MICROFILM DIVIDER

OMB/RECORDS MANAGEMENT DIVISION
SFN 2053 (2/85) 5M

ROLL NUMBER

DESCRIPTION

2229

2005 SENATE FINANCE AND TAXATION

SB 2229

2005 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. SB 2229

Senate Finance and Taxation Committee

☐ Conference Committee

Hearing Date February 1, 2005

Tape Number	Side A	Side B	Meter #
# 1		X	11.0 - 60.4
#2	X		0.0 -11.7
Committee Clerk Signature	Sharon Kenfrow		

Minutes:

SEN. HEITKAMP: appeared as prime sponsor with written testimony as the bill overview and also presented amendments. I ask the question of what are we using the profits from the Bank of ND for? Could we be using them to grow this new industry.

SEN. COOK: I'm looking at the effective date and I assume that effective date applies also to the mandate, 10% use? I believe it does.

REP. GULLESON: appeared as cosponsor stating we really do think its time for ND to really step ahead in terms of advancing renewal energy and presented a hand out on Renewable Energy in Minnesota.

REP. SCOTT KELSH: appeared in support stating its time to give these industries the boost they need so that they are not left behind any further.

REP. JON NELSON: appeared as cosponsor in support of the bill and the concept of renewable energy and how it fits into ND's future. The renewable fields come before this legislative

session organized and unified in moving a policy and have been promoting this industry. I think its important that we stand up and make a commitment to renewable fuels not as of, in place of petroleum but in conjunction with. We have an opportunity today to move forward with renewable fields and we should grasp that and become leaders.

ROGER JOHNSON: State Agriculture Commissioner appeared in support with written testimony stating SB 2229 contains a number of provisions that seek to advance the development of renewable energy in ND.

SEN. COOK: I assume that new ethanol plants that could possibly get built in ND, the product that they produce is going to have to be shipped out of the state?

ANSWER: I would presume that some of that would happen. Currently we are bringing some ethanol in and using it and some that we produce is going out. It's the same thing that we are doing with our commodities right now.

JOYCE ISZLER: Chair for ND Renewable Energy Partnership appeared in support with written testimony and presented their membership list stating it is ND citizens across the state, not just farmers, who support reducing our dependence on foreign oil.

JOYCE ISZLER: as Director of the ND Corn Council appeared in support with written testimony stating the ND Corn Council supports this because the two major factors influencing ethanol sales are availability and price.

JARED HAGERT: a soybean producer appeared in support with written testimony stating this bill creates incentives for all renewable fuels including biodiesel and will help create a favorable environment for the renewable industry in ND and the ND Soybean Growers Assoc. Also supports this bill.

RICHARD SCHLOSSER: from NDFU just presented his written testimony to the committee.

DAVE MACIVER: ND Chamber of Commerce appeared in support of renewable fuels but not of mandates. Presented a sheet on Coalition Against Mandates. What we have oppositions to is forcing business to put something in that they may not choose to do and that's the only reason we are here.

SEN. EVERY: How many businesses are in ND? I don't know, I know that we represent with our coalition somewhere around 8,000

SEN. EVERY: how many of those 8,000 or I heard greater than 10,000 are actually members of the GNDA? GNDA has about 800 members.

SEN. EVERY: of those petroleum retailers that your represent, do you know what percentage of those actually already offer 10%? No I do not

JOHN DWYER: President of Lignite Council appeared in opposition stating we need to use forms of energy including renewables, not mandates. We oppose the mandates.

SEN. EVERY: would you oppose a mandate regulating the price of gasoline so that wholesalers such as Walmart might not come in and sell it cheap?

ANSWER: I don't know if we would or not, we don't deal with in the commodity of gasoline.

RON NESS: ND Petroleum Council appeared in opposition because we feel this bill is bad public policy. A demand for renewable fuel is increasing. It creates problems for distribution and access to these fuels. This puts restrictions on the market place. When you begin mandating fuel or renewables into the market place you displace one fuel with the other fuel. Why can't these plants attract a private investor? That's what they need, they need private dollars to attract that

investment and move forward and work with the suppliers and the refineries and the other people to make their product a win win.

SEN. EVERY: the super Walmart question, we regulate what they can and cannot charge for petroleum and is that not a mandate?

ANSWER: that is not our proposal, we do not feel that is good public policy.

SEN. BERCIER: has the petroleum industry ever received a subsidy?

ANSWER: yes they have.

RUSS HANSON, ND Petroleum Marketers Assoc. States that we represent around 310 marketer members representing about 600 to 625 of the 850 retail locations. Prior to 2003 legislation we surveyed as to how many of them offered ethanol products. At that time about 65% responded did and since then, some more have come on. I would estimate about 70%. To respond to 2nd question to correlation between the mandate as prescribed on this bill and a bill to be heard later this week, this would be a policy decision that would dictate that a price will be offered in every location.

SEN. EVERY: isn't that a mandate?

ANSWER: NO - we would say that we will be asking the govt. to be involved, yes, in a regulatory environment but we will not be asking them to set prices at a certain level.

Closed the hearing.

2005 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. **SB 2229**

Senate Finance and Taxation Committee

☐ Conference Committee

Hearing Date **February 3, 2005**

Tape Number	Side A	Side B	Meter #
#1	X		17.0 - 22.6
Committee Clerk Signature	Sharon Kenfield		

Minutes:

SEN. WARDNER: it takes money from the Bank of ND and moves into the renewable trust fund is what it does. So its 20 million from the general fund. There's a lot of good things in here but there are a lot of things that, I don't feel we should put it into law that says they have to have it.

SEN. URLACHER: there seems to be some federal actions as well isn't there?

SEN. WARDNER: I don't know, but this money comes out of the Bank of ND and its not in budget any place and we'd have to decide where we're going to cut something. Those are probably the 2 main things.

SEN. URLACHER; did I hear some numbers of 65% are using a blend? 70%

Without a mandate? Right I would think it would grow and stand on its own

SEN. EVERY: I don't disagree with that and nobody likes the work mandate, but I can address, first of all, with regard to using the Bank of ND money, if I had a nickel for every time we did

that we wouldn't need the 20 million for number 1 and number 2 is that last session we used that money to fund lots of things. In fact, we took money from trust funds to balance the budget before we left. So its not a unique idea.

SEN. WARDNER: I don't disagree with you, and made a **MOTION FOR DO NOT PASS,** seconded by Sen. Tollefson.

ROLL CALL VOTE: 4-2-0 Sen. Wardner will carry the bill.

FISCAL NOTE

Requested by Legislative Council
01/18/2005

Bill/Resolution No.: SB 2229

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			($20,000,000)	$20,000,000		
Expenditures						
Appropriations						

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.*

SB 2229 creates a renewable energy policy for the state and establishes a renewable energy development commission. This commission is funded by the renewable energy trust fund, which will, during the 2005-07 biennium, receive one-third of the profits of the Bank of North Dakota, estimated to be $20 million. Sections 8 through 14 create various corporate and individual income tax credits as incentives to create and use renewable energy in the state. We cannot estimate the fiscal impact of these credits, as it is unknown how significantly the provisions of SB 2229 will be utilized.

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:**	Office of Tax Commissioner
Phone Number:	328-3402	**Date Prepared:**	01/31/2005

Prepared by the Office of State Tax Commissioner
January 28, 2005

PROPOSED AMENDMENTS TO SENATE BILL NO. 2229

Page 5, line 17, after "facility" insert "in this state"

Page 5, line 23, after the period insert "A taxpayer may not claim a credit under this section for any taxable year before the taxable year in which the facility begins selling biodiesel fuel containing at least two percent biodiesel fuel by volume, but eligible costs incurred before the taxable year sales begin may be claimed for purposes of the credit under this section for taxable years on or after the taxable year sales of biodiesel begin."

Page 5, line 28, replace "use" with "purchase in this state"

Page 6, line 8, after "purchase" insert "in this state"

Page 6, line 12, replace the period with ", including ethanol, biodiesel, wind energy, fuel cells, biomass, geothermal, and solar energy."

Page 6, line 17, replace "use" with "purchase"

Page 6, line 26, replace the period with ", including ethanol, biodiesel, wind energy, fuel cells, biomass, geothermal, and solar energy."

Renumber accordingly

Date: 2-3-05
Roll Call Vote #: 1

2005 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. *SB* 2229

Senate **Finance and Taxation** Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number

Action Taken Do Not Pass

Motion Made By Wardner Seconded By Tollefson

Senators	Yes	No	Senators	Yes	No
Sen. Urlacher	✓		Sen. Bercier		✓
Sen. Wardner	✓		Sen. Every		✓
Sen. Cook	✓				
Sen. Tollefson	✓				

Total (Yes) 4 No 2

Absent 0

Floor Assignment Wardner

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

REPORT OF STANDING COMMITTEE

SB 2229: Finance and Taxation Committee (Sen. Urlacher, Chairman) recommends **DO NOT PASS** (4 YEAS, 2 NAYS, 0 ABSENT AND NOT VOTING). SB 2229 was placed on the Eleventh order on the calendar.

2005 TESTIMONY

2229

SB 2229 – Bill Overview

Section 1 and 2– Ethanol Availability Standard
Effective January 1, 2006, every dealer offering gasoline for sale in this state must offer a 10 % blend of ethanol.

Section 3 – Establishes a Renewable Energy Policy
This bill defines a renewable energy policy that serves to provide a mission statement and framework for advancing all renewable energy public policy

Sections 4 and 5 – Establishes a Renewable Energy Development Commission/duties
Establishes a Renewable Energy Development Commission that includes members who represent commodity groups, the state energy office, agriculture commissioners office, the Dept of Commerce, wind and biomass interest groups and the states business community.

