

# MICROFILM DIVIDER

OMB/RECORDS MANAGEMENT DIVISION  
SFN 2053 (2/85) 3M



ROLL NUMBER
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DESCRIPTION

1265

2001 HOUSE FINANCE AND TAXATION

HB 1265

2001 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB 1265

House Finance and Taxation Committee

Conference Committee

Hearing Date January 23, 2001

Tape Number	Side A	Side B	Meter #
1	X		60
Committee Clerk Signature <i>Jamie Stein</i>			

Minutes:

**REP. AL CARLSON, CHAIRMAN,** Opened the hearing.

**REP. MATT KLEIN, DIST. 40, MINOT,** Introduced the bill. He stated that as the electric industry competition committee studied the taxing of the electrical systems, they noticed a loop hole in the present system. Taxes on certain transmission lines have not been increased in over twenty three years. Any home owner, business owner or farmer cannot say the same thing. Investor Owned Utility transmission lines, are taxed under a centrally assessed system. The average taxes on transmission lines of 230,000 volts and up, are about \$776 per MDU's lines, about \$950 per mile for Otter Tail Power's lines and about \$7,340 for Northern States Power lines. These variations are due to the types of land and its value where these lines cross. Many of the larger lines cross right across the farmers' fields, many of the smaller ones follow section lines. MDU's lines are mostly in the poorer grazing land, while NSP's lines are near mega cities and in the Red River Valley. REC transmission lines of 230,000 volts and up, were first taxed in

1965, at a \$150 per mile. That increased to \$225 per mile in 1977. The loop hole is this, in 1965 there were no transmission lines in North Dakota above 230,000 KV. Since then the larger lines were installed. These lines transmit considerably more power than the 230,000 KV lines. The larger lines transmit nine times as much as the 230,000 KV lines do. If you are comparing transmission lines to size of pipe or roadways, it should be taxed based on its capacity. A single road out in the country shouldn't be taxed the same as a six lane interstate highway. It should be recognized that eight percent of the power which is generated in North Dakota, goes out of the state. The goal of this study is to tax all transmission lines the same, so that a real comparison can be made of who pays what share. The REC's in North Dakota, pay a three percent gross revenue tax. The IOU's pay a centrally assessed property tax. When you try to compare who owns what and what they pay, you can't, it is apples and oranges. Eventually, the entire system should be taxed by function.

**REP. AL CARLSON, DIST. 41, SOUTHWEST FARGO,** Testified in support of the bill.

He stated he was on the interim committee studying the electric utility industry. The study was to deal with the overall picture of deregulation, but also, to make the first step to try to come up with a uniform method of taxation for the electric utility industry.

He submitted a handout relating to the summary of electric utility industry transmission taxation proposals and transmission line taxation history. Attached. He referred to the graduated scales in the handout. We propose a very modest \$100 per mile change for the lines that are larger than 230,000 KV. We have to differentiate that by function, the larger the line, the more it can carry, there should be a different taxing function. I am not sure if \$100 is enough or too little. We need to begin the process and say, there is a difference. In the final tax proposal we will bring to this

committee next time, we will be able to have a consensus. There will be some changes then.

This bill is an attempt to start the direction that there is a differentiation, and there should be a different value charged to a larger line.

**BOB GRAYELINE, UTILITY SHAREHOLDERS OF NORTH DAKOTA,** Testified in support of the bill. See attached written testimony.

**JOHN DWYER, LIGNITE ENERGY COUNCIL,** Testified in opposition of the bill.

Stated he thought Rep. Klein and Rep. Carlson were moving in the right direction. There is a principal that the Lignite Energy Council has followed for the past twenty years, it doesn't matter whether they are IOU members, or EFC members or mine company members. The principal is that we are opposed to any cost that impacts the entire position of lignite. Emission costs, reclamation fees, transmission costs do impact the competitive position of the lignite industry. Transmission, is our delivery system for lignite. Just like the railroads are the transmission system for out of state coal that goes to North Dakota.

**HARLAN FUGLESTEN, NDAREC,** Testified in opposition of the bill. He stated he had heard the fiscal note was \$198,000, it may be correct, but by his estimation, it would be more like \$122,000 based upon the miles of lines owned by the REC's of over 230,000 KV. There were also some figures mentioned by rate of transmission, one proposal would tax transmission at the rate of 1.9 million dollars another one up to 4.9 million dollars. I think it is important to understand, that during the past two and half to three years, under the electric industry competition committee study, we have been looking at a comprehensive tax bill that would apply equally to the investor owned utilities and the rural electric cooperatives. When we talked about transmission line taxes, we talked about something other than just 230,000 KV taxes or higher.

We were talking about taxing on a line mile basis, under a comprehensive proposal, transmission line miles of over ten thousand miles from the level of 41.6 KV to 400 KV. We were talking about a much larger system than what this bill is dealing with. We were not only talking about the rural electric cooperatives, but also the investor owned utility systems. We need to make sure our figures are accurate. I agree with Rep. Klein and Rep. Carlson, that in some ways, we are dealing with apples and oranges, and very complex tax systems. The high voltage transmission tax is only one tax paid by the rural electric cooperatives. The gross receipts tax is far and away the most significant tax, that tax generates in the area of six million dollars per year to counties and other political subdivisions in the state. To single out the high voltage transmission system and then draw a direct comparison from that and some investments and taxes under the centrally assessed systems, is simply not a fair comparison. We do feel strongly, that we ought to wait, and get the job done during the interium.

