

MICROFILM DIVIDER

OMB/RECORDS MANAGEMENT DIVISION

SFN 2053 (2/85) 5M



ROLL NUMBER

DESCRIPTION

1514

2007 HOUSE FINANCE AND TAXATION

HB 1514

2007 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. 1514 A

House Finance and Taxation Committee

☐ Check here for Conference Committee

Hearing Date: January 24, 2007

Recorder Job Number: 1792

Committee Clerk Signature

Mickie Schmidt

Minutes:

Chairman Belter called the committee back to order and opened the hearing on HB 1514 and asked for testimony in support.

Rep. Dave Monson: (See attachment #1)

Vice Chairman Drovdal: Section 2 of the Bill has some new wording, it says the taxpayer filing a return under this section is entitled to the credit for installation of a geothermal, solar, wind, or biomass energy device provided under section 57-38-01.8. Is that existing language?

Rep. Dave Monson: I believe that would be new language because the rest of the Bill only involves adding biomass and in order to get the tax break for the people that would be using the biomass, we need a section that would refer back to the biomass. I believe these kind of go together. By adding biomass in section 1, in order for the people to get the tax break, we need section 2 to refer back to it.

Vice Chairman Drovdal: so if I put in a geothermal system in my home, I'm entitled to what kind of a tax credit?

Rep. Dave Monson: I'm not familiar with what tax credit is already available but there is a tax credit in place right now for geothermal, solar, or biomass. Now what that amount is I'm not sure.

Representative Froseth: if you look on page 1, line 17; it says equal to 3% for a year for 5 years. But that has a sunset on it, generated January 1, 2011. So this will only be in effect for 4 years.

Rep. Dave Monson: That's correct. That is the old language. So this could just be adding that to that same section.

Chairman Belter: Donnita, would you like to clarify that?

Donnita Wald, Tax Dept.: The tax credit that is currently available to individuals on the ND2, or the long form. What section 2 of the Bill does is add it to the short form.

Representative Weiler: Can you give me an idea, a ballpark figure of what one of these devices would cost a biomass?

Rep. Dave Monson: The term device gets to be pretty broad here. If you're looking at a corn stove or one that burns the corn now, that would be several thousand on up to fifteen thousand dollar range. When you look at this, we could be looking at full industries coming around looking at devices here.

Representative Pinkerton: I don't understand on line 24; this wouldn't include corn stoves or that sort of thing because it's only for those who are going to produce fuel or electricity.

Rep. Dave Monson: When I first drafted this, my idea was that corn stoves would probably not fit. And as I read it, it says means a system using agricultural crops, waste or residues. Crops would be corn. I don't know that you're producing fuel, but you're producing heat from this.

Chairman Belter: We can get the Tax Dept. to clarify this.

Rep. Dave Monson: My idea here was actually the switch grass into ethanol, a technology where they can explode those and pop them up just like popcorn. They have methods that they are working on to change the switch grass, the cellulose into the shorter chains that they can form starches and sugars out of them. That was my main one this year.

Brad Manz, Resident of Bismarck: (See attachment #2)

Representative Weiler: Did you say that you chose not to put in a geothermal system because you couldn't get a tax credit?

Brad Manz: yes. That was the main reason.

Harlan Fuglesten, with the ND Association of Rural Electric Cooperatives: (See attachment #3) the geothermal system is a very energy conserving and efficient system, but it has a drawback of the varying expenses. While it pays for itself in the long run, many people cannot afford to get into it unless there are tax benefits or breaks so that they can take advantage of it in order to put in the system.

Chairman Belter: Is there any other testimony in support? Any opposition? Any neutral? Could the Tax Dept. answer some of the committee's questions? This would mean putting another line on the short form?

Donnita Wald, Tax Dept.: Tax Dept.: The short form is not really short anymore but yes it would be adding a line.

Chairman Belter: Would it be possible to add a generic line on the short form?

Donnita Wald: we are looking at a number of different ways of having a tax credit.

Representative Froseth: Can you give us any idea at all how many people took advantage of the credits under the existing Bill?

Donnita Wald: Actually the particular tax credit has been around since the early 80's. I don't have that information for you now but I can get back to you on that.

Chairman Belter: Any other questions? Hearing none, we'll close the hearing on HB1514.

