



October 31, 2000

## CHANGES IN TAXES AND ASSESSMENTS RELATED TO INDUSTRY RESTRUCTURING IN OHIO

### BACKGROUND

#### WHY ELECTRIC INDUSTRY RESTRUCTURING REQUIRES TAX CHANGES

The introduction of competition to Ohio's electric industry requires major changes in the way in which electric utilities are taxed.

Traditionally, Ohio's electric utility property has been taxed at a rate three to four times higher than the rate at which other businesses are taxed. In addition, utilities have paid a gross receipts tax instead of the corporate franchise tax. The gross receipts tax is much higher.

In a non-competitive environment, these high taxes are included in consumers' electric rates. These high taxes, however, put Ohio generation service providers at a disadvantage when they must compete for business with non-Ohio providers. Because out-of-state providers are not taxed at this same level, the taxes they must recover from customers, and

consequently the prices they can charge, are lower.

In the new competitive electric market, utilities will pay the corporate franchise tax and municipal income taxes like other corporate taxpayers. They also will pay the same level of property taxes as other business taxpayers, except for property taxes on transmission and distribution assets that still will be taxed at a higher rate. In addition, distribution companies will pay a new kilowatthour (kWh) tax.

Changes in the Ohio tax law are designed to be "revenue neutral" – to provide the same level of revenue to the state and local taxing jurisdictions. Utility rates will be adjusted to recognize the utility tax changes.

### TAXES BEING ELIMINATED

#### Gross receipts tax

Ohio's electric utilities no longer will incur the 4.75 percent gross receipts tax as of April 30, 2002.

### TAXES BEING CHANGED

#### Property taxes

The property tax assessment percentage on electric companies' property, except for transmission and distribution property, has been lowered to 25 percent of true value, the same rate applied to all other competitive businesses in Ohio. The previous rate varied from 100 percent to 88 percent of true value.

This change in the property tax assessment rate for generation equipment occurs on January 1, 2001. Property taxes do not appear as line items on customers' bills.

### TAXES BEING ADDED

#### Corporate franchise tax

Electric companies will pay the same state corporate franchise tax that all Ohio businesses pay. The corporate franchise tax becomes effective January 1, 2002.

#### Municipal income taxes

As of January 1, 2002, electric companies will begin paying municipal income taxes.

Previously, they were exempt.

#### Kilowatthour tax

To achieve revenue neutrality, Ohio's electric distribution companies will be assessed a tax based on the amount of electricity delivered to each customer. The tax is based on declining block rates. This means, in general, the tax rate on higher electricity usage is lower. The kWh tax becomes effective May 1, 2001.

These taxes will be included in local electric utilities' distribution service charges (except for self-assessors, see next page) and will not appear as line items on customers' bills.



### THE TAX SELF ASSESSOR OPTION FOR LARGE ELECTRICITY USERS

The state's largest-volume users of electricity may choose to pay the kWh tax directly to the state rather than in their distribution charges. This "self assessor" option is available to customers who use more than 120 million kWh of electricity per year. A self assessor purchaser pays the excise tax at the rate of \$0.00075 per kWh and 4 percent of the total price of electricity delivered through an end-user's meter. This generally can lessen the total tax impact for eligible customers.

Changes in the self assessor guidelines are being considered. The following changes have

been recommended and are expected to be acted upon in November.

- Reduce the consumption qualification for self assessing to 45 million kWh,
- Eliminate the self assessor revenue target of \$63 million,
- Authorize the Tax Commissioner to qualify a new commercial or industrial purchaser as a self assessor if annual use estimates exceed 45 million kWh per year and
- Cap the \$0.00075 per kWh assessment at 504 million kWh per year.

### MORE INFORMATION ABOUT THE KILOWATTHOUR TAX

The block rates in the kWh tax are designed to be revenue neutral over an entire customer class across the state. For example, this means that statewide, the kWh tax attributable to the use of electricity by large industrial users as a

group, will be the same as the taxes attributable to that same group of industrial users across the state under the current law.

"Over an entire customer class" is the key here. The amount of the kWh tax included in an individual industrial customers' electric distribution charges may differ from the amount of taxes currently included in that customer's electric rates. AEP advises customers to carefully consider the implications of these tax changes as they budget for the future.

#### UTILITY TAX CHANGES AND SCHOOL SUPPORT

Electric utilities typically have been the largest property taxpayers in the state, paying more than \$650 million annually. Because schools receive substantial amounts of their revenue from these taxes, it was important to ensure that they would not be harmed by the tax changes driven by industry restructuring.

The new tax law helps schools and local governments adjust to the changes in the way electric utilities are taxed. To help schools transition, the state has agreed that it will make up any reduced funding due to this tax change on a declining scale through the year 2016.

#### ASSESSMENTS

##### ASSESSMENTS RECOVER SPECIFIC EXPENSES

Various assessments are added to electric bills to recover certain specific expenses from customers. Industry restructuring requires that some of these expenses be assessed in different ways. Descriptions of the assessments follow.

##### Universal service fund rider

The universal service fund rider replaced the Percentage of Income Payment Plan (PIP) rider on September 1, 2000. PIP helps low-income residential customers avoid disconnection during the winter. The program now is

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administered by the Ohio Department of Development, which sets the rate. The amount has increased slightly such that only large users may notice the difference. The universal service rider is included within the distribution charge.

### **Energy efficiency fund rider**

The energy efficiency fund rider supports

programs for low-income customers. On January 1, 2001, it replaces the demand side management monies included in the base rates.

The energy efficiency fund rider is included within the distribution charge.

### **FOR MORE INFORMATION**

For more information, contact your AEP account representative or contact Ohio Electric Choice at 1-888-OEC-1314 or log on to [www.OhioElectricChoice.com](http://www.OhioElectricChoice.com).

For information about Ohio's low-income assistance programs supported by some of the various riders, contact the Ohio Department of Development at 1-800-282-0880.