- This Renewable Energy Development Commission shall:
  - Administer and use the renewable energy fund to carry out the renewable energy policy of the State of North Dakota
  - Provide grants, loans, equity investments, support for research and development, demonstration projects, training, public information and market development for projects that advance the use of renewable energy including: ethanol, biodiesel, wind energy, fuel cell, biomass, geothermal and solar
  - Serve as a resource and promoter of other renewable fuel projects and assist in facilitating and moving forward economically viable projects developed by the private sector
  - Submit a bi-annual report to the legislative council and also shall make a report of its activities, accomplishments, and recommendations to the 60th legislative assembly
  - May accept federal and private funds to carry out its purposes

Section 6 – Renewable Energy Trust Fund
Establishes a Renewable Energy Trust Fund to provide essential working capital to support and grow this emerging industry. The trust fund will be funded by transferring $20 million per biennium from the profits of the Bank of North Dakota

Section 7 - State Purchasing and Contract Issuance Policy
The State of North Dakota will serve as a role model by establishes a purchasing policy that requires a 10% renewable energy standard be met in contracts.

- Purchase of electricity –At least 10% of the total of all electricity purchased for the state agencies and institutions be obtained from wind energy, with preference for wind generated in the state.
- Motor vehicles and diesel and gas powered equipment – All state fleet vehicles must use 10% ethanol and 5% biodiesel.
- RFP requirements – All RFP's for construction contracts and projects in an amount of $100,000 or more utilizing motor fuel must include a renewable fuel use requirement. Gas vehicles must use a 10% ethanol blend and diesel must use a 5% biodiesel blend.

Section 8, 9 and 10 and 12 – Biodiesel Tax Credits

Last session we were successful in passing legislation that provides for a tax credit for producers and blenders on equipment to build or upgrade for biodiesel production. This session we want to bolster use through the following incentives:

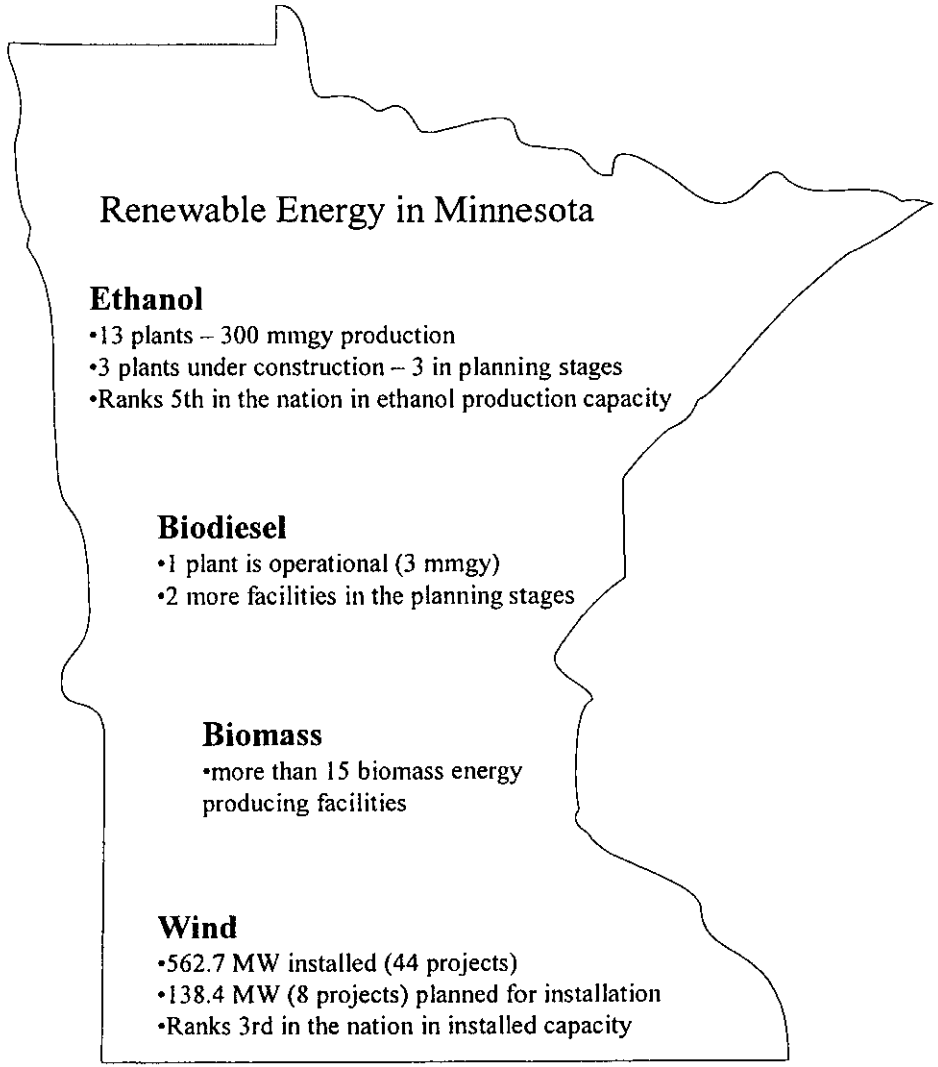
- Section 9 will provide a corporate income tax credit at the retail level to offset the additional costs to adapt or add equipment to the facility to sell biodiesel – the blenders, heaters and tanks. Credit in the amount of 10% per year for five years, limit of $50,000 total for all taxable years.
- Section 10 allows for corporate income tax credit for the use of biodiesel – in the amount of 2 cents per gallon of a 10% blend or greater.
- Section 12 – allows for an individual income tax credit for the use of biodiesel – in the amount of 2 cents per gallon of a 10% blend or greater.

Section 13 - Hydrogen Fuel Cell income tax credit

This section will allow an income tax credit of up to $1500 for the purchase of hydrogen-powered fuel cells or hybrid powered vehicle. To qualify for the credit, the hydrogen fuel cell must be powered from a renewable source.

Section 14 – Investment Tax Credit for Qualified Renewable Energy Projects

Expanded use of tax credits to encourage investment in renewable energy projects. It includes an income tax credit of 50% (currently 30%) on an equity investment in a qualified renewable energy project. Maximum credit of $20,000 per person per project. Also, expands the allowable investments from cooperative and LLC to include investor owned, as well.



Resource	State Incentives
Biomass	Production Incentive – Payment of 1.5 ¢/ kWh for 10 yrs for generation from an on-farm anaerobic manure digester system.
	Net metering – biomass energy systems less than 40 kW in size are eligible for net metering.
Wind	Property tax – All real and personal property of a wind energy system is exempt.
	Production Incentive – Payment of 1.5 c/kWh for 10 yrs for wind generation of 2 MW or less that begins generating electricity after 6/30/99 – 200 MW program cap.
	Net metering – wind energy systems less than 40 kW in size are eligible for net metering
	Financial incentives – Agricultural Improvement Loan Program – provides loans to farmers for improvements or additions to permanent facilities, including energy conversion equipment with an output capacity of 1 MW or less
	Sales tax exemption – wind energy conversion systems used an electrical power source are exempt from MN sales tax. Materials used to manufacture, install, construct, repair or replace wind systems are also exempt.
Ethanol	Production credit – payment of 20 c/gallon for ethanol produced in MN and produced at plants that begin production by 6/30/00; annual payments limited to $3 million for any one producer and $34 million total
	Standard – all gasoline sold in the state must contain 10% ethanol. (Governor is proposing to increase mandate to 20% by 2011.)
Biodiesel	Standard – all diesel fuel sold in the state for use in internal combustion engines must contain 2 % biodiesel by volume of two of three conditions occur: the biodiesel is produced in-state, additional federal or state incentives are available, and/or it is after 6/30/05
Miscellaneous	Tax deduction – clean fuel vehicle and fueling equipment

Renewable Energy in Iowa

Ethanol
- 6 plants (866.5 mmgy capacity)
- 9 additional plants in various stages of planning and construction
(7 are farmer-owned cooperatives)
- Ranks first in the nation in production capacity

Wind
- Iowa has more than 400 wind turbines with 471.86 MW installed capacity (26 projects)
- 580.5 MW (4 projects) planned for installation
- Ranks 4th in the nation in installed capacity

Biomass
- 5 major methane energy recovery projects
- Major switchgrass project

Biodiesel
- 3 plants (21 mmgy capacity)
- 3 plants in various stages of planning
- Submitted grant to build a terminal mixing facility

Resource	State Incentives
Biomass	Tax exemption – personal property, real property and improvements to real property used to collect and covert methane gas to energy in a operation connected with, or in conjunction with , a publicly owned sanitary landfill are exempt from the state property tax
	Tax exemption – electricity generated by methane gas conversion property are exempt from the replacement generation tax
	Solid Waste Alternatives Program – funds statewide development and expansion of waste reduction and recycling projects.
Wind	Property tax – any city or county can pass an ordinance assessing wind energy conversion equipment at a special valuation for property tax purposes
	Sales tax exemption – exempts from state sales tax the total cost of wind energy equipment and all materials used to manufacture, install or construct wind energy systems.
	Tax exemption – electricity generated by wind energy conversion property is exempted from the replacement generation tax, which is six hundredths of a cent per kWh
	Property tax – the market value added to a property by a wind energy system is exempt from state property tax
	Financial incentives – Agricultural Improvement Loan Program – provides loans to farmers for improvements or additions to permanent facilities, including energy conversion equipment with an output capacity of 1 MW or less
Ethanol	Excise tax exemption – ethanol-blended gasoline is taxed at $0.19/gallon, while non-ethanol blended gasoline is taxed at $0.205/gallon.
	Tax credit – a tax credit is given to retail service stations at which more than 60% of the total gallons of gasoline sold and dispensed through one or more metered pumps is ethanol-blended for tax years beginning on or after 1/1/02.
Misc.	Energy Bank Program – provides technical and financial assistance to public and non-profit facilities for installing cost-effective energy efficiency and renewable energy improvements.
	Alternate Energy Revolving Loan Program – zero-percent interest loans for up to ½ of project cost – maximum of $250,000. (Funded by IOUs) Awards are made: Solar – 5 %; Methane – 30%; Biomass – 20%; Small Wind – 10%; Large Wind 20%; Hydropower – 15%.
	Grants – Iowa Energy Center provides grants for energy research on topics that have a strong relevance to Iowa.
	Value-added Agricultural Products and Processes Financial Assistance Program – Iowa Renewable Fuel Fund – offers a combination of forgivable and traditional loans
	Iowa Energy Bank – provides financing for public and some non-profit organizations for energy management programs.
	Mainstay Energy Rewards Program – private company offering customers who install, or have installed, renewable energy systems the opportunity to sell the green tags associated with the energy associated by these systems.
	Alternative Energy Law – IOUs must contract a combined total of 105 MW of generation from renewable resources.
	Interconnection Standards – net metering is allowed for renewable energy systems – no uniform standards are currently in place.
	Mandatory Utility Green Power Option – All electric utilities operating in Iowa are required to offer green power options to customers.

