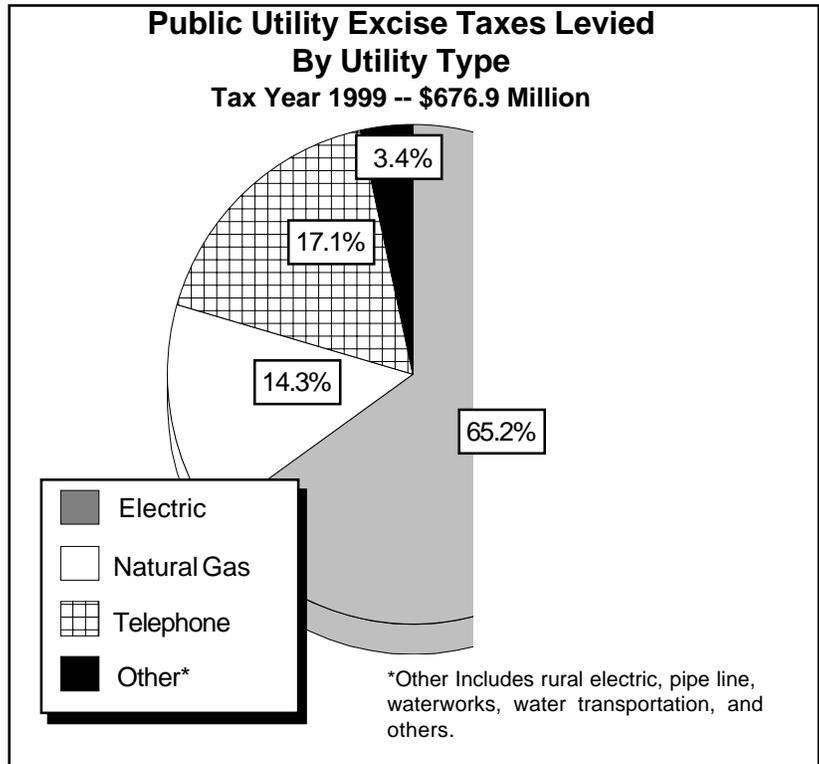


PUBLIC UTILITY EXCISE TAX

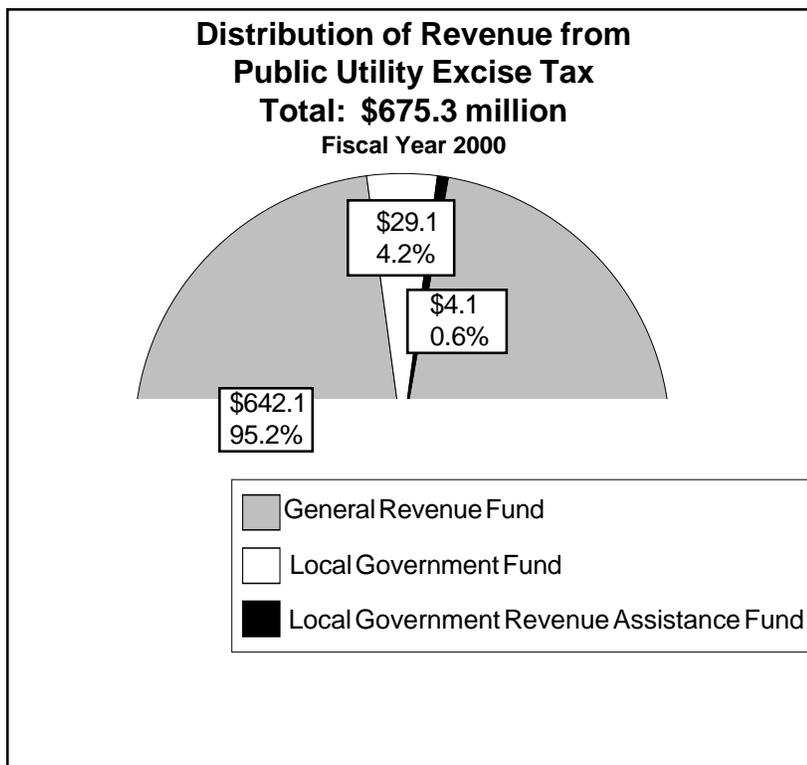
The public utility excise tax, a tax for the privilege of doing business in Ohio, is payable by virtually all companies classified by statute as public utilities. Companies liable for this tax do not pay the corporation franchise tax. Utilities owned by municipal corporations are exempt from the public utility excise tax.

Gross receipts comprise the tax base for the utility classes, with rates of 6.75 percent for pipeline companies and 4.75 percent for all others.

Companies with a preceding year's tax liability of \$1,000 (\$325,000 for natural gas companies) or more are liable during each calendar year for three advance payments -- each in an amount equal to one-third of the previous year's certified tax liability. When the current year's total tax liability exceeds the sum of the three advance payments, a final payment is due in December for the difference. A refund is issued if the advance payments exceed the total liability.



