expenditures:** *Explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.*

- C. **Appropriations:** *Explain the appropriation amounts. Provide detail, when appropriate, for each agency and fund affected. Explain the relationship between the amounts shown for expenditures and appropriations. Indicate whether the appropriation is also included in the executive budget or relates to a continuing appropriation.*

Name: Kathryn L. Strombeck

Agency: Office of Tax Commissioner

Telephone: 328-3402

Date Prepared: 02/15/2013

Date: 2-6-13
 Roll Call Vote #: 1

**2013 HOUSE STANDING COMMITTEE
 ROLL CALL VOTES
 BILL/RESOLUTION NO. 1382**

House Finance and Taxation Committee

Check here for Conference Committee

Legislative Council Amendment Number _____

Action Taken: Do Pass Do Not Pass Amended Adopt Amendment
 Rerefer to Appropriations Reconsider

Motion Made By Rep. Hatlestad Seconded By Rep. Dockter

Representatives	Yes	No	Representatives	Yes	No
Chairman Wesley Belter	✓		Rep. Scot Kelsh		✓
Vice Chairman Craig Headland		✓	Rep. Steve Zaiser		✓
Rep. Matthew Klein	✓		Rep. Jessica Haak		✓
Rep. David Drovdal	✓		Rep. Marie Strinden		✓
Rep. Glen Froseth	✓				
Rep. Mark Owens		✓			
Rep. Patrick Hatlestad	✓				
Rep. Wayne Trottier	✓				
Rep. Jason Dockter	✓				
Rep. Jim Schmidt	✓				

Total (Yes) 8 No 6

Absent 0

Floor Assignment Rep. Schmidt

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE

HB 1382: Finance and Taxation Committee (Rep. Belter, Chairman) recommends DO NOT PASS (8 YEAS, 6 NAYS, 0 ABSENT AND NOT VOTING). HB 1382 was placed on the Eleventh order on the calendar.

2013 SENATE FINANCE AND TAXATION

HB 1382

2013 SENATE STANDING COMMITTEE MINUTES

Senate Finance and Taxation Committee Lewis and Clark Room, State Capitol

HB 1382
3/18/2013
Job Number 20023

Conference Committee

Committee Clerk Signature



Explanation or reason for introduction of bill/resolution:

A BILL for an Act to amend and reenact section 57-39.2-04.2 of the North Dakota Century Code, relating to sales tax exemption for a wind-powered electrical generating facility; to provide an effective date; and to provide an expiration date.

Minutes:

Testimony Attached

Chairman Cook opened the hearing on HB 1382.

Representative Owens introduced HB 1382.

Senator Burckhard - It says there is no impact on revenues.

Representative Owens - That is true because the current sunset is 2015 anyway so on current revenues it's already in code. We are asking to extend it from 2015 to 2017 so it's really the next biennium where you would see any additional, should there be build out during that time.

Vice Chairman Campbell - Do you suppose there's a reason why they didn't extend that initially?

Representative Owens - Actually, if I remember the history correctly this particular tax incentive started with a sunset came back with no sunset and then a sunset was added for 6 years and then reduced to 4 years. To actually answer your question, no, I do not know why the sunset why it had a sunset compared to the rest of them, it was taken off and then why it was put back on.

John Olson - See attachment 1 on behalf of **Julie Voeck, NextEra Energy Resources**.

Dave Schmitz, General Manager of Renewable Operations in ND for ALLETE/Minnesota Power - See attached testimony 2 and 3 in favor of HB 1382.

Chairman Cook - What is the oldest turbine you have in the state now?

Dave Schmitz - 2011

Chairman Cook - What is the life expectancy?

Dave Schmitz - 30 years if maintained well.

Chairman Cook - Those upgrades that have to be done, are those exempt from sales tax under this also?

Dave Schmitz - I do not know.

Senator Burckhard - Do you know approximately how many sales tax dollars have been saved or returned to your company so far through this program?

Dave Schmitz - I don't know how much we've saved so far, looking ahead for every 100 megawatts I think we are projecting about \$5-7 million for each 100 megawatts.

Senator Burckhard - What does it cost to put up one tower?

Dave Schmitz - It depends on the size of the wind turbine, we are putting up pretty big ones, 3 megawatt so they are about, by the time you get all the support facilities and everything, probably \$4 million.

