

FISCAL NOTE
Requested by Legislative Council
02/10/2015

Amendment to: SB 2276

- 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.*

	2013-2015 Biennium		2015-2017 Biennium		2017-2019 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.*

	2013-2015 Biennium	2015-2017 Biennium	2017-2019 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).*

Engrossed SB 2276 authorizes a legislative study related to providing natural gas service to underserved communities in the state.

- 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.*

There is no fiscal impact to engrossed SB 2276.

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.*
- 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 or a part of the appropriation is 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: 02/18/2015

FISCAL NOTE
Requested by Legislative Council
01/19/2015

Bill/Resolution No.: SB 2276

- 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.*

	2013-2015 Biennium		2015-2017 Biennium		2017-2019 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues						
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	2013-2015 Biennium	2015-2017 Biennium	2017-2019 Biennium
Counties			
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- 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).*

SB 2276 creates property, income, and sales tax exemptions relative to extending natural gas to under-served communities.

- 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.*

If enacted, SB 2276 may result in a reduction in state general fund and state aid distribution fund revenues, and a shift among property tax payers. The costs associated with the provisions of this bill cannot be determined.

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.*
- 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 or a part of the appropriation is 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: 01/26/2015

2015 SENATE FINANCE AND TAXATION

SB 2276

2015 SENATE STANDING COMMITTEE MINUTES

Finance and Taxation Committee
Lewis and Clark Room, State Capitol

SB2276
1/28/2015
Job #22727

- Subcommittee
 Conference Committee

Committee Clerk Signature

Alice Grove

Explanation or reason for introduction of bill/resolution:

Relating to a property tax exemption for infrastructure used to deliver natural gas to unserved communities, an income tax credit for conversion to a natural gas heating source, and a sales and use tax exemption for construction or expansion of a natural gas heating source, and a sales and use tax exemption for construction or expansion of a natural gas transmission or distribution system; relating to a sales and use tax exemption for construction or expansion of a natural gas transmission or distribution system; and to provide an effective date.

Minutes:

Attachments #1,2,3,4,5,6,7,8,9

Chairman Cook opened the hearing on SB2276.

Sen Jerry Klein, Senator Dist. 14 (Attachment #1)

Senator Phil Murphy, State Senator Dist. 20 (Attachment #2)

Senator Oehlke -- Considering the rest of the bill, and the benefits that natural gas is a lower price fuel, right?

Senator Murphy -- Bountiful.

Senator Oehlke -- Bountiful?! Do you really think that it is necessary to also have an income tax credit for folks that are going to be getting a lower cost fuel? Do they need the income tax credit for their conversion purposes?

Senator Murphy -- I will leave that to the wisdom of the committee. I appreciate the incentives that have been placed before the state, but as far as getting into the particulars I will leave that to you.

Shane Goettle, Lobbyist for MDU Resources

My purpose here is to walk you through the bill, and give you an outline of what we've put together. First of all, this is not a magic formula. The objective in putting all of this together was to say: how can we bridge the gap to bring natural gas to communities that are not currently served? That was the purpose of this exercise. That is a big gap and that is why all of these incentives come into play. Section 1, and that's a property tax exemption. You'll note that's it's a 10 year exemption and the tax department has to receive a certification from the Department of Commerce that this is extending it to an unserved community. In working with the tax department on the language, we drafted it with the operative cost language, rather than value language. That was at the tax department's direction. There is no impact here to the state school formula. We are not adding to county values. Section 2 and 3 is a consumer income tax credit, on pages 1 & 2. The consumer tax credit is for 50% of the conversion cost and some of the folks that we are dealing here might be on fixed incomes and not be able to utilize that immediately so we have a 10 year carry-forward. They must own the property. Not be leasing it. And, it's also clear that it's not for new construction. Section 4 is a sales tax exemption on page 3. On page 3, lines 25 through 29, we provide the definition of natural gas distribution transmission system for the purpose of the sales and use tax exemption. Section 5, on pages 3 through 6, is the use tax exemption. The language on page 5, line 10, and page 6, line 20, provide the exemption. Section 6, the effective date, we would have the property tax starting on January 1, 2015. The income, starting on January 1, 2015, and the sales and use starting after June 30, 2015. There's also been some amendments to the bill that have been circulated that clarifies the use of natural gas for energy purposes. The term heating as used throughout the original draft caused some concern for water heaters and stoves which use natural gas for heat but perhaps not for heating. It also clarifies that the motor vehicle conversions are not covered by the exemption. That's the walk-through of the bill.

Senator Triplett -- You said that there is a big gap between those communities who are served and those who are not served. How much of a gap does this bill? Have you done that analysis?

Shane Goettle -- We have done that analysis. There are others behind me who are going to provide some of that information, including a map that we will be providing that shows the underserved communities. Bridging the gap was very difficult. We think this is a step in that direction. There are a lot of other factors that have to come into play.

Senator Oehlke -- Considering if the effort is to get gas to the end-user and the cost of that fuel is going to be much less than they are probably paying now, why do we need a tax credit for conversion? Aren't they already getting enough of a benefit?

Shane Goettle -- You are going to hear some of that reasoning in the testimony to come. The models that the utilities have run on this also include a surcharge to the consumer to do what you described. We looked at the consumer putting in some skin in the game and that is part of the model. If you're asking how do we bring gas to communities that are currently underserved, the question for the utilities is how many people can we get signed up and how fast? The incentives are to get a certain threshold of consumers lined up to make it worthwhile to get it to the community.

Senator Bekkedahl -- In the case of Williston's footprint, as a city growing from 6 square miles approximately in 2010 to now approaching 24 square miles in 2015, this bill would be helping our local utility to extend lines to those new areas of the city during this growth period. Am I correct?

Shane Goettle -- I believe you are correct.

Senator Bekkedahl -- Along with that, part of what's happened is that as the city has grown we have regulations in our ordinances that prohibit propane tanks of a certain size being within the city because of the confines that we deal with. It's got to be more economical for MDU to extend in our area where they already have service than it is to some of these outlying communities, and I don't want to deny them that service, but I have the same concerns that Senator Oehlke does on the conversion cost. It is a cheaper fuel and it is a preferred fuel when you get into an urban environment. Is that really a necessary piece of this?

Shane Goettle -- We have talked about both the idea of unserved and underserved areas. The threshold here would be working with Department of Commerce. For them to define what an unserved community is. That is one of the policies that we need to discuss. Williston is certainly served and extending it to other areas is certainly something that can be up for discussion.

Senator Bekkedahl -- It may defeat the purpose of what you're trying to do here but was there any consideration or thought about the incentives being relative to areas that already have service extending within a certain radius versus going to totally new served areas?

Shane Goettle -- We've not put a definition in this proposed bill of what that means and that is certainly something that we can discuss. At this point, the way this is structured, the Department of Commerce would be in the driver's seat of determining what they deem to be an unserved community.

Chairman Cook -- You mentioned in your comments on section 1, property tax, that there's no impact to state school formula. We do all understand, correct, if property tax exemptions equate to property tax shift?

Shane Goettle -- Yes, and we tried to avoid that.

Chairman Cook -- And it's here?

Shane Goettle -- Obviously it's property that is not there right now. We are trying to avoid any kind of impact on schools for certain.

Chairman Cook -- Earlier this week, we passed on the floor of the senate a bill to review all economic development incentives. It passed the senate floor unanimously. If that gets signed by the governor, this is another incentive that would have to be reviewed. There's some criteria that's established and one of the criteria is to consider any competitive disadvantage imposed on other businesses. All of these people are being served today by somebody else and we are giving an exemption or a benefit to certain companies to come

in and compete. Did you have any discussions on that issue as you deliberated on this bill?

Shane Goettle -- We certainly did. The task that the number of community leaders and policymakers asked of us was: how would we bridge that gap? Because there is a desire for economic development purposes to be able to have natural gas in their communities. This is our answer to the folks that ask that question. We believe that this will be a handful of communities that are ripe for this at this point. They are what we term "the low hanging fruit". There's a lot of logistic issues that need to be resolved before it moves forward. We're flaring a lot of natural gas in this state so this is also an effort to say how can we use more of it right in our backyard? There is a larger public policy under consideration. Companies state that they are at a disadvantage when they try to land a manufacturing facility.

Chairman Cook -- But you understand and recognize that as we deliberate on this we are certainly going to have to look at the disadvantage it does create for existing businesses today.

Senator Dotzenrod -- On page 1, line 13 and 15 you use the term "operative property". Could you give me some example of what that would be?

Shane Goettle -- What I would like to do is ask that of the tax department. They guided us on the use of that term.

Senator Oehlke -- Senator Dotzenrod, I bet that means pretty much anything that runs on natural gas.

Julie Fedorchak, Chair of the Public Service Commission

I want to step in and express my support, as an individual. The commission doesn't have an official position. I have been part of the group that has been meeting for the last 8-10 months. I did want to say, from the standpoint of state public policy, there are a couple factors that make this bill worth having close consideration and good policy discussion. First of all, we have an abundance of natural gas in North Dakota and creating local markets for that gas is a valuable thing in our state. It reduces the amount that we have to find pipeline capacity to ship out. It helps address the flaring problem. Secondly, home heating is one of the most efficient uses of natural gas. You can get the greatest efficiency out of natural gas. The cost of the lateral lines extending from the main lines to the community is the greatest hurdle in making this happen for communities. This bill attempts to provide some incentives to help make that easier for the utilities to do. It also helps incentive the consumers for making the conversion in their home. If the utilities are going to come in and put the line in, they need to recapture their costs by having customers. There's still a sizeable gap. It's a step in the right direction.

Chairman Cook -- I'm glad we have someone here from the PSC here. You regulate these utilities. You set their rates. You are not in any way a hinderance for them to go into these communities, are you?

Julie Fedorchak -- No, we are not. Some folks suggested we could just take care of this all at once by just socializing all the costs and agreeing to those kinds of rates in the community. That is probably not the appropriate public policy approach. That would be a significant cost and I don't think has been how communities received natural gas in the past. That's not to say that socializing in some way shape or form or spreading those costs out over a larger customer base isn't on the table. I think it is something that we would consider based on the project and the size and scope.

Senator Bekkedahl -- You are the second person that has talked the issue of the flaring and using the resource and getting it to underserved or unserved communities and I fully support that issue. In other words, I think that's just going to take time for these plants to get up and running and the gas once it reaches those facilities is put into a nationwide linked servicing pipeline system. Explain to me how this incentivizes that to occur faster.

Julie Fedorchak -- Does this have a direct impact on reducing flaring? I don't think it does, but in the vein of my discussion with Ron Ness, just in a general nature, he emphasizes we need to create more local markets for natural gas. It's just a good thing. Having the cracking plants, having some of these other types of end uses in North Dakota is helpful in the long-run. It provides a home for it here, rather than having to find the capacity and get it out-of-state to other markets.

Senator Oehlke -- I did have to convert from propane to natural gas in my home, and I would venture to say that it was less than a year and half recovery on the cost of all that conversion, including the cost of one new appliance. I'm having angst with section 2 where there is income tax credit in addition to everything else in this particular bill. Maybe there is going to be more testimony to help me understand that but I don't know if those costs have just not been figured correctly.

Julie Fedorchak -- We did look carefully at the conversion costs and I believe some of the utility folks who are coming up next can walk through that and talk about what the costs are and the payout when they are typically paid back and some of the rationale behind the tax incentive for the consumer.

Representative Pete Silbernagel, District 22

Just a couple things: if you have not seen the map that illustrates where the gas lines are in North Dakota, I'd encourage you to take a look at it. It will be obvious to you where there are some gaps in the distribution system within North Dakota. Secondly, I spent 8 years on Fargo, Cass County Economic Development Corporation and when companies are looking to locate and base projects within a geographical area, energy is number 1 on the list. In living in Casselton, nearby Mapleton, without good natural gas supplies we would not see some of the great economic development that we have experienced. Consider that. As we go through a down-turn in the pricing of oil, it becomes evident that we need to continue to diversify our economy to develop our economic growth in all spectrums of business and this is a key component and a key element that can help us to do that. Lastly, the bill in front of you is a cost effective solution. It's a good first step.

