

# HOUSE BILL REPORT

## HB 2440

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### As Passed Legislature

**Title:** An act relating to excise taxation of low-density light and power businesses.

**Brief Description:** Increasing tax deductions available to low-density light and power businesses.

**Sponsors:** Representatives Schoesler, Sheldon, Johnson, Brown, Honeyford, Grant, Sheahan, McMorris, Boldt, Quall, Morris, Chappell, Campbell, Hymes, Brumsickle, Mastin, Benton, Foreman, Lisk, Crouse, Smith, Thompson, Mulliken and Kessler.

**Brief History:**

**Committee Activity:**

Energy & Utilities: 1/17/96, 1/25/96 [DP].

**Floor Activity:**

House Passed: 2/6/96, 96-0.

Passed Legislature.

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### HOUSE COMMITTEE ON ENERGY & UTILITIES

**Majority Report:** Do pass. Signed by 9 members: Representatives Casada, Chairman; Crouse, Vice Chairman; Hankins, Vice Chairman; Patterson, Ranking Minority Member; Poulsen, Assistant Ranking Minority Member; Chandler; Kessler; Mastin and Mitchell.

**Staff:** Margaret Allen (786-7110).

**Background:** Public and privately owned utilities, such as light and power, natural gas, and water distribution companies, pay a gross-receipts public utility tax instead of the business and occupation tax. The tax rate on light and power businesses is 3.873 percent.

Costs of doing business tend to be higher in rural than urban areas, as there are fewer customers to share those costs. Until 1994, light and power companies were not allowed to reduce their taxable gross receipts by the costs of doing business.

In 1994, legislation was passed allowing light and power businesses with fewer than 17 customers per mile of line, and with retail power rates greater than the state

average, to deduct from taxable gross receipts a portion of their wholesale power costs. The amount of the deduction is the least of the following three amounts:

- (1)
  - (a) 25 percent of wholesale power costs when the utility has fewer than 5.5 customers per mile of line;
  - (b) 20 percent of wholesale power costs when the utility has more than 5.5 but fewer than 11 customers per mile of line;
  - (c) 15 percent of wholesale power costs when the utility has more than 11 but fewer than 17 customers per mile of line;
  - (d) 0 percent of wholesale power costs when the utility has more than 17 customers per mile of line;
- (2) Wholesale power costs multiplied by the percentage by which average retail rates exceed the state average; or
- (3) \$200,000 per month.

**Summary of Bill:** The portion of wholesale power costs a light and power company may deduct from taxable gross receipts is doubled. The amount of the deduction is the least of the following three amounts:

- (1)
  - (a) 50 percent of wholesale power costs when the utility has fewer than 5.5 customers per mile of line;
  - (b) 40 percent of wholesale power costs when the utility has more than 5.5 but fewer than 11 customers per mile of line;
  - (c) 30 percent of wholesale power costs when the utility has more than 11 but fewer than 17 customers per mile of line;
  - (d) 0 percent of wholesale power costs when the utility has more than 17 customers per mile of line;
- (2) Wholesale power costs multiplied by the percentage by which average retail rates exceed the state average; or
- (3) \$400,000 per month.

**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date:** The bill takes effect July 1, 1996..

**Testimony For:** Many small utilities buy all their power from the Bonneville Power Administration. As Bonneville's rates have increased, so has the amount customers of small utilities must pay in excise taxes. Rural customers tend to have lower

income and higher expenses than average. This bill targets only utilities with the lowest density and highest rates. It will not have a negative impact on state revenue.

**Testimony Against:** None.

**Testified:** Representative Schoesler, prime sponsor; Aaron Jones, Washington Rural Electric Coop Association; Kris Mikkelsen, Inland Power and Light; Jerry Burke, Clallam County PUD; and Dick Rosenberg, Ohop Mutual Light Company.