Senator Dotzenrod - The process to go through to get these farms up to where they are operating requires all that capital investment that you have to make in each tower and then there's trying to get that connected into the grid. Does the sales tax exemption apply just to the installation and the capital cost on the towers or do you have to spend a considerable amount of money to get these connected together and connected into an existing distribution system and all the switching and transformers and things that go with that, is that part of what you would think you would be exempt from on sales tax?

Dave Schmitz - As far as I know it's the hardware and materials, mainly the hardware.

Senator Triplett - I'm surprised when I see your list of benefits of wind development that there is nothing here about the actual benefit of the energy. Can you address that? We use to sell wind energy as a renewable energy source that would help us become more energy self-reliant in this country and given what is happening in the oil and gas industry it appears that maybe wind energy really isn't all that necessary anymore for that national security kind of argument.

Dave Schmitz - Wind is part of the overall picture of what is needed in terms of energy development. Wind can't provide all the energy we need by its self but it's got a place on the pie chart along with all the other forms of energy. It's one of the more cost effective renewable forms at this point in time. (22:19)

Senator Triplett - I heard John Olson say that people were surprised when congress extended the federal production tax credits this past year and it's only a one year window, is there an expectation that your industry will lobby hard again for another extension and what do you think the possibilities are of getting that extension?

Dave Schmitz - I'm quite sure the wind industry is going to lobby for another extension. I think that is to be expected. (23:50)

Mike Fladeland, Department of Commerce - See attached testimony 4 on behalf of Alan Anderson, ND Department of Commerce in favor of HB 1382.

Bill Shalhoob, Greater North Dakota Chamber - See attached testimony 5 in favor of HB 1382.

Kathy Aas, ExcelEnergy - We also support this bill.

Chairman Cook closed the hearing on HB 1382.

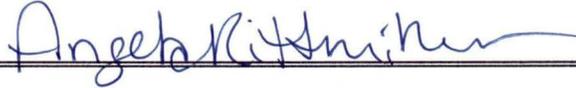
2013 SENATE STANDING COMMITTEE MINUTES

Senate Finance and Taxation Committee Lewis and Clark Room, State Capitol

HB 1382
4/8/2013
Job Number 20954

Conference Committee

Committee Clerk Signature



Explanation or reason for introduction of bill/resolution:

A BILL for an Act to amend and reenact section 57-39.2-04.2 of the North Dakota Century Code, relating to sales tax exemption for a wind-powered electrical generating facility; to provide an effective date; and to provide an expiration date.

Minutes:

Chairman Cook opened discussion on HB 1382.

Senator Burckhard - I'll move a **Do Pass**.

Seconded by **Senator Oehlke**.

Senator Miller - Preferably if we were going to do something like this I'd rather have it be a permanent type of tax program just because other companies come along and they don't get the advantage.

Senator Burckhard - I use to work for an electric company and when they look at their makes of different generation, they use to do picking plants with oil and stuff, I think they are doing a lot less with that and certainly wind is good for that, it's renewable and we've got a lot of it.

Senator Triplett - My understanding is that the federal government is sort of in the edge of ending its incentives for wind. In response to Senator Miller suggestion that these should be permanent, which is not part of the bill so it probably doesn't even need a response but I think there is a reason for the exemptions if I remember correctly in the first place is to kind of try to make wind energy sort of help and a nascent kind of industry get off the ground and get going so that it would be self-supporting. (4:48)

Chairman Cook - I can't help but wonder to what degree this extension will even affect anything if the federal extension or the federal one you described goes away. I think that probably drives the policy decisions more than this one does anyway.

Roll Call Vote 7-0-0

Carried by **Senator Burckhard**.

FISCAL NOTE
Requested by Legislative Council
01/21/2013

Revised
 Bill/Resolution No.: HB 1382

- 1 A. **State fiscal effect:** *Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.*

	2011-2013 Biennium		2013-2015 Biennium		2015-2017 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
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Expenditures						
Appropriations						

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Counties			
Cities			
School Districts			
Townships			

- 2 A. **Bill and fiscal impact summary:** *Provide a brief summary of the measure, including description of the provisions having fiscal impact (limited to 300 characters).*

HB 1382 extends the sunset for the sales tax exemption for a wind-powered electrical generating facility to June 30, 2017.