Chairman Cook -- Does Casselton have natural gas?

Pete Silbernagel -- We do and without it, it would be a different community.

**Gary Nysveen, Chairman, Traill County Economic Development Commission
(Attachment #3)**

**Mark Nisbet, Xcel Energy
(Attachment #4)**

Chairman Cook -- Where did you reach Barnesville from, Moorhead or Fergus?

Mark Nisbet -- Neither one. Up by Hawley is where we swung down.

Chairman Cook -- When I look at this map, all these yellow circles do not have natural gas?

Mark Nisbet -- Right.

Chairman Cook -- What's it cost for a gas line? I see the letter that Senator Murphy referenced was \$75,000.00 per inch of diameter pipe per mile.

Mark Nisbet -- Yes. The difference is the inches that you need to serve a community. We were envisioning this 40 mile run to get over Hillsboro, Mayville is about a half million dollars a mile, by the time you tap into the pipe that you're going to. The pipeline owners will charge for that access. The construction costs. The purchase of the pipe. The labor and the installation. We were roughly working from figures that, on our Traill County example, would total close to \$20 million.

Chairman Cook -- And that is what diameter pipe?

Mark Nisbet -- That's a 6" pipe.

Chairman Cook -- American Crystal Sugar in Hillsboro, they aren't on natural gas?

Mark Nisbet -- They burn Montana coal currently. We did ask them, and that is one of the things that could make a project like this go; this is setting some steps in place, if, based on guidelines, or based on availability, shipping, things like that. Currently, they are pleased and have a cost-effective process using coal at their plant. That would help the project if they decide. We serve American Crystal in East Grand Forks and Moorhead with natural gas.

Chairman Cook -- They certainly know what the benefit of it would be. I would think that is how natural gas gets to a community: you supply to a large user and then it's more economical for the community.

Mark Nisbet -- That's why the Department of Commerce was willing to join us in this discussion and based on their evidence that some of these communities are challenged when they are trying to attract larger projects.

Senator Oehlke -- Do you know how much, or if the community of Barnesville, what kind of income tax benefit they received from conversion?

Mark Nisbet -- They didn't receive it. Their payback was relatively quick.

Senator Triplett -- Is the American Crystal Drayton plant also served by Montana coal?

Mark Nisbet -- I don't know.

Senator Triplett -- Are you the person Mr. Goettle was referring to when I asked the question about quantifying? He suggested it might be obvious from the map, but not to me. Are you suggesting that all of the yellow dots on the map are places where this would work? And communities that aren't on the map are places where it wouldn't work?

Mark Nisbet -- No. What we are saying is this is the first step and these are the most likely: the low hanging fruit. In our case, if we get to Mayville then you are closer to the next stops on the way. The hurdle becomes less. What would it take to move forward? Some enabling legislation would be in place that would allow us to look more favorable at an expansion.

Senator Bekkedahl -- You made mention of the fact that this wasn't designed for the expansion areas, such as Williston, where we're growing our boundaries, but the MDU representatives in my community told me that it was important to them to have incentives like this to expand the system. To do a mile extension, which there are getting to me more than that, were in the millions of dollars because of the urban setting that we are in. With that statement then, would you support not allowing these incentives within a certain radius of already served community and take them out of the mix?

Mark Nisbet -- If I've confused the issue, I'm sorry. I did get a clarification that the sales tax would probably work anywhere, but as far as an extension to a new community that was the intent, in our case, that the Department of Commerce would be the ones that would have to say that, yes, this is a project that's going to a new community without that likelihood of being served.

Senator Bekkedahl -- Would you support not allowing the incentives for areas that are already served that are just undergoing expansion? Which would lessen the fiscal note.

Mark Nisbet -- Yes. I would at the fear of offending those partners on the project. If the real view of what we're trying to accomplish is to move into areas that have not been previously served and a high unlikelihood of being served.

**Nicki Weissman, Harvey Job Development Authority/Economic Development
(Attachment #5)**

**Dana Bohn, Economic Development Association of North Dakota
(Attachment #6)**

Mark Otis, Kindred

We've formed a small committee with the idea of trying to bring natural gas to our community. I also set on the board at the local coop. We are an LP provider. I went to our manager, to avoid a conflict, and said what do you think about natural gas in Kindred? He thought it would be a great idea and he volunteered to be on our committee. If we can have natural gas for our drying facility that will free up our LP capacity to help better serve our rural customers that won't access to natural gas. He was looking at this from an abundant mentality. What natural gas does for Kindred, it's not only a diversification of an energy source, it's a diversification of a transportation. Not relying on rail or trucks to move that energy product to our community, we have a pipeline that brings it. To bring new industry to our community, it is tied to access to natural gas. Pipelines may be near by but the gas in the pipeline is committed someplace else. The future of North Dakota is being able to spread the resource throughout the state so it is not just concentrated in certain areas so businesses can develop where it most needs to be.

Senator Triplett -- Regarding access on the lines, are you talking about the Canadian lines where North Dakotans are not given access?

Mark Otis -- Yes.

Senator Triplett -- So then the Harvey example, which is shown on our map as being 8 miles from a line, that is irrelevant if they can't access to the gas on the line.

Mark Otis -- That is right.

Senator Triplett -- So the map maybe needs a little work in terms of being useful.

Mark Otis -- All I know is getting that gas was difficult because it was already committed someplace else.

Senator Triplett -- Are you aware of any other lines besides the Canadian one that is fully committed?

Mark Otis -- When it comes to Kindred, we have the same issue with the infrastructure shortfall and Xcell has been very good about doing some studies for us. In Kindred, we are about \$1.5 million short. That shortfall would have to be made up with a surcharge of our community. The reason we're short is because we don't have enough users in our community to justify that infrastructure. In our conversations with Xcel they've said that's not your big problem, the big problem is the line we'd like to tap into doesn't have gas for Kindred.

Chairman Cook -- I think we all fully understand the challenges that communities have that don't have natural gas.

Alexis Baxley, North Dakota Petroleum Council

We are in support of SB2276. We think it would be a great idea to help grow the local markets for the natural gas that we are working so hard to keep capturing.

Testimony opposed to SB2276:

**Mike Rud, Executive Director North Dakota Propane Gas Association
(Attachment #7)**

Senator Triplett -- Can you enlighten us to anything that may have taken place, either nationally or by federal regulation, to ensure that such an occasion doesn't happen again if we have the same kind of shortages coming at us?

Mike Rud -- You have to remember that last year was a perfect storm in terms of weather, not only in North Dakota, but in 30 other states in this states. There was a large number of propane exports: 30% of product being made was exported. We also had the fracknation plant, the Hess plant in Tioga, was down for the entire winter. Although the price did fluctuate there was never a disruption in service to anyone in the state of North Dakota.

Senator Triplett -- The federal transportation folks also allowed some pipelines to reverse for a while to get propane here in a timely manner. Can you speak about that?

Mike Rud -- Yes, they did. There were a couple of propane lines down in the southern states that were reversed to move product back into Kansas into a large cavern. Locally, transports have been added, additional tankage built up to increase storage, 3 rail facilities have been put on-line that now house over a million gallons each. We are doing all we can to address it at the state level with private business dollars.

Senator Dotzenrod -- You say you are speaking on behalf of your association of 130 members. Might we find that in that 130 there may be some significant numbers that would support this bill?

Mike Rud -- I can't speak to that issue without talking to more of my members. I did not get that indication from any of my members that they stood in support of this bill. This is direct competition. When you start picking the low hanging fruit, as they termed it, you start grabbing 40-50% of the customer base, it's going to make it very hard economically for a company to hang in there that's been supplying these areas with a good source of heating product. You are going to see people go away and when they go away it will be in the rural areas. When you talk about corn and grain drying, it's going to have a severe impact.

Jesse Flath, Hazen

Our previous testimony against covered most of what I want to say. I have an insurance office in Hazen. I didn't see the map but afar I could pretty much tell that Beulah and Hazen are circled. It comes down to 2 things. The main thing is fair business practices. I sit on the board of a local coop. We view this as you guys giving an unfair advantage to our competition. When we had to buy tanks, regulators, trucks, hire employees, to provide the rural communities with the propane service, we didn't come to you asking for a free dollars. We have a 5-year turnaround on return to investment, if we're going to do a project in our coop. If we can't make that 5-year turnaround, we don't do it. Natural gas is a good product. But it is an unfair practice for anyone in this room to afford them tax advantages to come and take business away from our coop. My parents live in Bowman, ND. They have natural gas through MDU. Is it fair for their tax dollars to be taken and put to use elsewhere in the state to provide people with a product that there's no advantage to them. The have

the whole state have to pay for the advantage of a few, I don't see how that is a good practice.

Chairman Cook -- You talked about a 5-year payback on your investment; if I was to build a new house in Hazen and put in propane, what is your investment? Do I pay for the tank?

Jesse Flath -- You can lease the tank or buy it.

Chairman Cook -- I'm trying to understand the propane industry. I've never bought propane. I build a house. I need a propane tank. Do I buy the tank or do I lease it from you?

Jesse Flath -- Yes, either one.

Chairman Cook -- Typical tank: what are they 300 gallons?

Jesse Flath -- 500 to 1000.

Chairman Cook -- What's it going to cost me?

Jesse Flath -- For the tank? \$1,800.00.

Chairman Cook -- Or I could lease it?

Jesse Flath -- You could lease it for \$245 for 7 years and at the end of that time, you own it.

Chairman Cook -- Do I have to pay for a line to go from the tank to the house?

Jesse Flath -- Yes. You set up the whole thing, probably pay \$300 for the install, the regulators, the line, pressure test.

Chairman Cook -- \$300/year?

Jesse Flath -- No, initial set-up.

Chairman Cook -- The truck that fills that tank, how big of a truck is that? How many gallons does it hold?

Jesse Flath -- 2800.

Chairman Cook -- So it could fill maybe 3 customers.

Ken Astrup, General Manager, Dakota Plains Cooperative

In response to some of the questions, if you take a look of infrastructure this past year, we invested over \$300,000.00 in additional bulk storage to our cooperative to be able to better serve the patrons that we have. In addition to that, last year we pulled product out of 8

states and 2 Canadian provinces so that none of our customers ran out of product. It created a lot of inefficiencies for us.

Steve Ketterling, Farmland Coop, Oakes, ND

To add to Mike's point, I live in Dickey County, if they cherry-pick our county, there's going to be 40-50 miles of customers that we need to serve and they are all rural, farmer, crop-drying kind of customers.

**Zac Smith, North Dakota Association of Rural Cooperatives
(Attachment #8)**

Stacey Dahl, Minnkota Power Cooperative (Attachment #9)

Chairman Cook -- Dennis, can I ask you a question? Mr. Haider, I need an education.

Dennis Haider, Executive Vice President, MDU Resources

Chairman Cook -- I live in Mandan. I got MDU natural gas. Were there any subsidies to get natural gas to Mandan?

Dennis Haider -- No, there were not. The one aspect, as Julie touched on it, was the fact that there are stringent requirements within the regulations as far as how natural gas companies can hook up. And it is to provide or prevent that subsidization. There are clarifications. There are hurdles that have to be met for new customers to come on.

Chairman Cook -- I was 2 blocks away from a territorial line. MDU was able to expand in that area. Did the rest of us pay for the cost of that expansion through our rates?

Dennis Haider -- No, that would have been done under the mechanisms under the regulatory process that we have within our tariffs. We've gotten enough contributions from everybody to take care of that without other customers paying.

