
House Bill No. 1170
Testimony
Cody Chilson, President Dakota Natural Gas, LLC
Senate Finance and Taxation Committee
March 8, 2023

Chairman Kannianen and members of the Committee, my name is Cody Chilson, I am the president of Dakota Natural Gas, LLC, and I support House Bill 1170. This measure will help make projects to bring natural gas to unserved communities more economic, which can 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 unserved rural areas there 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, Mayville, and Portland communities. 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 to natural gas is often a function of population density and distance from natural gas supply pipelines, which is why many North Dakota 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. The only way to close the gap and get natural gas to all North Dakota residents is for gas companies to make major investments in infrastructure. However, it is very expensive to build natural gas lines out to those communities and it takes quite a while for cost recovery to occur.

We are not asking for the state to subsidize that investment. Instead, we ask you to consider the impact of property taxes, which are an incredibly substantial part of the buildout cost, and the chilling effect they have on natural gas expansion. Without some property tax relief during the initial phases of extending gas to new and underserved communities, the necessary investments may never be made and the service gap may never be closed. Many people do not realize that gas companies pay property taxes based on their real estate AND they pay personal property tax, or ad valorem tax, on their facilities – the pipe in the ground, the equipment, etc., based in part on the cost of the pipe and on the amount of pipe in the system. When companies like ours build a new line to serve an un- or underserved area, the line is necessarily longer and newer than a line in a densely populated area or near an interstate pipeline. Therefore, the property tax impact on a new line is extreme. Since a company's construction and tax costs are incorporated into its gas rates, the gas customers ultimately pay for the cost of construction of new systems, and well over 10% of the cost of building these distributions systems are property taxes.

The heavy burden of property tax assessments has and will continue to prohibit extension of natural gas service to North Dakota citizens, continuing to deny them access to a basic, essential service as well as inhibiting economic development and limiting the long-term development of the state's tax base. This bill can change that. By alleviating the property tax burden at the beginning of a new system's life, the cost of construction will be decreased, bringing these projects closer to being economically viable. That helps get the infrastructure built and allows time for it to become fully operational and move toward providing a return on investment.

DNG is already working with several unserved communities to assess their market needs and design systems; and, as a result, it has identified possible projects to serve new communities that could have construction begin in the foreseeable future; but, those projects cannot happen without steps to improve their economic viability and the tax exemption will help in that regard.

The tax exemption will not just help one company or one community. Rather, the tax exemption would help improve economic viability for new systems in all parts of the state that are still unserved and it could be utilized by any qualified natural gas distribution company, whether existing or yet to enter the market, so it isn't limited to just DNG or DNG's prospective service areas. Moreover, the impact of the new systems 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 recent extension to Portland would have never been economically feasible but for the fact that DNG was already serving Hillsboro and Mayville. Similarly, the communities that will initially be served by new natural gas systems are not the only communities that will benefit from them, 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.

The North Dakota legislature can take a dramatic step to encourage new systems and help bring safe, reliable, and affordable gas to communities throughout the state by limiting the disincentive to building new systems caused by the ad valorem tax. While the tax exemption contemplated by House Bill 1170 will not guarantee that new natural gas systems will be built, it does provide assurance of a greater likelihood that new systems will be economically viable. In that regard, it is a giant step toward more natural gas expansion, and that step comes without any expense to the State.

I am confident that you will agree that the proposed property tax exemption is in the best interest of the people of North Dakota, and I respectfully request that you support it. Chairman Kannianen and Committee members, thank you for considering this very important matter.