2007 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. 1514 B

House Finance and Taxation Committee

☐ Check here for Conference Committee

Hearing Date: January 29, 2007

Recorder Job Number: 2182

Committee Clerk Signature

Mickie Schmidt

Minutes:

Chairman Belter opened the hearing on HB1514 and asked if anyone would like to make a motion to strike section 2 from the Bill?

Representative Wrangham: I move to strike section 2 from the Bill

Vice Chairman Drovdal: Second it.

Representative Wrangham: I made a motion to take out section 2 which removes it from the short form.

Chairman Belter: Section 2 as I understand it is what adds all these provisions to the short form.

Representative Pinkerton: The amendment is to remove section 2?

Chairman Belter: Yes.

Representative Pinkerton: My understanding of that unless you can put it on the short form most people can't take that? Could we just take that off and not provide this credit?

Chairman Belter: If you have it on the short form, we have no idea of how many people are going to take it and it does virtually almost make it inassessable. But we have a long history of putting things on the long form.

Representative Pinkerton: I had understood that there was some thought of putting schedules to be developed for the short form, an extra line put on the short form so that you can have this schedule for tax credits?

Chairman Belter: That just in the talk stage within the Tax Dept. and I don't think we're going to see that this Legislative Session. There might be something in the future. Last session we tried to do away with the long form and it passed in the House and just go to the one form which would have made a lot of sense.

Representative Brandenburg: If you look at the long form and all the items on it and if we put this on the short form then all those other 10, 15 other things maybe should be on the short form too. It just becomes an issue and there's so many of them that fall into that category that you can't fit on the short form.

Representative Wrangham: Part of my thinking if I'm correct if that's what that does, maybe I missed the testimony but it seems to me what the Bill was introduced to do was to add bio mass to those lists of other items that were presently available on the long form. I was quite surprised to find that in section 2 all of those, we didn't just add biomass, and we in fact moved all those items over there on a new line. I thought that was, we really didn't have a hearing on that.

Vice Chairman Drovda: 573801.8 as Rep. Wrangham pointed out include tax credit for a geo thermo, solar, wind energy, and also biomass if we pass this. It moves that section over to 5738-30.1 which is effectively putting it on the short form. So that's what that section does.

Vice Chairman Drovda: Some of the history is when they created the short form they gave an automatically tax that was built into it. So in other words you do get a break by going to the short form. The other thing is it's such a big list of tax exemptions on the long form, so when you start moving one you're going to start moving every single one. You have no reason not to

turn them all over. And then you're going to have to raise the tax on short form in order to keep our revenue where we need it.

Representative Froseth In the years that I have been here, the requests for tax exemptions should be listed on the short form. We've had numerous requests for a line for a check off, which is if you want to donate a dollar or two of your taxes for some specific charity or whatever. We wouldn't have a short form as such if we'd approve all of the things that could be placed on the short form. I agree that we should just scrap one and just go to one State form. The self tax preparation is a lot easier than just using the short form I'm sure than trying to figure out the process of the long form.

Representative Vig: And the short form is number what? Number 2?

Representative Brandenburg: In the last session we put countless hours of work in trying to figure out what we could take out for the long form, what we could do to the short form. I can see what you're asking but in all that frustration of spending so many hours, killed it. So here we are today trying to explain to you why we don't need this line. If we put this line on the short form there will be 20 other lines setting up there at the podium wanting their line and we couldn't get it done last session.

Chairman Belter: The original history of the short form was when they came up with the 14% flat income tax rate which was Senator Goodman from Grand Forks who came up with the idea and Senator Conrad claimed that it was his idea. So I think the short form was basically one line at one time and now it's a whole page. Is there any more discussion? If not, all of those in favor of the proposed amendments signify by saying aye. The motion carries. Ok, what are your wishes?

Representative Brandenburg: I move a Do Pass as Amended.

Representative Froseth: Second it.

Chairman Belter: Is there any discussion?

Representative Headland: Would it be possible if we could further amend the Bill to not allow for anything that's currently available to be grandfathered on to a short form in case we would move to one form? Any of these, if we're going to pass this Bill

Chairman Belter: Anything is possible but I would suggest that next session you can introduce an income tax reform Bill and then I'd be part of that. It'll change anyway.

