2011 HOUSE APPROPRIATIONS

HB 1374

2011 HOUSE STANDING COMMITTEE MINUTES

House Appropriations Education and Environment Division
Sakakawea Room, State Capitol

HB 1374
1/26/11
13432

☐ Conference Committee

Committee Clerk Signature Meredith Traeholt

Explanation or reason for introduction of bill/resolution:

A BILL for an Act to provide a natural gas incentive grant program; and to provide an appropriation.

Minutes: You may make reference to "attached testimony."

Chairman Skarphol: Called the committee to order to hear HB 1374.

Representative Richard Holman, District 20: The purpose of this legislation is to provide funding to the commerce department to establish and administer a dollar for dollar grant program to a city or cities to study the feasibility of a municipal natural gas utility or natural gas distribution system. An added benefit to the abundance of oil and gas exploration in our state could come from smaller cities being able to access natural gas energy for enhancing economic development. Access to convenient and affordable energy would be one more element necessary to attract development in our smaller communities. As ND's economy grows, we can use that growth to leverage and diversify further development through programs such as this.

Chairman Skarphol: It's available statewide, for any municipality that is probably utilizing propane; can you give me a bit more background?

Rep. Holman: Yes, the most likely place for this is where natural gas is being produced. This would be an enhancement.

Representative Kenton Onstad, District 4: See attachment 1.

Chairman Skarphol: Are you talking about the feasibility of creating a municipally held entity, creating an entity to own this and then build the distribution system, or just the cost of building a distribution system within that city?

Rep. Onstad: We want to find out if, in the interests of the impacted citizens, this could be a feasible option we offer them. That would include the distribution system, or maybe there is a current business in the community that is a major employer that wonders about the possibility of bringing natural gas there to utilize it, for business savings.

Chairman Skarphol: Are you aware of any community that is struggling with this?

Rep. Onstad: Gwinner and the Bobcat plant has looked into this, I think. We have an abundance of natural gas, let's look at trying to create some things.

Chairman Skarphol: I'm just trying to work through this. If one community does this, I'm not sure why we need to reinvent the wheel, it should be fairly obvious what the potential costs would be and a community would just need to make a decision. I understand there are some variables.

Rep. Monson: Who is going to own this? Is this going to be city owned, investor owned or a cooperative?

Rep. Onstad: The governance could be any one of those entities. This would be a nice second choice have natural gas. Also, maybe there's a little economic developer that's approached the city and said, I have a business I'd like to relocate but their major concern is the availability of natural gas.

Rep. Monson: Your goal is to help a city decide if they can get natural gas. You're not necessarily advocating the city go into the business of being a natural gas utility. If your amendment got attached, that could be a possibility.

Rep. Dosch: This isn't about developing a new source, it is about tapping into existing natural gas supply line?

Rep. Onstad: I hadn't thought about if it's existing or if it's a new possibility. I want to encourage the use of the availability of natural gas, because we have an abundance of it now. This is an incentive to look further into that.

Niles Hushka, CEO, Kadermas, Lee & Jackson: See attachment 2.

Rep. Monson: What in your opinion is a reasonable distance to put in new lines?

Hushka: Those communities within about 15 miles of a supply line have the best possibility of working out.

Rep. Monson: What is the minimum size of a community to make it feasible to go 15 miles, would it be feasible for a couple hundred people?

Hushka: That's not feasible at all, this is geared towards communities like Gwinner, with Bobcat, and Rugby, which has a lot of industry. My guess would be communities in the 500-700 range. The size of Beulah-Hazen, about 2500, would hands down be feasible.

Rep. Monson: If natural gas prices were higher, it would be more feasible because they'd have a bigger revenue stream coming in. When the cost is low....

Hushka: The reason is to let us convert their furnaces to natural gas from propane or from fuel oil. So right now is a great opportunity for conversion.

Rep. Monson: People who put these in will get their profit margin, whether it's high or low price. The real savings is for the people that convert, especially if the price is low.