- B. **Fiscal impact sections:** *Identify and provide a brief description of the sections of the measure which have fiscal impact. Include any assumptions and comments relevant to the analysis.*

3. **State fiscal effect detail:** *For information shown under state fiscal effect in 1A, please:*

- A. **Revenues:** *Explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.*

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Name: Kathryn L. Strombeck

Agency: Office of Tax Commissioner

Telephone: 328-3402

Date Prepared: 02/15/2013

Date: 4-8-13
 Roll Call Vote #: 1

**2013 SENATE STANDING COMMITTEE
 ROLL CALL VOTES
 BILL/RESOLUTION NO. 1382**

Senate Finance & Taxation Committee

Check here for Conference Committee

Legislative Council Amendment Number _____

Action Taken: Do Pass Do Not Pass Amended Adopt Amendment
 Rerefer to Appropriations Reconsider

Motion Made By Senator Burckhard Seconded By Senator Oehlke

Senators	Yes	No	Senator	Yes	No
Chariman Dwight Cook	X		Senator Jim Dotzenrod	X	
Vice Chairman Tom Campbell	X		Senator Connie Triplett	X	
Senator Joe Miller	X				
Senator Dave Oehlke	X				
Senator Randy Burckhard	X				

Total (Yes) 7 No 0

Absent 0

Floor Assignment Senator Burckhard

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE

HB 1382: Finance and Taxation Committee (Sen. Cook, Chairman) recommends DO PASS (7 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). HB 1382 was placed on the Fourteenth order on the calendar.

2013 TESTIMONY

HB 1382

ALLETE/Minnesota Power Testimony on House Bill 1382

January 30, 2013, 10:15 A.M.

House Finance and Taxation Committee

Fort Totten Room

Representative Wes Belter, Chairman

**Dave Schmitz – General Manager of Renewable Operations in ND for
ALLETE/Minnesota Power**

Good morning Mr. Chairman and members of the Committee. My name is Dave Schmitz. I am General Manager of Renewable Operations in ND for ALLETE/Minnesota Power. I'm a lifelong resident of ND and have worked the past 40 years in the electric energy industry after growing up on a farm in western ND and obtaining an engineering degree from NDSU. I am here to request your support of House Bill 1382 which effectively extends the current ND sales tax exemption for new wind generation facilities for two years.

ALLETE is an energy company with headquarters in Duluth, MN and with a long history of energy development and production in ND. There are currently five ALLETE companies doing business in ND as outlined below:

- **BNI Coal**
 - Started 1930 in western ND; mining coal for MR Young plant since 1970
 - 4 to 4.5 million tons per year....all used in ND
 - 165 people; annual revenues \$65 million; approx. \$55 million local spend
 - Developing 9,000 additional acres; spend over \$200 million next 10 years

#1
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- **Minnesota Power (regulated utility)**
 - Ownership position in MR Young #2 and Square Butte DC line since 1970
 - 100 MW wind power purchase from NextEra wind farm near Center, ND
 - Owns and operates 292 MW Bison project near New Salem, ND
 - Evaluating 200 MW additional wind generation in 3 – 5 years
- **Rendfield Land**
 - 2007; 98,000 acres options for wind development; more planned
- **Allete Renewable Resources**
 - 2010; operate and maintain wind projects
- **Allete Clean Energy (non-utility energy development)**
 - 2011; 100 MW wind project permitted near Bison wind project

In the past 3 years, Minnesota Power has constructed 101 wind turbines (nearly 300 MW) northwest of New Salem, ND. This has been a major capital investment with resultant construction jobs, contractor local spending, additional property tax base, substantial option and easement payments to landowners, and on-going employment and expenditures for operations and maintenance.

ALLETE companies Minnesota Power and Allete Clean Energy have strong interest in constructing as much as 300 MW of additional wind generation in ND. This is due in large part to the good wind resource in ND and to ND's supportive energy policies including permitting and taxes. The timing for additional development is highly influenced by available tax incentives at both the federal and state level. With the recent extension of the federal production tax credit, we are very interested in moving ahead with these additional projects in the next few years.