Total public utility excise taxes of \$676.9 million were certified in November 1999 for tax year 1999. Electric companies accounted for about 65 percent of total taxes levied, while the telephone industry and natural gas industry combined accounted for about 31 percent. These three main industries were responsible for nearly 97 percent of the total excise taxes on public utilities.



Total revenue from the Public Utilities Excise Tax was \$675.3 million in FY 2000. Of this amount, 4.2% or \$29.1 million was distributed to the Local Government Fund, 0.6% or \$4.1 million was distributed to the Local Government Revenue Assistance Fund and 95.1% or \$642.1 million was distributed to the General Revenue Fund.

House Bill 283 (123rd General Assembly, effective June 30, 1999) created many changes to the public utility excise tax as it applies to the natural gas industry. Starting May 1, 2000, natural gas companies will pay the excise tax quarterly, based

upon the previous quarter's gross receipts. The first payment of this new tax schedule will be November 15, 2000 and will be based on receipts from May 1, 2000 to September 30, 2000. Thereafter, the payments will be based upon the previous quarter's receipts. Companies that have annual tax liability of at least \$325,000 will pay on this quarterly basis. Natural gas companies below this threshold will pay annually, with the tax due by 45 days from the last day of the fourth quarter of the previous year (with first payment February 14, 2001). Companies that provide both natural gas and electric services must separate the services from each other so the applicable tax applies.

Am. Sub. Senate Bill 3 (123rd General Assembly, effective October 3, 1999) is the Electric Utility Deregulation Bill and made numerous tax changes to that industry. A utility company's gross receipts of electric services will no longer be subject to the public utility excise tax, effective April 30, 2001. Their last payment under the excise tax schedule will be June 2001. The excise tax will be replaced by either a consumption based or a price based tax, dependent on various factors of the consumer. The new tax will be remitted monthly, with the first payment due June 2001, based upon May 2001's liabilities. Electric utilities will also become subject to the Corporate Franchise Tax, beginning January 2002. Companies that provide both natural gas and electric services must separate the services from each other so the applicable tax applies.

TAX BASE (R.C. 5727.01):

Gross receipts for all utilities.

EXEMPTIONS AND DEDUCTIONS (R.C. 5709.35, 5727.05, 5727.33, 5727.34):

1. Exempt Utilities
 - a. Municipally-owned utilities.
 - b. Nonprofit water companies.
 - c. Telephone companies not primarily engaged in providing local exchange service.

2. Twenty-five thousand dollars for all companies. Beginning May 1, 2000, natural gas companies that pay quarterly will have a \$6,250 deduction on each quarterly return.
3. Amounts attributable to sales of merchandise.
4. Receipts derived wholly from interstate business.
5. Sales to other public utilities for resale.
6. Receipts from business done for the federal government.
7. Receipts from facilities used to convert coal to gaseous, liquid, or solid fuels -- for a period of 30 years.
8. Amounts billed on behalf of other entities by telephone companies.
9. Receipts of telephone companies from sales to other telephone companies for resale.
10. Amounts billed on behalf of other entities by natural gas companies.

CREDITS (R.C. 5727.39):

Telephone companies are allowed a credit against the excise tax equal to the non-recurring (start-up) costs of a 911 telephone system (emergency service telephone system). The credit must be claimed in the year the system becomes available for use. Any excess credit may be carried over to following years until completely used. The total amount of the credit that may be taken (for all companies combined) is limited to 25 percent of the total excise tax levied on telephone companies in 1984. This credit ceiling is adjusted annually for increases in the consumer price index. Once the total credits allowed equal the credit ceiling, no additional credits will be allowed.

Telephone companies are also allowed credit for discounts provided to low-income elderly customers and expenses for speech and hearing impaired telephone systems. This lifeline program allows qualified low-income elderly persons a waiver of monthly access charges and connection/reconnection services. Telephone companies would receive a credit equal to the services provided.

Beginning in tax year 1995, electric companies that have installed qualified pollution control devices after tax year 1991 are allowed a credit of \$1 per ton of Ohio coal used to generate electric power at that plant. Effective January 1, 2000, this credit is increased to \$3 per ton.

Natural gas companies that pay quarterly are able to take a credit against their quarterly payments equal to 1/60 of their total estimated payments made in October 1999, March 2000, and June 2000. The credit is to expire when the entire amount of the estimated payments are taken as the credit or 15 years, whichever is first.

RATES:

Utility Class	Base	Tax Rate
Electric, rural electric, natural gas, waterworks, local telephone, heating, telegraph and water transportation (R.C. 5727.38)	Gross receipts	4.75%
Pipeline (R.C. 5727.38)	Gross receipts	6.75%

There is a minimum tax of \$10 for each tax year (R.C. 5727.38).

FILING AND PAYMENT DATES:

October 15, March 1, and June 1: (R.C. 5727.31)- Reports and advance payments to State Treasurer for liability to be certified for tax collection in December. Each payment equal to one-third of previous year's liability. These reports and payments are due from each utility with an excise tax liability for the previous year in excess of \$1,000 (\$325,000 for natural gas companies).