Senator Laffen -- Could Nicki come back up? You are only 8 miles away from the line. It would be about a \$3.5 million project so let's assume there's a gap there. Say you have to do \$2 million. You have a thousand people. That's \$2,000.00/house. Have you ever considered a special assessment district?

Nicki Weissman -- No, we have not considered that at this point in time. The fact is we have several other special assessments that have already been in place for other projects. It's going to be a challenge to sell this for another assessment where this is going to be used more in the industrial park than it will be in the residential areas. Our community is an older community.

Senator Triplett -- Can you confirm what a previous witness suggested which is that the pipeline that runs 8 miles from Harvey is fully subscribed and you would not have access to the natural gas?

Nicki Weissman -- Not sure on that.

Senate Finance and Taxation Committee

SB2276

January 28, 2015

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Chairman Cook closed the hearing on SB2276.

2015 SENATE STANDING COMMITTEE MINUTES

Finance and Taxation Committee
Lewis and Clark Room, State Capitol

SB2276
2/2/2015
Job #22996

- Subcommittee
 Conference Committee

Committee Clerk Signature

Alice Grove

Explanation or reason for introduction of bill/resolution:

Minutes:

Chairman Cook opened the committee work on SB2276.

Senator Dotzenrod -- I'm hoping we can get a little time on 2276. I am aware that the REC's are having a statewide conference call sometime in the next day or two to go back over and take a look at this bill and discuss it. They had appeared in opposition to the bill. I think I am developing some information about propane consumption across the state and I would like to have a little time. If I could get a little extra time on this, I've got some work to do on it.

Chairman Cook -- Senator Dotzenrod wants 2 days extra time.

Senator Dotzenrod -- I'll take whatever I can get.

Chairman Cook -- We'll set it aside until next week, at least.

Senator Unruh -- I'm taking a closer look at that one too. I feel that there were a lot of unanswered questions, some specifically that Senator Triplett brought up with that bill.

Chairman Cook -- We will stop right here.

2015 SENATE STANDING COMMITTEE MINUTES

Finance and Taxation Committee
Lewis and Clark Room, State Capitol

SB2276
2/4/2015
Job #23220

- Subcommittee
 Conference Committee

Committee Clerk Signature

Alice Grove

Explanation or reason for introduction of bill/resolution:

Committee work.

Minutes:

Chairman Cook opened the committee work on SB2276, I know you had amendments to turn it into a study. Senator Dotzenrod has a meeting with a group of people and at 4:00pm tomorrow to meet with the governor. I had a note here that he wanted to wait until next week but I think the study is the right solution. We'll come back to it.

2015 SENATE STANDING COMMITTEE MINUTES

Finance and Taxation Committee
Lewis and Clark Room, State Capitol

SB2276
2/9/2015
Job#23520

- Subcommittee
 Conference Committee

Committee Clerk Signature

Alicia Grove

Explanation or reason for introduction of bill/resolution:

Committee work.

Minutes:

Attachment #1, #2

Chairman Cook opened the committee work on SB2276.

Senator Unruh -- Yes, I have amendments. (Attachment #1)

Senator Dotzenrod -- I have amendments too but they are up on my desk.

Chairman Cook -- Let's hand out Senator Unruh's and then you can determine whether to get yours.

Senator Unruh -- The bill in front of us spurred a lot of questions from committee members as we heard from different people during the hearing and left me with some unanswered questions as well. What I decided to do was prepare this amendment which would just provide for a study to take a look at this issue. It would take a look at the communities that are underserved by natural gas in the state of North Dakota and then also look to see where the uncommitted gas would be in those transmission lines that are near those underserved communities. I think Senator Triplett had brought up a very good point that there was a line running by Harvey that quite possibly have all of that gas committed down the line. I thought it would be appropriate for us to have all of that information and take a closer look at this before we decide to go forward with these exemptions.

Chairman Cook -- I also believe that, is it Alliance that has that line? I believe that is also raw gas, of some sort that would need to have processing. Senator Dotzenrod, do you still have amendments that you want to offer?

Senator Dotzenrod -- The amendments I have, which are up at my desk, they take the income tax credit out of the bill, which is on page 2, so that there is no longer the residential homeowner having this income tax, which I think is up to 50%, that would be out. It confines the benefits of the sales tax exemption and probably the property tax one, too, to

only unserved communities. You couldn't use it in a place where there is already service available.

Chairman Cook -- That certainly improves the bill. It doesn't get it to the point where I would vote for it. You are welcome to go get the amendments, if you would like.

Senator Dotzenrod -- I think I might as well go through that effort. I'll go get them. The amendments .01002 for SB2276 (**Attachment #2**)

I know that one of the arguments is that the propane people say we are going to lose customers. I am thinking of the 4 big projects in my corner of the state, the corn sweetener plant at Wahpeton, the ethanol plant at Hankinson, The ADM crushing plant at Enderlin, and the plant at Casselton. None of those 4 projects would have happened without natural gas. They are just projects that need natural gas.

Chairman Cook -- Was natural gas in the community?

Senator Dotzenrod -- Two of them had natural gas: Wahpeton and Casselton. The other two had to hook on to a line. Hankinson had a line close by. Enderlin had to run a line that was 8 or 9 miles.

Chairman Cook -- It got done with no tax incentives?

Senator Dotzenrod -- It got done with no tax incentives, but those projects, all 4 of those, came with a large scale equity fund drive that had about \$40 million in most of those of equity with borrowing up to another \$160 million. When they came, they really competed for other things with the idea that they were going to have, inside their funding, the money to get the natural gas. That corn sweetener plant ended up being a huge competition between Minnesota and North Dakota. After North Dakota got that in the early 90's, the governor of Minnesota gave a talk and he was shaking his head saying we, in Minnesota, offered \$20 million of benefits to get this plant and it got built in North Dakota. They had natural gas in Wahpeton. Hankinson had no residential users. Those were investors that had gone through an equity fund drive and raised money for their projects. They were not the kind of projects that we heard about in our hearing here, where people are finding a possible industrial operator that wants to build a plant and they are going from one community to another looking for a list of things, an industrial site, a natural gas hook-up, and they have the option to shop around. Those 4 that got built in my corner didn't work that way.

Chairman Cook -- There are 4 questions I ask on every bill I see: what's the problem, is it a problem, will this bill solve the problem, and how many problems will this bill create? There is no doubt in my mind that we have a problem here, with underserved. I don't think this is right solution yet at this time. I think there is a better solution. We need to learn a lot more. I think the study is the right way, in my mind.

Senator Dotzenrod -- I'd like to offer the motion to move these amendments and see where that goes. If they are defeated, we can act on the second motion. I move the adoption of amendments to SB2276, #15.0919.01002.

Senator Triplett seconded.

Roll call vote on amendment #01002 on SB2276, 7-0-0.

We have before us SB2276, as amended.

**Senator Dotzenrod withdrew his motion to approve amendment #15.0929.01002.
Senator Triplett withdrew her second.**

Senator Unruh -- I would move amendments #15.0919.01004 to SB2276.

Seconded by Senator Laffen

Senator Dotzenrod -- I think what we will find, during the interim, if we do this study is that there will be conflict between the interest of the propane people who will come in and oppose developing anything that provides natural gas where there is some state participation and public resources used; there may be information that could be developed in a study about what gas lines do we have in the state that are already fully committed.

Chairman Cook -- I would say the propane people are going to be opposed to anything that takes state dollars and creates what they look at as unbalanced marketplace for them that they have to compete against. We have a motion to move the amendment 004.

Roll call vote 6-1-0.

We have before us SB2276, as amended.

Senator Bekkedahl -- I would move the do pass, as amended.

Senator Oehlke seconded.

Roll call vote 7-0-0.

Carrier: Senator Oehlke

February 3, 2015

PROPOSED AMENDMENTS TO SENATE BILL NO. 2276

Page 1, line 1, remove "chapter 57-38, a new"

Page 1, line 2, remove "subdivision to section 57-38-30.3, and a new section to"

Page 1, line 4, remove ", an income tax credit for conversion to a natural gas heating source,"

Page 1, remove lines 23 and 24

Page 2, overstrike lines 1 through 30

Page 3, line 3, replace "**heating**" with "**energy**"

Page 3, line 6, after "system" insert "to reach unserved communities"

Page 5, line 11, replace "as authorized or approved" with "certified"

Page 5, line 12, replace "tax commissioner" with "department of commerce"

Page 5, line 12, replace "chapter 57-38" with "section 1 of this Act"

Page 6, line 21, replace "as authorized or approved" with "certified"

Page 6, line 22, replace "tax commissioner" with "department of commerce"

Page 6, line 22, replace "chapter 57-38" with "section 1 of this Act"

Page 6, line 23, replace "Sections" with "Section"

Page 6, line 23, remove "through 3"

Page 6, line 23, replace "are" with "is"

Page 6, line 24, replace "4" with "2"

Page 6, line 24, replace "5" with "3"

Renumber accordingly

February 3, 2015

TU
2/9/15

PROPOSED AMENDMENTS TO SENATE BILL NO. 2276

Page 1, line 1, after "A BILL" replace the remainder of the bill with "for an Act to provide for a legislative management study related to providing natural gas service to underserved communities in this state.

BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:

SECTION 1. LEGISLATIVE MANAGEMENT STUDY. The legislative management shall consider studying, during the 2015-16 interim, issues related to providing natural gas service to underserved communities in this state from available natural gas not otherwise committed in main gas transmission lines near those underserved communities. The legislative management shall report its findings and recommendations, together with any legislation required to implement the recommendations, to the sixty-fifth legislative assembly."

Renumber accordingly

Date: 2.9.15

Roll Call Vote #: 1

2015 SENATE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO 2276

Senate Finance and Taxation Committee

Subcommittee

Amendment LC# or Description: 15.0919.01002

- Recommendation: Adopt Amendment
 Do Pass Do Not Pass Without Committee Recommendation
 As Amended Rerefer to Appropriations
 Place on Consent Calendar
- Other Actions: Reconsider _____

Motion Made By Sen. Dotzenrod Seconded By Sen. Triplett

Senators	Yes	No	Senators	Yes	No
Chairman Dwight Cook	✓		Senator Jim Dotzenrod	✓	
Vice Chairman Lonnie Laffen	✓		Senator Connie Triplett	✓	
Senator Brad Bekkedahl	✓				
Senator Dave Oehlke	✓				
Senator Jessica Unruh	✓				
			<i>Withdrawn</i>		

Total (Yes) 7 No 0

Absent 0

Floor Assignment _____

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

Date: 2.9.15

Roll Call Vote #: 2

2015 SENATE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO 2276

Senate Finance and Taxation Committee

Subcommittee

Amendment LC# or Description: 15.0919.01004

- Recommendation: Adopt Amendment
- Do Pass Do Not Pass Without Committee Recommendation
- As Amended Rerefer to Appropriations
- Place on Consent Calendar

Other Actions: Reconsider _____

Motion Made By Sen. Unruh Seconded By Sen. Laffen

Senators	Yes	No	Senators	Yes	No
Chairman Dwight Cook	✓		Senator Jim Dotzenrod		✓
Vice Chairman Lonnie Laffen	✓		Senator Connie Triplett	✓	
Senator Brad Bekkedahl	✓				
Senator Dave Oehlke	✓				
Senator Jessica Unruh	✓				

Total (Yes) 6 No 1

Absent 0

Floor Assignment _____

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

Date: 2-9-15

Roll Call Vote #: 3

2015 SENATE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO 2216

Senate Finance and Taxation Committee

Subcommittee

Amendment LC# or Description: 15.0919.01004 Title.02000

Recommendation: Adopt Amendment
 Do Pass Do Not Pass Without Committee Recommendation
 As Amended Rerefer to Appropriations
 Place on Consent Calendar

Other Actions: Reconsider _____

Motion Made By Sen. Bekkedahl Seconded By Sen. Oehlke

Senators	Yes	No	Senators	Yes	No
Chairman Dwight Cook	✓		Senator Jim Dotzenrod	✓	
Vice Chairman Lonnie Laffen	✓		Senator Connie Triplett	✓	
Senator Brad Bekkedahl	✓				
Senator Dave Oehlke	✓				
Senator Jessica Unruh	✓				

Total (Yes) 7 No 0

Absent 0

Floor Assignment Sen. Oehlke

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

REPORT OF STANDING COMMITTEE

SB 2276: Finance and Taxation Committee (Sen. Cook, Chairman) recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** (7 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). SB 2276 was placed on the Sixth order on the calendar.

