



The Hidden Taxes in New Yorkers' Electric Bills

By: Arthur "Jerry" Kremer and Richard Thomas

Why do New Yorkers, from Buffalo to Bay Shore, pay among the highest electricity costs in the country?

A big reason is the spate of direct and hidden electricity taxes which account for 25 percent or so of a typical utility bill. [i]

Last week, the U.S. Energy Information Administration reported that New York residents pay the third highest average retail price for electricity. At 19.26 cents per kilowatt hour, New York residents pay 58 percent more than the national average. [ii]

Few taxes are as regressive as those on electricity usage. Electricity is vital to everyone's quality of life and living without it is life threatening. Poor New Yorkers on a limited income are most disproportionately impacted by these taxes. For them especially, electricity taxes are a lot like volts of electricity: invisible but jolting.

To be sure, New York has a host of explicit electricity taxes which need to be reduced. More importantly

though, the New York Public Service Commission should identify and publicly challenge other hidden, opaque, or otherwise undisclosed costs which are borne by New York consumers and businesses.

Reducing energy taxes will also provide stimulus for economic growth in the state. This is critical after a prolonged recession and the expensive, brutal winter which drove up electricity demand for families and small businesses.

Using data from various government agencies, the New York Affordable Reliable Electricity Alliance **very conservatively** estimates that New Yorkers pay at least \$1.6 billion annually in electricity taxes, or approximately \$75 every year for every man, woman, and child in our state.

The following provides a snapshot of those taxes.

i. "Short-Circuiting New York's Recovery, How Energy Taxes Contribute to High Electric Rates in New York," The Public Policy Institute of New York State, Inc., March 2010, page 6. Retrieved February 26, 2015. <http://www.ppiny.org/reports/2010/ShortCircuitingNewYorksRecovery.pdf>

ii. "Table 5.6.A., Average Retail Price of Electricity to Ultimate Customers by End-Use Sector," U.S. Energy Information Administration, retrieved March 6, 2015. The information was released on March 4, 2015. http://www.eia.gov/electricity/monthly/epm_table_grapher.cfm?t=epmt_5_6_a

Gross Receipts Tax and Related

At the state level, utilities are taxed on both net income and 2 percent of gross receipts from residential distribution [iii] , providing the state with two bites at the tax apple.

Reducing energy taxes should start with the repeal of the gross receipts tax (GRT), as this will benefit all New Yorkers. This is the single most direct step state government can take to reduce the cost of energy for New York consumers, as every residential utility customer pays this 2 percent tax.

The GRT has proven lucrative to the State of New York, and last year was no exception, with the state reporting \$162 million [iv] in revenue from this tax.

Furthermore, the GRT was created at a time when utility companies were monopolies. That is no longer the case since the formation of competitive markets and the industry is on the verge of a further restructuring through the New York State Public Service Commission's Reforming the Energy Vision. As such, the very structure of the GRT and not just its cost is a problem that must be addressed.

In addition, New York City has an additional local tax of 2.35 percent on the gross income of all utilities and vendors of utility services. [v] The City collected \$405 million from this far-reaching utility tax for Fiscal Year 2014. [vi]

2.35% RATE



iii. "Short-Circuiting New York's Recovery, How Energy Taxes Contribute to High Electric Rates in New York," The Public Policy Institute of New York State, Inc., March 2010, page 8. Retrieved February 26, 2015. <http://www.ppiny.org/reports/2010/ShortCircuitingNewYorksRecovery.pdf>

iv. "2013-2014 New York State Tax Collections," New York State Department of Taxation and Finance, August 2014, Table 6, page 18, Section 186-a, retrieved March 2, 2015 http://www.tax.ny.gov/pdf/stats/stat_fy/2013_14_annual_statistical_report_of_ny_state_tax_collections.pdf