Renewable Energy in Nebraska

Wind
- 12 operational wind turbines with 13.98 MW of installed capacity (4 projects)
- 60 MW of additional capacity are expected to come online in 2005 (1 project)

Biomass
- 20 federally funding biomass RD&D projects currently underway

Ethanol
- 6 plants (389 mmgy capacity)
- 2 additional plants under construction
- Ranks 3rd in the nation in production capacity
- 43.6 % of the gasoline sold in Nebraska is an ethanol blend
- 20% of the state corn crop is processed into ethanol

Resource	State Incentives
Wind	Solar and wind easements – allow property owners to create binding solar easements for the purpose of protecting and maintaining proper access to sunlight. The solar access laws were revised to include wind.
Ethanol	Most recent program expired on 6/30/04 – paid 181/2 cents per gallon for 15.625 gallons/year for a period of up to 8 years. Four plants were built with this incentive and six more projects have qualified for the incentive, even though it has expired. The Nebraska legislature is considering a similar incentive package this session
Misc.	Dollar and Energy Savings Loans – makes available low interest loans for residential and commercial energy efficiency improvements, including renewable energy projects.
	Mainstay Energy Rewards Program – Green Tag Purchase Program – private company offering customers who install, or have installed, renewable energy systems the opportunity to sell the green tags associated with the energy generated by these systems.
	DOE is collaborating with the University of Nebraska to study the implications of using corn stalks for biofuels.

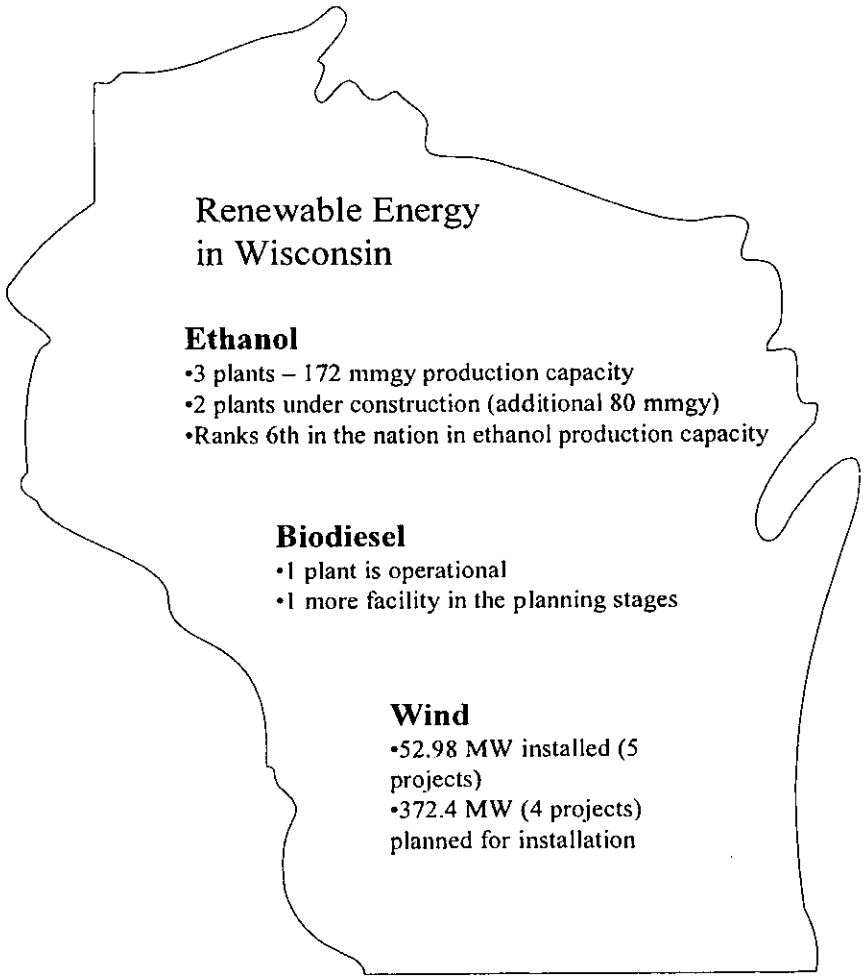
Renewable Energy in South Dakota

Wind
•44.48 MW of installed capacity (7 projects)

Biodiesel
•1 facility is in the planning stages

Ethanol
•10 plants (422 mmgy capacity)
•1st in the nation in farmer-owned plants (8)
•1st in the nation in the percentage of corn used for ethanol
•Ranks 4th in the nation in production capacity
•More than 8,000 farm families have invested in some form of ethanol production
•65 % of the gasoline sold in South Dakota is an ethanol blend

Resource	State Incentives
Wind	Property tax exemption – all commercial wind power production facilities, regardless of ownership, are assessed at the local level. Previously, some facilities were centrally assessed for tax purposes at the state level. T
Ethanol	2- cent at-the-pump excise tax reduction
Misc.	Mainstay Energy Rewards Program – Green Tag Purchase Program – private company offering customers who install, or have installed, renewable energy systems the opportunity to sell the green tags associated with the energy generated by these systems.
	Renewable Energy Systems Exemption – exempts from local property taxes renewable energy systems on residential and commercial property. The exemption applies to the entire assessed value of residential systems and 50% of the installed cost of commercial systems and it may be taken for three years after installation.



Resource	State Incentives
Wind	Property tax – any value added by a wind energy system is exempted from general property taxes.
	Madison – Green Power Purchasing- Madison's Metro Maintenance & Administration Facility purchases 25% of its electricity from wind power.
	Net metering – all technologies, including renewables, are eligible for net metering.
	Wind access law – propoerty owners with wind systems can apply for permits guaranteeing unobstructed access to wind resources.
Miscellaneous	Renewables Portfolio Standard – effective in 1999. A schedule has been implemented for the amount of renewables required
	Public Benefits Fund – established in 1999 (without deregulating electric utility industry). Fund supports grants for low-income programs, energy efficiency services and renewable energy projects.
	Focus on Energy – grant programs – offers several grant programs to support the development of renewable energy (feasibility study grants, implementation grants, special equipment grants for non-profits)
	Mainstay Energy Rewards Program – Green Tag Purchase Program – private company offering customers who install or have installed renewable energy systems the opportunity to sell the green tags associated with the energy generated by these systems.
	Focus on Energy – Cash Back Reward for installing or expanding renewable energy systems on businesses and homes.

Renewable Energy in North Dakota

Wind
- 66.3 MW of installed capacity (9 projects
- 19.5 MW of additional capacity are expected to come on line in 2005 (1 project)

Ethanol
- 2 plants (39 mmgy capacity)
- 3 projects in various stages of planning and development

Resource	State Incentives
Wind	Property tax reduction – property taxes are reduced by 70% for wind facilities of 100 kW or larger on facilities constructed before January 1, 2011.
	Sales tax exemption – This exemption applies to building materials, production equipment and other tangible property used in the construction of a wind-powered electrical generating facility that has at least one electrical energy generation unit with a nameplate capacity of 100 kW or more.
Ethanol	Ethanol plants in operation before July 1, 1995, and that produce fewer than 15 mmgy are eligible for incentives (40 cents per gallon) up to $650,000 per year. The 2003 North Dakota Legislature tied ethanol production incentives to the price of corn and the price of ethanol. If corn prices are high, the incentive payment is increased; if corn prices are low, the incentive payment decreases. In addition, if ethanol prices are high, the incentive payment decreases; if ethanol prices are low, the payment increases.
Biodiesel	Corporate income tax credit – tax credit is available at a rate of 10% per year for five years for the taxpayer's direct costs to adapt or add equipment to retrofit an existing facility or adapt a new facility for the purpose of producing or blending biodiesel.
Misc.	Geothermal, solar and wind tax credit – allows any taxpayer to claim an income tax credit of 3% per year for 5 years for the cost of equipment and installation of a geothermal, solar or wind device (individuals – long form; corporations Schedule 2).
	Property tax exemption – during the five year period following installation, solar wind or geothermal energy devices are exempt from property taxes.
	Solar easements – allows parties to voluntarily enter into solar easement contracts for the purpose of ensuring adequate exposure of a solar energy system.
	Net Metering – Net meting is available to all customer classes. It applies to both renewable energy generators and cogenerators up to 100 kW in capacity.
	Mainstay Energy Rewards Program – Green Tag Purchase Program – private company offering customers who install, or have installed, renewable energy systems the opportunity to sell the green tags associated with the energy generated by these systems.