Hushka: The systems that we're looking at would mostly be municipally owned and utility run. That is an easier finance method at the moment. But yes, you're exactly right.

Chairman Skarphol: Could you walk through the scenario for me? You are asking for money to do the feasibility study. I'm wondering why we have to do continued feasibility studies for communities of approximately the same size, approximately within the same distance from a supply line. Once should be enough to have a basis to make a decision. From one of these communities, can you tell me what the study cost was, what the cost of the conversion was?

Hushka: First, there is a meeting with the larger users to make sure they are interested in it. Then you go into the details of cost estimation. Each facility has a different scenario based on the distance from and the type of supply line out there. That is the willingness, and then there is bringing the product into the community. Conversion is an in-home operation, and you can do just heating, or hot water heating, too. In-home costs are running, with a hot water heater, around $300-$500. In most systems we're modeling, that's built into the system costs.

Chairman Skarphol: Give me a specific example of what the feasibility study costs and what the overall costs are to create the system to deliver the gas to the homes.

Hushka: One that's fresh in my mind is Gwinner. They are in the study stages. The study will cost about $95,000. Gwinner is unique because of the Bobcat plant. Modeling and preliminary supply contracting is the second portion of it. Going to Rugby, installation costs were about $5.5 million for just the distribution system. We design the systems for 50 years but project for 100. Because it is hard to project local supply for that length of time, generally we have to have an interconnect to a large supply line. That's the biggest cost.

Chairman Skarphol: Do you anticipate the installation costs in Gwinner to be similar to Rugby?

Hushka: Slightly smaller, probably closer to $5 million.

Chairman Skarphol: Further testimony in support of HB 1374? Opposition?

John M. Olson, Lobbyist: Spoke in opposition of HB 1374, on behalf of Montana-Dakota Utilities (MDU). See attachment 3.

Rep. Dosch: With entities like MDU out there, people in the business of selling natural gas, wouldn't they be doing this on their own, expanding to other communities, if feasible? Why would we appropriate state money to do something that the private sector is doing?

Olson: That is what MDU is doing, looking for new avenues to provide expanded services, when economically feasible.

Chairman Skarphol: If a community like Gwinner were to approach you and say they were thinking of going to a natural gas distribution system, and what does MDU estimate it would cost, I assume you could give them a pretty good ballpark figure on that, excluding the system, which they could estimate themselves. I'm wondering why the private sector isn't more involved, if there is a desire on the part of the community.

Olson: Your question makes the point.

Mike Rud, Executive Director, North Dakota Propane Gas Association: Spoke in opposition to HB 1374, see attachment 4.

Rep. Monson: How does the cost of natural gas compare to propane?

Rud: Propane is a little bit higher cost, not much, but probably a little more efficient. The percentage higher varies on where the market is at, but I could try to get some information to you on the long term trends of that.

Kathy Aas, Community Relations Manager, Xcel Energy: Spoke in opposition to the bill. It is cost prohibitive for some smaller communities to have natural gas put in, and there are a lot of safety, federal and state specifications to meet. Our company had looked at putting service into a small community in the eastern part of the state in the early 90s, but there was only one larger customer and it was cost prohibitive. We gave them the price and they weren't willing to pay it.

Rep. Hawken: Did you hear the first part of this testimony? Does that make any difference to you as a company? Would you look at a community like Gwinner if asked?

Aas: We currently do it already, we don't feel this bill is necessary, but it may make a difference. I'm assuming we would, if asked.

Chairman Skarphol: Further questions? Further testimony? If not, we'll close the hearing on HB 1374.

2011 HOUSE STANDING COMMITTEE MINUTES

House Appropriations Education and Environment Division
Sakakawea Room, State Capitol

HB 1374
1/28/11
13605

☐ Conference Committee

Committee Clerk Signature Shirley Brenning

Explanation or reason for introduction of bill/resolution:

A BILL for an Act to provide a natural gas incentive grant program; and to provide an appropriation.