Page 1, line 1, after "A BILL" replace the remainder of the bill with "for an Act to provide for a legislative management study related to providing natural gas service to underserved communities in this state.

BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:

SECTION 1. LEGISLATIVE MANAGEMENT STUDY. The legislative management shall consider studying, during the 2015-16 interim, issues related to providing natural gas service to underserved communities in this state from available natural gas not otherwise committed in main gas transmission lines near those underserved communities. The legislative management shall report its findings and recommendations, together with any legislation required to implement the recommendations, to the sixty-fifth legislative assembly."

Renumber accordingly

2015 HOUSE ENERGY AND NATURAL RESOURCES

SB 2276

2015 HOUSE STANDING COMMITTEE MINUTES

Energy and Natural Resources Committee Pioneer Room, State Capitol

SB 2276
3/12/2015
24769

- Subcommittee
 Conference Committee

Ammonda Muscha

Explanation or reason for introduction of bill/resolution:

Related to providing natural gas service to underserved communities in this state.

Minutes:

Attachments 1-6

Chairman Porter opens hearings

Senator Jerry Klien: This bill has been turned into a resolution. It has been in discussion for some time and it came from our economic development person. A lot of efforts are made by developers and a drawback is when your community doesn't have natural gas. We wanted to figure out how much this costs and it is expensive. We want to figure out how to get this going and how we can help in any way. Representative Silbernagel has some amendments to add to the discussion.

Representative Silbernagel: Further explains bill and proposed amendment- (testimony 1). These bills is a result of rural community leaders approaching MDU resources and excel energy regarding the possibility of expanding natural gas services to their communities. It is about how to find ways to bring natural gas to some communities. One large fact is that expanding natural gas to communities is an economic challenge. There are many costs to many people and the community. Unserved communities are further away from the lines and the cost is expensive to bring it to them. Without incentives it may not happen. It is unrealistic to think the whole state will convert with this bill but it is the tool to move forward. Infrastructure is a key driver for economic growth. Bottom line is that communities with access to natural gas have greater economic development than communities without it. This infrastructure need is needed by smaller communities to support the creation of new economic development. If you don't have it you are at a disadvantage. This bill, with the amendment, allows cities and counties that may join on a governing board or an authority to establish a bonding authority. So, if a community is interested in bringing natural gas into their community they have a vehicle to put a bonding authority together to finance a fund. That is what the amendment does. I would appreciate the consideration of the amendment and bill.

Chairman Porter: This would make it a double hog house. Could you go into the authority and how it existed up until recently in a more expansive form and how this narrows the scope for the communities understanding.

Representative Silbernagel: I don't know necessarily all that so I would ask if it would be appropriate for Shane Goettle to explain.

Representative Weisze: I'm in support of this bill. The bill has been turned into a study but I wanted to give you some info from an agricultural standpoint. A couple of years ago we had high propane prices and the natural gas was very cheap. We saw a shift in the agriculture sector moving to communities, as far as their product, to elevators that had natural gas because they could dry the commodity at a fraction of what the rest could. It would affect more than just the cities in the residential and commercial. It would also affect the agricultural industry. I think anything we can do to expand the use of natural gas is a good thing.

Senator Murphy District 20: We all listened to a report from HIS and they said there was a lot of potential for small manufacturing capabilities using our resources. Certain parts of the state who don't have access would be good sites for turning out plastics and tires using ethane and others. We are unserved in my district. One has minimal access. I began a discussion with our EDC and the area I live in has been trying to get natural gas in the area for the last 50 years. Now that we have an abundance it would make sense to see what we can do. Not having natural gas irrigates those areas to economic backwater status. We can try to help the other areas without it. It is a rural urban issue. I think everyone wants to see the entire state prosper. If we can power up our state there will be more for everyone to serve.

Shane Gettle MDU Resources: This process began over the summer and in the fall working with other government agencies (PSC, the governor's office, and communities and their leaders). To look at this issue, we have to decide the barriers of getting natural gas to communities. As we got out of the fall someone who suggested that we should get the communities to get some skin in the game in terms of the financing of the infrastructure. We should also consider whether an existing authority or a new created authority should have the power to allow communities to participate in some of the infrastructure costs associated with this. We looked through the code and we found that in the code already, something that was broad enough to cover what we are doing. It is called the commerce authority and was devised in 2011. It ended up never being used, unknown to us, the governor's office had proposed to repeal the commerce authority as part of the tax reform initiative that the governor's task force has put forward. Once we discovered that, and talked with him, he was ok with us taking that part out. The commerce authority was broader than we needed and in the end working with the senate finance and tax, we decided to let that effort move forward and repeal the commerce authority. It was then suggested to us that if we wanted to narrow it and bring it up here, it would be the best way. That is where we are now. What you see are only provisions borrowed from authorities that already exist. We just want to keep this alive to use as all or part of the infrastructure. This is a vehicle for counties and cities to get together under the umbrella of an authority and use that as a means of bringing their resources to the table. I will begin with the definitions. Appointing an authority is then a city or county. We envision this involving more than one city that wants to get hooked inside a

county or counties. An authority is utility, service, authority (USA) established and operated as provided in the chapter. Under the next provision on 19.1-02 then one or more cities or counties can get together and establish its authority and provide natural gas service (it is a very narrow purpose) to unserved or underserved areas within their jurisdiction. It is clear that it is a political subdivision of the state like we have done with other authorities. The next provisions 49-19.103 set up the government structure. Then when you have multiple cities- it sets up the terms and it is simply borrowed from other language we have in other authorities in the code.

Rep. George Keiser: Was there any discussion of any taxing authority?

Gettle: We did not discuss that. We limited it to the idea that cities and counties would participate.

Gettle: Continues to explain amendments... The terms are established there. They would have a board, chairman, vice chairman, secretary, treasurer, and they could appoint an executive director and other officers or agents...etc. The next provision gets to the powers of the appointing authority, which is the cities and counties in the aid of utility service authority. Those cities and counties may lend or donate money or property rights and we figured property rights needed to be included because if there is a right of way that the county may have that it could provide for the purpose of lying down the infrastructure. Provide that up to four mills of the capital projects levy authority of the appointing authority be transferred to the authority, and if the county is levying support of this that there isn't a double levy happening. If the county contributes that, we wouldn't have any residents within this area for example not having to support 8 mills. The cap is four mills. They would also have the authority to cooperate in the planning construction or execution of the project. The we get into the powers of the utility service authority- they connect to who contracts, who MDU sued, and plan, acquire, develop, construct, improve, maintain...etc... all of the things associated with the natural gas lines. The idea is then that they could sell or lease that back to a natural gas service provider. A natural gas service provider would then be the one operating it then and you will see that we are precluding the idea that the municipalities could get into the retail business. They would essentially build the backbone but then turning it over in some manner by an agreement to the natural service provider. The powers here are then literally construed and able the authority to authorize and assist a retail natural gas service provider and establish provide that gas service to the consumers in the jurisdiction of the authority. We deal in the next subdivisions with all the powers an authority generally holds under the law to acquire a lease, gift, convey, employ and procure services of engineers, if there are federal grants or state grants available it would have the ability to receive those, cooperate with the state and other entities to obtain easements in right of way infrastructure and services and then help obtain local, state, and tribal permits necessary to move forward, (10) issues revenue bonds relevant to the development and operation of its assets, (11) create a death service fund and accumulate the fund of sums necessary for the authority to get it with interest for the debt service used to prepare maintenance, adopt and amend and repeal reasonable resolutions and regulations. 49-19.106 is just standard language for revenue bond issuant that are lifted from other provisions in the code. There is not real innovation going on in this part.

Chairman Porter: Who inside of the revenue bonds that carries the obligation of the bond?

Gettle: The bonding authority has the power to issue the bonds and the mills that could be dedicated to this would be at least some assurance to the bond market. The revenue that is coming in would also support the bonds.

Chairman Porter: You're still in the junk category then without any kind of obligation from that political subdivision to use.

Gettle: I don't think there is anything in here that would bar the political subdivision from pledging their good credit.

Rep. George Keiser: These would be revenue bonds. Was there any discussion of creating a revolving loan fund in the bank of ND for these projects? Or to escape the cost of bonding?

Gettle: I think this is only a partial picture of this. That's another piece of the puzzle. The bank of ND loan program was very much considered and I think it is another piece. There are many approaches that need to take place but I think the skin in the game at the local level is a foundational aspect of this to get this done. They need to demonstrate that they want this. Consider these amendments.

Chairman Porter: Is it your intent that section 1 becomes section 2?

Gettle: Our intention is that the study would remain and that becomes section 2.

Chairman Porter: I want to get your intention.

Gettle: Our intention is that the study remains so if this doesn't do that it was some miscommunication.

Rep. Curt Hofstad: I'm confused at how the boundaries of the authority are established. How do you establish the boundaries?

Gettle: I would point you to 49-19.1-04 under section 2 in the last sentence- it says any levy by the county under this subsection applies only to property in that portion of county which is within the authority. We thought there would be portions of the county that would not be a part of this if it doesn't want to. We left it up to the county not to include the whole county in the authority if it chose not to. We do anticipate that it will participate as a whole city, but if the county participates it's not necessarily the whole county. Under the powers you see the authority would have a power to operate outside of its jurisdiction. That would be necessary because they line they want to connect to may require them to property in the neighboring county who isn't part of the authority or they may have to cross state line in the eastern part of the state. They could acquire the easements outside of the jurisdiction that are necessary for the line and they would have that power to do so.

Rep. Curt Hofstad: Do you have the ability to tax? If there is a default on the bonds you have the ability to go back and capture them.

Gettle: That's correct. The political subdivisions that created the authority would stand in place of the bonds to make good on them if there was a default. There are provisions in here regarding to move forward with those, there has to be a vote of the elected bodies that form this authority or in the alternative a vote of the electors.

Rep. George Keiser: Typically there are a couple of options? They can pay the revenue bonds or go back to the authority and they can pay or they have a provision where they take control of the infrastructure and own it.

Gettle: yes.

Rep. Roger Brabandt: How did this get started?

Gettle: This has been going on a long time. Communities may not be able to bid on a project because it requires natural gas. Most recently it got more serious, and having an abundance of natural gas in the state brought it back. They approached MDU and Excell Energy and so we started a working group to come forward with proposals.

Rep. Roger Brabandt: Most of these cities have propane?

Gettle: Yes. Some may be using electricity too.

Rep. George Keiser: Page 3 subsection 2, relative to bond issues sold at private or public sale. The limit on public sale the average net interest costs cannot exceed 12% where as a private sale there is no sealing on that instrument? Why would you do that?

Gettle: All I can tell you is when Jon Walstad said I lifted these provisions and there haven't been much policy thinking gone into this. He just borrowed from the other areas of the code that have already had this policy discussion. It was also interesting- when I had this discussion on section one with John. It was about how bonds may not be sold at less than 98% of par. I assume that means that there is a little bit of authority to sell them at a discount but not much.

Julie Fedorchak, Public Service Commission: Speaking on her own behalf- (testimony #2)

Rep. Roger Brabandt: What's the largest city currently not hooked up to natural gas in the state?

Fedorchak: Beulah.

Representative Brabandt: There's natural gas in all the major cities though.

