
Senate Bill No. 2345
Testimony
Cody Chilson, President
Dakota Natural Gas, LLC
Senate Appropriations Committee
November 9, 2021

Chairman Holmberg and members of the Senate Appropriations Committee, my name is Cody Chilson, I am the president of Dakota Natural Gas, LLC, and I support Senate Bill 2345 and propose two friendly, complimentary additions to the current language to allow the discretion for the Industrial Commission to award grant funds to distribution systems which would help close an essential service gap and expand natural gas access within North Dakota.

I appreciate the opportunity to share the reasons for my support with you. Dakota Natural Gas is a relatively new natural gas distribution company here; however, its affiliate companies in Minnesota have been finding creative ways to provide natural gas solutions to rural areas for many years. We formed DNG to help bring a natural gas solution to unserved communities in North Dakota and, I am proud to say that in our first three years of operation, we have successfully done so and are now serving the Drayton, Hillsboro, and Mayville communities; and we have asked the Public Service Commission for approval to expand into Portland next year. Many more communities throughout the state have contacted DNG, asking us to help them get natural gas service – something a lot of people around the state have been seeking for decades to no avail. We have been conducting economic viability studies in several parts of the state; but unfortunately, the result is often the same – building out a system to them is just too expensive and there is no way to make such a project economic. Access is often a function of population density and distance from natural gas supply pipelines, which is why many rural and outlying communities don't have it. In many cases, that kind of gas line will never make economic sense because there will never be a way to fully recover the cost and generate a return, so regulatory requirements won't allow for the line to be built.

DNG recognizes that the primary focus of SB 2345 is to build a trans-Dakota pipeline and DNG is very supportive of that process, because DNG recognizes the need for that line. While it may have been borne out of concerns about capacity limits impacting oil production in the west and a desire to get North Dakota gas headed east, there is intrinsic value in having another natural gas supply line running through the state to ultimately make it easier for unserved communities to gain access to natural gas at reasonable rates.

The North Dakota legislature can take a dramatic step to help bring safe, reliable, and affordable gas to communities throughout the state; but, limiting the proposed grant funding to infrastructure to transport gas from western North Dakota will still not solve the problem of getting gas to unserved communities for several – if not many – years. Moreover, if the funds are solely designated for a trans-Dakota pipeline but they are not sought within the next 20 months (the Bill's timeline), then those funds could, unfortunately, be stranded money. Adding language that provides the Industrial Commission with the discretion for grant funds to be awarded for the purpose of distribution systems to serve currently unserved areas does not undermine the trans-Dakota

pipeline; rather, it complements it. Such language would not necessarily divert funds from a trans-Dakota pipeline; however, it would provide discretion for funds to be awarded to worthy distribution projects, whether that be the result of delayed pipeline construction or to provide natural gas access to communities in the immediate future. Therefore, DNG respectfully proposes that the bill be amended to read: “. . . . for the purpose of pipeline infrastructure grants to allow for the transportation of natural gas from western to eastern North Dakota and to provide natural gas infrastructure to serve communities within the state that do not currently have natural gas service . . .”.

DNG is already working with several unserved communities to assess their market needs and design systems; and, as a result, it has projects to serve new communities that could have construction begin in 2022 to provide natural gas service before the winter of 2023, if funding is available; but, those projects cannot happen without grant funding. While early projects like these would be supplied by existing supply pipelines, a similar model could be used to extend gas off of a trans-Dakota pipeline once it is ultimately finished. In the meantime, however, there are many deserving communities that could be moving toward natural gas service. Moreover, using a model that allows grant funding to be used for distribution systems could also potentially result in having distribution systems built in tandem with the trans-Dakota pipeline construction such that there would be immediately available pipeline customers.