11/3

The tables below provide a snapshot of the construction employment for the recent projects and planned future projects:

	Peak Workforce in North Dakota	Total Hours Worked
Bison 2 & 3 Projects	290	320,000
Future ALLETE Wind	200 to 300	400,000 to 500,000

Trades Employed	Peak Number of this Trade employed at One Time
Professional Services	35
Electricians	65
Ironworkers	120
Carpenters	25
Operators	95
Laborers	65

Following construction, there are on-going needs for employees for the operations and maintenance of these facilities as shown in the table below:

	ALLETE Wind & Transmission	On-site Contract Support	Total
Current	14	7	21
Future (with 300MW additional)	21	11	32

The table on the following page shows the magnitude of initial investment and on-going payments for our current wind generation projects (Bison 1, 2, & 3) and an estimate of future investments and payments for an additional 300 MW of wind generation:

Initial and On-going Expenditures

Existing and Estimated Future Wind Development in North Dakota

	Total Construction Investment	Construction Expenditure in ND		Annual Property Tax (1)	Annual Landowner Payments	Annual Local O&M (labor, fuel, services, etc.)
2011 - 2012	\$500,000,000	\$75,000,000		\$350,000	\$400,000	\$1,500,000
2013				\$1,350,000	\$1,600,000	\$3,600,000
Future estimates based on 300 MWs of additional wind						
2014 - 2015	\$500,000,000	\$?????? (2)		\$2,650,000	\$3,200,000	\$7,000,000

(1) Alternate tax in lieu of property tax

(2) Dependent on which major wind turbine/tower components are made in ND

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11

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The current sales tax exemption for new wind projects ends on January 1, 2015. Completing 300 MW of expansion prior to that date would be very aggressive, and probably not possible. For any projects completed after that date, sales tax will increase the project cost by about \$5 to \$7 million for each 100 MWs of wind turbines. This is an important consideration for the overall project economics. Therefore we are requesting that the sales tax exemption date be extended from January 1, 2015 to January 1, 2017. Extension of the sales tax exemption for new wind installations will continue North Dakota's encouragement of energy development and stimulate additional investment that brings local construction spending, local jobs, landowner payments and increased property taxes.

Mr. Chairman and members of the Finance and Tax Committee, I respectfully request your favorable consideration of House Bill 1382. This concludes my testimony and I would be pleased to respond to any questions.

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North Dakota Sales Tax Exemption for Wind Generation



House Bill 1382
House Finance and Taxation Committee
January 30, 2013

Dave Schmitz – ALLETE/Minnesota Power



Synopsis

- **ALLETE (Minnesota Power) recently constructed nearly 300MW of wind turbines near New Salem, ND**
- **ALLETE (Minnesota Power and Allete Clean Energy) are evaluating 300 MW additional wind generation**
- **Recent passage of Federal Production Tax Credits legislation for wind has accelerated ALLETE's interest**
- **ND's sales tax exemption for wind is incentive to add generation soon in ND**
- **House Bill 1382 introduced to extend the ND sales tax exemption for wind from Jan 1, 2015 to Jan 1, 2017**



ALLETE – Coal, Transmission and Wind in ND

- **BNI Coal**
 - Started 1930 in western ND; mining coal for MR Young plant since 1970
 - 4 to 4.5 million tons per year....all used in ND
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- **Rendfield Land**
 - 2007; 98,000 acres options for wind development; more planned
- **Allete Renewable Resources**
 - 2010; operate and maintain wind projects
- **Allete Clean Energy (non-utility energy development)**
 - 2011; 100 MW wind project permitted near Bison wind project

3



Benefits of Wind Development

- **Local expenditures (services, materials, equipment, fuel, food, lodging)**
- **Substantial construction employment**
- **Additional property tax base**
- **Added value for local landowners in lease payments**
- **On-going employment (operations, maintenance, services)**

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Initial and On-going Expenditures

Existing and Estimated Future Wind Development in North Dakota

	Total Construction Investment	Construction Expenditure in ND	Annual Property Tax (1)	Annual Landowner Payments	Annual Local O&M (labor, fuel, services, etc.)
2011 - 2012	\$500,000,000	\$75,000,000	\$350,000	\$400,000	\$1,500,000
2013			\$1,350,000	\$1,600,000	\$3,600,000
Future estimates based on 300 MWs of additional wind					
2014 - 2015	\$500,000,000	\$?????? (2)	\$2,650,000	\$3,200,000	\$7,000,000

