

FISCAL NOTE

Requested by Legislative Council

01/12/2005

Bill/Resolution No.: HB 1308

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.*

	2003-2005 Biennium		2005-2007 Biennium		2007-2009 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues						
Expenditures			\$12,000,000		\$12,000,000	
Appropriations			\$12,000,000		\$12,000,000	

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

2003-2005 Biennium			2005-2007 Biennium			2007-2009 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts

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

There are several fiscal impacts associated with HB 1308. First, there is the establishment of a renewable energy commission with nine members who will attend quarterly meetings to review project applications. The commission members will receive \$100/day for meetings along with travel expenses. The legislation also allows for administrative expenses for the commission and authorizes one additional staff person in the Dept. of Commerce to staff the commission. There is a suggested \$12 million general fund appropriation for the renewable energy commission and the renewable energy trust fund, which the commission will oversee. It is assumed that commission and Dept. of Commerce administrative funding, along with project funding, will be included in the \$12 million appropriation. The legislation establishes a continuing appropriation for the renewable energy trust fund.

Second, in Section 4 of the proposed legislation, there are three renewable energy purchase requirements: 10 percent of the state's electricity use be obtained from wind energy generation; the use of a 10 percent ethanol blend or five percent biodiesel blend in state vehicles; and the required use of ethanol-blended fuel or biodiesel fuel in construction projects greater than \$100,000 in which motor fuels are used. Each of these three requirements are evaluated herein for their fiscal impact.

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.*

None

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.*

Section 1,2,& 5: Renewable Energy Trust Fund – Renewable Energy Commission – Dept. of Commerce Administration

- Meeting costs: (8 meetings per biennium, 2-day meetings, one night lodging) = \$22,960

- Additional commission administrative costs: (source – APUC) = \$30,000

- Dept. of Commerce position: (salary @ \$35,000/year, fringe at 30 percent, travel @ \$30,000, office rent @ \$5,680, office supplies & computer @ \$3,500, additional costs @ \$4,000) = \$134,180

Total = \$187,140 administrative costs (1.6 percent of \$12,000,000); \$11,812,860 project costs

Section 4: Electricity purchase from wind energy

- North Dakota facilities use approximately 228,476,000 kWh of electricity per year...10 percent of that would be 22,847,600 kWh. The average cost of electricity for state facilities is \$.044/kWh. If the state could negotiate a premium of \$.02/kWh for wind energy, the additional cost for a 10 percent wind energy purchase would be \$456,952. However, the electricity from the wind energy developments in the Edgeley-Kulm area is purchased by Basin Electric Power Cooperative and by Otter Tail Power Co., which is integrated into their systems' mix. Otter Tail Power Co. currently has a wind energy component of their generation mix of two percent. So only the amount exceeding that two percent would require a premium payment. According to an official of Otter Tail Power Company, a realistic premium range for state facilities would be \$.018 to \$.026 per kWh, or, in this case, \$411,257 to \$594,038. Basin Electric Power Cooperative estimates a much lower premium of \$.01/kWh, or a cost to the state of \$229,950/year. Another option for the state might be to essentially finance its own wind generation. A ten percent purchase of wind energy by the state would require the equivalent output of six 1.3 MW turbines at a 35 percent capacity factor, or one 7.5 MW turbine at the same capacity factor. In very simple terms, assuming generation of 22,995,000 kWh/yr at the current average rate of \$.044/kWh, the turbines would produce \$1,011,780 in revenue per year, and the initial \$7.5 million capital investment would be paid back in 9 years, based on a cost of money of 4.53 percent.

- Use of E10 (10 percent ethanol blended fuel) and B5 (5 percent biodiesel blend) in State Vehicles

In 2004, the ND Department of Transportation Fleet Services reported gasoline usage of 1,912,458 gallons and 1,282,431 gallons of diesel fuel usage. All of the state's gasoline pumps contain E10 fuel, so the state is currently in compliance with the ethanol requirement of this legislation. At this time, five of the twelve district diesel tanks use a 20 percent biodiesel mix in the summer months (they do not use biodiesel fuel in the winter months because of gelling issues). The Transportation Department is considering expansion of its B20 usage to the other districts. Realistically, a five percent biodiesel blend would result in the use of 65,122 gallons of pure biodiesel, which the state is mathematically approaching based on the use of B20 at 5 of the 12 diesel pumps for six months of the year. According to an official of the ND Soybean Council, recent federal legislation allows biodiesel blenders a federal credit to offset the incremental cost of biodiesel fuel, which is estimated at \$.01 to \$.015 per gallon for every one percent of pure biodiesel added to regular diesel fuel. Although the ramifications of this legislation are yet to be determined, a Soybean Council official suggested that there should be no fiscal impact to the state from the B5 requirement.

- Use of E10 and B5 in state contracts exceeding \$100,000

It would be very difficult to estimate a fiscal impact of this requirement. Would there be a cost for monitoring and enforcing this contract stipulation? The actual incremental fuel costs should not be significant. For large construction and road contracts, the main usage would be the B5 biodiesel blend, which has already been determined to have minimal or no incremental costs. At local gasoline retail stations, E10 blends sell for a slightly higher cost than regular unleaded gas.

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.*

Section 7 of the bill appropriates \$12 million for the renewable energy commission and renewable energy trust fund. This

fiscal note also assumes the provisions of this bill extending into future bienniums resulting in an additional appropriation in the 2007-2009 biennium.

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