

---

**Technology, Telecommunications  
& Energy Committee**

---

**HB 1004**

**Brief Description:** Changing gas and electricity tax provisions.

**Sponsors:** Representatives Morris and Sullivan.

**Brief Summary of Bill**

- Changes the measure of tax for light and power businesses and gas distribution businesses under the public utility tax from a gross receipts basis to a volumetric basis.
- Establishes a rate of 0.21 cents per kilowatt-hour of electricity generated, produced, transported, wheeled, or distributed for light and power businesses.
- Establishes a rate of 23 cents per thousand cubic feet of natural or manufactured gas that are produced, transported, or distributed.
- An option is provided to cities to adopt volumetric utility taxes in lieu of gross receipts taxes for electric or gas distribution businesses.

**Hearing Date:** 1/31/03

**Staff:** Mark Matteson (786-7145).

**Background:**

Businesses that distribute electricity or natural gas are subject to several taxes in Washington State. These include the state public utility tax, the brokered natural gas use tax, and municipal utility taxes.

*The Public Utility Tax*

Public and privately-owned utilities and certain other businesses are subject to the state public utility tax (PUT). Two of the classes of PUT taxpayers are light and power businesses and gas distribution businesses. Light and power businesses include plants or systems that generate, produce, wheel, or distribute electrical energy. Gas distribution businesses include plants or systems that produce or distribute manufactured or natural gas.

The PUT is applied to the gross receipts of the business. For light, power, and gas distribution businesses, the applicable tax rates are 3.873 percent and 3.852 percent, respectively. Revenues are deposited to the state general fund.

The PUT does not permit deductions for the costs of doing business, such as payments for raw materials and wages of employees. Nonetheless, several deductions for specific types of business activities are allowed under the PUT. These activities include the wholesales of electrical energy, production of energy through cogeneration or by using renewable energy resources, and the distribution of electricity by light and power businesses whose customers are geographically disbursed.

#### *The Brokered Natural Gas Use Tax*

Natural or manufactured gas that is consumed within the state is subject to the state brokered natural gas use tax, if the supplier was not subject to the state public utility tax. The brokered natural gas use tax is applied to the value of the gas as delivered to the customer. The rate is the same as that for natural or manufactured gas under the PUT. Revenues are deposited in the state general fund.

#### *Municipal Utility Taxes*

Cities also impose taxes on the gross receipts of business activities conducted within the cities without any deduction for the cost of doing business. Cities, similar to the state, impose utility taxes. Cities may impose utility taxes at a rate up to 6 percent of gross receipts, unless approved otherwise by the voters. Cities that impose a utility tax on gas distribution businesses may impose a local brokered natural gas use tax similar to the state brokered natural gas use tax, if the supplier was not subject to the municipal utility tax. Any local brokered natural gas use tax that is imposed must be at the same rate as the city municipal utility tax on gas distribution businesses.

### **Summary of Bill:**

The public utility tax, brokered natural gas use tax, and municipal utility tax, as they relate to electricity and gas distribution businesses, are restructured.

#### *Public Utility Tax*

The public utility tax, as it applies to light and power businesses and gas distribution businesses, is measured by the volume of electricity or natural gas distributed and not by the gross receipts of the business. For electricity, the tax is based on the number of kilowatt-hours of electricity that are generated, produced, transported, wheeled, or

distributed. The tax rate is set at 0.21 cents per kilowatt-hour of electricity that is generated, produced, transported, wheeled for others, or distributed. For gas, the tax is based on the number of thousand cubic feet of natural or manufactured gas. The tax rate is set at 23 cents per thousand cubic feet of natural or manufactured gas that is produced, transported, or distributed.

The bill restructures statutory provisions that allow deductions against taxable income under the PUT for light, power, and gas distribution businesses. Deductions are modified to create either exemptions or tax credits. Electricity or gas that is acquired for resale is exempted from the PUT. The deduction allowed for light and power businesses whose customers are geographically dispersed is restructured as a tax credit. The deduction allowed for the costs of producing energy using cogeneration facilities or by using renewable energy resources is also restructured as a tax credit.

#### *Brokered Natural Gas Use Taxes*

The state and local brokered natural gas use taxes are repealed, since the volumetric public utility tax applies to all gas that is distributed locally, whether or not the sale for the original delivery of the gas was made in-state, the brokered natural gas use taxes are redundant.

#### *Municipal Utility Tax*

Municipalities are provided the option of imposing a volumetric tax on electric or gas utilities, similar to the change under the PUT for light and power and gas distribution businesses. The option to impose the volumetric tax is in lieu of a gross receipts tax. The rate that would apply to electric utilities is 0.29 cents per kilowatt-hour electricity; the rate that would apply to gas businesses is 41 cents per thousand cubic feet of natural or manufactured gas.

**Appropriation:** None.

**Fiscal Note:** Not Requested.

**Effective Date:** The bill contains an emergency clause and takes effect on July 1, 2003.