(1) Alternate tax in lieu of property tax

(2) Dependent on which major wind turbine/tower components are made in ND

5



Wind Employment

Construction

	Peak Workforce in North Dakota	Trades Employed	Peak Number of this Trade Employed at One Time
Bison 2 & 3 Projects	290	Professional Services	35
Future ALLETE Wind	200 to 300	Electricians	65
		Ironworkers	120
		Carpenters	25
		Operators	95
		Laborers	65

On-going Operations

	ALLETE Wind & Transmission	On-site Contract Support	Total
Current	14	7	21
Future (with 300MW additional)	21	11	32

6



Sales Tax Exemption Value

Estimates for Future ALLETE Wind Development

100 MWs of Additional Wind: \$5 to \$7 million

200 MWs of Additional Wind: \$10 to \$14 million

300 MWs of Additional Wind: \$15 to \$20 million

Note: Wind construction is currently exempt from sales tax for projects placed in-service before January 1, 2015. Projects under construction but not yet placed in-service by this date would be subject to the above sales tax estimates.

7



Summary

ALLETE's future wind development possibilities could bring value to the state of North Dakota through substantial added local investment with resultant local jobs, landowner payments and property taxes.

Extension of the sales tax exemption for new wind installations will continue North Dakota's encouragement of energy development and stimulate additional investment benefiting the State.

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**DEPARTMENT OF COMMERCE TESTIMONY ON HOUSE BILL 1382
JANUARY 30, 2013, 10:15 A.M.
HOUSE FINANCE AND TAXATION COMMITTEE
FORT TOTTEN ROOM
REPRESENTATIVE WES BELTER, CHAIRMAN**

ALAN ANDERSON – COMMISSIONER, ND DEPARTMENT OF COMMERCE

Good morning, Mr. Chairman and members of the committee, my name is Alan Anderson and I serve as the Commissioner for the North Dakota Department of Commerce. As Commerce Commissioner I also have the pleasure of serving as the chairman of the EmPower North Dakota Commission. The EmPower North Dakota Commission is charged by the legislature to provide recommendations concerning the energy policy of the state.

On behalf of the EmPower ND Commission, I am here today to speak in favor of House Bill 1382.

House Bill 1382 extends the sunset on the sales tax exemption for the sales and use tax exemption for materials used in a wind-powered electrical generating facility. Currently, the wind power sales and use tax exemption is the only exemption that has a sunset. Other sales and use tax exemptions are permanent including exemptions for other energy industries such as coal-powered generation facilities, oil refineries, and gas processing equipment.

The EmPower ND Commission feels it is important to at least extend the sunset in order to treat wind power similar to other energy industries in regards to sales and use tax exemption. This extension from 2015 to 2017 is important as companies are considering where to place large wind development projects in the next few years.

This exemption is working. Since 2001, when the legislature enacted the sales tax exemption for wind-powered generation, the industry has grown from less than half a megawatt of installed capacity in the state to now having 1,469 megawatts. North Dakota now ranks tenth in the nation with regards to wind power generation.

Mr. Chairman and members of the Finance and Taxation Committee, I respectfully request your favorable consideration of House Bill 1382. That concludes my testimony and I am happy to entertain any questions.



March 14, 2013

Senate committee members:

NextEra Energy Resources (NextEra) supports HB 1382 to extend the sales tax exemption for wind projects. The North Dakota wind project sales tax exemption has been an important part of wind project economics and is due to expire January 1, 2015. NextEra would support extending or eliminating the expiration date. NextEra has identified potential future investment in North Dakota of over \$250 million, which would be aided by the extension of the sales tax exemption.

NextEra is the largest generator and developer of wind power in North America. NextEra owns and operates 11 wind farms in North Dakota, representing an investment of \$1.45 billion and 850 MW. NextEra also contributes over \$27 million annually in the North Dakota economy on payroll, plant operating expenses, property taxes and lease payments to landowners.

Julie Voeck

A handwritten signature in blue ink that reads "Julie Voeck".

NextEra Energy Resources
Director Legislative and Regulatory Affairs

ALLETE/Minnesota Power Testimony on House Bill 1382

March 18, 2013, 9:00 A.M.