**REP. ROBERT HEUTHER, DIST. 27, SOUTHEAST NORTH DAKOTA,** Testified in opposition of the bill. He felt we have come a long way in the interium committee they served on. We take electricity for granted. When we look at the west coast and the current position they are in, we have to be very cautious how we deal with the legislative process and the pressure we put on the industry. What is happening on the west coast right now, could very likely happen on the east coast next summer. This is one issue which we need to put pressure on this next interium and really try to come to a final solution. We are given the responsibility for the next two years yet, to study this. This has to be a part of the study.

**ROBERT MARKEE, ENERGY UNLIMITED, INC.,** Testified in opposition of the bill.

They are wind developers working here in North Dakota to explain wind development. He encouraged the committee to be very cautious with putting taxes on transmission. Transmission is very expensive now and it would be an undue burden on the wind development here in North Dakota. I would like you to consider this being premature, there is a lot of emphasis on rationalizing the transmission in this country, regionally. Let that develop over the next two years.

**MARCY DICKERSON, UTILITY TAX APPRAISER, STATE TAX DEPARTMENT,**

Appeared to answer questions.

**REP. CARLSON** Asked about the fiscal note - the fiscal note shows a figure of \$198,000, and someone thought it was more like \$120,000, is that including all lines?

**MARCY DICKERSON** Explained that this fiscal note was calculated using just the lines owned by Basin, (couldn't understand), and \_\_\_\_\_?, it was submitted to your interim committee where I got the miles from each line. It was only the co-op owned lines separated from 230,000 KV and larger than 230,000 KV. We had 832.89 - 230,000 KV lines, 991.89 larger than 230,000 KV lines. Multiplying the 230,000 by \$225 per mile and the larger than 230,000 KV by \$325 per mile, came up with a proposed tax of \$509,764.50, from that I subtracted the current tax of \$410,582.25, which resulted in a proposed increase for one year of \$99,182.25 multiplied by 2 was the biennium figure.

**HARLAN FUGLESTEN** Returned to comment, that the figures he quoted were based on a one year total instead of the biennium.

With no further testimony, the hearing was closed.

**COMMITTEE ACTION 1-30-01 Tape #2, Side A, Meter #1160**

**REP. CARLSON** Explained the history behind the time spent, and reasons for this bill taxing transmission lines. Committee members felt this was a good start for legislation which will probably happen in the future.

**REP. NICHOLAS** Made a motion for a **DO NOT PASS**.

**REP. RENNER** Second the motion. **MOTION CARRIED.**

12 YES      2 NO      1 ABSENT

**REP. NICHOLAS** Was given the floor assignment.



**FISCAL NOTE**  
 Requested by Legislative Council  
 01/23/2001

**REVISION**

Bill/Resolution No.: HB 1265

Amendment to:

1A. **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.*

	1999-2001 Biennium		2001-2003 Biennium		2003-2005 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
<b>Revenues</b>						
<b>Expenditures</b>						
<b>Appropriations</b>						

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

1999-2001 Biennium			2001-2003 Biennium			2003-2005 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts
			\$245,076					

2. **Narrative:** *Identify the aspects of the measure which cause fiscal impact and include any comments relevant to your analysis.*

HB 1265 changes the rate at which certain transmission lines are taxed. The provisions of HB 1265 would increase county revenue by \$245,075.50 during the 01-03 biennium. (All revenue is deposited in the county general fund.) NOTE: This fiscal note has been revised because of new information received by the Tax Department.

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, of the effect on the biennial appropriation for each agency and fund affected and any amounts included in the executive budget. Indicate the relationship between the amounts shown for expenditures and appropriations.*

Name:	Kathryn L. Strombeck	Agency:	Tax Department
Phone Number:	328-3402	Date Prepared:	01/24/2001

**FISCAL NOTE**  
 Requested by Legislative Council  
 01/16/2001

Bill/Resolution No.: HB 1265

Amendment to:

1A. **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.*

	1999-2001 Biennium		2001-2003 Biennium		2003-2005 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues						
Expenditures						
Appropriations						

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

1999-2001 Biennium			2001-2003 Biennium			2003-2005 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts
			\$198,365					

2. **Narrative:** *Identify the aspects of the measure which cause fiscal impact and include any comments relevant to your analysis.*

HB 1265 changes the rate at which certain transmission lines are taxed. The provisions of HB 1265 would increase county revenue by \$198,365 during the 01-03 biennium. (All revenue is deposited in the county general fund.)

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, of the effect on the biennial appropriation for each agency and fund affected and any amounts included in the executive budget. Indicate the relationship between the amounts shown for expenditures and appropriations.*

<b>Name:</b>	Kathryn L. Strombeck	<b>Agency:</b>	Tax Department
<b>Phone Number:</b>	328-3402	<b>Date Prepared:</b>	01/22/2001