Fedorchak: Correct

Nicky Weisman, Executive Director Harvey Job Development Authority and Economic Development: (testimony 3)

Blake Crosby, Executive Director ND League of Cities: (testimony 4)

Anne Hansen, Communications Specialist-Economic Development Association of ND:
(testimony 5)

Kathy Aas: I represent Excell Energy and we just want to show our support as we were part of the group that looked into this. It was our group that came forward with questions.

OPPOSITION:

Mike Ruud, ND Propane Gas Association (testimony 6)

Chairman Porter: Closed the hearing on 2276

2015 HOUSE STANDING COMMITTEE MINUTES

Energy and Natural Resources Committee
Pioneer Room, State Capitol

SB 2276
3/26/2015
Job # 25501

- Subcommittee
 Conference Committee

Committee Clerk Signature



Explanation or reason for introduction of bill/resolution:

Related to providing natural gas service to underserved communities in this state.

Minutes:

Attachments 0

Chairman Porter opens discussion; briefly reviews bill.

Rep. Mike Lefor: I move a Do Pass.

Rep. Curt Hofstad: Second.

Vote: Yes 13, No 0, Absent 0

Rep. Mike Lefor: Carrier.

Chairman Porter closes hearing.

Date: 3/26/15
Roll Call Vote #: 1

2015 HOUSE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. SB 2276

House Energy and Natural Resources Committee

Subcommittee

Amendment LC# or Description: _____

Recommendation: Adopt Amendment
 Do Pass Do Not Pass Without Committee Recommendation
 As Amended Rerefer to Appropriations
 Place on Consent Calendar
Other Actions: Reconsider _____

Motion Made By Rep Lefor Seconded By Rep Hofstad

Representatives	Yes	No	Representatives	Yes	No
Chairman Porter	✓		Rep Hunskor	✓	
Vice Chairman Damschen	✓		Rep Mock	✓	
Rep D Anderson	✓		Rep Muscha	✓	
Rep Brabandt	✓				
Rep Devlin	✓				
Rep Froseth	✓				
Rep Hofstad	✓				
Rep Keiser	✓				
Rep Lefor	✓				
Rep Nathe	✓				

Total (Yes) 13 No 0

Absent 0

Floor Assignment Rep Lefor

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

REPORT OF STANDING COMMITTEE

SB 2276, as engrossed: Energy and Natural Resources Committee (Rep. Porter, Chairman) recommends DO PASS (13 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). Engrossed SB 2276 was placed on the Fourteenth order on the calendar.

2015 TESTIMONY

SB 2276

#1
1-28-15

Natural Gas Incentive Bill Summary

SB 2276

Section 1: Property tax exemption –page 1

- Ten year exemption
- Must be certified by Dept. of Commerce as extending to unserved community
- Drafted with operative cost language rather than value language at direction of tax department
 - No impact to state for school formula, not added to county values

Sections 2 and 3: Consumer income tax credit—page 1-2

- 50% of conversion costs with 10 year carry forward
- Must own property, not lease
- Not for new construction

Section 4: Sales tax exemption—page 3

- Page 3, lines 25-29 provide the definition of natural gas distribution/transmission system for purposes of the sales and use tax exemption

Section 5: Use Tax exemption—page 3-6

- Language on page 5, line 10 and page 6, line 20, provide the exemption

Section 6: Effective dates—page 6

- Property tax starting Jan 1, 2015
- Income starting Jan 1, 2015
- Sales and Use starting after June 30, 2015

Amendment: clarifies the use of natural gas for energy purposes. “Heating” as used throughout the original draft caused some concerns for water heaters and stoves, which use natural gas for heat, but perhaps not for “heating”. Also, clarifies that motor vehicle conversions are not covered by exemption.

1.2
SB2276

Prepared for the
Senate Finance and
Taxation Committee
January 22, 2015

PROPOSED AMENDMENTS TO SENATE BILL NO. 2276

Page 1, line 4, replace "heating" with "energy"

Page 2, line 5, replace "heating" with "energy"

Page 2, line 5, after "source" insert "for the taxpayer's residential or commercial property"

Page 2, line 20, replace "heating" with "energy"

Page 2, line 21, replace "heating" with "energy"

Page 2, line 23, after "residence" insert "or costs incurred to convert a motor vehicle from using motor vehicle fuels or special fuels to the use of natural gas as the primary fuel source"

Page 2, line 25, remove "heating"

Page 2, line 25, after "source" insert "of energy"

Page 2, line 26, remove "heating"

Page 2, line 27, after "operational" insert "as the primary energy source"

Page 2, line 30, replace "chapter 57-38" to "Section 2 of this Act."

Page 3, line 3, replace "heating" with "energy"

Renumber accordingly

#2
SB 2276
L-28-15

North Dakota Nice and the Propane Shortage 1/25/2014

It is 3:33 in the morning and I am sitting at the table with my sweatshirt on and hood up, worried about some of my fellow North Dakotans staying warm for the next couple of months. We have hit a nation-wide shortage of propane and prices are jumping exponentially. This is due to an unhappy confluence of events unprecedented in my seven decades, but a couple of the exacerbating circumstances happen often - the drying of our corn crop used more propane than usual and the cold weather came and stayed in North Dakota with a vengeance. What is rarer is that the cold extended farther into the USA than usual and is not letting go while at the same time we produced so much propane due to fracking oil shale formations that our prices dropped enough to make exporting propane profitable. We dropped our 5% quota on exporting propane this last year and current estimates have us exporting approximately 30% of our production. Put them all together and we have prices that in a few weeks have roughly quadrupled. I expect them to continue to climb.

How to deal with this problem? Common sense will dictate that we users of propane will turn thermostats down at home, schools, businesses and churches. Mine is now at 65 degrees and my wife just looked at me when I proposed further tweaks down the dial. We know about banking snow and insulation where we live, about closing off unessential rooms, but these and other measures may not be enough to get us through these next few months. We are going to have to use North Dakota Nice. That means taking a deep breath when we pay or go into debt to heat our spaces. It means not shooting the messenger when he comes to put some propane in your tank, not ranting at the manager who may not have found your driver some to put in the tank. It means looking out for your neighbors, especially the elderly and poorer folks with children. If we run out, we may have to temporarily consider taking people into our homes as we did that April when the big blizzard hit, the power went out for a week and then Grand Forks was evacuated. Now my tank is half full and my small woodstove needs fuel as well.

North Dakota nice evolved here because our savage weather causes us to depend on one another from time to time. Our sparse population also contributes to this behavior; it is hard to live rudely with each other when we are the only people we see day after day. If you want to blame someone for this shortage, try Mother Nature. This is a very short-lived situation, but it is upon us and many who do not count on propane to heat may not know about it. Today I call upon our Governors and Congress to ask our nation's President to consider temporarily suspending exports by executive order if indeed that surplus can instead be efficiently distributed into the network for the next month or two. For 22 states, the US Department of Transportation has already suspended time limitations propane truck drivers can stay on the road. Tennessee has schools that are closing because residences are a priority, Indiana reports that some customers are hostile. Hoosiers, don't ya know.

For the curious, the ND Pipeline Authority informed me that a rough estimate of the cost of a natural gas pipeline is about \$75,000 per inch per mile. That means, for instance, that a four inch pipe costs about \$300,000 per mile. That is one of the major reasons that small towns not near our larger cities remain unserved by natural gas pipelines. The cost/benefit analysis is not adequate at this time, although there have been requests for natural gas in and since the 1930's. In ND it is doubly frustrating because we are flaring enormous amounts of natural gas (of which propane is a byproduct) because we permit drilling before the capacity to contain it is built. We are in the dead of winter and the forecast is not good. Patiently help each other get through this, please. In a few hours I am going out to try and start my chain saw.

Phil Murphy, State Senator, District 20, Portland, ND

**Testimony of Gary Nysveen, Chairman
Traill County Economic Development Commission
In Support of SB 2276
January 28, 2015**

Chairman Cook and the members of the Senate Finance and Taxation committee,

I'm Gary Nysveen, chairman of the Traill County Economic Development Commission (TCEDC), North Dakota resident and owner of an HVAC company in Hillsboro. It is in my resident capacity that I am testifying before you today.

Traill County EDC represents 11 cities in eastern North Dakota between Grand Forks and Fargo. The primary purpose of this organization is to support the creation of new jobs and assist in the diversification of North Dakota's economy. At this time, none of the cities in Traill County have infrastructure for natural gas due to the high cost of infrastructure development.

In the last several years, Traill County EDC has been successful at attracting out-of-state primary sector companies to visit our communities, but in 2013 alone, three of those companies stated they were not willing to locate in Traill County due to the lack of natural gas. Two of the three companies ultimately located just to the east of us in Minnesota.

The infrastructure for natural gas, along with our other high quality infrastructure including Interstate 29 and North Dakota Highway 200, are critical pieces to the continued growth and development in our area.

As an individual dedicated to economic development in North Dakota, I ask you to support Senate Bill 2276 to assist our rural areas with these projects.

These investments will result in continued growth and diversification of our state's economy. Thank you for the opportunity to address the committee. I would be happy to answer your questions.

#4

SB 2276
Senate Finance and Taxation
January 28, 2015
Mark Nisbet, Xcel Energy

Chairman Cook, members of the committee, I'm Mark Nisbet, here to testify in support of this bill on behalf of Xcel Energy. Dennis Haider from MDU Resources Group is also in attendance today. As representatives of the two utilities providing natural gas in the state of North Dakota, we will answer any questions you might have about natural gas delivery.

This bill is the result of communities approaching MDU Resources Group and Xcel Energy regarding the possibility of expanding natural gas service. Over the past year, community stakeholders and the utilities met multiple times to gauge continuing interest and work toward understanding the economic hurdles of expanding service. With each meeting, the stakeholders considered the data and challenges, but the stakeholders encouraged the utilities to move forward. You will hear from many of them today. This is a collaborative effort, and we, as utilities, are here to support this bill and our partners.

Expanding natural gas service to a new community poses economic challenges. There are interconnection costs to existing pipelines, costs to build lines to reach the community, costs of building a distribution system within a community, and the cost to the consumer to convert equipment for natural gas use. This bill proposes incentives to make each of these costs more feasible. Without these incentives, expansion is very unlikely to happen.

Expansion to any community requires support by the community to make the expansion possible. The property tax exemption proposed in this bill is one way for a community to provide support for expansion. There are other, non-legislative ways a community will likely use to help expansion occur. For instance, Xcel Energy expanded to Barnesville, MN, in the spring of 2014. In order to make the expansion economically feasible, customers in Barnesville agreed to a new area service charge of \$25 per month. Even with the community commitment to the new area service charge, Xcel Energy took a risk that the customer saturation rate would make the project feasible over a few years as customers convert on their own timetable. In North Dakota, unserved communities are further away from existing pipelines. Even with new area service charges, the cost to bring gas to new communities is prohibitive without these proposed incentives, but if the state allows communities to show their buy-in through property tax exemptions, the possibility is a step closer.

You have likely heard from propane representatives that this bill is targeting them. Growth in natural gas service does not necessarily mean the propane market will shrink. When growth occurs, there are more opportunities for all industries.