Representative Pinkerton: While we're adding things on here and we're putting it on the long form that and we've already done this so it would be no advantage to our House but we did change over to an air to air heat exchanger and it cuts some of those bills down about a couple of hundred dollars a month. The REA's are selling those hand over fist and those dual credit rates, they're much less expensive to put in than a geothermal and we looked at them. But you can put an air to air unit in that's dual heat and it runs off of natural gas or propane and they're very efficient units but there's no tax savings on them.

Chairman Belter: I kind of take the position that if there's enough savings there that it actually pays for itself, is it necessary the role of government to give a tax credit on top of it?

Representative Pinkerton: We're already doing that here.

Chairman Belter: True, except for what we put on the long form, nobody can take advantage of that.

Representative Brandenburg: I think it's important that we pass this so that we when the bidding comes we're ready to move this, we got it all in place.

Representative Wrangham: The biomass is oil used to produce (I'm looking at the very bottom sentence) It says it's used to produce fuel and electricity. Is this going to include wood in a wood stove?

Chairman Belter: No, I do not believe that that would be the case. Ah, yes, if you could use wood or wood chips to produce fuel or electricity, yes.

Representative Wrangham: Only if used to produce fuel or electricity. As I look at the tax break out above we're looking at renewable sources that are very environmentally friendly, geothermal, solar, wind, with biomass that's getting into a different thing and there could be some pollution and things like that.

Chairman Belter: It's a bio energy device and to me that would mean that it's probably somewhat of an environmentally friendly process. I don't know that anybody would start producing something that's going to smoke out the neighbors to produce fuel or electricity. Ok. Any other discussion? Hearing none, will the clerk read the roll; 11-y; 0-n; 3-absent; Rep. Brandenburg will carry the Bill. We will close the hearing on HB 1514.

FISCAL NOTE
Requested by Legislative Council
02/01/2007

Amendment to: HB 1514

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.*

	2005-2007 Biennium		2007-2009 Biennium		2009-2011 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.*

2005-2007 Biennium			2007-2009 Biennium			2009-2011 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts

2A. 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 HB 1514 creates an income tax credit for installation of biomass energy devices.

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.*

Section 1 defines "biomass energy device" and creates the income tax credit in the same manner as the existing tax credit for geothermal, solar and wind devices. This tax credit is available on the state's "long-form", Form ND-2. The fiscal impact is unknown.

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 is also included in the executive budget or relates to a continuing appropriation.*

Name:	Kathryn L. Strombeck	Agency:	Office of Tax Commissioner
Phone Number:	328-3402	Date Prepared:	02/01/2007

FISCAL NOTE
Requested by Legislative Council
01/17/2007

Bill/Resolution No.: HB 1514

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.*

	2005-2007 Biennium		2007-2009 Biennium		2009-2011 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.*

2005-2007 Biennium			2007-2009 Biennium			2009-2011 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts

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

HB 1514 creates an income tax credit for installation of biomass energy devices.

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.*

Section 1 defines "biomass energy device" and creates the income tax credit in the same manner as the existing tax credit for geothermal, solar and wind devices. Section 2 allows the credit on the state's "short-form" Form ND-1. The number of qualifying devices that might be installed, the cost of installation, and the eventual amount of income tax credit are all unknown.

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 is also included in the executive budget or relates to a continuing appropriation.*

Name:	Kathryn L. Strombeck	Agency:	Office of Tax Commissioner
Phone Number:	328-3402	Date Prepared:	01/23/2007

Date: 1-29-07
Roll Call Vote #: ~~1508~~ 1514

2007 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO.

House _____ Finance & Tax _____ Committee

☐ Check here for Conference Committee

Legislative Council Amendment
Number _____

Action Taken

Do Pass AS Amended

Motion Made
By

Rep. Brandenburg

Seconded By

Rep. Froseth

Representatives	Yes	No	Representatives	Yes	No
Chairman Belter	✓		Rep. Froelich		
Vice Chairman Drovdal	✓		Rep. Kelsh		
Rep. Brandenburg	✓		Rep. Pinkerton	✓	
Rep. Froseth	✓		Rep. Schmidt	✓	
Rep. Grande			Rep. Vig	✓	
Rep. Headland	✓				
Rep. Owens	✓				
Rep. Weiler	✓				
Rep. Wrangham	✓				

Total (Yes) 11 No 0

Absent

3

Floor
Assignment

Rep. Brandenburg

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

REPORT OF STANDING COMMITTEE

HB 1514: Finance and Taxation Committee (Rep. Belter, Chairman) recommends AMENDMENTS AS FOLLOWS and when so amended, recommends **DO PASS** (11 YEAS, 0 NAYS, 3 ABSENT AND NOT VOTING). HB 1514 was placed on the Sixth order on the calendar.

