



House Ways and Means Committee

Kilowatt-Hour Tax
Testimony Submitted by:
Janine L. Migden-Ostrander
Consumers' Counsel

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Janine L. Migden-Ostrander, Consumers' Counsel
Office of the Ohio Consumers' Counsel

Chairwoman Kilbane and members of the House Ways and Means Committee, I am Janine L. Migden-Ostrander, Ohio's Consumers' Counsel. The Office of the Ohio Consumers' Counsel serves as the advocate – the statutory voice – on behalf of Ohio's 4.5 million residential utility households. The law calls for our office, also known as the OCC, to represent the interests of residential consumers – your constituents – of Ohio's investor-owned electric, natural gas, telephone and water companies.

I appreciate the opportunity to submit testimony regarding our concerns with the proposed kilowatt-hour (kWh) tax increase as outlined in Substitute House Bill 1.

It is indeed apparent that the state of Ohio is in the midst of tough economic times and the need to identify alternative methods to help alleviate the deficit is a crucial objective of the Administration's budget plan. However, the proposed increase to the kWh tax, coupled with the Rate Stabilization Plans recently approved by the Public Utilities Commission of Ohio, most certainly will stretch the budgets of Ohio's residential utility customers far too thin.

The kWh tax, as you know, was created in the 123rd General Assembly and was effective May 1, 2001 as part of amended Substitute Senate Bill 3, Ohio's electric restructuring law. This tax replaced the public utility excise tax on investor-owned electric companies and rural electric cooperatives. It also reduced the tax revenues from the lower electric and rural electric tangible personal property tax assessment rates.

The kWh tax is levied on electric distribution companies, which pass through this cost to their customers. The tax is charged monthly on our electric utility bill, but in most cases it is a hidden tax, and does not appear as a separate line item. This makes most consumers unaware that they are even being assessed a kWh tax.

In FY 2003, the tax generated a little over \$538 million for the general revenue fund. In the Administration's projections for 2006 to 2007 the estimated kWh tax revenue will be up almost 40 percent¹ from 2005 to 2006. A good portion of this increase will be paid by Ohio's residential utility consumers.

Today, a typical residential customer using 850 kWh of electricity per month pays \$3.95 for the kWh tax each month. The proposed 30 percent increase in the kWh tax would result in a kWh tax payment of \$5.14 per month on that same customer – an increase of \$1.19 per month, or \$14.28 per year.

(Endnotes)

¹ Executive Budget Briefing Document/FY 2006-2007 Biennium, Economic Forecast and Revenue Estimates, page 8.

The current kWh tax rates are as follows:

- Up to 2,000 kWh per month – 0.465 cents/kWh
- 2001 kWh to 13,000 kWh per month – 0.419 cents/kWh
- In excess of 15,000 kWh per month – 0.363 cents/kWh

In addition, there is a lower kWh tax rate for very large customers consuming over 120 million kWh per year, and who “self-assess” the kWh tax.

Virtually all residential consumption of electricity takes place in the first 2,000 kWh tax rate, therefore residential customers are subject to the highest kWh tax already.

In addition, the Rate Stabilization Plans will impose significant new charges beginning January 1, 2006, depending on the customers’ electric company. By 2008, residential electric customers’ bills will increase at least \$8 to \$20 per month. These charges coupled with the kWh tax increase will impose too much of a burden on residential customers. The OCC continues to oppose the Rate Stabilization Plans at the Ohio Supreme Court.

While most residential customers in the state of Ohio will bear the burden of increased charges on their electric bills, those individuals whose incomes fall below the 150 percent poverty level will be hit the hardest.

In the proposed budget, the Administration admirably has tried to alleviate additional taxes to Ohio’s low income families – those who specifically earn less than \$10,000 annually – but the kWh tax negates this valiant effort. The tax payments that the Administration has proposed to remove from this low income group, will be recouped through the kWh tax.

According to the most recent report provided by the Economic Opportunity Research Institute, low income residential consumers paid higher energy bills in 1993 than in 1987. About 22 million households nationwide had 1993 household income at or below 150 percent of the federal Poverty Threshold, and their energy needs, especially their electricity needs, were growing.

Certainly these statistics continue to hold merit and clearly indicate the need for alternative options for low income customers. These individuals need to be able to maintain their electric service to heat their homes even in the toughest of economic times.

One viable option to protect the low income customer is to exempt those 168,000 individuals in Ohio who are on the Percentage of Income Payment Program (PIPP) from the proposed kWh tax.

However, if it is eventually decided that the proposed kWh tax increase is implemented, the change in the tax must be equally assessed. The kWh tax increase should not further disadvantage residential customers compared to commercial and industrial customers, who already pay less as a result of the reduced kWh tax rates for large users. In order to avoid the creation of further inequities in applying the kWh tax, each of the rates – including commercial and industrial – should be increased by 30 percent.

The OCC remains concerned about the hardship the proposed kWh tax would place on a countless number of Ohioans. While the OCC realizes that some increases are a necessity, we must be mindful of continually placing higher charges on electric bills – a vital service that people rely on every single day – and the impact it will have on the state’s residential utility customers. Additionally, increases in electric costs to low income customers make it even more difficult for them to make payments and avoid disconnection.

The OCC urges you to consider other options for replenishing some of Ohio’s lost revenues.

Thank you.

¹ Executive Budget Briefing Document/FY 2006-2007 Biennium, Economic Forecast and Revenue Estimates, page 8.