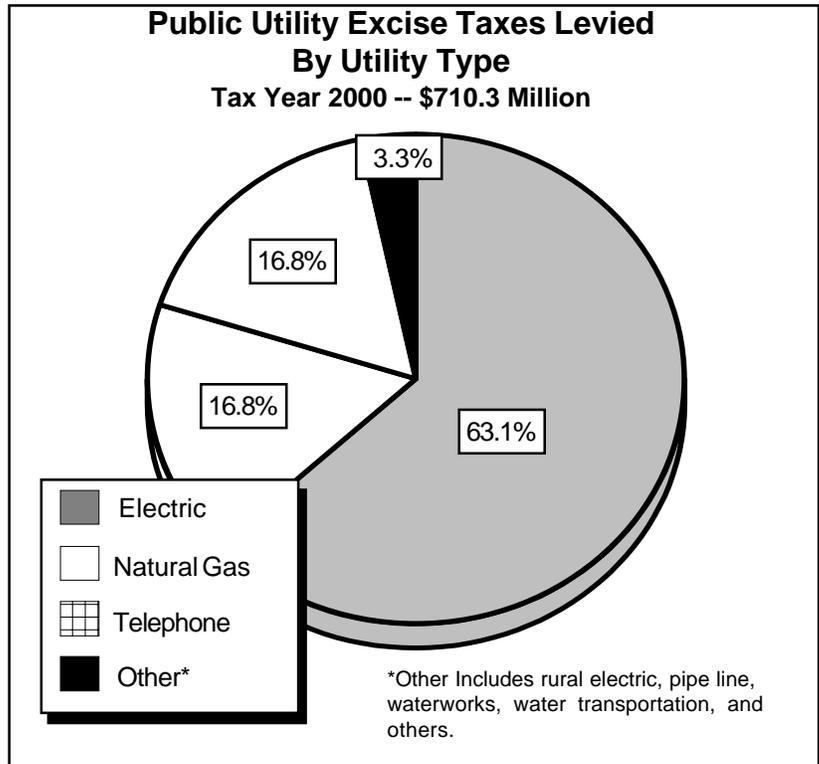


PUBLIC UTILITY EXCISE TAX

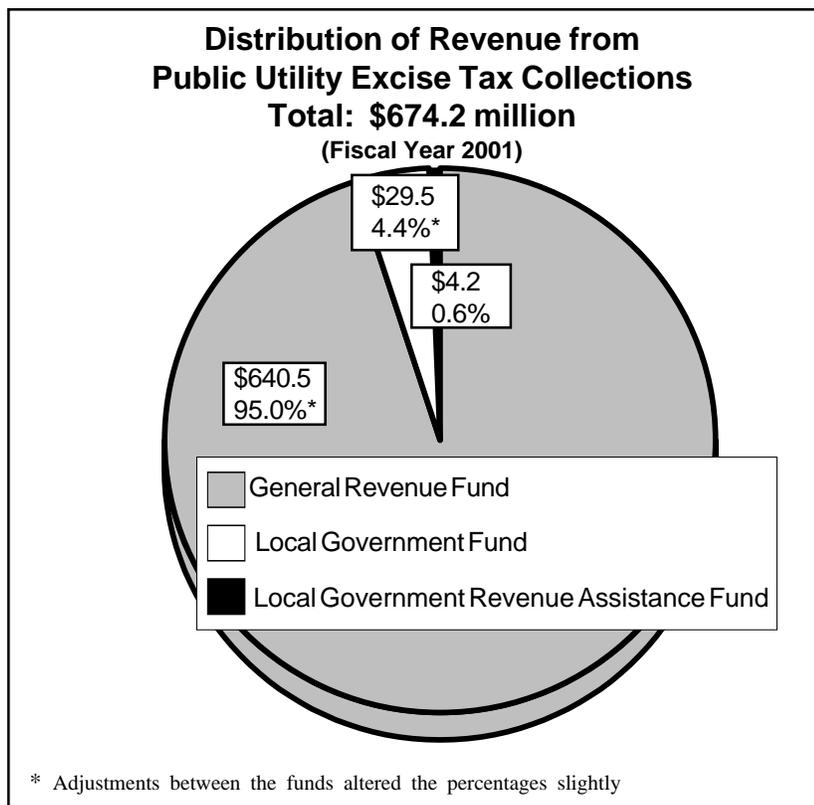
The public utility excise tax, a tax for the privilege of doing business in Ohio, is payable by virtually all companies classified by statute as public utilities. Companies liable for this tax do not pay the corporation franchise tax. Utilities owned by municipal corporations are exempt from the public 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 \$710.3 million were certified in November 2000 for tax year 2000. Electric companies accounted for about 63 percent of total taxes levied, while the telephone industry and natural gas industry combined accounted for about 34 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 \$674.2 million in FY 2001. Of this amount, 4.4% or \$29.5 was distributed to the Local Government Fund, 0.6% or \$4.2 million was distributed to the Local Government Revenue Assistance Fund and 95.0% or \$640.5 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. This annual report contains the last public utility excise tax data for electric and rural electric companies, as they will be reported in the new **Kilowatt-Hour Tax** section.