4.2
SR 2276
1-28-15

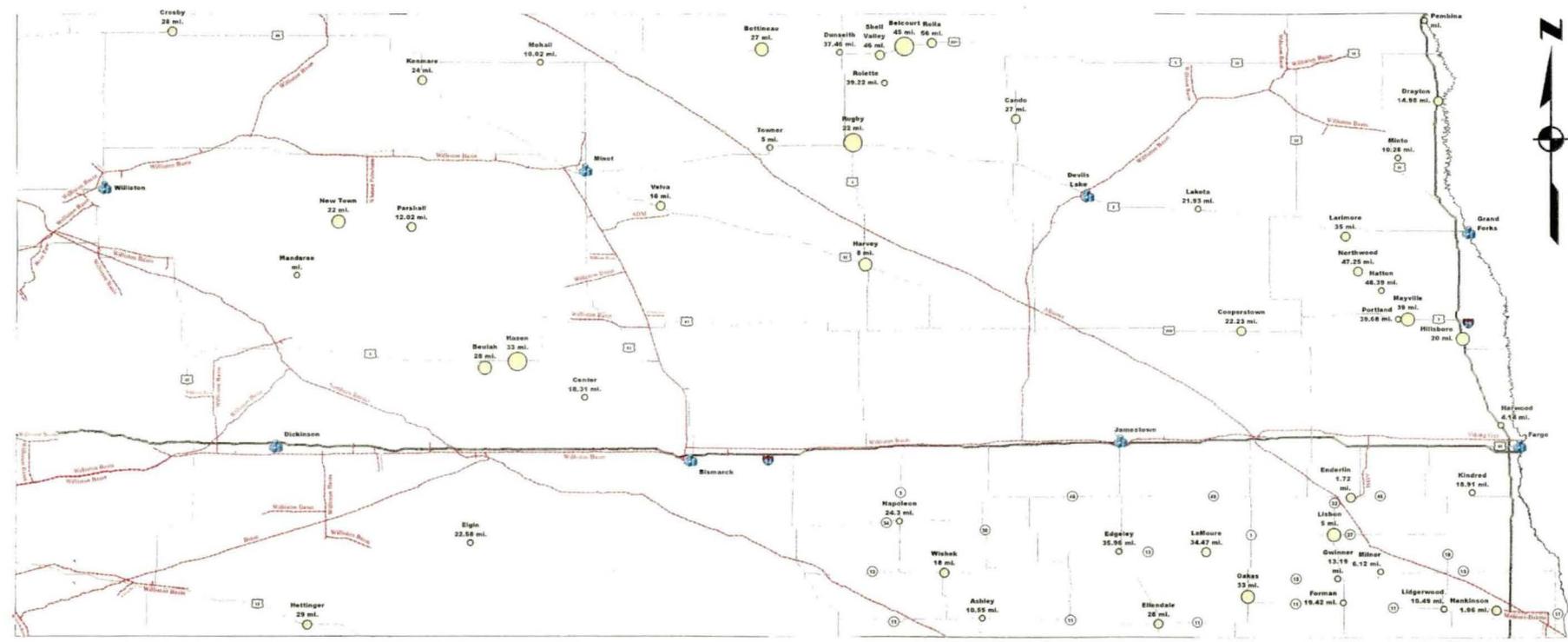
I believe that this bill is meant to provide opportunity for communities to benefit from the plentiful and reasonably priced natural gas. The availability of natural gas has made a dramatic difference in production costs for manufacturers, processors, and homeowners alike. It is realistic that new growth will occur in communities as natural gas becomes available, because manufacturers locate where natural gas is available. These incentives merely allow formerly overlooked areas to be considered for potential growth

Attached to this testimony is a map of communities without natural gas service. These communities struggle to attract large economic growth opportunities because site selectors often take communities without natural gas off their list for expansion.

We believe this bill is necessary for communities who want to establish new natural gas service. At a time when some economic sectors are cooling, it makes sense to pass incentives for growth where that growth can add to the economic health of North Dakota's communities. We urge a do pass recommendation, and with that, I'll stand for any questions.

4.3
SP2276
1-28-15

ND Towns Without Gas Services



Target Cities
Population

- 501 - 800
- 801 - 1500
- 1501 - 2250
- 2251 - 3121

— Pipelines



5
1-28-15

Mr. Chairman and Committee members,

I am Nicki Weissman Executive Director for the Harvey Job Development Authority /and Economic Development.

I am here to testify for Senate Bill 2276.

The reason I am testifying is because Harvey doesn't have Natural gas. It would provide a more cost efficient method of a heating source.

The JDA doesn't have the same advantage as other communities that have natural gas.

I talked with the ND Department of Commerce yesterday and a lot of their proposals the number one through four top questions is do you have natural gas in your community. Answering the questions NO, Harvey doesn't have a change of getting the project.

I have had industrial projects come to Harvey and one of their first questions were do you have Natural Gas, usually I don't hear from them again.

The residents of Harvey would be happy with a reduction of their heating costs.

I would like to encourage the committee to vote favorable on Senate Bill 2276. We would like to be on an equal playing field.

Thank you for your time –

Nicki Weissman
Harvey Job Development Authority/ Economic Development



#6

**Testimony of Dana Bohn, Executive Director
Economic Development Association of North Dakota
In Support of SB 2276
January 28, 2015**

Chairman Cook and members of the Senate Finance and Taxation Committee, my name is Dana Bohn and I'm the executive director of the Economic Development Association of North Dakota (EDND). On behalf of EDND, I would like to express our support for SB 2276, which creates incentives for delivering natural gas to smaller communities.

EDND represents more than 80 state economic development organizations on the front line of economic development efforts throughout North Dakota. The primary purpose of the organization is to support the creation of new wealth and the diversification of North Dakota's economy.

Infrastructure is a key driver of economic growth, and essential infrastructure is critically important to the health and vitality of North Dakota in this time of tremendous growth. EDND supports judicious and progressive investment strategies, such as this, that help maintain existing infrastructure and create infrastructure for future growth.

EDND's Small Communities Sub-Committee met November 18 in Grand Forks to identify growth-related challenges facing North Dakota communities with a population of 5,000 or less. Getting natural gas to smaller communities was one of the top issues the group identified.

Simply put, communities with access to natural gas have greater economic development opportunities than communities without it. This basic infrastructure is needed by smaller communities to support the creation of new wealth and provide diversification opportunities. Natural gas is a resource communities must have in order to attract any significant manufacturing opportunity. National site selectors have reported they won't even consider a community for a manufacturing project if it does not have natural gas service. For instance, Christopher D. Lloyd, a national site selector and senior vice president of infrastructure and economic development for McGuireWoods Consulting, LLC, says most manufacturing projects, except for light assembly, will require access to natural gas for a site to be viable.

It is for these reasons EDND urges the committee's support of SB 2276.



North Dakota Propane Gas Association

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1

Testimony SB 2276

January 28, 2015 – Senate Finance and Tax

Chairman Cook and members of the Committee:

For the record, my name is Mike Rud. I'm the Executive Director of the North Dakota Propane Association. On behalf of our association's 130 members and thousands of workers they employ, many of which might serve your homes and businesses, I'm here urging a **"DO NOT PASS" on SB 2276.**

Let me begin this morning by stating very clearly NDPGA is pro-natural gas. Nearly all – if not all – propane delivered to member customers across North Dakota comes directly from natural gas production. The ongoing production of natural gas means an increased production of propane nationwide. These are terrific moves for North Dakota and our nation when it comes to energy security.

That said, SB 2276, the natural gas subsidization legislation before you seriously threatens the livelihoods of propane companies across rural North Dakota, while jeopardizing several thousand industry jobs at the same time. I think North Dakota currently has about 350,000 homes in the state. Propane marketers provide service to just over 40,000 of these residences. That's less than 15% of the homes in ND. As you know, a majority of these homes lie in rural areas.

The language in this bill refers to unserved areas of the state. How do you determine unserved area? After all, propane has been a reliable heating source in rural ND for many years. Millions of private business dollars have been spent by propane

#7.2
SB 2276
1-28-15

marketers to meet the needs of rural residents and small communities. To my knowledge, the state's propane industry has never asked for legislation to expand propane's customer base. It is disappointing that the major utilities - that already have 80% of all energy customers - think they should receive special treatment so they can obtain more customers at the expense of ND small businesses. We ask for a level playing field - not special treatment.

I think natural gas utilities in our state already have the ability to expand their natural gas lines to rural areas. In fact, the natural gas utilities are already expanding to areas where there are propane customers and the utilities have been doing so for quite some time. Like any business, if it is cost effective for them to expand, then they should do so. However, when it is not cost effective to do something, then it should not be done.

Unfortunately, SB 2276 would enable natural gas utilities to expand in areas where it is not cost effective by requiring **all North Dakota Taxpayers** to bear the expansion costs for the benefit of a few. The reason for this legislation is that, clearly, expanding natural gas lines to all parts of ND cannot be done effectively without subsidies for natural gas companies. Again, many taxpayers will receive **no benefits** from the addition of new customers, yet will be forced to pay for the subsidized expansions.

As NDPGA interprets this bill, natural gas companies can expand to any part of our state where there is no existing natural gas infrastructure. No restrictions, no limitations!

I have heard discussion in the halls about how ND has always backed fledging industries when they've tried to get up and running in ND. In fact, the railroad was cited as one such entity. But, I would argue these are large and powerful businesses.

Successful operations are more than capable of tackling the financial burden of expansion on their own.

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I've also heard the argument rural ND is losing out on economic development opportunities because of a lack of natural gas distribution systems. Having served on a rural economic development board, I can say with full confidence the energy source for a business is only one piece of the puzzle when it comes to expansion or relocation of businesses to a rural community.

ND propane marketers have invested millions of dollars in equipment in the rural areas to make sure homeowners and businesses have an efficient, safe and affordable source of energy. NDPGA members are by no means afraid of competition as long as all competitors are on equal footing. Let free enterprise determine the consumer choice of a primary heating source, not the government.

Again NDPGA seeks a DO NOT PASS on SB 2276.



North Dakota Association of Rural Electric Cooperatives
3201 Nygren Drive NW • P.O. Box 727 • Mandan, ND 58554-0727

#8
1-28-15

Phone: 701.663.6501 or 800.234.0518
Fax: 701.663.3745 • www.ndarec.com

To: Senate Finance and Taxation Committee
Sen. Dwight Cook, chairman

From: Dennis Hill, executive vice president, NDAREC
Zac Smith, director of communications and government relations, NDAREC

RE: Opposition to SB 2276

Mr. Chairman and members of the committee,

My name is Zac Smith, director of communications and government relations, with the North Dakota Association of Rural Electric Cooperatives (NDAREC). Our organization represents 16 distribution cooperatives and five generation and transmission cooperatives operating in North Dakota. Our 16 distribution cooperatives provide electric power to some 250,000 North Dakotans. Collectively, our member cooperatives provide more than half of all the retail electric power sold in the state. On behalf of NDAREC, I rise to oppose SB 2276 which provides a number of tax incentives for providing natural gas to “unserved” communities. I have also included with my written testimony, the testimony in opposition of Senate Bill 2276 from Stacy Dahl, Manager of External Affairs for Minnkota Power Cooperative.

Our membership does not oppose the ability of natural gas utilities to extend natural gas service to rural communities. However, we do oppose SB 2276 as new public policy that provides natural gas an unfair advantage among all other fuel sources and does so at the expense of all North Dakota taxpayers.

The policy that SB 2276 would put in place would likely displace many existing fuel sources in these communities that have offered their services without comparable state paid incentives. Our distribution cooperative members are concerned that they could lose millions of dollars in sales each year because of this state-paid incentive to switch fuels.

#8.2
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1-28-15

Natural gas utilities are free to extend natural gas service currently without the incentives provided by SB 2276. It is our opinion that this decision should be left to the individual companies without state intervention or incentive. We believe that providing a subsidy to one fuel source at the retail level above all others sets a dangerous precedent, creating a policy that chooses winning and losing fuel sources and artificially influencing consumer retail choice as well as business cost-benefit analysis.

I thank the Committee for its time and consideration and would urge a Do Not Pass recommendation on Senate Bill 2276. I would be happy to answer any questions you may have.

North Dakota Senate Bill 2276

 Stacey Dahl – Minnkota Power Cooperative

Senate Tax & Finance Committee

January 28, 2015

Good Morning Chairman Cook and Members of the Senate Tax & Finance Committee,

I work as Manager of External Affairs for Minnkota Power Cooperative, based in Grand Forks. Minnkota is a non-profit electricity generation and transmission cooperative and is the sole supplier of electricity for eleven (11) non-profit cooperative distribution companies and the operating agent for Northern Municipal Power Agency which serves twelve (12) small cities in eastern North Dakota and northwest Minnesota. Minnkota serves approximately 130,000 customers over a 35,000 square mile area.