Page 1, line 1, remove "to create and enact a new subsection to section 57-38-30.3 of the North"

Page 1, remove line 2

Page 1, line 3, remove "or biomass energy devices;"

Page 3, remove lines 5 through 9

Renumber accordingly

2007 SENATE FINANCE AND TAXATION

HB 1514

2007 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. **HB 1514**

Senate Finance and Taxation Committee

☐ Check here for Conference Committee

Hearing Date: February 21, 2007

Recorder Job Number: # 3557

Committee Clerk Signature



Minutes:

Sen. Urlacher called the committee to order and opened the hearing on HB 1514.

Rep. Monson: appeared as prime sponsor with written testimony stating this is the engrossed version adds biomass to the list of renewal energy. (See attached)

Sen. Triplett: In your research did you check to see how frequently this tax credit has been used?

Answer: not used much at all because it is just the long form (1-2%) if moved to the short form, probably would be used a lot more.

Sen. Triplett: the tax assessor in my county has a different opinion about why the geothermal and solar wind and other things are not used very frequently and his statement to me is that the way the tax department interprets this is they would have to assess it as having an increase in the value of the whole property and then credit it against the increase in the value. So even if someone put \$15,000 into a geothermal device if the tax assessor decided that it only increase the overall value of the property by \$2,000 its limited to that amount, is that your understanding of how it works across the state?

Answer: I would think it would be the same

Sen. Tollefson: am I reading this right, is the credit retroactive?

Answer: I'm not sure, the only thing that is changing in this bill from present law is that they are adding biomass so whatever is in current law now that's how it is.

Sen. Horne: why didn't the House put it in the short form?

Answer: they wanted the short form kept short.

Harlan Fuglesten: with the NDREC appeared in support with written testimony from Doug Mork of Capital Electric Cooperative.

Sen. Triplett: your request to us is that we put the bill back into its original form, is that what you would like?

Answer: that's exactly right and we would request that you add back in section 2 of the bill, make it available to tax payers on the short form and we also support adding biomass to the bill.

Miles Vosberg: Tax Dept. appeared neutral on the bill stating this bill would not be retroactive. There's an old date in here the rate changed, I suppose that old language could be taken out, not sure, but it would just apply to transactions that occur in this next year and forward.

Sen. Urlacher: the 3% is that the number that are used on the long form?

Answer: I think that's right but will check on it.

Sen. Triplett: so if we decided we wanted to amend this bill back to the original form would you recommend that we take out that language regarding the old date just for clarity.

Answer: I would have to check on that, it maybe can't be taken out because the original language is before January 1st of 2011. I think we are still within the statute of limitations as far as refunds and other changes, so at this point it probably should not be taken out.

Closed the hearing.

2007 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. 1514

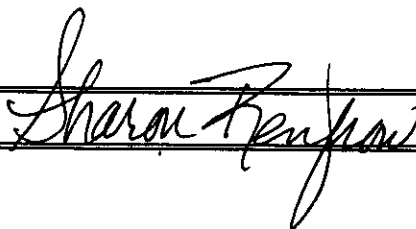
Senate Finance and Taxation Committee

☐ Check here for Conference Committee

Hearing Date: February 26, 2007

Recorder Job Number: 3822

Committee Clerk Signature



Minutes:

Sen. Urlacher opened discussion on HB 1514.

Sen. Anderson- I just made a note, it seems like such a simple change it just adds the biomass and then I made a note is it that much of a hardship to follow the form that seems to be the hold up on it.

Sen. Triplett- my note was to see the copy of the original bill.

Discussion by the committee about long form and putting it into a study.

Sen. Oehlke- what would the risk be.

Sen. Cook- there is always a risk in a lot of this stuff to put it into ND1 it is just the nature of the policy that has been set here and you have obviously seen that, what I am saying is that you could end up in a conference committee and all of a sudden agree to put it into both forms and then it goes back to the house and they kill the bill.

Sen. Horne- if the benefit only occurs to those using the long form, between that and killing the bill it doesn't make a lot of difference it seems to me cause there are so few using the long form that it wouldn't benefit more then a handful.