Senate Finance and Taxation Committee

Lewis and Clark Room

Senator Dwight Cook, Chairman

**Dave Schmitz – General Manager of Renewable Operations in ND for
ALLETE/Minnesota Power**

Good morning Mr. Chairman and members of the Committee. My name is Dave Schmitz. I am General Manager of Renewable Operations in ND for ALLETE/Minnesota Power. I'm a lifelong resident of ND and have worked the past 40 years in the electric energy industry after growing up on a farm in western ND and obtaining an engineering degree from NDSU. I am here to request your support of House Bill 1382 which effectively extends the current ND sales tax exemption for new wind generation facilities for two years.

ALLETE is an energy company with headquarters in Duluth, MN and with a long history of energy development and production in ND. There are currently five ALLETE companies doing business in ND as outlined below:

- **BNI Coal**
 - Started 1930 in western ND; mining coal for MR Young plant since 1970
 - 4 to 4.5 million tons per year....all used in ND
 - 165 people; annual revenues \$65 million; approx. \$55 million local spend
 - Developing 9,000 additional acres; spend over \$200 million next 10 years

- **Minnesota Power (regulated utility)**
 - Ownership position in MR Young #2 and Square Butte DC line since 1970
 - 100 MW wind power purchase from NextEra wind farm near Center, ND
 - Owns and operates 292 MW Bison project near New Salem, ND
 - Evaluating 200 MW additional wind generation in 3 – 5 years
- **Rendfield Land**
 - 2007; 98,000 acres options for wind development; more planned
- **Allete Renewable Resources**
 - 2010; operate and maintain wind projects
- **Allete Clean Energy (non-utility energy development)**
 - 2011; 100 MW wind project permitted near Bison wind project

In the past 3 years, Minnesota Power has constructed 101 wind turbines (nearly 300 MW) northwest of New Salem, ND. This has been a major capital investment with resultant construction jobs, contractor local spending, additional property tax base, substantial option and easement payments to landowners, and on-going employment and expenditures for operations and maintenance.

ALLETE companies Minnesota Power and Allete Clean Energy have strong interest in constructing as much as 300 MW of additional wind generation in ND. This is due in large part to the good wind resource in ND and to ND's supportive energy policies including permitting and taxes. The timing for additional development is highly influenced by available tax incentives at both the federal and state level. With the recent extension of the federal production tax credit, we are very interested in moving ahead with these additional projects in the next few years.

The tables below provide a snapshot of the construction employment for the recent projects and planned future projects:

	Peak Workforce in North Dakota	Total Hours Worked
Bison 2 & 3 Projects	290	320,000
Future ALLETE Wind	200 to 300	400,000 to 500,000

Trades Employed	Peak Number of this Trade employed at One Time
Professional Services	35
Electricians	65
Ironworkers	120
Carpenters	25
Operators	95
Laborers	65

Following construction, there are on-going needs for employees for the operations and maintenance of these facilities as shown in the table below:

	ALLETE Wind & Transmission	On-site Contract Support	Total
Current	14	7	21
Future (with 300MW additional)	21	11	32

The table on the following page shows the magnitude of initial investment and on-going payments for our current wind generation projects (Bison 1, 2, & 3) and an estimate of future investments and payments for an additional 300 MW of wind generation:

Initial and On-going Expenditures

Existing and Estimated Future Wind Development in North Dakota

	Total Construction Investment	Construction Expenditure in ND		Annual Property Tax (1)	Annual Landowner Payments	Annual Local O&M (labor, fuel, services, etc.)
2011 - 2012	\$500,000,000	\$75,000,000		\$350,000	\$400,000	\$1,500,000
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Future estimates based on 300 MWs of additional wind						
2014 - 2015	\$500,000,000	\$?????? (2)		\$2,650,000	\$3,200,000	\$7,000,000

(1) Alternate tax in lieu of property tax

(2) Dependent on which major wind turbine/tower components are made in ND

The current sales tax exemption for new wind projects ends on January 1, 2015. Completing 300 MW of expansion prior to that date would be very aggressive, and probably not possible. For any projects completed after that date, sales tax will increase the project cost by about \$5 to \$7 million for each 100 MWs of wind turbines. This is an important consideration for the overall project economics. Therefore we are requesting that the sales tax exemption date be extended from January 1, 2015 to January 1, 2017. Extension of the sales tax exemption for new wind installations will continue North Dakota's encouragement of energy development and stimulate additional investment that brings local construction spending, local jobs, landowner payments and increased property taxes.