Although I am unable to attend the hearing this morning due to another commitment, I thank you for the opportunity to relay Minnkota's opposition to SB 2276. As my colleagues will testify this morning, SB 2276 is ill-conceived public policy. The gas utility companies that seek these tax incentives are not presently prohibited from serving the cities they cite as examples of unserved communities. With natural gas prices at historic lows, in fact it may be attractive to some communities to make the conversion. If there are specific cities that wish to make the conversion, then they may certainly offer their own incentives to the gas companies for the infrastructure costs, but it shouldn't be a cost born by the taxpayers of North Dakota. To enact this policy means that taxpayers will be subsidizing one specific fuel choice for end-user customers in select communities within the state, an entirely new departure of statewide energy policy. It's important to note that a provision similar to this, when brought to the ND Empower Commission, failed to gain the committee's support.

Thank you for your consideration, and we urge a **Do Not Pass** on SB 2276.

15.0919.01004
Title.

Prepared by the Legislative Council staff for
Senator Unruh

February 3, 2015

#1
2.9.15

PROPOSED AMENDMENTS TO SENATE BILL NO. 2276

Page 1, line 1, after "A BILL" replace the remainder of the bill with "for an Act to provide for a legislative management study related to providing natural gas service to underserved communities in this state.

BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:

SECTION 1. LEGISLATIVE MANAGEMENT STUDY. The legislative management shall consider studying, during the 2015-16 interim, issues related to providing natural gas service to underserved communities in this state from available natural gas not otherwise committed in main gas transmission lines near those underserved communities. The legislative management shall report its findings and recommendations, together with any legislation required to implement the recommendations, to the sixty-fifth legislative assembly."

Renumber accordingly

February 3, 2015

#2
2.9.15

PROPOSED AMENDMENTS TO SENATE BILL NO. 2276

- Page 1, line 1, remove "chapter 57-38, a new"
 - Page 1, line 2, remove "subdivision to section 57-38-30.3, and a new section to"
 - Page 1, line 4, remove ", an income tax credit for conversion to a natural gas heating source,"
 - Page 1, remove lines 23 and 24
 - Page 2, overstrike lines 1 through 30
 - Page 3, line 3, replace "heating" with "energy"
 - Page 3, line 6, after "system" insert "to reach unserved communities"
 - Page 5, line 11, replace "as authorized or approved" with "certified"
 - Page 5, line 12, replace "tax commissioner" with "department of commerce"
 - Page 5, line 12, replace "chapter 57-38" with "section 1 of this Act"
 - Page 6, line 21, replace "as authorized or approved" with "certified"
 - Page 6, line 22, replace "tax commissioner" with "department of commerce"
 - Page 6, line 22, replace "chapter 57-38" with "section 1 of this Act"
 - Page 6, line 23, replace "Sections" with "Section"
 - Page 6, line 23, remove "through 3"
 - Page 6, line 23, replace "are" with "is"
 - Page 6, line 24, replace "4" with "2"
 - Page 6, line 24, replace "5" with "3"
- Renumber accordingly

PROPOSED AMENDMENTS TO ENGROSSED SENATE BILL NO. 2276

Page 1, line 1, after "Act" insert "to create and enact chapter 49-19.1 of the North Dakota Century Code, relating to establishing a utility service authority to assist in providing natural gas service to unserved or underserved areas; and"

Page 1, line 2, after "to" insert "unserved or"

Page 1, after line 3, insert:

"SECTION 1. Chapter 49-19.1 of the North Dakota Century Code is created and enacted as follows:

49-19.1-01. Definitions.

For purposes of this chapter:

1. "Appointing authorities" means the governing bodies of cities or counties which have joined in establishing an authority.
2. "Authority" means a utility service authority established and operated as provided in this chapter.

49-19.1-02. Utility service authority.

One or more cities or counties may establish a utility service authority to assist in providing natural gas service to unserved or underserved areas within their jurisdiction. A utility service authority established under this chapter is a political subdivision of this state.

49-19.1-03. Commissioners - Compensation - Officers.

1. The power of a utility service authority is vested in its commissioners. An authority may adopt and amend rules for its operation subject to the agreement of the participating political subdivisions and this chapter.
2. The appointing authorities shall appoint an authority board of commissioners of at least five members for four-year terms and establish their initial terms so that a minority of terms will expire each year. The appointing authorities shall establish the rate of compensation and expense reimbursement for commissioners.
3. The commissioners of an authority shall elect a chairman, a vice chairman, and a secretary-treasurer from among the commissioners.
4. The commissioners of an authority may appoint or elect an executive director, and any other officers, agents, and employees determined to be necessary and shall determine their qualifications, duties, and compensation. The commissioners of an authority may delegate powers and duties of the authority to one or more of its officers, agents, or employees.

49-19.1-04. Powers of appointing authority in aid of a utility service authority.

An appointing authority may:

1. Lend or donate money or property rights to the authority.
2. Provide that funds from up to four mills of the capital projects levy authority of the appointing authority be transferred to the authority. If the county is levying for support of an authority under this section, a city within the county may not levy for that purpose. Any levy by the county under this subsection applies only to property in that portion of the county which is within the authority.
3. Cooperate with the authority in the planning, construction, or execution of a project.

49-19.1-05. Powers of a utility service authority.

A utility service authority may:

1. Execute contracts and other instruments.
2. Sue and be sued.
3. Plan, acquire, develop, construct, improve, maintain, equip, interconnect, lease, and sell natural gas pipelines and necessary associated property to assist in providing natural gas service to unserved or underserved areas within its jurisdiction. A lease or sale of a natural gas pipeline owned by an authority may only be to a natural gas service provider. Nothing in this chapter may be interpreted to authorize an authority to directly operate or provide retail service through a natural gas pipeline. However, the powers of an authority must be liberally construed to enable the authority to authorize and assist a retail natural gas service provider to establish and provide retail natural gas service to consumers within the jurisdiction of the authority.
4. Acquire by lease, purchase, gift, or other lawful means and to hold in its name for its use and control both real and personal property and easements and rights of way within or without the limits of the authority.
5. Convey, sell, dispose of, or lease personal and real property.
6. Employ or procure services of engineers, attorneys, technical experts, and other persons to assist, advise, and act for the authority.
7. Accept, receive, disburse, and expend federal, state, local, and other moneys, public or private, made available by grant or loan.
8. Cooperate and contract with this state or other governmental or tribal entity to obtain easements and rights of way, infrastructure, and services.
9. Obtain local, state, tribal, and federal permits necessary to develop resources and infrastructure authorized by this chapter.

10. Issue revenue bonds relative to the development and operation of its assets under section 49-19.1-05.
11. Create a debt service fund and accumulate in the fund a sum determined necessary by the authority, together with interest on that sum, for the debt service, use, repair, maintenance, and capital outlays of the authority.
12. Adopt, amend, and repeal such reasonable resolutions, regulations, and orders as necessary for the management and use of a project owned by the authority.

49-19.1-06. Revenue bond issuance.

1. An authority may issue its revenue bonds for any of its authorized purposes, in such form and upon such terms as it may determine, payable out of any revenues of the authority, including grants or contributions from the federal government or other sources, which bonds may be sold at not less than ninety-eight percent of par plus the interest accrued on the bonds to the date of the delivery.
2. Bond issues sold at private sale must bear interest at a rate or rates and be sold at a price resulting in an average net interest cost not exceeding twelve percent per annum. There is no interest rate ceiling on those issues sold at public sale or to the state of North Dakota or any of its agencies or instrumentalities.
3. Any bonds issued pursuant to this chapter by an authority, or by a governing body exercising the powers of the authority, are payable, as to principal and interest, solely from revenues of the authority, and must so state on their face, but if any such issue of bonds constitutes an indebtedness within the meaning of any constitutional or statutory debt limitation or restriction, each bond of the issue is an equally valid and binding special obligation of the authority or appointing authority, as the case may be, in accordance with its terms, in an amount proportionate to the total amount of the issue which is within the limitation or restriction. Neither the commissioners of an authority nor the governing body of an appointing authority nor any person executing such bonds is liable personally thereon by reason of the issuance thereof, except to the extent that the bonds, if constituting an indebtedness, exceed any applicable limitation or restriction.
4. If any of the commissioners or officers of an authority or municipality whose signatures appear on any bonds or coupons cease to be such commissioners or officers after authorization but before the delivery of the bonds, the signature is valid and sufficient for all purposes, the same as if the commissioners or officers had remained in office until delivery. Any provision of any law to the contrary notwithstanding, any bonds issued pursuant to this chapter are fully negotiable.
5. Any bond reciting in substance that it has been issued by the authority or appointing authority under this chapter and for purposes authorized by this chapter is conclusively deemed, in any suit, action, or proceeding involving the validity or enforceability of the bond or the security therefor, to have been issued pursuant to this chapter and for such purposes.

6. Bonds issued by an authority or appointing authority under this chapter are declared to be issued for an essential public and governmental purpose and the bonds and their interest and income are exempt from all taxes.
7. For the security of any bonds under this chapter, the authority or appointing authority may by resolution make and enter any covenant, agreement, or indenture authorized to be made as security for revenue bonds issued under chapter 40-35. The sums required from time to time to pay principal and interest and to create and maintain a reserve for the bonds may be made payable from any and all revenues referred to in this chapter, prior to the payment of current costs of operation and maintenance of the facilities.
8. Revenue bonds issued by an authority must include the commitment of the appointing authority for the payment of any deficiency in authority funds to pay principal or interest due for revenue bonds as provided in this subsection. If that commitment has been made, the governing body of the appointing authority shall levy a general tax upon all of the taxable property in the jurisdiction of the appointing authority for the payment of any deficiency in authority funds to pay principal or interest due for revenue bonds issued under this chapter and made payable from revenues of the authority. The governing body of the appointing authority may levy a general tax upon all of the taxable property in the jurisdiction of the appointing authority for the payment of any deficiency that is likely to occur within one year in authority funds to pay principal or interest due for revenue bonds issued under this chapter and made payable from revenues of the authority. The taxes levied by the appointing authority under this subsection are not subject to any limitation of rate or amount applicable to other taxes. The commitment of the appointing authority and the issuance of the bonds must be approved by a majority vote of the governing body of each appointing authority involved or, upon placement of the question on the ballot at a primary, general, or special election, by approval of a majority of the qualified electors of the appointing authorities voting on the question."

Page 1, line 5, after the second "to" insert "unserved or"

Page 1, line 7, after "those" insert "unserved or"

Renumber accordingly

SB 2276

3.12.15

2.1

#2

**Testimony from Public Service Commissioner Julie Fedorchak
House Energy and Natural Resources
March 12, 2015
SB 2276**

Good afternoon. Members of the House Energy and Natural Resources committee I'm Julie Fedorchak, chair of the Public Service Commission and I'm here today speaking on my own behalf in support of SB 2276.

I participated in the working group of legislators, community leaders, economic development folks, utilities and others who studied this issue during the last year. It wasn't an official legislative study, but we did examine the issue rather thoroughly.

North Dakota has 89 communities connected to natural gas with an estimated households served of 130,000. The Natural Gas service providers are MDU and Xcel energy.

I support expanding natural gas to unserved communities for three reasons:

1. Natural gas is good for consumers. On average consumers using natural gas for home heating and hot water save about \$1,000/year over the use of propane and nearly \$800 year compared to electricity.
2. Natural gas is also good for businesses. These same benefits experienced at the residential level are even larger and more important to businesses. Natural gas supply is stable and more cost effective than other fuels used in commercial applications and therefore the availability of natural gas is a very significant factor for business location decisions.
3. Finally, natural gas is good for the environment. Using natural gas for heating is more than twice as efficient as electricity, resulting in much less lost or wasted energy. This allows us to maximize the energy used from this fuel source, reducing the total fuel used and lowering greenhouse gas emissions.