Minutes: You may make reference to "attached testimony."

Chairman Skarphol: Committee members, Mr Olson did provide me with some potential language if the committee is inclined to pass this bill. Referring to the Bill, he suggests on line 7. Reading from Line 7.....and put in "creating a natural gas distribution system in municipalities currently without such service. The Department of Commerce shall establish a dollar for dollar match to a qualified applicant that is a city for the purpose of a study of the feasibility of creating a natural gas utility or natural gas distribution system in municipalities currently without service." That is a possible change in the language.

Rep. Monson: The amendment would make it better, but there are private sector companies that would do it so it is not needed.

Rep. Hawken: I believe MDU is doing that, other companies refuse to bid. Natural gas is less expensive long term.

Chairman Skarphol: How often do we have to do a feasibility study of the same thing?

Rep. Hawken: Mr. Olson, is it standard that if you are 15 miles away and X amount of miles. Is it pretty standard when you are talking about feasibility studies?

John Olson, Representing MDU: There is some work being done in Gwinner. If you don't pass this bill, commerce will think that they should not do it.

Rep. Dosch: **Move Do Not Pass.**

Rep. Monson: **Second**

Chairman Skarphol: There is a motion and a second. Is there any discussion?

Rep. Hawken: I thought commerce should be doing this. It is not necessarily the state's place to pay for it. I would see it as guidance rather than paying.

Chairman Skarphol: I have no problem with Commerce providing people with information as to what has transpired in other communities and giving guidance but not for $.5M to match dollars to do it.

Rep.Hawken: We don't have to legislate everything in the world. I wonder if there is another....

Rep. Williams: It is getting a little scary but I am starting to think a little more like Mark. laughter

Chairman Skarphol: We will have the Clerk take the roll on the **Do not Pass.**

Vote taken: Yes 6 No 0 Absent 0 Motion Carried.

Carrier: Rep. Dosch

2011 HOUSE STANDING COMMITTEE MINUTES

House Appropriations Committee
Roughrider Room, State Capitol

HB 1374
2/8/11
14231

☐ Conference Committee

Committee Clerk Signature Meredith Trachsel

Explanation or reason for introduction of bill/resolution:

A BILL for an Act to provide a natural gas incentive grant program; and to provide an appropriation.

Minutes: You may make reference to "attached testimony."

Chairman Delzer: Opened discussion on HB 1374.

Representative Dosch: This is a bill to provide some matching grant dollars to communities for the purpose of conducting feasibility studies on whether or not to hook up natural gas distribution systems. Part of the discussion that entailed was that there have been several of these studies already done on various sizes of communities, and a utility company can usually already determine, given a community's size, whether it's feasible or not. The other problem is that the way the bill is written, it would not prevent a community already being served by a natural gas utility from using this grant to seek out a competitor. It was the feeling of the E&E division that if a community or private entity felt there was possible merit for this service, then they would fund this through their own resources, and this is more of a private sector matter and not an area the government needs to step in. Your division, by a vote of 6-0, voted Do Not Pass. I move that for the full committee.

Representative Skarphol: Second.

Chairman Delzer: We have a motion and a second. Discussion?

Representative Kaldor: I think this might come into play in communities where they are not currently serviced. Was there any consideration given for that consequence?

Representative Dosch: We did have the discussion, because this has been done on various sizes of communities, and they can pretty much tell you if you are a certain distance from a natural gas pipeline, what the costs are per mile to get that to the community, and they pretty much know what the distribution requirements are, based on the number of households, how much per household would be required to convert to natural gas. A lot of that information is already out there, you can figure out what it will

cost, and if they look at that and are serious, the community can then contact the MDUs and the Xcels to have them take a look at it.

Representative Nelson: I know there is a situation where a group is coming in and working with cities. The way they're proceeding is to recommend a municipal arrangement for the distribution, and I know they're working with an engineering firm to set that up, and they're doing it without a feasibility study. The engineering firm is offering the expertise on that particular project. Is it the intention to vote on this today?

