

Date of State Budget Office Approval: Tuesday, March 24, 2015

Date Requested: Thursday, February 12, 2015

Date Due: Sunday, February 22, 2015

Impact on Expenditures

FY 2015 n.a.
 FY 2016 n.a.
 FY 2017 n.a.

Impact on Revenues

FY 2015 \$(4,311,686)
 FY 2016 \$(5,536,425)
 FY 2017 \$(5,584,129)

Explanation by State Budget Office:

This bill would amend Rhode Island General Law Chapter 39-1 entitled "Public Utilities" by adding to said chapter Rhode Island General Law Section 39-1-63 titled "Moratorium on taxes due to electric rate increases that pass through to customers". This section would disallow the application of the public utilities gross earnings tax, as specified in Rhode Island General Law Section 44-13-4 titled "Rate of taxation", and the application of the sales and use tax, as specified in Rhode Island General Law Chapter 44-18 entitled "Sales and Use Taxes – Liability and Computation", to any increase in the rate for electricity greater than the rate that was in effect on December 31, 2014 which is allowed by the Rhode Island Public Utilities Commission (PUC) to every corporation whose principal business is manufacturing, selling, distributing and/or transmitting electricity to be used for light, heat or motive power.

Under current law, commercial and industrial businesses, except manufacturers, pay the sales and use tax and gross receipts tax on the consumption of electricity while residential customers pay the gross receipts tax, but not the sales tax, on the consumption of electricity.

Comments on Sources of Funds:

All sales and use taxes and public utilities gross earnings taxes are considered to be general revenues.

Summary of Facts and Assumptions:

***** REVISED MARCH 25, 2015 *****

The effective date of this bill is upon passage, but is retroactive to January 1, 2015. The Office of Revenue Analysis (ORA) assumed that the Low Income Home Energy Assistance Program (LIHEAP), the Energy Efficiency Program, the Renewable Energy Program, and electric distribution charges would not be allowed to increase in conjunction with the higher electrical rate charge and would remain at the rates assessed on December 31, 2014.

ORA used the calendar year 2014 data on sales taxes collected from commercial and industrial users of electricity that was provided by PUC. This data was incorporated into the Rhode Island Macro Sales Tax Simulation Model and allocated between the purchase of electricity as an intermediate input and the purchase of electricity as an investment good. It should also be noted that residential customers are exempt from paying the sales tax on electricity purchased for use in residential premises. Based on the Rhode Island sales tax simulation model, total Rhode Island sales tax receipts from the purchase of electricity as an intermediate input are \$17,096,400.

Prepared by: Paul Dion / 4015748943 / paul.dion@revenue.ri.gov

In order to estimate the impact from exempting the increase in the electricity rate that is charged to customers, effective January 1, 2015, ORA calculated the per kilowatt hour (kWh) sales tax rate assessed on electricity. Under current law the sales tax rate is assessed on the sum of the electricity rate, the LIHEAP assessment, the energy efficiency program charge, the renewable energy program charge, and the electricity distribution charge. As of December 31, 2014 the electricity rate was \$0.08801 per kWh, the LIHEAP rate was \$0.0073 per kWh, the energy efficiency program rate was \$0.00983 per kWh, the renewable energy program rate was \$0.00512 per kWh, and the electricity distribution charge was \$0.00024 per kWh. It should be noted that According to the GoLocalProv story "Electric Rate Hike Means Millions More in RI Tax Revenues" posted on January 15, 2015, the negative distribution charge is the result of National Grid over-collecting from customers; normally this is a positive charge to the customer. As a result, the total rate per kWh on December 31, 2014 was \$0.11002 (i.e.; \$0.08801 + \$0.0073 + \$0.00512 + \$0.00983 - \$0.00024). ORA calculated that the sales and use tax rate of 7.0 percent generates \$0.0077 per kWh based on the total electricity rate charged as of December 31, 2014 of \$0.11002 per kWh (i.e.; \$0.11002 * 0.07).