Our study group identified 368 communities in North Dakota without natural gas service. Of the total population in those communities, more than half the people reside in just 21 towns with populations over 1,000.

Connecting North Dakota communities to natural gas puts them in an entirely different category when it comes to economic development. I've met with folks in Rugby, Mayville, Wishek and know how important this is to those communities, and many others.

Our committee explored the barriers to natural gas service and it comes down to one thing: Infrastructure. Usually the cost of constructing the lateral line off the main line to bring gas to the city is uneconomic using traditional cost recovery tools available to the utilities.

This measure gives communities one possible tool to help bridge that gap.

The shale gas revolution in America and North Dakota has leaders throughout the US looking at ways to expand our natural gas infrastructure. It is a valuable resource that has the potential to create a renaissance of manufacturing jobs in our nation.

North Dakota should recognize this opportunity and provide some tools like this to communities who want to improve their business climate, make use of this valuable resource produced right here in our state, and equip themselves to effectively compete in today's marketplace.

Expanding gas infrastructure can help expand the benefits of the Bakken oil development to parts of the state that are not realizing as many benefits of this industry.

A number of years ago the legislature approved the creation of renaissance zones in communities throughout the state. Those programs have reshaped many of our downtown areas, turning them from unattractive, crumbling cores of the community to beautiful, vibrant places where people want to gather, invest and do business.

2.3

This is a similar approach focusing on giving communities a tool to expand key infrastructure and make themselves more attractive to investors. I urge your support.



SB 2276

#B p. 1 Mar. 12, 2015

Harvey Job Development Authority

Economic Development

120 W 8th St, Harvey, ND 58341 – 701-324-2490

www.harveynd.com – harveyJDA@harveynd.com

Committee Members: Mr. Chairman and Committee members,

Linda Knudtson
Chairman

I am Nicki Weissman Executive Director for the Harvey Job Development Authority /and Economic Development.

Ron Volk-Mayor
Rick Eckart

Milo Baltrusch
Chad Friese

I am here to testify for Senate Bill 2276.

Kevin Tuenge
Terry Hinrichs

The reason I am testifying is because Harvey doesn't have Natural gas. It would provide a more cost efficient method of a heating source in the industrial park and other businesses in the area.

Nicollette (Nicki)
Weissman – Director

The Harvey JDA doesn't have the same advantage as other communities that have natural gas.

I talked with the ND Department of Commerce and in most of their proposals, the number one question is do you have natural gas in your community. Answering the question NO, Harvey doesn't have a chance of getting the project.

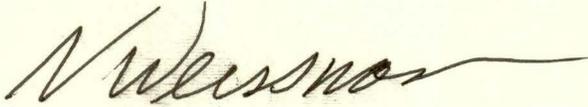
I have had industrial projects come to Harvey and one of their first questions was do you have Natural Gas, usually I don't hear from them again. As we are looking to the future of North Dakota planning, Wells County and the City of Harvey, and surrounding area would greatly benefit by having Natural Gas in the county.

Page 2

The residents of Harvey would be happy with a reduction in their heating costs.

I want to encourage the committee to vote favorable on Senate Bill 2276. We would like to be on an equal playing field with the rest of the state.

Thank you for your time –



Nicki Weissman

Harvey Job Development Authority/ Economic Development

SB 2276

3-12-15

March 12, 2015

#4 p1

HOUSE ENERGY AND NATURAL RESOURCES COMMITTEE
SB 2276

CHAIRMAN PORTER AND MEMBERS OF THE COMMITTEE

For the record my name is Blake Crosby. I am the Executive Director of the North Dakota League of Cities representing the 357 cities across the State.

I am here in support of engrossed SB 2276 which asks for a study of providing natural gas service around the state. It does seem wasteful to be flaring off the amount of gas that we are. If that gas can be captured in a cost efficient manner and used for commercial and residential service, I believe we need to investigate the best method of doing so.

At the same time I want to be sensitive to the propane dealers. I'm sure many of us grew up with the tank in the backyard as it made a great baseball backstop. We also want to include Rural Electric Cooperatives as they have been the backbone of rural North Dakota for many years.

I believe that all of us, with some legislative guidance and working together, can work out a compromise that all of us can be comfortable with.

On behalf of the North Dakota League of Cities, I ask for a do pass on SB 2276 requesting a legislative management study.

THANK YOU FOR YOUR TIME AND CONSIDERATION. I will try to answer any questions.



SB2276
3-12-15
#5 p.1

**Testimony of Anne Hansen, Communication Specialist
Economic Development Association of North Dakota
In Support of SB 2276
March 12, 2015**

Chairman Porter and members of the House Energy and Natural Resources Committee, my name is Anne Hansen and I am the communication specialist for the Economic Development Association of North Dakota (EDND). On behalf of EDND, I would like to express our support for SB 2276, which is a study regarding incentives for delivering natural gas to smaller communities.

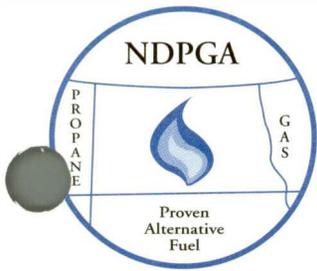
EDND represents more than 80 state economic development organizations on the front line of economic development efforts throughout North Dakota. The primary purpose of the organization is to support the creation of new wealth and the diversification of North Dakota's economy.

Infrastructure is a key driver of economic growth, and essential infrastructure is critically important to the health and vitality of North Dakota in this time of tremendous growth. EDND supports judicious and progressive investment strategies, such as this, that help maintain existing infrastructure and create infrastructure for future growth.

EDND's Small Communities Sub-Committee met November 18 in Grand Forks to identify growth-related challenges facing North Dakota communities with a population of 5,000 or less. Getting natural gas to smaller communities was one of the top issues the group identified.

Simply put, communities with access to natural gas have greater economic development opportunities than communities without it. This basic infrastructure is needed by smaller communities to support the creation of new wealth and provide diversification opportunities. Natural gas is a resource communities must have in order to attract any significant manufacturing opportunity. National site selectors have reported they won't even consider a community for a manufacturing project if it does not have natural gas service. For instance, Christopher D. Lloyd, a national site selector and senior vice president of infrastructure and economic development for McGuireWoods Consulting, LLC, says most manufacturing projects, except for light assembly, will require access to natural gas for a site to be viable.

It is for these reasons EDND urges the committee's support of SB 2276.



SB 2276
3.12.15

#6 p.1

North Dakota Propane Gas Association
1025 North 3rd Street • PO Box 1956
Bismarck, ND 58502 • www.ndpropane.org
701-223-3370 Fax 701-223-5004

Testimony SB 2276

March 12, 2015 – House Energy and Natural Resources

For the record, my name is Mike Rud. I'm the Executive Director of the North Dakota Gas Propane Association. On behalf of our association's 130 members and thousands of workers they employ, many of which might serve your homes and businesses, I'm here urging a **"DO NOT PASS" on SB 2276.**

Let me begin this morning by stating very clearly NDPGA is pro-natural gas. Nearly all – if not all – propane delivered to member customers across North Dakota comes directly from natural gas production.

SB 2276 threatens the livelihoods of propane companies across rural North Dakota, while jeopardizing several thousand industry jobs at the same time.

North Dakota currently has about 350,000 homes in the state. Propane marketers provide service to just over 40,000 of these residences. That's less than 15% of the homes in ND. As you know a majority of these homes lie in rural areas. The language in this bill refers to unserved areas of the state. How do you determine Unserved or underserved area? After all, Propane has been a reliable heating source in rural ND for Many years. Millions of private business dollars have been spent by propane marketers to meet the needs of rural residents and small communities. All this done to make sure homeowners and businesses have an efficient, safe and affordable source of energy. To my knowledge the state's propane industry has never asked for

6.7

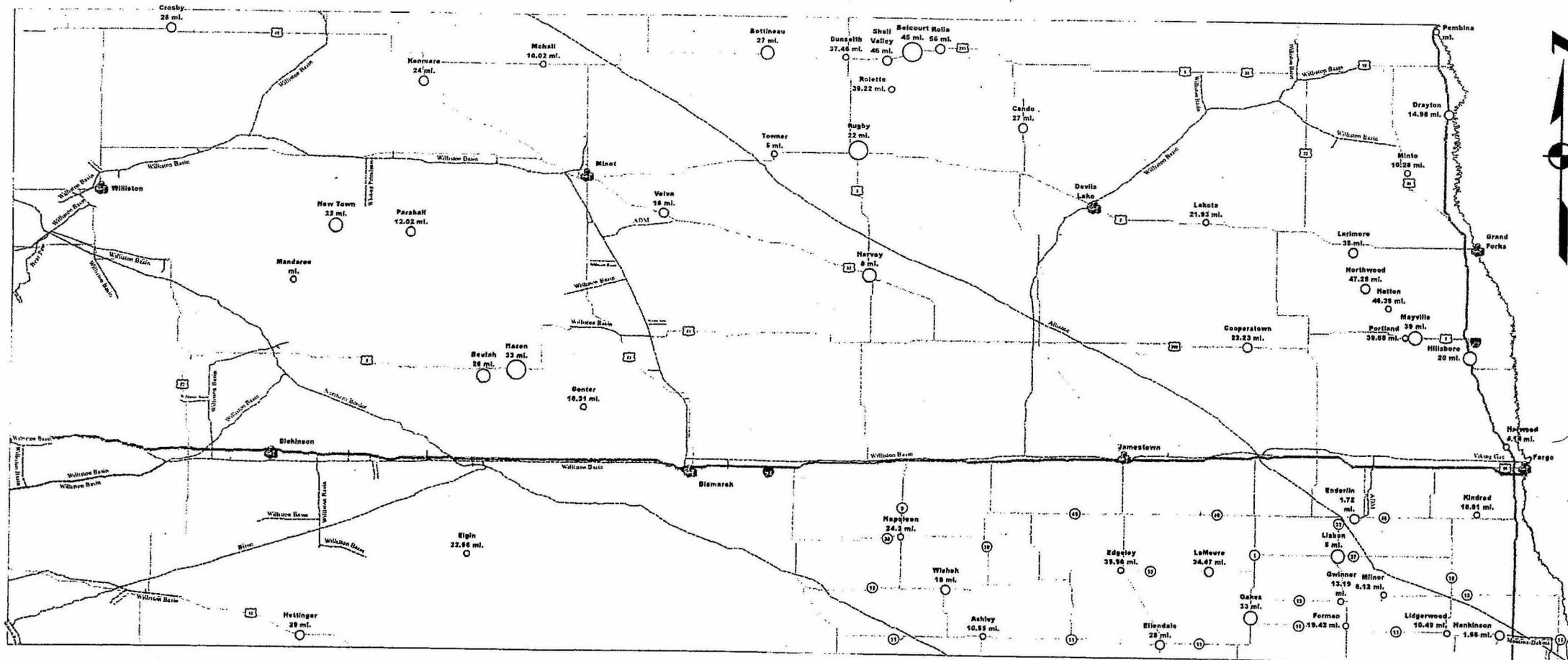
legislation to expand *propane's* customer base. It is disappointing that the major utilities which already have 80% of all energy customers-- think they should receive special treatment so they can obtain more customers at the expense of ND small businesses.

We ask for a level playing field—not special treatment.

NDPGA members are by no means afraid of competition as long as all competitors are on equal footing. Let free enterprise determine the consumer choice of a primary heating source, not the government.

Again NDPGA seeks a DO NOT PASS on SB 2276.

ND Towns Without Gas Services



Target Cities

Population

- 501 - 800
- 801 - 1500
- 1501 - 2250
- 2251 - 3121

— Pipelines

