
House Bill No. 1170
Testimony
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Senate Finance and Taxation Committee
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Chairman Kannianen and members of the Committee, my name is Kristine Anderson. I am the in-house corporate attorney for Dakota Natural Gas, LLC, and I also handle regulatory affairs for the company. DNG and I support House Bill 1170 because it is an excellent means to encourage natural gas expansion and it does not cost the state one penny. By helping to manage one element of the economic disincentives that hinder natural gas expansion, the ad valorem tax exemption assured by House Bill 1170 will likely increase access to natural gas throughout the state.

Those of us in the room that have natural gas service generally take it for granted and, before it became a policy priority, we did not really think about the thousands of people living in rural areas and small communities around the state that do not have any access to natural gas. DNG is focused on providing gas to them, because the lack of access to this essential service affects the quality of life, standard of living, and economic development for those people and their communities. For those of you who do enjoy natural gas service at your homes, businesses, and communities, try to imagine the impact on your lives and the lives of your families if your gas service was suddenly gone tomorrow. Natural gas is a safe, reliable, and affordable energy option that should be ubiquitous but isn't.

As you know, natural gas has become a state priority in recent years. North Dakota produces huge amounts of natural gas – so much that it has to be flared and even that level has hit capacity. Yet, while North Dakota is the 11th largest gas producing state in the country, only 91 North Dakota communities have access to natural gas, leaving 366 North Dakota communities unserved. While the unserved areas account for approximately 25% of the state's population, the current economic circumstances make it even less likely that any of the remaining 25% will ever obtain natural gas service in the future without some intervention from lawmakers.

Building a natural gas distribution system for an unserved area is expensive. According to the Interim Energy Development and Transmission Committee, the cost of building distribution systems generally lies between \$750,000 and two million dollars. Unlike many industries, natural gas distribution companies are rate-regulated, so they cannot simply decide to set high rates to recoup their costs of construction quickly. In fact, it takes ten to fifteen years for the cost of building a natural gas system to be earned back before a system becomes profitable.

Another anomaly of the utility industry is the ad valorem tax. Natural gas companies pay property tax on both their real estate and on their personal property, which includes all facilities – pipe, meters, regulator stations, etc. – that are part of the natural gas delivery system. Most commercial entities only pay property tax on their real estate – not on the contents of their buildings or their infrastructure. Moreover, the assessment for the ad valorem property tax is based on a combination of the cost of construction and income from the system and, when there is not an income history, then the lion's share of the assessment is based on the cost of construction. Since new systems are necessarily a long way from existing lines, that means that there is a lot of pipe to be put in the ground – a lot of

expensive pipe. Since the systems are new and not turning a profit, there is not an income history. Therefore, the assessed value is based almost exclusively on the cost of all that pipe and the associated facilities. That makes the tax burden from the ad valorem tax disproportionately high for new systems, which makes them even more expensive to build. Too expensive. That's why so many communities lack natural gas access. House Bill 1170 can contribute to fixing that.

This bill provides a property tax exemption from the ad valorem tax for the first 15 years of life of a natural gas system built to serve an un- or underserved area. The property tax exemption technique is neither novel nor controversial for the energy industry here and North Dakota has adopted it several times. Similar property tax exemptions exist for personal property associated with the transportation or storage of carbon dioxide for use in enhanced recovery of oil or natural gas; for any equipment directly used for enhanced recovery of oil or natural gas; for property being used at the site of a producing well for the production of oil and gas, and for property used for coal conversion facilities and for associated carbon dioxide capture systems. The Interim Committee reported that incentives like that which already exist are operating as intended. The Interim Committee members also recognized additional tax exemptions may be needed to encourage improvement and expansion of natural gas infrastructure. Good ideas make good policy. Good policy begets more good policy. The measure before you is precisely that kind of good policy.

Of course, the tax exemption alone will not guarantee that systems will be built for all of the unserved areas. It is only one piece of the puzzle. But, that piece comes with a zero dollar price tag. Literally. This bill has no effect on the state's current revenue stream. The bill is only forward looking and would apply to systems that are not yet built. They have not been built in decades, and they will likely never be built because of the economics. If those systems are not built, the state will never see tax revenue from them. The communities will never reap economic development benefits from them. The citizens will never capture energy cost-savings from them. However, by helping make building new natural gas distribution systems more economic, there is a much better chance that some systems will, indeed, be built. All of the benefits of expanding natural gas are possible – and proven – and this bill helps bring them nearer to the state's grasp. And, lest you be concerned about other energy providers, yes – natural gas companies and other energy providers can co-exist harmoniously. In fact, the Minnesota companies that are affiliates of Dakota Natural Gas have helped get both propane cooperatives and a rural electric cooperative in the natural gas distribution business.

People want gas. Businesses want gas. Agricultural producers want gas. They have wanted it for decades. Review the testimony submitted by Jim Murphy from Traill County because Dakota Natural Gas brought gas to three communities there over the last several years. He provided you with empirical evidence of the difference that it has already made there in just three short years. You can help give other communities a shot at similar impacts. You can do that without a downside because it won't cost a thing and, when more systems are built, it will increase state revenues after the exemption period expires. Ask yourselves one question: why not – what have you got to lose?

Thank you for the opportunity to speak with you today. I appreciate your consideration and I truly believe that you will concur with me – and with the legislators before you that employed similar exemptions - that the proposed property tax exemption here is an excellent way to serve the people of North Dakota. I respectfully request that you support it. Chairman Kannianen and Committee members, thank you again for the chance to be heard. Please give House Bill 1170 a do-pass recommendation.