NDREP
North Dakota Renewable Energy Partnership

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(701) 239-7258
Fax: (701) 298-7810

TESTIMONY
To the
SENATE FINANCE AND TAXATION COMMITTEE
Of the
NORTH DAKOTA LEGISLATURE

RE: SENATE BILL 2229

By Jocie Iszler, Chair
North Dakota Renewable Energy Partnership

February 1, 2005

Chairman Urlacher and Members of the Committee:

It has been my privilege these past few months to serve as chair of the newly organized ND Renewable Energy Partnership. In less than a year this group organized bylaws, goals, a public policy committee and a broad based membership. This group is composed of a cross section of over 40 organizations representing both the public and private sector and has devoted enormous amounts of time and energy to promoting the development of renewable energy in ND. Attached is a list of our members. The membership ranges from private citizens to groups representing a large constituency such as the Xcel Energy, ND Association of Rural Electric Cooperatives, and the Farmer's Union. The membership represents a significant portion of agricultural groups. However, the benefits of developing North Dakota's renewable energy industry positively affect every North Dakota citizen's life. Increased use of renewable energy will result in cleaner air not just for corn and soybean farmers but for all citizens. It will be all citizens, not just farmers, who will benefit from the higher paying jobs and additional state tax revenue from renewable energy industries. It is North Dakota citizens across the state, not just farmers, who support reducing our dependence on foreign oil. The partnership's vision is to transform North Dakota into the preeminent energy state in the nation. As you have heard in other testimony during this hearing, North Dakota's potential in renewable energy is great. However, vision and passion can only do so much in developing that potential. A corresponding degree of commitment of resources is necessary to fully develop that potential. If there is one unifying theme among all of the sectors it is that we see our neighboring states, the rest of the nation and the world racing ahead of us in renewable energy development. Public policy that drives decision making regarding the use of public resources is central to the development of a state's renewable energy industry. We believe it is time for North Dakota to have a public policy regarding renewable energy and make decisions regarding the use of pubic resources based on that public policy. The ND Renewable Energy Partnership supports SB 2229, which:

- ❖ Establishes a public policy for the state urging the stimulation and development of renewable energy industries and the use of renewable energies
- ❖ Requires that a retailer offering gasoline much also offer a 10 blend of ethanol.
- ❖ Creates a Renewable Energy Commission
- ❖ Establishes a Renewable Energy Trust Fund funded by 1/3 of the profits of the Bank of ND not to exceed $20 million per year.
- ❖ Establishes a purchase requirement for the state whereby 10% of the total of all electricity purchased by state agencies and institutions be obtained from wind energy – preferably from ND
- ❖ Requires that all state owned vehicles powered by diesel of gasoline be required to use renewable fuels – 10% ethanol blend and 5% biodiesel blend.
- ❖ Requires that all state construction contracts at a level of $100,000 or higher must include a renewable fuel use requirement as stated above.
- ❖ Provides for a corporate and individual income tax credit for biodiesel sales equipment cost and a corporate income tax credit for the use of biodiesel
- ❖ Provides for a corporate and individual income tax credit for the use of hydrogen powdered fuel cell cost
- ❖ Provides for individual income tax credit for investment in qualified renewable energy projects
- ❖ Establishes a Renewable Energy Development Fund to support renewable energy projects that foster the development of wind, biofuels, biomass, solar, hydroelectric, geothermal and hydrogen produced from a renewable energy source.

Questions and discussion on a bill of this scope and magnitude often focus solely on the fiscal note. I will speak from the perspective of ethanol in addressing the question: what would be done with $20 million. First of all it is important to consider that this figure is not out of line with what other states are spending on investment and research on renewable energy.

- Increase funding: research and pilot projects. The hydrogen economy presents new opportunities for ND to get in on the ground floor. Last February University of Minnesota researchers presented the first reactor to generate hydrogen energy from ethanol using a process that resulted in a 33% more efficiency making it competitive with hydrogen from wind, The EERC at UND is also working on cutting edge technology transforming ethanol plants into ethanol and hydrogen plants. A group known as the Upper Midwest Hydrogen Initiative is laying the ground work for a network of hydrogen fueling stations running from Winnipeg to Sioux Falls, over to the Twin Cities, up to Duluth and down to Iowa. Innovative projects using synergies between biofuels and wind are in the making. States that provide matching fund to get demonstration projects are the states where those future industries locate when the technology is developed.
- Education regarding production and use. This is a continual process. Part of the challenge is to wipe out old erroneous beliefs that took root in the 1970's and continue to be passed on. There is also the challenge of keeping up with the dynamic, rapidly expanding industry of renewable energy.
- Increase incentives for production and investment. ND has the opportunity to be a leader in biodiesel, and ethanol production from cellulose. In the area of wind, the rest of the nation and world is rapidly outpacing ND. In the case of ethanol, it is not too late for ND to take advantage of the nation's rapidly

expanding ethanol industry. Industry experts say the industry is far from mature and is better described as in its adolescence. Much of what I will say here also applies to the wind and biodiesel. Industry growth is related to production and investment incentives. North Dakota's production incentive for ethanol is market based and counter-cyclical. The benefit of this is that public funds are paid to the ethanol plant only during times when low ethanol prices or high corn prices threaten the economic viability of the plant. The downside is that builders and investors looking to build and invest in a plant will look first at sites where the producer incentive is fixed. For example, this past year ethanol plants in Minnesota and South Dakota still received a producer incentive even though the high prices ethanol and low prices for corn produced record profits. A similar plant in North Dakota would have received a fraction of the payment. Minnesota's $3 million/year producer payment served as the investment incentive for Minnesota producers. South Dakota's investment incentives came in the form of a smaller producer payment than in Minnesota but also included the Rural Electric Cooperatives allowing customers to use their credits toward investing in ethanol plants. North Dakota's investment incentives have limitations. The Bank of North Dakota provides attractive interest buy down loans for investment in value added agriculture but given the size of investments needed in today's market, the lifetime cap is too low. An addition, this program should be extended to all ND residents, not just producers. The Ag Investment Tax Credit program is limited to businesses that are 51% producer owned. The Seed Capital Investment program has a cap that limits the number of investors that can participate.

- Investing in renewable energy: An October 15, 2004 article in the Wall Street Journal reported that at least 14 states have set up special funds that support clean-energy projects and are expected to spend nearly $4 billion by 2012. States like Connecticut, Massachusetts and New Jersey have committed $20 million to $35 million annually. North Dakota could invest in renewable energy by investing in projects. For example, in the case of ethanol plants, if North Dakota were to invest in ethanol plants this would send a message of confidence to other ND investors and a message of support to out of state investors. Economic impact studies indicate that investing in renewable energy is a good investment for a state. For example, Minnesota has realized a return of $14.00 for every one dollar it invested in their ethanol program. One 40 million gallon plant will increase annual income to the local economy by $19 million per year and produce $1.2 million in tax revenue. MN jump started their ethanol industry 10 years ago through producer incentives that encouraged local investment in ethanol plants. ND could catch up if it made direct investments in the industry. The same is true for other renewable energies as well.

Mr. Chairman and members of the committee, the ND Renewable Energy Partnership knows that the fiscal needs of this state are great. However, we encourage you to see this dedication of $20 million for renewable energy development as an investment which will generate long term income for the state.

North Dakota Renewable Energy Partnership Membership List

General Members (voting members)

- Cass County Electric Cooperative
- Clean Water Fund/Clean Water Action
- Jamestown/Stutsman Development Corporation
- North Dakota Association of Rural Electric Cooperatives
- North Dakota Barley Council
- North Dakota Biodiesel Taskforce
- North Dakota Corn Growers Association
- North Dakota Corn Utilization Council
- North Dakota Department of Commerce
- North Dakota Department of Agriculture
- North Dakota Farmers Union
- North Dakota Natural Resources Trust
- North Dakota Soybean Growers Association
- North Dakota State University Ag & Biosystems Engineering
- National Ethanol Vehicle Coalition
- Northern Canola Growers Association
- Wind Energy Council
- Xcel Energy

Associate Members

- Bank of North Dakota
- BBI International
- Biodiesel Magazine
- Doug Goehring
- Dunn County Jobs Development Authority
- Energy & Environmental Research Center
- Ethanol Producer Magazine
- Farm Credit Services of Grand Forks
- Farm Credit Services of Mandan
- Golden Growers Cooperative
- Great Plains Institute
- Great River Energy
- Griggs Steel Empowerment Zone
- Industrial Contract Services
- Joseph Richardson
- North Dakota Soybean Council
- Northern Great Plains Research Laboratory
- Pamela Gulleson
- Rolla Job Development Authority
- Rutland Oil Co.
- S & S Transportation, Inc.
- USDA-Rural Development
- Wind Development Group LLC

