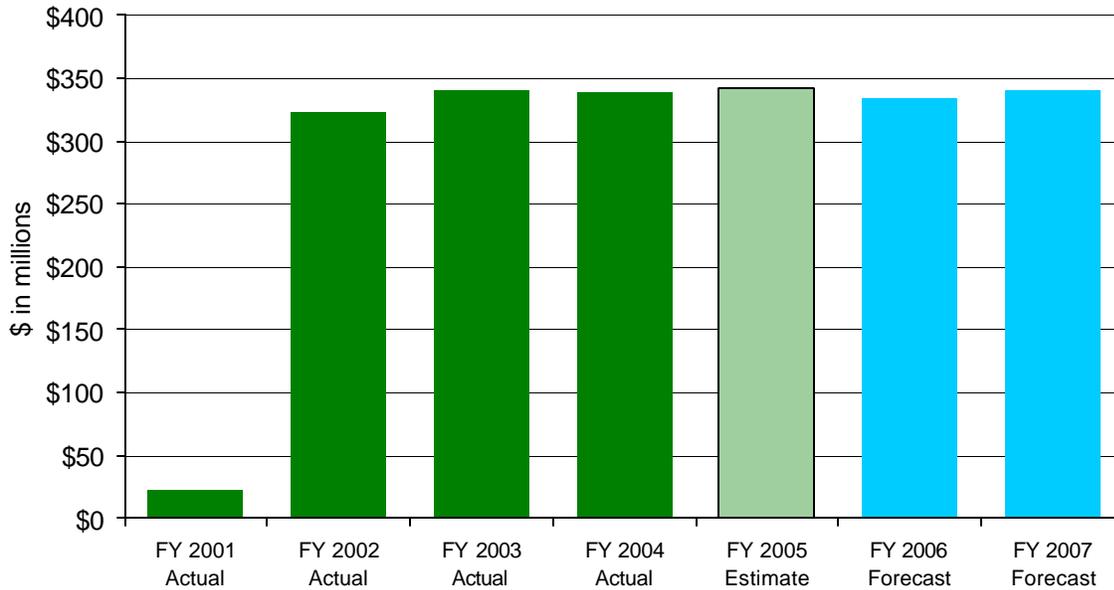


Kilowatt-Hour Tax

GRF Revenues from the Kilowatt Hour Tax
 (in millions)



	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
	Actual	Actual	Actual	Actual	Estimate	Forecast	Forecast
Revenue	\$22.8	\$323.3	\$339.9	\$339.0	\$342.0	\$334.0	\$341.0
Growth	NA%	1,317.8%	5.1%	-0.3%	0.9%	-2.3%	2.1%

The kilowatt-hour tax was created by S.B. 3 of the 123rd General Assembly, 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.

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 2005 through January has grown by 0.2% over the corresponding period in FY 2004. This growth rate is assumed to accelerate slightly toward the long-run growth in electricity demand, 1.8% per year, forecast by the EIA. Global Insight, an economic forecasting firm, projects national growth in electricity demand of just under 1.6% in the first and second quarters of calendar year 2005 compared with the corresponding quarters of 2004. The FY 2005 revenue estimate was obtained by applying the Global Insight forecast of growth in electricity demand for these two quarters to the revenue yielded in FY 2004 during the corresponding quarters. Similarly, the forecast for FY 2006 and 2007 applies Global Insight's forecast of quarterly growth rates in national electricity demand to historical revenue figures to produce growth estimates of approximately 2.3% for FY 2006 and 2.1% for FY 2007. Revenues, and the growth rate, for FY 2006 are adjusted assuming a return to the statutory distribution of revenues from the tax, which results in the fall in revenue indicated in the table.

Relying on a national forecast implicitly assumes that electricity demand in Ohio grows at rates similar to national rates. Other approaches to forecasting revenue under the tax were tried, and the alternative methods generally yielded very similar results. Among the alternative methods used was one that adjusts for Ohio's slower growth historically in residential and commercial use of electricity as compared with the nation as a whole coupled with Ohio's unusually large sales of electricity to industrial users.¹⁰

¹⁰ Average annual growth in electricity usage in Ohio by both residential and commercial customers between 1990 and 2002 was 2.4%, compared with a national average of 3.1% and 3.9%, respectively. Also, industrial sales accounted for about 39% of Ohio's retail sales of electricity in 2002, while the comparable ratio for the U.S. as a whole was about 28%.