Sen. Horne- the benefit is that if it passes in the long form then it brings this tax credit to the table when the 2 forms are studied during the interm with the intent of eliminating ND2 and

then incorporating the credits that are available in ND2 into ND1, it at least gets us on to that discussion.

Sen. Cook- if it passes then it would go through one and transfer the other.

Sen. Horne- I can understand that side of it but the downside is that it will take 3 years and in the mean time none of this will be available for anybody.

Sen. Triplett- the other thing is that if it doesn't get selected for a study and then the whole thing goes away.

Sen. Urlacher closed discussion.

Sen. Tollefson motioned for a Do Pass and was seconded by **Sen. Horne**, roll call vote 1: 7 yea, 0 nay, 0 absent. **Sen. Tollefson** was designated to carry the bill to the floor.

Date: 2.26-07

Roll Call Vote #: 1

2007 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. HB 1514

Senate Finance & Tax Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number _____

Action Taken Do Pass

Motion Made By Sen. Tollefson Seconded By Sen. Horne

Senators	Yes	No	Senators	Yes	No
Sen. Urlacher	✓		Sen. Anderson	✓	
Sen. Tollefson	✓		Sen. Horne	✓	
Sen. Cook	✓		Sen. Triplett	✓	
Sen. Oehlke	✓				

Total (Yes) 7 No 0

Absent 0

Floor Assignment Senator Tollefson

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

REPORT OF STANDING COMMITTEE (410)
February 26, 2007 12:48 p.m.

Module No: SR-36-3854
Carrier: Tollefson
Insert LC: . Title: .

REPORT OF STANDING COMMITTEE

HB 1514, as engrossed: Finance and Taxation Committee (Sen. Urlacher, Chairman)
recommends **DO PASS** (7 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING).
Engrossed HB 1514 was placed on the Fourteenth order on the calendar.

2007 TESTIMONY

HB 1514

#1

HB 1514-A

1-24-07

Testimony on HB 1514 Rep. David Monson, Dist. 10

HB 1514 is basically a house keeping bill. This bill simply updates this section of code dealing with renewable or alternative energy to include biomass.

Biomass is fast becoming a term used in our everyday vocabulary as referring to any biological source of potential energy. It can include wood, straw, cornstalks, old newspapers, animal waste, switchgrass, or anything that can be burned or turned into another fuel source. The original source of this energy is, of course, the sun. Plants turn the sunlight into sugars, starches, and cellulose.

The chains of carbon in sugars are the shortest and easiest to digest or turn into energy. Man has been turning sugar in fruit into alcohol in wine production for thousands of years.

Starches, like in seeds or tubers, are a little more complex with longer carbon chains. Thus, they produce more energy when they are broken down, but the process is somewhat more complicated. Man has been doing this for centuries making ethanol from barley, potatoes, and corn as in beer, vodka, and whiskey. We have been making ethanol for fuel here in ND as an industry for several decades. Of course, the flurry of activity to build more efficient ethanol plants in ND is well known by everyone.

More recently we have been experimenting with breaking down cellulose. For thousands of years we have only been able to burn it because the chains are much too long for us to quickly turn it into ethanol or cleaner forms of energy. Thus we burned wood, straw, cornstalks, etc. for heat with lots of smoke and waste up the chimney. Nature has helped us over millions of years by turning cellulose into coal which we all know about in ND. Coal and lignite are nothing more than cellulose decomposed to carbon over time.

Only recently have we been finding out how to efficiently break down cellulose into shorter chains quickly enough to make a clean energy source cheaply. Ruminant animals like cattle and deer can eat cellulose in grasses and turn it into energy with the help of bacteria and protozoans. The same goes with termites and other cellulose or wood eaters. These are some of the potential processes being studied now along with even more innovative means to turn biomass into ethanol. Numerous projects are in the works in ND right now to develop this valuable source of renewable energy. By including biomass in this section of law, I believe we can speed up the development of this energy industry. ND is already a major energy producer, but we have the potential to be the world's premier energy producer with a little vision and a push and tug here and there. This is just one of those little pushes and tugs that cost us nothing. The industry is so new that we have little or no income from taxes from these devices. The real income to the state will come from the jobs and development in the state as this technology advances. I urge you to update this section of code dealing with renewable energy and include biomass.