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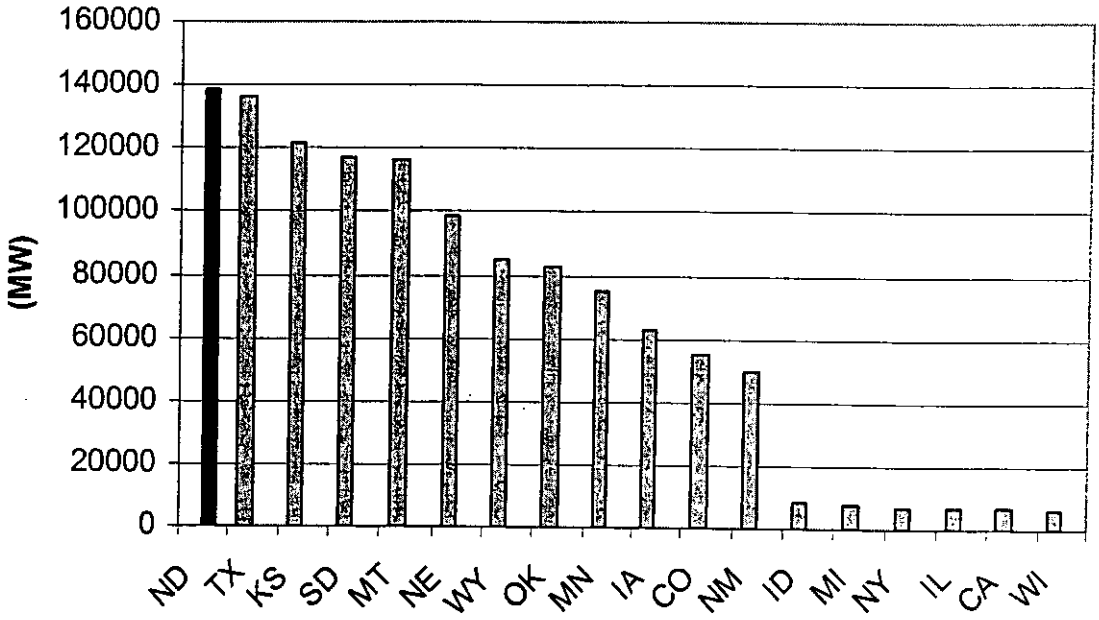
Testimony of Roger Johnson
Agriculture Commissioner
SB 2229
Senate Finance & Taxation Committee
Lewis & Clark Room
February 1, 2005

Chairman Urlacher and members of the Senate Finance & Taxation Committee, I am Agriculture Commissioner Roger Johnson. I am here today in support of SB 2229, which contains a number of provisions that seek to advance the development of renewable energy in North Dakota.

Renewable Energy: Great Potential for North Dakota

North Dakota has been referred to as the Saudi Arabia of wind. According to a study by the Pacific Northwest Laboratory entitled *An Assessment of the Available Windy Land Area and Wind Energy Potential in the Contiguous United States*, North Dakota ranks first in the nation in wind energy potential (See Figure 1).

North Dakota Ranks 1st in Wind Energy Potential



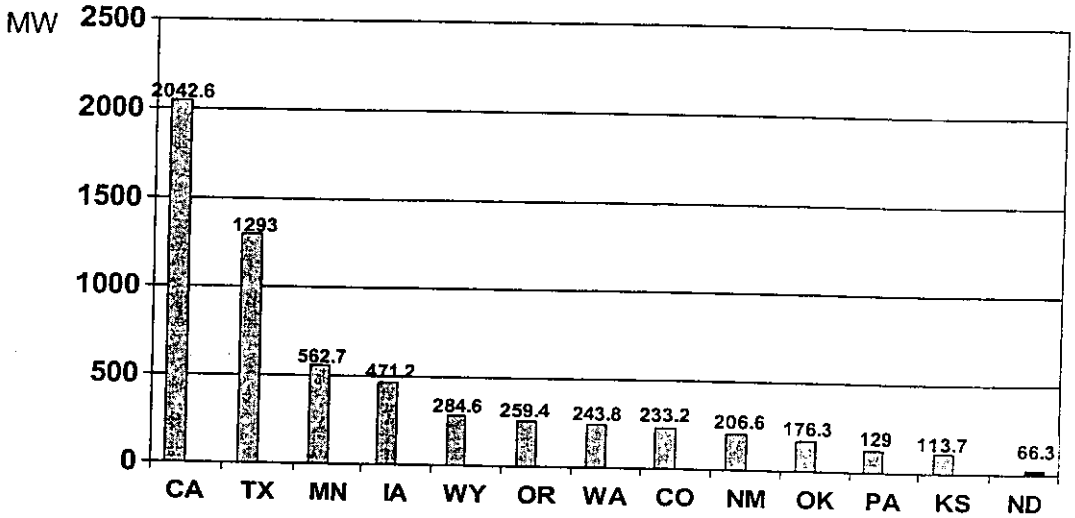
Source: Wind Energy Potential - *An Assessment of the Available Windy Land Area and Wind Energy Potential in the Contiguous United States*, Pacific Northwest Laboratory, 1991. ("Potential" is stated in terms of average Megawatts of Capacity (MWa), or megawatts of capacity at 100% capacity factor. 1 MWa is roughly equal to about 3 MW of nameplate wind turbine capacity.)

Figure 1

While we rank number one in potential, North Dakota still lags behind many states in the development of wind power. North Dakota has 66.3 MW of installed wind capacity, with plans for an additional 19.5 MW to come on line in 2005. Projects range from single turbine projects such as Oriska Hills near Valley City to the multi-turbine projects near Edgeley and Kulm.

North Dakota ranks thirteenth in the nation in installed wind capacity. California and Texas lead the nation in wind development with more than 2042.6 and 1293 MW installed respectively (See Figure 2 and Table 1).

ND Ranks 13th in the U.S.



U.S. Installed Wind Energy Capacity by Selected States

Source: American Wind Energy Association, 2005.

Figure 2

US Installed Wind Energy Capacity

State	MW installed
CA	2042.6
TX	1293
MN	562.7
IA	471.2
WY	284.6
OR	259.4
WA	243.8
CO	223.2
NM	206.6
OK	176.3
PA	129
KS	113.7
ND	**66.3**
WV	66

State	MW installed
WI	53
IL	50.4
NY	48.5
SD	44.3
NE	14
HI	8.6
VT	6
OH	3.6
TN	2
AK	1.1
MA	1
ID,UT,AR,MT	.6

Source: American Wind Energy Association

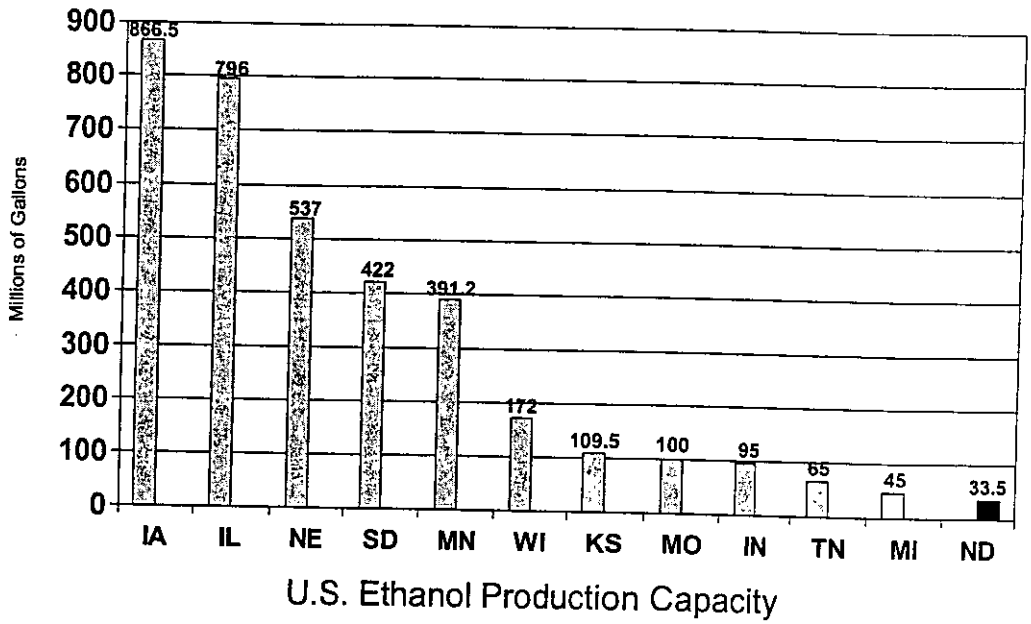
Table 1

As a leading producer of soybeans and corn, North Dakota also has great potential for the development of ethanol and biodiesel industries that would add further value to these commodities. The production of ethanol and biodiesel not only produces fuel but also co-products that can be used to feed our growing livestock industry.

North Dakota's two existing ethanol plants have a combined annual production capacity of approximately 34 million gallons per year. Alchem in Grafton came on line in 1985 and ADM in Walhalla came on line in 1987. Three other projects are in various stages of planning and development in the northwest, southwest and eastern parts of the state.

Again, North Dakota lags far behind in the development of this industry. We rank 12th in the nation in the production of ethanol (See Figure 3).

ND Ranks 12th in the U.S.



Source: Renewable Fuels Association, February 2004.

Figure 3

We not only lag behind other states in production of ethanol, but also in consumption. The North Dakota Corn Growers Association estimates that nearly 30 percent of the fuel sold in North Dakota is an ethanol blend – that compares with 65 percent in South Dakota and more than 90 percent in Minnesota. South Dakota provides an at-the-pump 2¢ tax incentive, which can sometimes make ethanol-blended gasoline as much as 6¢ cheaper per gallon than regular unleaded gasoline.

In 1991, the Minnesota State Legislature passed legislation requiring a year-round 2.7 percent minimum oxygen content for gasoline sold in the Twin Cities by 1995, with the entire state meeting the requirement by 1997. Today, ethanol replaces almost 10% (240,000,000 gallons) of

the gasoline sold in Minnesota. Further, two new ethanol plants came on line in 1995 and since that time ten additional facilities have either been built or expanded. Twelve of the fourteen existing ethanol plants are organized in a cooperative fashion and are owned by over 8,000 farmers.

The states that are leading the way in renewable energy development have strong public support and proactive public policies in place to grow the industries. These states understand the economic, environmental and sociological benefits of developing renewable energy. Those who build and invest in these projects are going to locate in states that embrace renewable energy and that actively promote the growth of the industries.