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. Interexchange Telecommunications
 - d. Railroads.

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, 5727.24-NG)	Gross receipts	4.75%
Pipeline (R.C. 5727.38)	Gross receipts	6.75%

There is a minimum tax of \$50 for each tax year (R.C. 5727.38).

FILING AND PAYMENT DATES:

October 15, March 1, and June 1: (R.C. 5727.25 and 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 calendar 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 annual filers first payment will be due February 14, 2001.

TAX REPORTING AND CERTIFICATION DEADLINES:

The following deadlines apply to all utility companies, except for natural gas 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 \$50 per month for each month or fraction thereafter 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.

Note: House Bill 94 (124th General Assembly, FY 2002/2003 Biennial Budget Bill) temporarily replaces the revenue distribution described below. During each month of the July 2001-May 2002 period and the July 2002-May 2003 period, the Local Government and Local Government Revenue Assistance funds will receive the same amount they received during the corresponding month of the July 2000-May 2001 period. In June 2002 and June 2003, the funds will receive the same amount they received in June 2000.

OHIO REVISED CODE CITATIONS:

Chapter 5727.

RECENT LEGISLATION:

Am. Sub. House Bill 94; Effective September 6, 2001 (Biennial Budget Bill).

R.C. 5727.25-5727.26, et al. - Effective January 1, 2003. Transfers previous responsibilities regarding tax filing and payments of natural gas companies from the Treasurer of State to the Tax Commissioner.

Section 140 (Temporary Law) - Temporarily freezes the revenue distribution to the local government and local government revenue assistance funds.

House Bill 9; Effective June 6, 2001.

R.C. 5727.01-5727.02 - Subjects natural gas suppliers and governmental aggregators to Public Utility Commission certification and authorizes certain competitive services.

Senate Bill 235; Effective May 5, 2001.

R.C. 4927.01 - Changes the definition of "basic local exchange service" under alternative telephone regulation law, and also under telephone company merger law which relies on the same definition.

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 Restructuring Bill) with the natural gas provisions found in Am. Sub. 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 5, 1999 (Electric Restructuring 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 2001.

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 November 24, 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.

Section 3 (Temporary Law)

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

Table 57
Public Utility Excise Taxes Levied By Class of Utility,
Calendar Years 1996-2000^(a)

Primary Class of Utility	Number of Utilities	Tax Rate 2000	Calendar Year				
			1996	1997	1998	1999	2000 ^(c)
Electric	14	4.75%	\$430,464,846	\$435,441,740	\$432,592,127	\$441,075,733	\$448,574,349
Natural Gas	32	4.75	105,959,500	124,902,926	115,770,927	97,098,365	119,050,766
Telephone	67	4.75	108,196,041	107,893,555	107,667,967	115,496,646	119,030,209
Rural Electric	27	4.75	17,228,748	17,183,490	17,409,371	18,220,554	18,778,490
Waterworks	22	4.75	2,527,940	2,633,123	2,724,205	2,918,562	2,926,060
Pipe Line	20	6.75	451,920	485,963	495,472	732,449	277,701
Other	(b)	4.75	(b)	(b)	(b)	(b)	(b)
Total			\$666,221,582	\$690,005,625	\$678,023,457	\$676,926,173	\$710,255,734

(a) Amount of tax certified for collection.

(b) Includes water transportation and heating. Taxes levied are included in the column totals.

(c) There are two combined electric natural gas companies. Taxes levied are separated by the utility type in 2000.