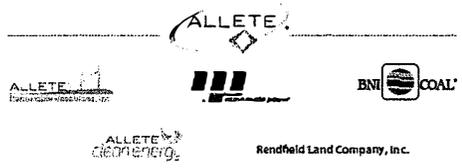
Mr. Chairman and members of the Finance and Tax Committee, I respectfully request your favorable consideration of House Bill 1382. This concludes my testimony and I would be pleased to respond to any questions.

North Dakota Sales Tax Exemption for Wind Generation



House Bill 1382
Senate Finance and Taxation Committee
March 18, 2013

Dave Schmitz – ALLETE/Minnesota Power



Synopsis

- **ALLETE (Minnesota Power) recently constructed nearly 300MW of wind turbines near New Salem, ND**
- **ALLETE (Minnesota Power and Allete Clean Energy) are evaluating 300 MW additional wind generation**
- **Recent passage of Federal Production Tax Credits legislation for wind has accelerated ALLETE's interest**
- **ND's sales tax exemption for wind is incentive to add generation soon in ND**
- **House Bill 1382 introduced to extend the ND sales tax exemption for wind from Jan 1, 2015 to Jan 1, 2017**



ALLETE – Coal, Transmission and Wind in ND

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Benefits of Wind Development

- **Local expenditures (services, materials, equipment, fuel, food, lodging)**
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	ALLETE Wind & Transmission	On-site Contract Support	Total
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Summary

ALLETE's future wind development possibilities could bring value to the state of North Dakota through substantial added local investment with resultant local jobs, landowner payments and property taxes.

Extension of the sales tax exemption for new wind installations will continue North Dakota's encouragement of energy development and stimulate additional investment benefiting the State.



**DEPARTMENT OF COMMERCE TESTIMONY ON HOUSE BILL 1382
MARCH 18, 2013, 9:00 A.M.
SENATE FINANCE AND TAXATION COMMITTEE
LEWIS & CLARK ROOM
SENATOR DWIGHT COOK, CHAIRMAN**

ALAN ANDERSON – COMMISSIONER, ND DEPARTMENT OF COMMERCE

Good morning, Mr. Chairman and members of the committee, my name is Alan Anderson and I serve as the Commissioner for the North Dakota Department of Commerce. As Commerce Commissioner I also have the pleasure of serving as the chairman of the EmPower North Dakota Commission. The EmPower North Dakota Commission is charged by the legislature to provide recommendations concerning the energy policy of the state.

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The EmPower ND Commission feels it is important to at least extend the sunset in order to treat wind power similar to other energy industries in regards to sales and use tax exemption. This extension from 2015 to 2017 is important as companies are considering where to place large wind development projects in the next few years.

This exemption is working. Since 2001, when the legislature enacted the sales tax exemption for wind-powered generation, the industry has grown from less than half a megawatt of installed capacity in the state to now having 1,469 megawatts. North Dakota now ranks tenth in the nation with regards to wind power generation.

Mr. Chairman and members of the Finance and Taxation Committee, I respectfully request your favorable consideration of House Bill 1382. That concludes my testimony and I am happy to entertain any questions.



Testimony of Bill Shalhoob
Greater North Dakota Chamber of Commerce
HB 1382
March 18, 2013

Mr. Chairman and members of the committee, My name is Bill Shalhoob and I am here today representing the Greater North Dakota Chamber of Commerce, the champions for business in North Dakota. GNDC is working to build the strongest business environment possible through its more than 1,100 business members as well as partnerships and coalitions with local chambers of commerce from across the state. GNDC also represents the National Association of Manufacturers and works closely with the U.S. Chamber of Commerce. As a group we stand in support of HB 1382 and urge a do pass from your committee on the bill.

GNDC has supported the efforts of Empower ND since its inception and has specifically endorsed the wind energy credit in HB 1382. All other forms of energy development in North Dakota have a permanent sales tax exemption and this proposal is only an extension of a temporary credit. Wind development has benefited multiple areas of the state. It has created local investment, property tax revenue, landholder income, construction employment and ongoing employment. Companies are targeting North Dakota for a half a billion dollar in investments in wind projects over the next years and this extension can help ensure those dollars are invested in North Dakota.

Thank you for the opportunity to appear before you today in support of HB 1382. I would be happy to answer any questions.

Champions  Business

PO Box 2639 P: 701-222-0929
Bismarck, ND 58502 F: 701-222-1611

www.ndchamber.com