Chairman Delzer: We have the motion. Do you wish to have it held?

Representative Skarphol: The engineering firm Kadrmas, Lee & Jackson came in in support of this bill. They have 6 projects in the state. That's enough to get a pretty good feel for the costs of the project. Our division felt this really wasn't necessary to appropriate this money to have this done, since if a community is genuinely interested in a vendor, they can approach the vendor or vendors. I think it is the Xcels and the MDUs that would come in and ask for this money, and I don't see the need to provide them with a matching grant.

Chairman Delzer: Further discussion? Seeing none, we'll call the roll for a Do Not Pass on HB 1374. Motion carries 19-2-0. Representative Dosch will carry it.

Date: 1/28/11
Roll Call Vote #: 1

2011 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 1374

House Appropriations – Education and Environment Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number _____

Action Taken: ☐ Do Pass ☒ Do Not Pass ☐ Amended ☐ Adopt Amendment

☐ Rerefer to Appropriations ☐ Reconsider

Motion Made By Rep. Dosch Seconded By Rep. Monson

Representatives	Yes	No	Representatives	Yes	No
Chairman Bob Skarphol	X		Clark Williams	X	
Vice Chair Hawken	X				
Mark Dosch	X				
Rep. Martinson:	X				
David Monson	X				

Total (Yes) 6 No 0

Absent 0

Floor Assignment
Rep. Dosch

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

Date: 2/8/11
Roll Call Vote #: 1

2011 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 1374

House Appropriations Committee

Legislative Council Amendment Number

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

Motion Made By Rep. Dosch Seconded By Rep Skarphol

Representatives	Yes	No	Representatives	Yes	No
Chairman Delzer	X		Representative Nelson	X	
Vice Chairman Kempenich	X		Representative Wieland	X	
Representative Pollert	X				
Representative Skarphol	X				
Representative Thoreson	X		Representative Glassheim		X
Representative Bellew	X		Representative Kaldor		X
Representative Brandenburg	X		Representative Kroeber	X	
Representative Dahl	X		Representative Metcalf	X	
Representative Dosch	X		Representative Williams	X	
Representative Hawken	X				
Representative Klein	X				
Representative Kreidt	X				
Representative Martinson	X				
Representative Monson	X				

Total (Yes) 19 No 2

Absent 0

Floor Assignment Rep. Dosch

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

REPORT OF STANDING COMMITTEE

HB 1374: Appropriations Committee (Rep. Delzer, Chairman) recommends **DO NOT PASS** (19 YEAS, 2 NAYS, 0 ABSENT AND NOT VOTING). HB 1374 was placed on the Eleventh order on the calendar.

2011 TESTIMONY

HB 1374

HB 1374
Attachment #1
Jan. 26, 2011

HB 1374 Testimony

Good Morning Chairman Skarphol and members of Appropriations

HB 1374 provides an incentive program to communities that are looking at an alternative source for their city.

North Dakota is increasing the amount of gas produced in Western North Dakota If you drive through western North Dakota many wells continue to flare. You have to agree it is a tremendous loss. Although this bill doesn't address that fact, HB 1374 is an incentive to increase the usage of Natural Gas.

If any of you have been involved in recruiting a business to your community. It may be manufacturing, technology or what ever. They always ask if you have the availability of natural gas. A community would want this option to attract larger companies to their community.

HB 1374 is for all communities to look into this if you do not have natural gas now. I would like to offer a short amendment to this particular bill. Line 7 after municipal, add Investor owned Utility or Cooperative .

I look at other states and the state that can get it right to incentivize the use of natural gas is going to hit a homerun for future business development.

The amount is a rough calculation and guess. We assume a feasibility study may cost $50,000 of which a community would provide half. 20 communities might benefit from the feasibility study. It has a 2 year sunset to give it a shot.

