

Wind Energy Competitive Advisory Task Force Findings

As Adopted 10/5/2011

The purpose of the Wind Energy Competitive Task Force is to address state taxes on wind and South Dakota's competitive stance relative to neighboring states.

The critical aspects to wind energy development include a robust wind resource, investment capital, buyer for electricity output, economically feasible transmission capacity, and regional demand for power. Transmission, energy markets, and federal tax incentives are viewed as more critical drivers of wind energy development than state tax policy.

Wind energy is nondispatchable. Its primary value is based on fuel displacement.

South Dakota does not have the population density to absorb any significant amount of in-state wind generated electricity. Customers in the state are currently served by other economically produced electricity technologies, including gas-fired thermal facilities. Any major development of wind energy must seek markets outside the state.

- At the 2000 year end, South Dakota had 0 MW of wind energy installed.
- At the 2003 year end, South Dakota had 44 MW of wind energy installed.
- At the 2006 year end, South Dakota had 44 MW of wind energy installed.
- At the 2008 year end, South Dakota had 187 MW of wind energy installed.
- At the 2010 year end, South Dakota had 709 MW of wind energy installed.

South Dakota's total tax burden is materially higher than its neighbors under the current system and even higher after the rebates expire for sales/use and contractors excise tax. This has an adverse impact on decisions to site wind energy projects within the state.

A wind sales/use/contractor's excise tax comparison between the states of South Dakota, North Dakota, Minnesota, and Iowa shows that South Dakota relies much more heavily on up-front taxes than surrounding states.

South Dakota's state sales/use tax rate is 4% (SDCL 10-45, 10-46). The use tax is paid by the purchaser or user if sales tax was not charged by the retailer or service provider. The contractors excise tax is a 2% tax on a contractor's gross receipts (SDCL 10-46A, 10-46B, 10-46C).

Wind farms generating 5 MW or greater are subject to property tax under SDCL 10-35.

The alternative tax has two parts: 1) a nameplate capacity tax (SDCL 10-35-18); and 2) a gross receipts tax (SDCL 10-35-19), both of which are in lieu of property tax. Nameplate capacity tax is \$3 multiplied by the total nameplate capacity as measured in kilowatts; one hundred percent of that goes to the local governments.

Sales, use, and contractors excise taxes on the same 200 MW project in South Dakota, South Dakota in 2013, North Dakota, Minnesota, and Iowa, respectively, would be:

- \$12.9 million (South Dakota pre-2012)
- \$22.0 million (South Dakota post-2012)
- \$2.0 million (North Dakota)
- \$2.8 million (Minnesota)
- \$3.4 million (Iowa)

Property taxes on the same project in South Dakota, North Dakota, Minnesota, and Iowa, respectively, would be:

- \$25 million (South Dakota)
- \$15 million (North Dakota)
- \$16.8 million (Minnesota)
- \$25 million (Iowa)

Income taxes on the same project in South Dakota, North Dakota, Minnesota, and Iowa, respectively, would be:

- \$0 (South Dakota)
- \$2.2 million (North Dakota)
- \$3.4 million (Minnesota)
- \$4.2 million (Iowa)

A total wind taxes comparison between the States of South Dakota, North Dakota, Minnesota, and Iowa are as follows:

- South Dakota's current total wind taxes would be \$37.9 million.
- South Dakota's estimated total wind taxes for a project in the year 2013 would be \$47 million. ND-\$19.2 million. MN-\$23.0 million. IA-\$32.6 million.

If a new wind facility is exempt from sales/use and contractors' excise tax during construction; South Dakota would still receive substantial tax revenue over 20 years, estimated at more than \$32.5 million. Tax benefits would be as follows:

- Property tax - \$25.0 million
- Sales/use and contractors' excise tax from operations and maintenance - \$7.5 million
- Additional Tax benefits from construction and operations

Without state tax changes, a 200 MW project will pay roughly \$25 million more in state taxes than in neighboring states making South Dakota projects much less competitive.

(Note: The data and information presented in these findings are derived from presentations and testimony provided during earlier meetings of the task force by stakeholders in the wind energy industry and related state agencies.)