We are not asking for the state to fund the entire construction investment for distribution systems. Instead, we ask you to consider the positive impact of establishing a contributory grant program that complements private investment. By offsetting a substantial part of the buildout costs for distribution infrastructure, grants will mitigate the chilling effect that heavy construction costs have on natural gas expansion. Without it, the service gap may never be closed. We believe that this model could work in all parts of the state that are still unserved and that it could be utilized by any qualified natural gas distribution company, so it isn't limited to just DNG or DNG's prospective service areas. A grant program can make these projects economically viable. Moreover, the impact of the grant funds will be felt well beyond the initial communities served with them, because the extension of natural gas builds on itself by making subsequent extensions more economic. For example, DNG's proposed extension to Portland would have never been economically feasible but for the fact that DNG is already serving Hillsboro and Mayville. Similarly, the communities that will initially be served with assistance from grant funding are not the only communities that will benefit from the grant, because other nearby communities may also have subsequent opportunities to be served for years to come. The initial extension of natural gas to one area makes it much less expensive to expand distribution to additional facilities and communities in the future.

Additionally, once new gas systems are constructed, the state will reap tax benefits from the infrastructure that would not otherwise have been built; and, economic development will be bolstered throughout the State, which helps both residents and communities and enhances the tax base even more. Historically, in areas where our companies have extended natural gas service, it helped attract housing and businesses within the communities, as well as increasing agricultural sector economic development. Similarly, natural gas has helped educational, health care, and other public institutions save money on energy costs and that money gets directed toward other things.

Several critical areas should be addressed by natural gas grant legislation, including the following:

- First, there should be the discretion to award funds to distribution projects for unserved areas.
- Second, funds should be made available to pay for all construction costs and materials related to infrastructure necessary for natural gas distribution systems for unserved areas of the state. As part of those costs, payment should be allowed to be made directly to the applicant and also to be made directly to a supply pipeline on the applicant's behalf as a contribution in aid of construction to be applied toward the applicant's interconnection fee.
- Third, available funds should exceed a 1:1 match, as 1:1 funding is not sufficient to make construction economic. A grant program should allow for up to 2/3 of project funding to come from grant funds and should be paid to the applicant during the year of construction rather than utilizing a reimbursement structure.
- Fourth, the program should include language specifically clarifying that the portion of the infrastructure investment funded by a grant award will not be included in the natural gas distribution company's investment calculation for purposes of determining rates or property tax assessments, such as amending the bill to add the following language: "Grant-funded infrastructure investment shall not be included as utility investment for the purposes of determining utility rates or property tax assessment; however, the remaining portion of the infrastructure investment made by the utilities may be considered in determining rates and property tax assessments."
- Finally, income tax on the grant funds significantly undermines the beneficial impact of a grant. While the state cannot address federal income tax treatment, it could exclude a grant award for state income tax purposes, thereby increasing effectiveness of the grant funds.

I am confident that you will agree that a natural gas construction grant program is in the best interest of the people of North Dakota, and I respectfully request that you support it and include it in final appropriations legislation, incorporating provisions for distribution systems to help close the service gap. Chairman Holmberg and Committee members, thank you for the chance to be heard on this very important matter.

21.1123.02000

Sixty-seventh
Legislative Assembly
of North Dakota

SENATE BILL NO. 2345

Introduced by

Legislative Management
(Appropriations Committee)

1 A BILL for an Act to provide appropriations to various state agencies; to provide for a transfer; to
2 provide for a report; and to provide an effective date.

3 **BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:**

4 **SECTION 1. APPROPRIATION - TRANSFER - FEDERAL STATE FISCAL RECOVERY**
5 **FUND - ONE-TIME FUNDING - REPORT.**

6 1. There is appropriated from federal funds derived from the state fiscal recovery fund,
7 not otherwise appropriated, the sum of \$150,000,000, or so much of the sum as may
8 be necessary, to the industrial commission for the purpose of pipeline infrastructure
9 grants to allow for the transportation of natural gas from western to eastern North
10 Dakota and to provide natural gas infrastructure to serve communities within the state
11 that do not currently have natural gas service for the period beginning with the
12 effective date of this Act, and ending June 30, 2023. Of the funds appropriated in this
13 subsection, at least \$10,000,000 must be used for the portion of the project to
14 transport natural gas to areas in Grand Forks County. Grant-funded infrastructure
15 investment shall not be included as utility investment for the purposes of determining
16 utility rates or property tax assessment; however, the remaining portion of the
17 infrastructure investment made by the utilities may be considered in determining rates
18 and property tax assessments.