The implied TY 2014 Rhode Island demand for electricity as an intermediate input and an investment good is equal to the estimated sales tax from the Rhode Island Macro Sales Tax Simulation Model of \$17,096,400 divided by the sales and use tax collected per kWh of \$0.0077, or 2,220,311,688 kWh demanded by all firms for intermediate input or investment good use. In order to estimate the calendar year 2015 and calendar year 2016 demand for electricity, ORA utilized information from the U.S. Energy Information Agency (US EIA). US EIA estimates that New England industrial and commercial electricity consumption will increase by 2.24 percent in tax year 2015. ORA applied the estimated growth rates to the TY 2014 demand for electricity of 2,220,311,688 kWh to yield an estimate of 2,270,046,670 kWh of electricity demanded as an intermediate input or investment good purchase in TY 2015. US EIA estimates that New England industrial and commercial electricity consumption will increase by 1.84 percent in tax year 2016. ORA applied the tax year 2016 estimated growth rate to the TY 2015 demand for electricity by commercial and industrial users to yield an estimate of 2,312,269,538 kWh of electricity demanded in TY 2016. US EIA estimates that New England industrial and commercial electricity consumption will increase by 1.59 percent in tax year 2017. ORA applied the tax year 2017 estimated growth rate to the TY 2016 demand for electricity by commercial and industrial users to yield an estimate of 2,349,034,624 kWh of electricity demanded in TY 2017.

As of January 1, 2015 the electricity rate was \$0.11659 per kWh, the LIHEAP rate was \$0.0073 per kWh, the energy efficiency program rate was \$0.00983 per kWh, the renewable energy program rate was \$0.00512 per kWh, and the electricity distribution charge was \$0.00024 per kWh. As a result, the total rate per kWh was \$0.1386 (i.e.; \$0.11659 + \$0.0073 + \$0.00512 + \$0.00983 - \$0.00024) as of January 1, 2015. ORA calculated that the sales and use tax rate of 7.0 percent generates \$0.0097 per kWh based on the electricity rate as of January 1, 2015 of \$0.1386 per kWh (i.e.; \$0.13860 * 0.07).

X
As of April 1, 2015 the electricity rate is estimated by the PUC to total \$0.11568 per kWh, the LIHEAP rate was \$0.0073 per kWh, the energy efficiency program rate was \$0.00983 per kWh, the renewable energy program rate was \$0.00512 per kWh, and the electricity distribution charge was \$0.00024 per kWh. As a result, the total rate per kWh is \$0.13769 (i.e.; $\$0.11568 + \$0.0073 + \$0.00512 + \$0.00983 + \$0.00024$). ORA calculated that the sales and use tax rate of 7.0 percent generates \$0.0096 per kWh based on the electricity rate as of January 1, 2015 of \$0.13769 per kWh (i.e.; $\$0.13769 * 0.07$).

X
As of July 1, 2015, the electricity rate is estimated by the PUC at \$0.10112 per kilowatt hour (kWh), the LIHEAP rate was \$0.0073 per kWh, the energy efficiency program rate was \$0.00983 per kWh, the renewable energy program rate was \$0.00512 per kWh, and the electricity distribution charge was \$0.00024 per kWh. As a result, the total rate per kWh is \$0.12313 (i.e.; $\$0.10112 + \$0.0073 + \$0.00512 + \$0.00983 + \$0.00024$). ORA calculated that the sales and use tax rate of 7.0 percent generates \$0.0086 per kWh based on the electricity rate as of July 1, 2015 of \$0.12313 per kWh (i.e.; $\$0.12313 * 0.07$). In order to estimate the fiscal impact for the January 2016 through June 2016 period and for FY 2017, ORA assumed that the electricity rate did not change from the estimated December 2015 electricity rate of \$0.12313 per kWh.