Mr. Chairman and members of Appropriations, please give it your best consideration and move a do pass for HB 1374

Thank You

Attachment #2
HB 1374
Jan. 26, 2011

Testimony in Support of HB 1374

I would recommend that you act in favor of this legislation because it will:

- Save money for residents on fixed incomes
- Help enable the future of small communities in North Dakota
- Create jobs

In the last three years my company has completed Feasibility Studies for natural gas distribution systems in Beulah, Hazen, Rugby and Towner. Today we are working with Gwinner on a similar study. Each of these studies has proven that natural gas distributions systems are feasible when 60% or more of the businesses and residence convert from existing heating systems to natural gas based systems. In all cases the initial costs of equipment conversion has been included in the analysis. Our analysis suggests that an individual homeowner would save between 15% and 40% on their annual heating costs based on the current cost of all utilities. Business owners and especially manufacturers saved considerable more.

Our smaller communities do not have natural gas services because the costs of infrastructure for isolated communities prohibited installation. The majority of these costs were associated with the interconnection to a supply line. Today there are new supply lines that were built over the past 15 years. Those communities within a reasonable distance of these new lines can afford the costs of connection and distribution systems.

In the past natural gas prices were high and therefore the cost differential between heating options were often small. In the US significant new reserves of natural gas have been found and developed. This significant increase in supply has brought costs well below normal. Gas supply experts do not see these costs rising in the near future. Export fuels like propane do not have the same expectations. These fuels must compete in international markets and therefore their long term costs are projected upwards.

Our small communities are often populated with our lowest paid people and then have the highest percentage of fixed income people. By stabilizing heating costs we not only benefit these low income people but also help ensure that these communities can grow. Industry prefers natural gas and therefore communities with gas compete best. There are many communities within proximity of gas export lines. We need to give these communities the chance to grow.

I support House Bill 1372

Attachment #3
Jan. 26, 2011

Notes on ND HB 1374 Re: Dept of Commerce Grant for community natural gas studies

1. Don't understand need for bill or what is behind sponsor's desires
2. MDU looks at expanding into "new" communities for natural gas on an ongoing basis.
3. On some of the projects we do work with the Dept of Commerce. Currently working with them on a project
4. Putting natural gas into a community that does not have it is very economically challenging. Factors include:
   a. large expense of up to $2 million of tapping into an existing natural gas pipeline which is necessary to insure reliability and quality specifications for service are met. You cannot rely on a single supply source for deliveries and in many cases need to accompany the service with storage services offered by some pipelines. Stringent quality specifications must also be met in order to be burned in appliances—i.e.- furnaces and water heaters.
   b. Vicinity to pipelines generally requires a number of miles to be built from mainline to community at a cost of up to $250,000 per mile (4-inch line).
   c. Within the community additional impacts come in cost of distribution system (more expensive due to constructing in established areas—streets, yards, etc.), construction work impairments to the community/citizens.
   d. Cost to potential users can be large if they need to convert internal systems and appliances such as needing duct work, electric to natural gas furnace costs and potential new piping to meet codes. This can be a large deterrent to new customers.
   e. Need a significant saturation of customers to use the new system to make economical.
   f. Systems need to meet safety, federal and state specifications and need to be operated by qualified personnel.
5. Recently MDU participated with the City of Hankinson on a review of potential gas service to the Community. MDU provided survey questions which were distributed with city water bills. The survey results concluded in not having enough interest to pursue even though there was a pipeline near city limits serving ethanol facility.
6. Many communities look to natural gas as a positive in economic development attraction efforts. MDU also participates in this review on a statewide basis with many of the same challenges present.
7. MDU has been able to aggressively pursue and continues to desire to pursue natural gas expansion into new areas/communities but does not feel it is necessary to tie the reviews into a study.
8. If the desire under this legislation is not to expand into new areas but rather replace an existing distribution system owner with a municipal-owned system, then many concerns should be addressed relative to eminent domain, qualifications for running a system, expertise in contracting for natural gas and related services and owning proper upstream pipeline capacity rights in order to insure a reliable supply.