Biodiesel is another growing industry that holds promise for North Dakota – if we choose to seize the opportunity. North Dakota does not have a biodiesel production facility; however, the North Dakota Biodiesel Taskforce continues to work to develop a favorable plan for a biodiesel plant in the state.

Below is a listing of current and proposed biodiesel plants around the country. As you can see, states like Iowa and Minnesota are much farther ahead of us on the development curve (Table 2).

State	Operational Facility	Proposed Facility
Texas	5	1
California	4	
Iowa	3	1

State	Operational Facility	Proposed Facility
Utah	2	2
Illinois	2	
Hawaii	2	
Nevada	2	2
Minnesota	1	2
Missouri	1	2
Georgia	1	2
Ohio	1	2
Florida	1	1
Colorado	1	1
North Carolina		2
Kentucky	1	
Virginia	1	
Mississippi	1	1
Wisconsin	1	1
South Dakota		1
Washington		1
Montana		1
New Mexico		2
Massachusetts		1
Delaware		1

Table 2

The biomass industry also has potential to grow in North Dakota, whether it be from perennial biomass production and the production of energy crops or by reducing the amount of organic biomass going to landfills and instead burning the material in another fashion.

Renewable Energy Holds True Economic Opportunity for North Dakota

Farmers and ranchers certainly stand to benefit from the development of renewable energy. According to the "Ethanol and the Local Community Study" conducted by AUS Consultants/SJH & Company (June 20, 2002), "...a 40 MGY ethanol plant will generate...additional revenue for local grain farmers by increasing demand, which in the case of corn, in most circumstances results in an increase to the average local basis of an estimated 5 to 10 cents per bushel."

And according to the Minnesota Department of Agriculture, processing corn products instead of exporting raw corn doubles the value of each bushel. In addition, ethanol plants not only produce fuel ethanol, they also produce a large quantity of co-products which can benefit other sectors of our economy. Livestock can be fed the high-protein feed that is a major co-product in ethanol production. Other co-products include carbon dioxide, starch, sweeteners and industrial ethanol.

Farmers and ranchers aren't the only ones to profit from the development; consumers and the state coffers will also reap economic dividends.

The Minnesota Department of Agriculture estimates that the total economic impact of the ethanol facilities operating in state to be in excess of $580 million per year (Source: *Economic Impact of the Ethanol Industry in Minnesota* – May 2003). The Iowa Department of Natural Resources estimates that ethanol production generates more than $1.7 billion in economic activity and adds

approximately $730 million to the value of the state's corn crop each year. Ethanol demand boosts Iowa's state and local tax receipts by $111 million (Source: www.iowadnr.com – 1/24/05).

North Dakota Can and Should Do More to Promote Renewable Energy

Elected officials on both sides of the aisle continually pledge their support for and speak to the benefits of value-added agriculture. I believe that it is time to put action behind the words. If we are truly looking to add value to agricultural products in this state and to encourage new markets and new products, we in government have to be willing to play an appropriate role to foster that process.

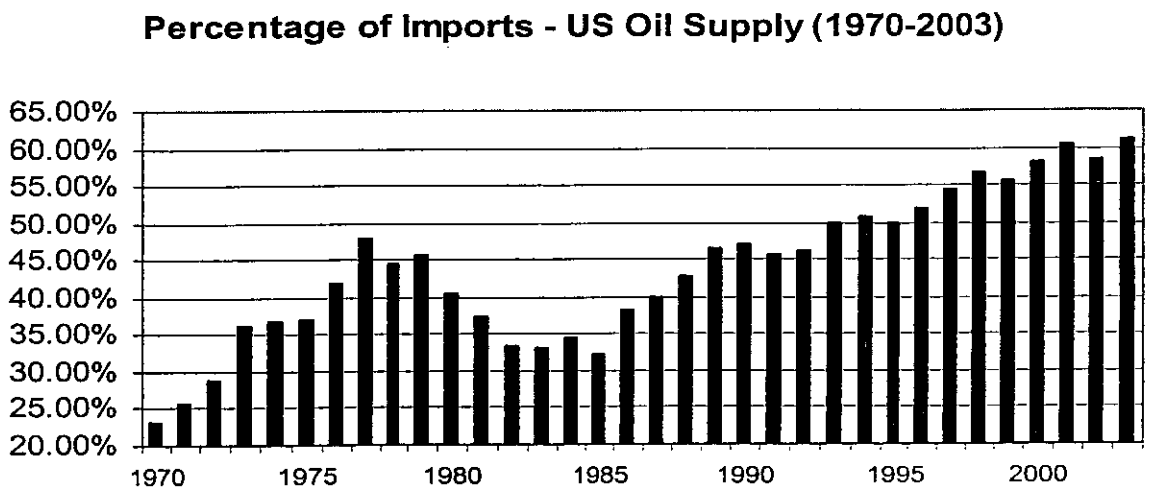
In 2003, the North Dakota Department of Agriculture organized the first-ever 2003 Renewable Energy Summit: *A Vision for the Future.* The focus of that conference was to bring together all of the interests in four major renewable energy sectors – biodiesel, biomass, ethanol and wind – to formulate a vision and a plan of action for the future.

A recommendation from that summit was to create an ongoing coalition of renewable energy interests that could work to advance issues and initiatives that would foster the growth of the industry. That recommendation led to the creation of the North Dakota Renewable Energy Partnership (NDREP). The NDREP has 41 general and associate members, including the North Dakota Department of Agriculture.

The NDREP, along with my office, organized a second summit – the 2004 Renewable Energy Summit: *A Call to Action*, which was held on December 6-7, 2004. The summit participants were challenged to formulate state legislative ideas and initiatives – many of which are encompassed in SB 2229 and other pieces of renewable energy legislation before you this session. The NDREP has been working with legislators on both sides of the aisle to try and advance renewable energy legislation that will have a meaningful impact in North Dakota.

Renewable Fuels Can Help Decrease Dependence on Foreign Oil

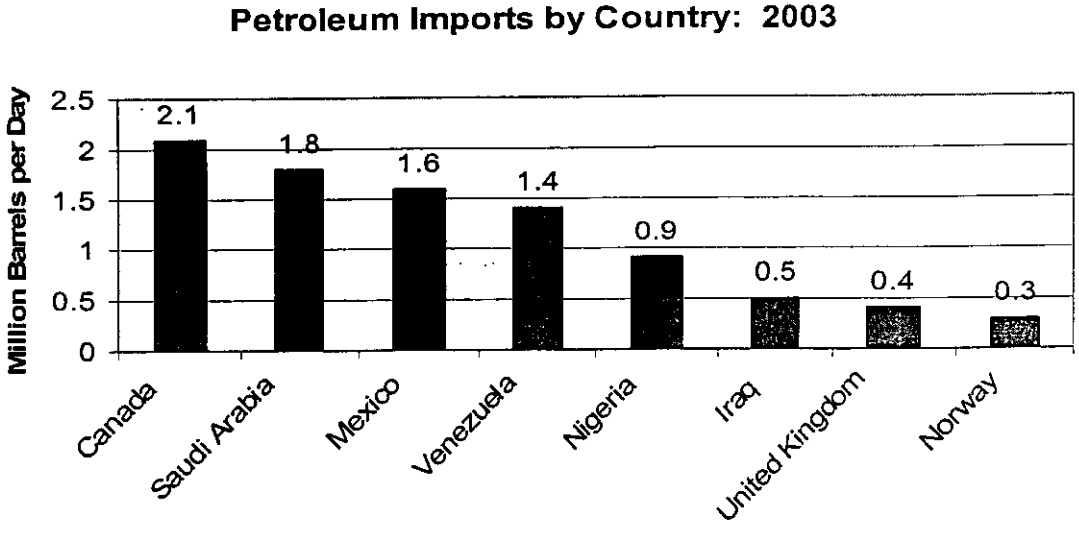
I also believe that we must do more as a state and as a country to decrease our dependence on foreign oil today. The United States currently imports 61 percent of our oil supply versus 36 percent during the energy crisis that began in 1973 (Source: Energy Information Administration/Annual Energy Review 2003) (See Figure 4).



Source: Energy Information Administration/Annual Energy Review 2003

Figure 4

Canada, Saudi Arabia and Mexico are the leading exporters of oil to the United States (Figure 5).

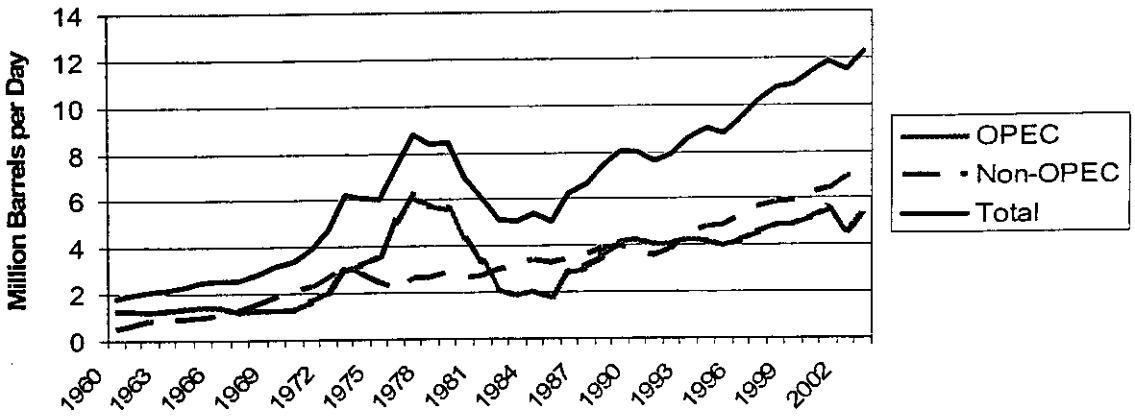


Source: Energy Information Administration/Annual Energy Review 2003

Figure 5

The stability of these imports seems questionable, especially during this time of crisis in the Middle East. Figure 6 demonstrates our enormous dependence on oil imports from OPEC countries.