In order to calculate the fiscal impact, ORA calculated the average sales and use tax collections in a given month over the past five fiscal years. According to data provided by PUC, January through March collections represent 25.4 percent of the total collections of sales and use tax on electricity over the past five fiscal years (FY 2009 – FY 2014). The April through June collections represent the 23.6 percent of the total collections of sales and use tax on electricity from FY 2009 – FY 2014. The July through December collections represent 51.0 percent of the total collections of sales and use tax on electricity from FY 2009 – FY 2014. As a result, ORA estimated that the demand for electricity for the January 2015 through March 2015 period to be 576,591,854 kWh (i.e.; $0.254 * 2,270,046,670$). For April 2015 through June 2015 the estimated demand for electricity is 535,731,014 kWh (i.e.; $0.236 * 2,270,046,670$). For the July 2015 through December 2015 period ORA estimated the demand for electricity to be 1,157,723,802 kWh (i.e.; $0.510 * 2,270,046,670$). For the January 2016 through June 2016 period ORA estimated the demand for electricity to be 1,133,012,074 kWh ($(0.254 + 0.236) * 2,312,269,538$). For the FY 2017 ORA estimated the demand for electricity to be 2,097,256 kWh ($0.510 * 2,312,269,538 + (0.254 + 0.236) * 2,349,034,624$).

ORA estimated that the 576,591,854 kWh of electricity demanded from January 2015 through March 2015 would generate \$5,592,941 in sales and use tax under the electricity rate of a \$0.1386 per kWh (i.e.; $576,591,854 * (\$0.13860 * .07)$). If the rate had not increased from December 31, 2014 a total of \$4,439,757 or \$1,153,184 less in sales and use tax would have been paid by commercial and industrial users (i.e.; $576,591,854 * (\$0.11002 * .07)$). The estimated 535,731,014 kWh of electricity demanded between April 2015 and June 2015 would generate \$5,143,018 under the estimated electricity rate of \$0.13769 per kWh (i.e.; $535,731,014 * (\$0.13769 * .07)$). If the rate had not increased from the electricity rate in effect on December 31, 2014, a total of \$4,125,129 or \$1,017,889 less in sales and use tax

would have been paid by commercial and industrial users (i.e.; (i.e.; 535,731,014 * (\$0.11002 * .07)). ORA estimated that the 1,157,723,802 kWh of electricity demanded from July 2015 through December 2015 would generate \$9,956,425 under the estimated rate of \$0.12313 per kWh (i.e.; 1,157,723,802 * (\$0.12313 * .07)). If the rate had not increased from the electricity rate in effect on December 31, 2014, a total of \$8,914,473 or \$1,041,951 less in sales and use tax would have been paid by commercial and industrial users (i.e.; (i.e.; 1,157,723,802 * (\$0.11002 * .07)). ORA estimated that the 1,133,012,074 kWh of electricity demanded from January 2016 through June 2016 would generate \$9,743,904 under the estimated rate of \$0.12313 per kWh (i.e.; 1,133,012,074 * (\$0.12313 * .07)). If the rate had not increased from the electricity rate in effect on December 31, 2014, a total of \$8,724,193 or \$1,019,711 less in sales and use tax would have been paid by commercial and industrial users (i.e.; (i.e.; 1,133,012,074 * (\$0.11002 * .07)). Finally, ORA estimated that the 2,330,284,430 kWh of electricity demanded in FY 2017 generate \$20,040,446 under the estimated rate of \$0.12313 (i.e.; 2,330,284,430 * (\$0.12313 * .07)). If the rate had not increased from the electricity rate in effect on December 31, 2014, a total of \$17,943,190 or \$2,097,256 less in sales and use tax would have been paid by commercial and industrial users (i.e.; (i.e.; 2,330,284,430 * (\$0.11002 * .07)).

The Office of Revenue Analysis estimates that FY 2015 sales and use tax collections would decrease by \$2,171,073 under the proposed bill (i.e.; \$1,153,184 + \$1,017,889). FY 2016 sales and use tax collections are estimated to decrease by \$2,061,662 (i.e.; \$1,041,951 + \$1,019,711). FY 2017 sales and use tax collections are estimated to decrease by \$2,097,256.

