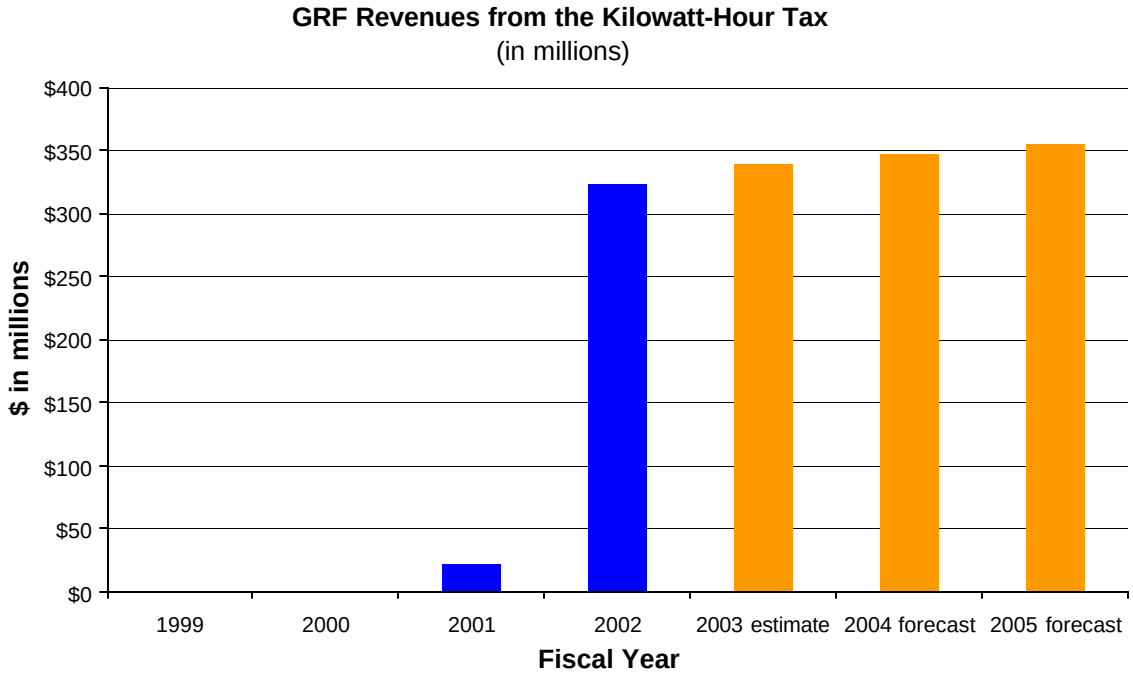
Kilowatt-Hour Tax



	FY 1999 Actual	FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003 Estimate	FY 2004 Forecast	FY 2005 Forecast
Kilowatt Hour Excise Tax	no tax	no tax	$22.8	$323.3	$339.5	$347.3	$354.8
growth	na	na	na	1317.8%	5.0%	2.3%	2.2%

The kilowatt-hour tax was created in S.B. 3 of the 123rd G.A., and revenues from the tax began to be received in May 2001. The tax is levied on distribution companies, which remain regulated, and which include the tax in the rates that they charge for distributing electricity. The tax rate depends on the volume of electricity used by the customer. There are three distinct marginal tax rates, $.00465 per kilowatt-hour (kWh) for the first 2,000 kilowatt-hours consumed in a month, $.00419 per kWh for the next 13,000 kilowatt-hours consumed, and $.00363 per kWh for all kWhs consumed over 15,000. Very large users, those that use over 45 million kWhs per year, have the option of self-assessing, which enables them to pay a still-lower rate of $.00075 per kWh (up to the first 504 million kWhs consumed) plus 4 percent of the price.

Because of the relative newness of the tax there is little historical data on revenues to use in forecasting future revenues. In addition, data on electricity usage from the Energy Information Administration (EIA) within the U.S. Department of Energy are provided by customer classes -- residential, commercial, and industrial -- that do not correspond precisely to the classifications used to determine the tax rate as described above. On the

other hand, the tax base is one that grows fairly steadily and is not directly affected by possibly volatile swings in prices, a factor that is helpful for forecasting.

The revenue for FY 2003 through December has grown by 5.1 percent over the corresponding period in FY 2002. This growth rate is essentially assumed to hold for the remainder of the fiscal year due to the colder than average temperatures experienced through January, with a very slight drop in the growth rate in the spring. Thus revenue for fiscal year 2003 is forecast to grow by 5.0 percent over the FY 2002 figures.

The forecast for FY 2004 and 2005 begins by estimating the share of the tax paid by residential, commercial, and industrial customers. The estimate assumes that residential customers pay the highest tax rate, commercial customers pay the middle rate, and industrial customers pay the lowest tax rate. Under this assumption, their respective shares of revenue paid work out to 33.7 percent, 28.2 percent, and 38.1 percent. This may overestimate the share paid by industrial customers, since some industrial customers pay based on the lower self-assessors' rate. To the extent that it does so, revenues will be underestimated, since the growth rate assumed for industrial usage is the lowest of the three categories.

The most recent data available from the EIA report that residential consumer usage grew by 2.3 percent per year, on average, from 1990 to 1999. The comparable data for commercial users was 2.9 percent and for industrial users it was 0.7 percent. The historical growth rate for industrial users was falling during the second half of the 1990s when growth in manufacturing was slowing significantly; the average growth rate from 1990 to 1994 was 1.5 percent. Because the period 1990 through 1994 was a period of slow recovery from a recession, just as the FY 2004 and 2005 period is forecast to be, the growth rate assumed for industrial users for the biennium is 1.5 percent per year. The growth rates used in the forecast for residential and commercial users start with the respective average rates for 1990 through 1999. For the FY 2004 forecast, these averages are adjusted for weather and business cycle factors using the Global Insight (formerly DRI-WEFA) forecast of national growth in demand for electricity; for FY 2005 the averages are not adjusted, implicitly assuming normal weather patterns and average economic growth. The overall growth rates for revenue forecast using this method are 2.3 percent in FY 2004 and 2.2 percent in FY 2005.