Petroleum Imports - Total, OPEC and Non-OPEC, 1960-2003.



Source: Energy Information Administration/Annual Energy Review 2003

Figure 6

The production and use of renewable fuels will contribute to the reduction of our dependency on sources of foreign oil. Ethanol production in the US today reduces the need to import 128,000 barrels per day of oil and gasoline additives. (Source: www.mncorn.org – 1/25/05)

We can and must do more to promote the production and use of renewable fuels such as ethanol and biodiesel. The US marketplace is too often overlooked by agriculture as we focus on acquiring new international markets. Biodiesel and ethanol are great examples of new demand for agricultural commodities as opposed to displaced demand often resulting from new international markets. Both are important, but new demand results in a bigger pie, not just a bigger piece of the old pie.

SB 2229: Comprehensive Policy to Build North Dakota's Future

SB 2229 contains a number of provisions that will help advance renewable energy in North Dakota. The legislation provides a standard for ethanol consumption in the state (10% blend in all gasoline offered at all retail locations) (Section 1). The legislation also calls for a renewable energy public policy statement (Section 2) and creates a renewable energy development commission (Section 4) to administer a renewable energy trust fund (Sections 5& 6).

SB 2229 sets forth requirements for state government use of wind energy and renewable fuels (Section 7). The legislation also provides for a variety of tax credits to provide incentives for renewable energy production and use, including a corporate income tax credit for biodiesel sales equipment costs (Section 9), a corporate income tax credit for the use of biodiesel (Section 10), a corporate income tax credit for hydrogen-powered fuel cell costs (Section 11), an individual income tax credit for the use of biodiesel fuel, an individual income tax credit for use of hydrogen-powered fuel cells (Section 13) and an individual income tax credit for investment in qualified renewable energy projects (Section 14).

SB 2229 is a bold piece of legislation that provides a long-term vision and investment in renewable energy for the state of North Dakota.

Conclusion

The opportunities are right in front of us. We're number one in wind energy potential in the nation, we produce an abundance of corn and soybeans for biofuels, we are growing our cattle industry to eat the co-products resulting from biofuel production and we have the potential to produce energy crops for biomass.

For years, we've produced the world's best commodities – only to see them shipped elsewhere and have others seize the profits from processing them. We can watch as others benefit from the significant economic development these industries bring. And we can watch as our young people leave to take the jobs created by these facilities in other states. Or, we can do something about it.

We can promote and develop these resources ourselves. We can enjoy all of the benefits of new economic development and new jobs. We can create entire new industries that will benefit not only North Dakota, but the entire nation.

Chairman Urlacher and committee members, I urge a do pass on SB 2229. I would be happy to answer any questions you may have.

TESTIMONY
To the
SENATE FINANCE AND TAXATION COMMITTEE
Of the
NORTH DAKOTA LEGISLATURE

RE: SENATE BILL 2229

By Jocie Iszler, Executive Director
North Dakota Corn Council

February 1, 2005

Chairman Urlacher and Members of the Committee:

Thank you for this opportunity to submit testimony on House Bill 1458. The ND Corn Council urges your consideration of SB 2229. Specifically, the Corn Council supports Section 2 which requires retailers who sell gasoline to provide 10% ethanol blend. The ND Corn Council supports this because the two major factors influencing ethanol sales are availability and price. In addition in order to grow the industry, the state must show stronger support for its use.

North Dakota's two plants currently produces 35 million gallons of ethanol It is estimated that only 30% of the gallons sold in ND contain 10% ethanol which amounts to roughly a total of 12 million gallons of ethanol. Therefore, roughly only 28% of the total gallons of ethanol produced within the state are used within the state. If plans for a 50 million gallon per year plant in Richardton and a 40 million gallon per year plant in Valley City materialize, ND will produce 130 million gallons of ethanol per year. If usage does not increase, only 8% of the total gallons produced in state will be used in state. In contrast the Tesoro refinery produces roughly 425 million gallons of gasoline which means that there is an instate market for 84% of Tesoro's production.

South Dakota's total ethanol production is 420 million gallons per year. South Dakota's market share for E10 is 55%. Minnesota's 14 plants produce 410 million gallons per year which will increase to 535 million gallons of ethanol per year after the 3 new plants come on line. Minnesota's E10 standard has resulted in 97% of the gallons of gasoline in Minnesota containing 10% ethanol. In addition, the 100 Minnesota stations selling E85, a blend of 85% ethanol and 15% gasoline, use 2.7 million gallons per year. Therefore, 80% of the ethanol gallons produced in Minnesota and 55% of the ethanol gallons produced in South Dakota are used within the state. This is in contrast to 28% of North Dakota produced ethanol being used within the state. South Dakota's higher usage of all blends of ethanol can be attributed to tax incentives that result in lower prices at the pump in South Dakota. The gas tax for E10 is 2 cents less per gallon than for unblended gasoline in South Dakota. Typically, E10 is also priced 2 cents less than unblended in South Dakota. Other states that grant tax exemptions for ethanol fuel include Alaska,

Connecticut, Hawaii, Idaho, Illinois, and Iowa. In North Dakota, the gas tax is the same for all blends of gasoline.

The ND Corn Council represents the marketing interests of ND Corn Growers who support the promotional check off program. The ND Corn Council promotes ethanol by committing one-third of its budget to the promotion of ethanol and growth of the ethanol industry. Ethanol has several benefits to the public. First of all, it is energy efficient. There is a net energy gain of 67% when corn is turned into ethanol. In contrast there is a net energy loss of 20% when oil is refined to gasoline. Secondly, ethanol is environmentally friendly. The use of 10% blend reduces green house emissions by 30%. Thirdly, ethanol plays an important role in reducing our dependence on foreign oil. The US currently imports 62% of its oil and is projected to import 70% by 2012 with current usage. The current US production of 3.6 billion gallons of ethanol per year significantly reduces crude oil imports and cuts the US trade deficit. The last but very important benefit of ethanol is economic.

One 40 million gallon ethanol plant will use 14 million bushels of corn and add an average of 10 cents per bushel to the local market for corn. This alone amounts to $1.4 million in additional farm income. A 40 million gallon plant adds 700 new permanent jobs, generates almost $20 million in household income and $1.2 million in tax revue, and has a local economic impact on a local economy of $110 million. A bushel of corn will produce 2.8 gallons of ethanol and 18 lbs of high protein animal feed. That means that a bushel of corn converted to ethanol, at today's market prices, will triple in economic value to the state vs. a bushel of corn exported. Currently, ND exports 70% of its corn. Studies also indicate that ethanol extends our tight fuel supply and saves the consumer 6 cents per gallon. Economic impact studies indicate that for every one dollar that Minnesota invested in their ethanol industry that $14 was returned in economic development. Strong instate use of ethanol use is attractive to prospective ethanol builders and investors because there are local markets for their product.

The ND Corn Council is aware that this bill will result in certain groups dusting off their "no mandates, free enterprise" speech. However, the ND Corn Council urges this committee to take a fresh look at this issue from the perspective that currently there is a significant portion of ND's public that cannot purchase ethanol blend. Currently, a survey is being done that will give data on the number of stations in ND that do not offer ethanol blend. The argument has been made that retail outlets with only 1 pump would be required to carry only 10% blend. The ND Corn Council would recommend an amendment that would exempt these stations.

The other important factor influencing consumer buying of gasoline that is difficult to address in legislation is pricing. Studies show that if petroleum retailers passed on the federal blenders credit that ethanol blend should sell for at least 1 cent less than unblended gasoline.

In summary, Mr. Chairman and members of the committee, the ND Corn Council urges you "Do Pass" of SB 2229. The Corn Council especially urges the inclusion of Section 2. If the legislature will do its part to ensure that every North Dakotan will at least have the option to buy ethanol blended fuel, the ND Corn Council will do its part by educating the public to encourage petroleum retailers to "pass the pennies on." A standard that ensures that every driver filling fuel in ND at least has the opportunity to use E10 will send a positive message to ethanol investors that ND supports the development of the ethanol industry,

February 1, 2005

Testimony before the Senate Finance & Taxation Committee
Lewis & Clark Room
Senator Herb Urlacher, Chair

Senate Bill 2229 – Relating to corporate income tax credits for renewable fuels.

Chairman Urlacher and members of the Senate Finance & Taxation Committee, My name is Jared Hagert from Emerado, North Dakota. I am a soybean producer and Vice President of the North Dakota Soybean Growers Association and I am here to testify in favor of Senate Bill 2229.

This bill creates incentives for all renewable fuels including biodiesel and will help create a favorable environment for the renewable industry in North Dakota and the North Dakota Soybean Growers Association supports this bill.

I would like to specifically address sections nine and ten which relate to biodiesel. Biodiesel is a licensed motor fuel made from soybeans, like the ones grown right here in North Dakota. The corporate income tax credits outlined in 2229 will help blenders and retails in the state make the necessary and needed upgrades to their facilities to offer biodiesel year round.

North Dakota needs to become a leader in the renewable fuels industry and this bill will help pave the way for that to happen and that is why the North Dakota Soybean Growers Association supports this bill.

North Dakota Farmers Union

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SB 2229
S-FINTAX

Chairman Urlacher and Members of the Senate Finance and Tax Commitee.

