

MINNESOTA • REVENUE

SALES AND USE TAX Electric Generating Facility

April 12, 2004

	Yes	No
Separate Official Fiscal Note Requested		X
Fiscal Impact		
DOR Administrative Costs/Savings		X

Department of Revenue
Analysis of S.F. 3015 (Marko) / H.F. 3154 (Sieben)

	<u>Revenue Gain or (Loss)</u>			
	<u>F.Y. 2004</u>	<u>F.Y. 2005</u>	<u>F.Y. 2006</u>	<u>F.Y. 2007</u>
		(000's)		
General Fund	\$0	\$0	(\$325)	(\$325)

Effective for sales and purchases made after December 31, 2004.

EXPLANATION OF THE BILL

Current Law: Purchases of construction materials, supplies, and most installed equipment are generally subject to sales or use tax. Purchases and leases of capital equipment for production industries is exempt under M.S. 297A.68, subdivision 5.

Proposed Law: The bill exempts materials and supplies used or consumed in and machinery and equipment incorporated into the construction of a simple-cycle combustion-turbine electric generation facility that equals or exceeds 150 megawatts of installed capacity or a combined-cycle combustion-turbine electric generation facility that equals or exceeds 225 megawatts of installed capacity.

The facility will qualify for the tax exemption if, at the time of construction, it is designed to utilize natural gas as a primary fuel, is not owned by a public utility, is located in a metropolitan county with a specified population, is within one mile of an existing natural gas pipeline, is within one mile of an existing electrical transmission substation, is designed to provide energy and ancillary services, has a certificate of need from the Minnesota Public Utilities Commission, and construction begins after January 1, 2005, but before January 1, 2008.

The proposed exemption would be available at time of purchase or use; no tax refund claim is required.

The exemption terminates for projects that start after December 31, 2007, but any items acquired for the initial project or any facility improvements would be exempt indefinitely.

REVENUE ANALYSIS DETAIL

- It is assumed that the proposed expansion at Cogentrix, LSP - Cottage Grove will be the only qualifying facility.
- Electrical generating equipment was excluded from the analysis because it is exempt under current law as capital equipment.
- Information from a representative of Cogentrix indicates that they have submitted two requests for proposals: one for a 150 megawatt simple-cycle combustion-turbine generation facility and one for a 225 megawatt combined-cycle combustion turbine facility. The estimates reflect the building of the 225 megawatt facility.
- If the 225 megawatt facility is approved, the construction start date is expected to be September 2005 with the end date of June 2007. It is assumed that the taxable purchases would be evenly divided between fiscal year 2006 and fiscal year 2007.
- It is estimated that the taxable construction costs would be approximately \$10,000,000.

Alternate smaller 150 megawatt simple-cycle combustion-turbine facility

- If the 150 megawatt facility is approved, the construction will take place from April 2006 to June 2007. It is assumed that the taxable purchases will be distributed approximately 40% to fiscal year 2006 and 60% to fiscal year 2007.
- It is estimated that the taxable construction costs would be approximately \$5,000,000.
- If the project is only 150 megawatts, the estimate would be \$130,000 for fiscal year 2006 and by \$195,000 for fiscal year 2007.

Number of Taxpayers: It is assumed that the expansion of the existing electrical plant in Cottage Grove will be the only qualifying facility.

Source: Minnesota Department of Revenue
Tax Research Division
http://www.taxes.state.mn.us/taxes/legal_policy