

	SCC	Division of Consumer Counsel	Virginia Power	AEP	Allegheny	Co-Ops	VML/VACO	MEPAV
1. Should the current taxation scheme for utilities remain in effect if there is restructuring?	No	No	No	No	No	No	Yes, however local consumer utility taxes and the state and local gross receipts tax may need to be based on a kWh basis rather than gross receipts.	Some modification of state and local tax code required. Could collect a modified gross receipts tax at the transmission provider level. Tax issues surrounding out-of-state gas purchases should also be addressed.
2. Which mechanisms are appropriate replacement mechanisms for the state gross receipts tax: a. corporate income tax on generation b. "declining block consumption tax"	a. corporate income tax on the total business income b. declining block consumption tax in conjunction with corporate income tax on total business income	a. corporate income tax on the total business income b. consumption tax should equitably allocate the tax burden among customer classes and prevent further shifting of the tax burden to smaller customers.	a. corporate income tax solely on generation, additionally provide for a \$3 per ton coal tax credit to be applied against the corporate income tax for the purchase of Virginia coal. b. "declining block" consumption tax- a revised utility tax. Not a tax increase, but merely a	a. support the concept of corporate income tax solely on generation; <u>however, on the total business income.</u> may be <u>Administratively simpler from an administrative standpoint</u> to tax all income from whatever source derived. <u>Additionally provide for a \$3 per ton coal</u>	a. support corporate net income tax on generation, since this is the area where competition will occur. b. support the "declining block" consumption tax since it assures that each kWh of electricity is taxed in the same way.	a. corporate income tax based on "federal taxable income". b. majority of tax revenue presently raised by the GRT should be replaced by an electric consumption tax.	No position on appropriate replacement mechanisms for the state gross receipts tax, except to recommend that the method of tax replacement provide sufficient revenues.	a. corporate income tax could be a mechanism, or collect state gross receipts tax at the transmission meter level. b. may be appropriate to use the "declining block" consumption tax if relative tax impact on the classes of customers remains the same. Any consumption tax should be

				<u>tax credit to be applied against the corporate income tax for the purchase of Virginia coal.</u> b. Strongly favor the “declining block” consumption tax.				
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<p>2. Which mechanisms are appropriate replacement mechanisms for the state gross receipts tax: a. corporate income tax on generation b. “declining block consumption tax” (Cont’d)</p>			<p>replacement for the gross receipts tax previously passed through.</p>					<p>unbundled so that the amount of the individual taxes the consumption tax replaces can be identified and appropriately remitted or withheld. It continues to be the opinion of the municipal electrics that the state gross receipts tax or an equivalent can still be collected at transmission level meters.</p>
<p>3. Should the “declining block” consumption tax include: a. local gross receipts taxes, b. SCC special assessment</p>	<p>Consumption tax should be limited to the state tax portion only.</p>		<p>Yes, consumption tax based on a per kWh basis makes it easy to include the local gross receipts tax and SCC special assessment.</p>	<p>Yes</p>	<p>Yes- for purposes of clarity and administrative convenience, subsume as many current taxes as possible in the consumption tax.</p>	<p>Yes- and localities should have the option of adjusting the state’s minimum consumption tax rates to ensure no loss of revenues.</p>	<p>Yes. The method of apportioning revenue should be clearly spelled out in the statute. The easiest way to do this would be to set the relative shares for each of the three entities based on the</p>	<p>Local gross receipts taxes: yes- and the tax rate for this portion of the consumption tax should be unbundled so that it can be properly identified and remitted to a locality. SCC special</p>

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<p>3. Should the “declining block” consumption tax include:</p> <p>a. local gross receipts taxes,</p> <p>b. SCC special assessment (Cont’d)</p>							amount of revenue they currently receive from their respective taxes.	assessment: No. Currently gross receipts of regulated utilities fund the regulatory operations of the SCC. It is not necessary or appropriate for the municipal electric systems to pay for the regulatory functions of the SCC.
<p>4. Describe the appropriate tax treatment for:</p> <p>a. investor-owned utilities,</p> <p>b. electric cooperatives,</p> <p>c. municipal electric systems</p>	<p>a. corporate income tax on all income, special regulatory tax on gross receipts,</p> <p>b. electric cooperatives should pay a corporate income tax if they are liable under current statutes, should also pay the special regulatory tax on gross receipts</p> <p>c. municipal electric</p>	<p>Any new taxation scheme should (i) satisfy constitutional requirements, (ii) provide revenue neutrality for the Commonwealth and localities, (iii) assure equitable treatment for consumers, and (iv) establish a level playing field for competitors.</p>	<p>Replace gross receipts tax with a corporate net income tax on generation and provide for a \$3 per ton coal tax credit to be applied against the corporate net income tax for purchases of Virginia coal.</p>	<p>a. corporate income tax on generation <u>total business income</u> and <u>provide for a \$3 per ton coal tax credit to be applied against the corporate net income tax for purchases of Virginia coal.</u> “declining block” consumption tax,</p> <p>b. Modified gross receipts tax and consumption</p>	<p>Investor-owned utilities, co-ops and municipal systems should be taxed similarly to the extent they provide the same services. A consumption tax imposed directly at the retail customer level is particularly appropriate in this regard. This type of tax avoids the problem of the</p>	<p>a. corporate income tax based on federal taxable income.</p> <p>b. corporate income tax based on federal taxable income.</p> <p>c. all consumers of electricity should be subject to a-uniform consumption tax.</p>	<p>a. no position</p> <p>b. no position</p> <p>c. VML’s position is that electricity purchases, either inside or outside of the state, should be subject to the state’s taxation at a level comparable to the current state gross receipts tax. No direct taxation of</p>	<p>a. all of the electric utility operations of for-profit entities should be subject to state and federal income taxes. All electric utilities should continue to collect or provide approximately the same amount of tax revenue in the deregulated environment as they do now.</p>