HB 1514

2 1-24-07

HB 1514

Mr. or Madam Chairman and members of the committee and public, my name is Brad Manz from Bismarck and I support this bill for the following reasons:

- At present there is no solar, wind or geothermal devices tax credit for the 97-98% of ND taxpayers who use the standard income tax form ND-1. Based on a ND taxable income of \$50,000 the respective tax liabilities are \$1,495.00 for form ND-1 and \$4,120.40 for long form ND-2. Assuming an initial investment of \$15,000 for a geothermal system, for example, the annual 3% tax credit is \$450.00. Subtracting that from the tax liability on form ND-2 results in a tax of \$3,670.40 - \$2,175.40 more than a person would pay using form ND-1 and claiming no credit! In my case, the lack of a tax incentive made my proposed geothermal system uneconomical in terms of providing a reasonable pay-back period.
- The addition of a biomass energy device exemption only makes sense and should be encouraged in our predominantly agricultural state.

Brad Manz
PO Box 7364
Bismarck, ND 58507-7364

#3 1514

HB 1514

ND Income Tax Credits for Geothermal Energy Device
House Finance and Taxation Committee
January 24, 2007 (10:00 AM)
Fort Totten Room

Presented By: Doug Mork, Member Services Director
Capital Electric Cooperative
4111 State Street
Bismarck, ND 58503
(701) 223-1513

Mr. Chairman and members of the committee, my name is Doug Mork, Member Services Director for Capital Electric Cooperative here in Bismarck. I rise in support of HB 1514. In particular I want to support section 2 of the bill that allows the tax credit on the short form. My interest is primarily because I have seen the benefits that geothermal heat pumps have in saving energy and promoting jobs and profits for North Dakota businesses.

Capital Electric Cooperative has been involved in promoting geothermal heat pumps for almost nineteen (19) years. These state of the art heating and cooling systems have become the most efficient system available today. They work 24 hours a day, 7 days a week, without concern for outside temperatures or day/night conditions. They operate at an efficiency of more than 300%, meaning they transfer the required btu's/hr. to heat your home with 1/3 the energy usage of standard electric resistance heat. The energy used is electricity produced from our coal-based power plants and wind farms here in North Dakota.

Changing the law to allow tax payers to take advantage of the tax credit on energy saving devices is important because many consumers do not make this energy efficient choice

because of the high initial installation cost, even when there are sufficient energy savings that lower long term operation costs. For example, the costs of a geothermal heat pump system are high compared to other heating and cooling systems. The cost could be \$5,000 to \$7,000 higher depending on the size of the home. These systems, however, operate at a cost that is one quarter to one fifth the cost of operating a high efficiency gas furnace. To promote the wise use of our energy resources, a small investment in a tax credit for energy savings can pay large dividends.

The installation of these systems are very labor intensive, each install requires as many as four (4) different contractors to complete. The installation of the ground loop, from which heat is extracted, is done by a well drilling contractor specifically tooled for ground loop installation. Bores are from 150' to 200' deep with all pipe being heat fused and pressure checked. The inside work is done by the sheet metal duct work contractor who attaches and installs the duct work and filters, the plumber assembles and installs all the piping and pumps to circulate the ground loop heat transfer fluid and the electrician wires the system and provides metering so that the special heat rates can be applied to its energy usage. These systems create many positives for many contractors, providing them with new revenues from which they can generate profits. We work with virtually all the HVAC contractors in our service area, helping them to get into the geothermal business.

As a distributor of geothermal heat pump materials, Capital Electric provides an inventory of all the required parts and pieces to install a system. This inventory is supported by eleven electric cooperatives (located from Jamestown to the Montana Border and South Dakota to Canada) and five local contractors, all share in the costs to maintain it.

Our material inventory group provided materials for the installation of 52 systems in 2006 (approximately \$364,000 of inventory material). This quantity is more than one half of the systems installed in the state last year for residential applications as we have surveyed the most popular manufactures for their sales numbers in North Dakota.

Should this legislation be approved by the 2007 legislature, it would have a very positive effect on the heating and cooling industry, helping to provide additional revenues and profits for contractors who provide jobs in our state. They pay taxes on these profits which will help offset the cost to the state to provide tax credits to our citizens who make these large investments.