Under the proposed bill, the public utilities gross earning tax of 4.0 percent would not be collected, imposed on or applied to any rates or charges that are greater than those in effect on December 31, 2014. ORA estimated that in FY 2015 the total increase in gross receipts passed through to commercial and industrial customers was \$31,015,323 (i.e.; \$2,171,073 / 0.07). Under the proposed bill the \$31,015,323 would not be subject to the public utilities gross earnings tax of 4.0 percent. As a result, ORA estimated that, in FY 2015, \$1,240,613 would be refunded under the proposed bill (i.e.; \$31,015,323 * 0.04). For FY 2016 ORA utilized the same methodology and estimated that a total of \$1,178,093 in public utilities gross receipts from the consumption of electricity by commercial and industrial users would not be collected (i.e.; (\$2,061,662 / 0.07) * 0.04). For FY 2017 ORA estimated that a total of \$1,198,432 in public utilities gross receipts from the consumption of electricity by commercial and industrial users would not be collected (i.e.; (\$2,097,256 / 0.07) * 0.04).

While residential customers do not pay the sales tax on electricity consumption, residential customers do pay the gross receipts tax. According to PUC calculations provided to ORA, a total of \$2,300,000 in TY 2015 would not be collected in public utilities gross earning taxes from residential customers. In order to estimate TY 2016 and TY 2017, ORA applied the US EIA estimates of New England residential electricity consumption growth rates for TY 2016 of 0.37 percent and TY 2017 of 0.34 percent to the PUC's TY 2015 estimate. Based on this methodology ORA estimates that in TY 2016 a total of \$2,291,490 would not be collected in public

utilities gross earning taxes (i.e.; $\$2,300,000 * 0.99630$). For TY 2017, ORA estimates a total of $\$2,380,030$ would not be collected in public utilities gross earning taxes (i.e.; $\$2,291,490 * 0.9960$).

According to PUC a total of $\$900,000$ in public utilities gross earnings taxes from residential consumers of electricity would not be collected in FY 2015 and $\$1,400,000$ of the same would not be collected in FY 2016 for the July 2015 through December 2015 period. For the January 2016 through June 2016 period ORA estimated that $\$896,670$ in public utilities gross earnings taxes would not be collected (i.e.; $\$2,291,490 * (\$900,000 / \$2,300,000)$). ORA calculated the total public utilities gross earning taxes that would not be collected from residential customers for FY 2016 to be $\$2,296,670$ (i.e.; $\$1,400,000 + \$896,670$). For FY 2017, ORA calculated that $\$2,288,441$ in public utilities gross earnings taxes would not be collected from residential customers (i.e.; $\$2,291,490 * (\$1,400,000 / \$2,300,000) + \$2,283,699 * (\$900,000 / \$2,300,000)$).

ORA estimates that FY 2015 general revenues would decrease by $\$4,311,686$ under the proposed bill (i.e.; $\$2,171,073 + \$1,240,613 + \$900,000$). FY 2016 general revenues would decrease by $\$5,536,425$ (i.e.; $\$2,061,662 + \$1,178,093 + \$2,296,670$). FY 2016 general revenues would decrease by $\$5,584,129$ (i.e.; $\$2,097,256 + \$1,198,432 + \$2,288,441$).

According to the Office of Management and Budget, the FY 2015 Enacted Budget projects an ending balance of $\$600,000$ in FY 2015 and deficits of $\$172.9$ million in FY 2016 and $\$296.3$ million in FY 2017. Passage of the bill would put the FY 2015 budget out of balance and increase the FY 2016 and FY 2017 projected deficits.

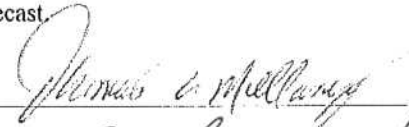
Summary of Fiscal
Impact:

FY 2015: A revenue loss of $\$4,311,686$ is forecast.

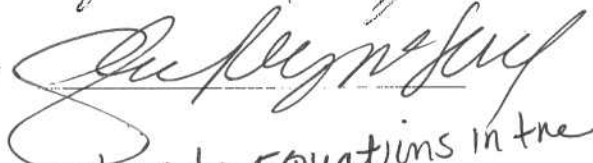
FY 2016: A revenue loss of $\$5,536,425$ is forecast.

FY 2017: A revenue loss of $\$5,584,129$ is forecast.

Budget Office Signature:



Fiscal Advisor Signature:



* Corrections to Equations in the written
Explanations; do not affect outcome