Again, MDU wants to expand natural gas use and continues to push forward on reviewing potential. But realistic understanding of economic and operating challenges must be present and we don't think this legislation is a driver to get deals done.

John M. Olson
Lobbyist #13
MDU
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Attachment H 4
HB 1374
Jan. 26, 2011

Testimony HB 1374

January 26, 2011 – House Appropriations Committee

Chairman Skarphol & members of the committee:

For the record, my name is Mike Rud. I'm the Executive Director of the North Dakota Propane Gas Association. On behalf of over 200 propane marketers and associate members employing over 1,000 people in ND, a majority of whom live and work in rural ND, I rise in strong opposition to **HB 1374, urging a "DO NOT PASS"** recommendation from this committee.

NDPGA cannot understand the reasoning behind this bill. How does it provide such great benefits to our state residents living in rural areas? This groundwork was laid long ago, by North Dakota propane marketers who have spent a great deal of their own time and business capital building up a strong, efficient, reliable and affordable source of energy infrastructure for residential and commercial properties across North Dakota. More importantly, our propane dealers have built this energy network without the benefit of any matching grants and would like the playing field to be kept

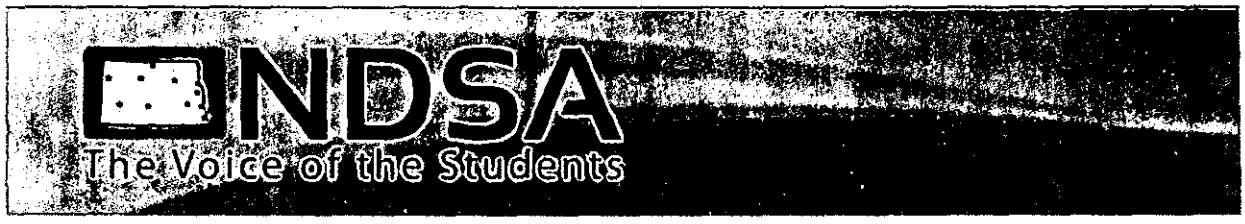
even. If a ND city wants to invest in its own municipal gas distribution system it should do so without the help of state dollars.

What's worse is this bill scoffs at the idea of free enterprise. North Dakota propane dealers aren't afraid of competition. Capitalism is what makes this country great and keeps the juices flowing in the retail sector. However, passage of this bill could cost many people in the propane industry their jobs.

Again, I urge a **"DO NOT PASS" on HB 1374.**

Thank you for your time and consideration on this matter.

attachment #2 HB 1411



Chairman Skarpol, and members of the committee, I am William Woodworth, the current Legislative Lobbyist for the North Dakota Student Association. We are here to testify against HB 1411. Section 1 of the bill would limit the authority of the State Board of Higher Education to prescribe duties to the State Commissioner of Higher Education. Specifically, the bill would prohibit the SBHE from delegating duties to the Commissioner "which include governance over institutions under the control of the board"(line 18, page 1). If this committee recommends a do-pass on HB 1411, it will be more difficult for the State Board of Higher Education to carry out its duties under the North Dakota Constitution, art. VIII, §6(6)(a) which states "The said state board of higher education shall have full authority over the institutions under its control" The State Board of Higher Education was designed to prevent the political process from micromanaging the administration of higher education. Since the SBHE is not able to administer the daily activities of the University System in the fact that the Board does not meet daily, the Board must be able "to delegate to its employees details of the administration of the institutions under its control" ND Constitution art. VIII, §6(6)(b). This would be akin to telling a superintendant of public schools that he could not manage the schools under his jurisdiction. Also, the spending models that HB 1411 creates is vague and is already addressed in other legislation.
Thank you for your time.

William Woodworth

North Dakota Student Association, Legislative Lobbyist