My name is Richard Schlosser; I am here representing over 35,000 members of North Dakota Farmers Union. I am here to testify in support of SB 2229, which relates to the ethanol content of gasoline, and to corporate and individual income tax credits for renewable energy use.

Energy is vital to securing our nation's need for food and fiber. This nation must establish a long-range national energy policy that emphasizes conservation and wise use of our energy resources. We must renew national efforts to reduce our reliance on imported energy and move toward greater energy self-sufficiency.

North Dakota Farmers Union supports a balanced, comprehensive energy policy which seeks energy independence for the United States, protects our nation's environment and recognizes the special needs of America's agricultural sector. In addition, a national energy policy must reverse the trend toward concentration of ownership and control of sources, production and distribution of energy.

In order to reduce our dependence on fossil fuels, development of renewable sources of energy must be a priority. This must include economic and technical assistance for family farmers wanting to transition into increased application of alternative forms of energy.

We are concerned over our dependence on nonrenewable and imported fuels that place our national security in jeopardy. Therefore, we encourage and support research and development of innovative and renewable energy sources such as solar, photovoltaic cells, fuel cells, micro turbines, geothermal, wind, hydrogen, methane, ethanol, biodiesel, solid waste fuels and other renewable, non-polluting energy sources.

We recognize North Dakota's vast wind resources and urge development of the state's enormous potential for electricity generation from wind. Number one in wind resources, North Dakota has the ability to supply 46% of the nation's electricity needs from our wind; therefore, wind energy holds new income potential for farmers and rural landowners.

We support the use of ethanol and support the use of at least a 10 percent ethanol blend in all gasoline sold in North Dakota, and encourage all government entities to use an ethanol blend in all government fleet vehicles.

We support the use of biodiesel and biodiesel-blended fuels in all possible applications, Farm incomes could be better and less variable if a portion of every farm's production was used for energy uses, and oilseed crops, crop residues, and even animal by-products could be used as feedstock for biodiesel fuels.

The use of crop residues, animal waste, and other products of recycling to produce methane from biomass holds much potential and research using switchgrass or other crop products should be encouraged.

North Dakota Farmers Union (NDFU) encourages and supports research and development of all innovative and renewable energy sources. In addition, our cooperatives can play a leading role in the distribution and marketing of these energy products.

NDFU supports legislation providing incentives, tax credits, and/or requirements to move North Dakota ahead in the use of renewable energy sources. We also recommend some state investment in these energy production systems in addition to just incentives for renewable energy.

We support the formation of a state energy office or an agency to coordinate all aspects of renewable energy. There should be a commitment of state funds for the development of this agency and an ongoing guarantee of long-term support for long-range projects. Some sort of system benefit fund or other revenue stream could be a valuable part of encouraging development of all sources of renewable energy.

NDFU further supports continuing dialog between the coal industry in North Dakota and the renewable energy sector. Wind energy interests will benefit with cooperation with coal-fired power plants in the building and maintenance of needed transmission facilities to distant markets. In addition, the ability of a coal-fired generating plant to "back-up" wind energy on windless days makes both forms of energy production more efficient. Coal may be a feasible energy source for powering additional ethanol plants in our state, as well as powering some of the basic processes of renewable energy with biomass.

North Dakota Farmers Union Urges a do pass on SB 2229.

Thank You, Chairman Urlacher and members of the committee, I would answer any questions at this time.

Dave MacIver

Coalition Against Mandates

The organizations listed below oppose government mandates. The free enterprise system should depend upon consumer choice and competition to determine the products offered in the marketplace.

Government mandating the offering of a certain product or service is not necessary as consumer demand will create self-sustaining markets.

We want to make it eminently clear that we are not against agriculture. We fully realize the importance of agriculture's vital roles in the North Dakota economy.

However, we oppose bad economic policy. Mandates restrict competition, infringe on free enterprise, and can result in supply/distribution problems in the economy. What economic development message is being sent if government tells business which products must be sold and to consumers which products must be purchased?

Once government mandates one product, what product or service would be next? Would the government next decide what type of tractors farmers must own? Would there be a government mandate indicating what type of meat a grocery store must sell?

Associated General Contractors
Beulah Chamber of Commerce
Bismarck/Mandan Area Chamber of Commerce
Bottineau Area Chamber of Commerce
Greater North Dakota Chamber of Commerce
Minot Area Chamber of Commerce
Montana Dakota Utilities
National Federation of Independent Business
North Dakota Grocers Association
North Dakota Hospitality Association
North Dakota Motor Carriers Association
North Dakota Petroleum Marketers Association
North Dakota Petroleum Council
North Dakota Retail Association
Otter Tail Power
Qwest Corporation
Tesoro Petroleum
Utility Shareholders of ND
Wahpeton Area Chamber of Commerce
Williston Area Chamber of Commerce
Xcel Energy

Testimony in Support of SB2229
In Hearing Before
Senate Finance and Taxation Committee

February 2, 2005

Chairman Urlacher and members of the committee, I am pleased to testify in support of SB 2229 on behalf of Richardson family farm interests. Our family owns a state-of-the-art 50 meter met monitoring system near Colfax in Richland County that has been gathering data for more than three years. We continue to support data analysis from this NRG system out of a belief that the 49.5% DOE/EIA projected growth in U.S. electricity from 2003 to 2025 coupled with our resource status of North Dakota being #1 in national wind and #1 in dedicated energy crop – biomass feedstock capacity presents a huge new ag-energy economic opportunity. We have, as they say, "skin-in-the-game" with more than $15,000 in cash invested and a great more in hours spent looking at the various energy configurations that might best meet the unique challenges of North Dakota.

Mr. Chairman, members of the committee, it no longer requires a crystal ball to see that the energy markets are about to drive the largest change the industry has experienced in a hundred years. The perception that our dependency on foreign sources of petroleum and our fast growing dependency on foreign sources for natural gas is leading to very sticky geopolitical problems drives an interest in alternatives. Iran is second only to Russia in natural gas reserves and our imports of natural gas are forecasted to double in fifteen years. Our energy imports are increasing our current account imbalance or foreign trade deficits. In addition to capital flight and rising inflation that is likely to result, the Department of Energy estimates

that for every $1 billion in trade deficits the U.S. loses 27,000 jobs. Our petro dollars are flowing in an ever-deeper and faster stream into a region known to harbor hate against us. Our reducing imports of petroleum and natural gas are an economic and national security imperative. In the words of former Vice Admiral Truly, "I believe our energy security is our national security."

"We have a serious security problem and we need to look at existing vehicle types and processes to make transportation fuels that can run on these vehicles. And we need to do it now," said James Woolsey, former Director of CIA, at the September 27, 2004 launch of "Set America Free," a plan calling for immediate action to reduce America's demand for oil.

"From a pure national security perspective I really believe we have no choice but to seize the opportunity to move the country as rapidly as possible off the vulnerability associated with this current reliance on foreign oil," said Frank Gaffney, president of the conservative Center for Security Policy, at the aforementioned event attended by Mr. Woolsey.

The legislation before you calls for slight mandates of the use of ethanol and Biodiesel. I realize that some will argue that under no circumstance should you enact mandates. I simply ask you what national security and economic price will move you to set aside an ideological view against mandates. What damage need be suffered before you might consider the value of Mr. Woolsey's words, "we need to do it now." North Dakota stands to be an important producer in the national mission of reducing foreign imports of energy. I submit that if you do not believe the cause to be great enough to motivate our pushing, yes with a little mandate, the use of ethanol and biodiesel, then do it for the state rural economic benefit.

SB 2229 calls for the establishment of a Renewable Energy Commission and associated funding. I salute this; however, the commission structure set forth in HB1308 seems a bit more desirable. If you have petroleum council and retailers on the commission, it seems you will also need to include generating and retailing electricity utilities. Pretty soon you have a renewable energy commission controlled by fossil fuels.

The funding sought in both SB2229 and HB1308 is slight. New energy technologies are percolating in small labs throughout the country. They will be addressing a market whose growth alone in the years between now and 2025 is valued at more than a half-trillion dollars in capital spending. Growing concerns over carbon emissions along with natural gas imports will drive innovations in hydrogen, wind, biomass and other new fuels. I know of three ethanol to hydrogen reactors that could lead to hydrogen peaking plants to back our wind's variability. Using air compression as an energy storage strategy for wind is also becoming interesting and I note that it is on the short list of forthcoming studies Xcel is looking toward. Likewise, new utility grade redux and other forms of battery have shown promise at Sandia National Lab. I know that in the area of biomass alone over $5 million in exciting new projects have been identified. The possibilities are popping all around and now is the time for us to leverage our natural resource lead, pair it up with some of our newly minted power engineering post graduates and attract it with funding that can be used as seed to go after serious economic development.

North Dakota is in competition with other states in the region and country in attracting renewable energy related businesses. We are also in competition with other states in figuring out how we can market our new

energy to distant load or consumption centers. Billions of dollars are at stake. Already, according to a recent Wall Street Journal article, 14 states have funded renewable energy grant and venture capital programs to the tune of over $4 billion to be spent in the next 10 years. The race is on and we need to engage with, as they say, "some skin in the game" that can in turn be leveraged for even greater financing. Let us show that we aim to play by having a realistic sized fund. I note that PriceWaterhouseCoopers reports that in the fourth quarter of 2004, the national average for a single seed stage venture deal was just over $2.5 million. The national average for an early stage deal was just over $4.5 million. Given the opportunity at stake, I believe we should be looking at least at something more like $20 million per year. This would allow us to attract serious national and international emerging market technology players. At least I hope that the amount is not reduced from the small $20 million per biennium.

Thank you for your consideration.

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