



Becker ♦ Cohasset ♦ Granite Falls ♦ Hoyt Lakes ♦ Monticello ♦ Oak Park Heights ♦ Red Wing

February 7, 2023

Re: Concerns with House File 178 – energy storage system tax exemption

Chair Lislegard and Members of the House Property Tax Division:

The Coalition of Utility Cities (“CUC”) submits this letter to express our concerns with House File 178, which would exempt energy storage systems from personal property taxation. We hope to work with the bill author and advocates this session in hopes of achieving a solution that could be a win-win for local governments that host storage facilities and the companies that own and operate them.

CUC understands that the underlying goal of this legislation is to clarify the tax treatment of an emerging piece of energy technology. However, rather than moving forward with an exemption of that property, we ask the legislature to engage in a conversation about how these assets can be assessed and taxed so that they provide consistency and predictability to taxpayers, but also contribute fairly to the local governments that host them.

The CUC is acutely interested in this discussion because our membership is made up of seven cities that host the state’s largest remaining baseload power plants. For each of our communities, the plants alone make up anywhere from 40-70% of our local tax base. As many of these facilities head toward final decommissioning in the next decade, we are working desperately to prepare for and overcome the property tax losses we will see. As energy storage projects will be considered as one of the possible replacement resources for that retiring electric generation, HF 178 risks deepening the fiscal impact these communities will contend with.

The CUC is aware that only a small number of storage facilities currently exist in Minnesota, but additional projects are being contemplated for the near future. Recently, for example, Xcel Energy announced an energy storage project that will be located in Becker, which is currently home to the Sherburne County Generating Station, or “Sherco.” Becker stands to lose as much as 70 percent of its property tax capacity within the next seven years as the three coal-fired units at Sherco retire in phases in 2023, 2026, and 2030. If it could be relied upon to help cushion the city’s tax losses while supporting a carbon-free transition, a large storage project might be a win-win for the community. However, the exemption in HF 178 would undermine the direct benefit local governments would see from such a project.

Through CUC’s participation in integrated resource planning processes before the Public Utilities Commission, our communities know that energy storage will be a significant component of Minnesota’s carbon-free future. Host communities want to be able to support the development of replacement resources for that energy generation within our borders, if possible. However, exemptions like the one in HF 178 threaten to undermine the tax benefits of hosting a storage project while preventing the same land from being developed for other purposes.

As you consider this exemption, we urge you to consider the following:

- Xcel’s proposal to site its upcoming energy storage project in Becker confirms to our communities that large, future storage projects are likely to be located at or near the site of legacy generation facilities like the ones in our communities.
- Exempting them from personal property taxation undermines the work that the state is doing to through DEED’s Energy Transition Office to support communities through the impacts of plant retirements by prohibiting local governments from realizing the full tax benefits of assets located within our borders.
- Wherever they are in the state, exempting these projects may come at a limited cost to the state, but legislators should be mindful that this exemption represents a potentially sizeable property tax shift. The

cost of exempting utility property from taxation is passed on to residents and businesses that share a taxing jurisdiction with that utility property.

Thank you for your consideration. Again, we look forward to continuing this conversation throughout session.

Sincerely,

Max Peters  
Director of City Operations/Finance Director, City of Cohasset  
President, Coalition of Utility Cities