Tax credits last year could have been \$360 each for approximately 100 systems, or only \$36,000 to help promote these systems if this legislation had been in place. This legislation would promote energy efficiency and responsibility, create jobs, and provide added profits and additional tax revenue.

The State of North Dakota has recently completed two beautiful office buildings, Job Service and Workforce Training and Safety, which use 100% geothermal heating and cooling. The state has determined that this technology is the way of the future and has invested in its efficiency for state facilities. It is important that we help the residential market do the same by providing this small incentive to our individual citizens.

The bottom line of all of this is that these systems promote energy conservation and responsibility, help to provide jobs in a new and expanding technology and at the same time help people of our state with their investment in the future. The expansion of this technology could provide an atmosphere where these proposed tax credit costs could easily be made up by the additional sales and income tax revenue generated.

Thank You

HB 1514

ND Income Tax Credits for Geothermal Energy Device
Senate Finance and Taxation Committee
February 21, 2007 (10:00 AM)
Lewis and Clark Room

Presented By: Doug Mork, Member Services Director
Capital Electric Cooperative
4111 State Street
Bismarck, ND 58503
(701) 223-1513

Mr. Chairman and members of the committee, my name is Doug Mork, Member Services Director for Capital Electric Cooperative here in Bismarck. I rise in support of HB 1514, however I want to draw your attention to an important section that was amended and removed from the bill in the House of Representatives. In its original form, section 2 of HB 1514 provided a short form income tax credit for the installation of energy saving devices, such as geothermal heat pumps. My interest in this tax credit is primarily because I have seen the benefits that geothermal heat pumps have in saving energy and promoting jobs and profits for North Dakota businesses.

Capital Electric Cooperative has been involved in promoting geothermal heat pumps for almost nineteen (19) years. These state of the art heating and cooling systems have become the most efficient system available today. They work 24 hours a day, 7 days a week, without concern for outside temperatures or day/night conditions. They operate at an efficiency of more than 300%, meaning they transfer the required btu's/hr. to heat your home with 1/3 the energy usage of standard electric resistance heat. The energy used is electricity produced from our coal-based power plants and wind farms here in North Dakota.

Changing the law to allow taxpayers to take advantage of the tax credit on energy saving devices is important because many consumers do not make this energy efficient choice because of the high initial installation cost, even when there are sufficient energy savings that lower long term operation costs. For example, the costs of a geothermal heat pump system are high compared to other heating and cooling systems. The cost could be \$5,000 to \$7,000 higher depending on the size of the home. These systems, however, operate at a cost that is one quarter to one fifth the cost of operating a high efficiency gas furnace. To promote the wise use of our energy resources, a small investment in a tax credit for energy savings can pay large dividends.

The installation of these systems is very labor intensive; each installation requires as many as four (4) different contractors to complete. The installation of the ground loop, from which heat is extracted, is done by a well drilling contractor specifically tooled for ground loop installation. Bores are from 150' to 200' deep with all pipe being heat fused and pressure checked. The inside work is done by the sheet metal duct work contractor who attaches and installs the duct work and filters, the plumber assembles and installs all the piping and pumps to circulate the ground loop heat transfer fluid and the electrician wires the system and provides metering so that the special heat rates can be applied to its energy usage. These systems create many positives for many contractors, providing them with new revenues from which they can generate profits. We work with virtually all the HVAC contractors in our service area, helping them to get into the geothermal business.

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Tax credits last year could have been \$360 each for approximately 100 systems, or only \$36,000 to help promote these systems if this legislation had been in place. This legislation would promote energy efficiency and responsibility, create jobs, and provide added profits and additional tax revenue.

The State of North Dakota has recently completed two beautiful office buildings, Job Service and Workforce Training and Safety, which use 100% geothermal heating and cooling. The state has determined that this technology is the way of the future and has invested in its efficiency for state facilities. It is important that we help the residential market do the same by providing this small incentive to our individual citizens.

The bottom line of all of this is that these systems promote energy conservation and responsibility, help to provide jobs in a new and expanding technology and at the same time help people of our state with their investment in the future. The expansion of this technology could provide an atmosphere where these proposed tax credit costs could easily be made up by the additional sales and income tax revenue generated.

I urge the Senate Finance and Taxation Committee to consider amending HB 1514 to include the short form tax credit for the installation of energy saving devices, such as geothermal heat pumps.

Thank You