Beginning May 1, 2000, natural gas companies that exceed \$325,000 in annual liability will pay the excise tax quarterly based upon the previous quarter's receipts. The first payment will be based upon receipts from May 1, 2000 to September 30, 2000 and will be paid on November 15, 2000. Thereafter, the payments will be due 45 days after the end of each quarter. Natural gas companies below the \$325,000 threshold will pay annually, with payment

made 45 days after the last day of the fourth quarter. The first payment will be due February 14, 2001.

TAX REPORTING AND CERTIFICATION DEADLINES:

The following deadlines apply to all utility companies:

Utility Class	Deadline	For
All public utilities ¹ (R.C. 5727.31, 5727.32, 5727.33, 5727.38)	August 1 ²	Company's annual statement to the Tax Commissioner for year ending April 30 (June 30 for telephone and telegraph companies).
	First Monday in November	Commissioner assesses tax and certifies amount to company and Treasurer of State.

¹ Except natural gas companies.

² Subject to time extension of 60 days (R.C. 5727.48). A public utility that fails to file a report by the due date is subject to a penalty of \$10 per day for each day late (R.C. 5727.60).

20-30 days from date tax bill is mailed: (R.C. 5727.42) - Final payment equal to total tax assessed for collection for the current year, less advance payments made (refund is made if advance payments exceed assessment).

DISPOSITION OF REVENUE (R.C. 5727.45):

The Local Government Fund receives 4.2 percent, the Local Government Revenue Assistance Fund 0.6 percent, and the General Revenue Fund 95.2 percent of public utility excise tax collections.

OHIO REVISED CODE CITATIONS:

Chapter 5727.

RECENT LEGISLATION:

House Bill 483; effective September 21, 2000. R.C. 718, 5745, et. al. - Sets uniform procedures for municipal taxation of electric utility companies after deregulation.

Sub. House Bill 152; effective September 21, 2000.

R.C. 4931 - Provides additional funding methods for the funding of 911 services in certain areas that previously lacked funding.

House Bill 640; effective June 15, 2000.

R.C. 5727, et. al. - Harmonizes Sub. Senate Bill 3 (Electric Utility Deregulation Bill) with the natural gas provisions found in House Bill 283 (Biennial Budget Bill).

House Bill 262; effective June 8, 2000.

R.C. 5727, 5733 - Expands the definition of electric utility compliance facility that is able to take the increased \$3/ton coal credit granted under HB 384.

Substitute Senate Bill 3; effective October 3, 1999 (Electric Deregulation Bill).

R.C. 5727.38 - Among the many provisions of this bill, is the removal of electric and rural electric companies from the public utility excise tax, effective with the June 2001 payment.

R.C. 5727.80 - Effective May 2000, the excise tax on electric and rural electric companies is replaced with either a consumption or a price based tax

House Bill 283; effective June 30, 1999 (Biennial Budget Bill).

R.C. 5727.25 - A provision in the Biennial Budget Bill changes the current payment schedule and measurement periods for natural gas companies and the natural gas business of combined natural gas and electric companies. This is effective May 1, 2000.

House Bill 384; effective June 30, 1999.

R.C. 5727.391 - Increases the coal credit from \$1 to \$3 per ton effective January 1, 2000. This credit will transfer to the Corporate Franchise Tax beginning May 1, 2001. Removes certain limitations. It is set to sunset December 31, 2004.

Senate Bill 5; effective February 4, 1998.

Extends the lifeline credit for two additional years (through 1999).

RECENT SIGNIFICANT COURT CASES:

Ohio Power Company v Tracy (April 28, 2000), BTA No. 98-191. - The appellant excluded from its gross receipts sales of transmission services to AMP - Ohio. The Board held that the sales were not interstate transactions under R.C. 5727.33 (B)(1). The Board did find that the sales were resold and properly excluded pursuant to R.C. 5727.33 (B)(5).

Table 60
Public Utility Excise Taxes Levied By Class of Utility,
Calendar Years 1995-1999*

Primary Class of Utility	Number of Utilities	Tax Rate 1999	Calendar Year				
			1995	1996	1997	1998	1999*
Electric	13	4.75%	\$432,592,590	\$430,464,846	\$435,441,740	\$432,592,127	\$441,075,733
Natural Gas	30	4.75	107,452,193	105,959,500	124,902,926	115,770,927	97,098,365
Telephone	60	4.75	108,528,535	108,196,041	107,893,555	107,667,967	115,496,646
Rural Electric	27	4.75	16,500,403	17,228,748	17,183,490	17,409,371	18,220,554
Waterworks	25	4.75	2,527,921	2,527,940	2,633,123	2,724,205	2,918,562
Pipe Line	21	6.75	474,101	451,920	485,963	495,472	732,449
Water							
Transportation	6	4.75	467,314	468,931	513,057	506,756	572,746
Heating	(a)	4.75	_____ (a)				
Total			\$669,228,474	\$666,221,582	\$690,005,625	\$678,023,457	\$676,926,173

* Amount of tax certified for collection.

(a) Not reported due to confidentiality requirements. Taxes levied are included in the column totals.