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<p>4. Describe the appropriate tax treatment for:</p> <p>a. investor-owned utilities,</p> <p>b. electric cooperatives,</p> <p>c. municipal electric systems (Cont'd)</p>	<p>systems should be subject to the consumption tax.</p> <p>Wholesale power procedures should be liable for the income tax and special regulatory tax on gross receipts</p>			<p>tax,</p> <p>c. consumption tax on all ultimate consumers of electricity.</p>	<p>income tax not being applicable to some entities.</p>		<p>municipal utility or its customers. Municipal electric systems should continue to have the authority to set their own rates and be governed by local governing bodies, not a state governing or state regulatory board.</p>	<p>b. it may be appropriate to set a minimum threshold for tax contributions to ensure the Commonwealth's revenue does not diminish.</p> <p>c. Consumption tax, as proposed, will substantially increase the tax burden on the customers of municipal electric utilities. A continuation of some form of gross receipts tax may be more revenue neutral. If a consumption tax is enacted, the measure should allow municipal electric utilities the option of providing the revenue through their transmission and/or</p>

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<p>4. Describe the appropriate tax treatment for:</p> <p>a. investor-owned utilities,</p> <p>b. electric cooperatives,</p> <p>c. municipal electric systems (Cont'd)</p>								purchase power contracts. Additionally, for municipalities that operate their own electric systems, the amount of consumption tax representing the SCC special assessment should not be collected.
<p>5. Which state agency should administer any tax program designed to replace the gross receipts tax?</p>	<p>If the “declining block” consumption tax is passed as currently written, the SCC should administer the program. If the “declining block” is limited only to general fund taxes, the Department of Taxation should administer.</p>		<p>Either the SCC or the Department of Taxation. Educational effort should be planned as well.</p>	<p>No preference.</p>	<p>Department of Taxation (Consistency of application)</p>	<p>Department of Taxation for the corporate income tax, SCC for the consumption tax and oversight in functional allocation between generation and nongeneration business segments.</p>	<p>VACO- SCC</p> <p>VML- Department of Taxation (expertise with collection and remittance to localities.)</p>	<p>Department of Taxation</p>

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6. What action should the General Assembly take to protect/preserve the current revenues received from real property taxes on generation facilities?	The General Assembly should provide for central assessment of all property to investor-owned utilities, electric cooperatives and wholesale generators.		Localities should be given the authority to assess and adjust the property tax rates on generation facilities. All generators of electricity should be taxed consistently within the locality.	Change in valuation of generation facilities speculative at this time. AEP does not advocate any legislation at this time to protect/preserve the current revenues received from property taxes on generation facilities.		All generating assets should be taxed on an equitable basis. Losses in revenue may be made up in the consumption tax rate. Localities may be given the option of increasing the consumption tax to supplement local revenue.	If generating facilities decline in value, the state needs to assess the fiscal problems for the localities involved. If localities must assess the generating facilities, state should provide guidelines and assistance.	
7. Who should perform assessments on property owned by suppliers of electricity?	The SCC should be designated as the central state agency to assess the property of investor-owned utilities, electric cooperatives, and wholesale generators.		Localities should assess.	SCC should continue to perform assessments. Assessment authority should be extended to all generating facilities in the Commonwealth.		All property owned by electric generators should be subject to uniform central assessment.	Local tax officials should be responsible for assessing the property of generating companies. SCC should continue to assess distribution systems and transmission lines.	Local governments.
8. What assessment method should be used on property owned by	Original cost less depreciation. Deregulation may require other appraisal		Fair market value principles in accordance with the Virginia Constitution.	Fair market value principles in accordance with the Virginia Constitution	Tax all generation property similarly, using a uniform and consistent	"Book cost" as defined by generally accepted accounting principles.	Defining a uniform method of assessing generation facilities in the Code of	

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suppliers of electricity?	techniques.			(Cost less depreciation). SCC should continually review the depreciation factors to assure accuracy in assessing at fair market value.	assessment method.		Virginia would be acceptable, provided that the Code was also amended to allow a separate rate of classification for this type of property. Localities must have the flexibility to adjust their rates in the event that the assessment method that is proposed would reduce revenue.	
9. What action should the General Assembly take to protect/preserve the current revenues received from the consumer utility tax?			Consumer utility tax should be based on a per kilowatt hour basis rather than a dollar amount. (preserves revenue stream regardless of price declines, provides a mechanism for the determination of proper	Consumer utility tax should be based on a per kilowatt hour basis rather than a dollar amount. (preserves revenue stream regardless of price declines, provides a mechanism for the determination of proper	Consumer utility tax could be combined with a consumption tax based on kWh usage. Retaining current collection method problematic due to difficulties in obtaining price information.	Consumption tax should replace all taxes based on gross receipts. Localities should have the option of adjusting the state's minimum consumption tax rates to ensure no loss of revenue.	Local governments should have the authority to use a consumption-based tax. Rate adjustments will be needed to ensure revenue neutrality.	The General Assembly should grant the maximum flexibility possible to local governments, including allowing the localities to collect this tax based on a kWh basis.

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9. What action should the General Assembly take to protect/preserve the current revenues received from the consumer utility tax? (Cont'd)			amount of tax, even without access to price information.)	amount of tax, even without access to price information.) Care must be taken to preserve, not increase revenues and to avoid excessive taxation of large electricity users.				
10. Who should collect and remit the consumer utility tax to localities?	Local electric distribution company		Local electric distribution company.	“Service provider” as defined in SB 619.	Ideally, the governmental entity imposing the tax should collect it. In practice, the regulated service provider should collect and remit.	Retail power distributors	Electric distribution companies.	The local service provider.