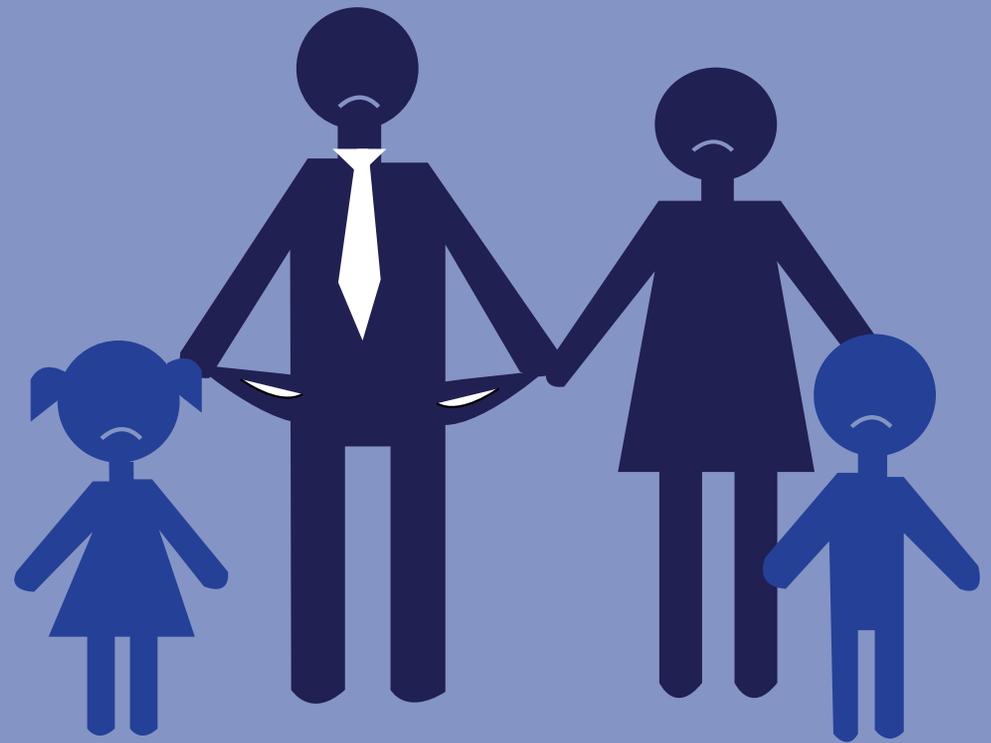
v. "Budget Process," The New York City Council, retrieved March 5, 2015 <http://council.nyc.gov/html/about/budget.shtml>

vi. "Annual Report on Tax Expenditures," The City of New York Department of Finance Office of Tax Policy, Fiscal Year 2015, Appendix II, page 124 (page 134 of PDF), retrieved February 19, 2015 http://www1.nyc.gov/assets/finance/downloads/pdf/reports/reports-tax-expenditure/ter_2015_final.pdf

18-a Surcharge

The 18-a surcharge is a prime example of how an electricity tax can quickly get out of control. Its original purpose was to fund the operations of the New York Public Service Commission at a 0.33 percent cost to ratepayers. At the height of the financial crisis, it quintupled to 2 percent on all electricity bills to plug Albany's budget gaps.

In the more than six years since the Great Recession of 2009, this state surcharge collected \$2.9 billion from ratepayers for this "temporary tax." [vii] While a compromise measure helped to reduce the impact of the tax starting with fiscal year 2015, it is still projected to bring in \$626 million to the state for fiscal years 2015-17, an average of \$208.7 million per annum. [viii]



vii. "Annual Report on Tax Expenditures," The City of New York Department of Finance Office of Tax Policy, Fiscal Year 2015, Appendix II, page 124 (page 134 of PDF), retrieved February 19, 2015 http://www1.nyc.gov/assets/finance/downloads/pdf/reports/reports-tax-expenditure/ter_2015_final.pdf

viii. "P.S.C.: State utility customers overpaid by \$250 million," Scott Waldman, Capital New York, June 13, 2014 <http://www.capitalnewyork.com/article/albany/2014/06/8547124/psc-state-utility-customers-overpaid-250-million>. As part of the Fiscal Year 2015 budget agreement, there is to be a phase out of \$600 million in 18-a fees from Fiscal Years 2015-17, as discussed in a March 29, 2014 news release from the Governor's Office. Subtracting this amount results in \$626 million in 18-a taxes for Fiscal Years 2015-17, or an average expenditure of \$208.7 million annually. The State's FY 2015 Enacted Budget Financial Plan does not have an itemized revenue collection amount for the 18-a. All information retrieved March 4, 2015. Press release: <http://www.governor.ny.gov/news/highlights-2014-15-state-budget-agreement>

Other Charges

There are also several off-budget and other electricity charges that seek to promote environmental and related objectives which are also very significant.

The System Benefits Charge (SBC) was created to promote energy efficiency and conduct outreach programs. The SBC appears as a surcharge on the bills of customers of the six state-owned electric utilities. The SBC has collected more than \$2 billion for the state since 2000 and has an average annual budget of \$98.8 million for calendar years 2012-16. [ix]

The Renewable Portfolio Standard (RPS) is a surcharge on each kilowatt hour that the state's electric utilities sell. The goal of RPS is to encourage renewable energy development. The program was budgeted to collect \$281.5 million from ratepayers in 2014, up from \$243.9 million in 2013. [x]

The Energy Efficiency Portfolio Standard (EEPS) is a program for reducing electricity usage in New York. As part of that program, funds are collected from ratepayers for energy efficiency programs. The program collected an estimated \$372.4 million in 2014. [xi]

The Regional Greenhouse Gas Initiative (RGGI) was created with the goal of promoting clean energy by operating a regional cap and trade system for carbon emissions. RGGI has collected over \$728 million in revenue for the state since the first auction in September 2008. [xii]

ix. The amount was calculated as follows. The New York State FY 2014 Enacted Budget Financial Plan (page eight of the state document and page 14 of the PDF) lists the following revenue collection amounts for 18-a: \$472 million (FY 2015); \$396 million (FY 2016) and \$358 million (FY 2017). This totals \$1,226 million. FY 2014 Enacted Budget Financial Plan: <http://www.openbudget.ny.gov/historicalFP/fy1314archive/enacted1314/2013-14EnactedBudget.pdf>

x. "Systems Benefits Charge," New York Department of Public Service, retrieved March 5, 2015 <http://www3.dps.ny.gov/W/PSCWeb.nsf/All/58290EDB9AE5A89085257687006F38D1?OpenDocument>

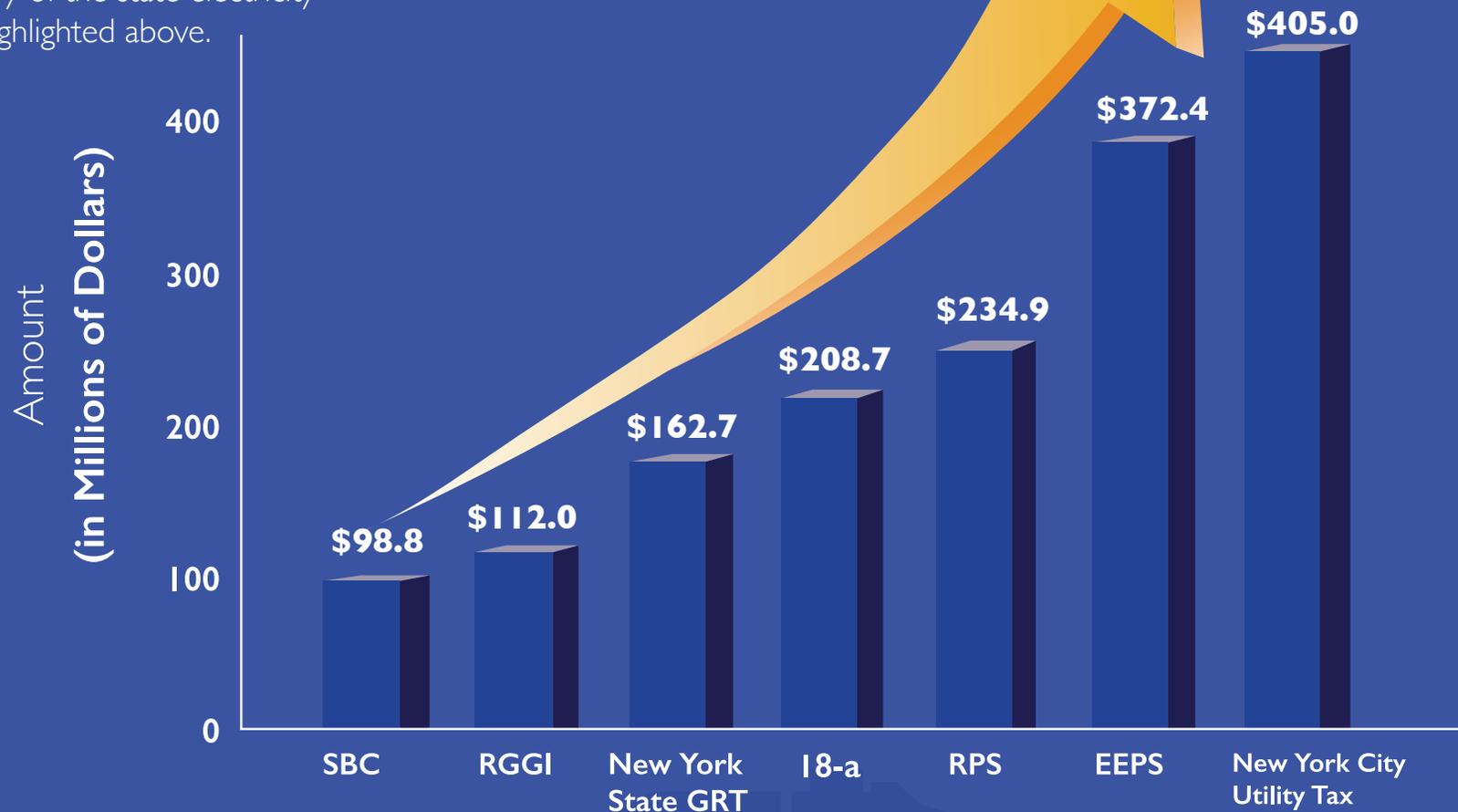
xi. "New York State Renewable Portfolio Standard Annual Performance Report Through December 31, 2013," a.k.a. "2014 RPS Performance Report," New York State Energy Research and Development Authority, Appendix F on page 50, retrieved March 5, 2015 <http://www.nyserda.ny.gov/About/Program-Evaluation/Renewable-Portfolio-Standard-Reports>

xii. "CASE 07-M-0548 – Processing on Motion of the Commission Regarding an Energy Efficiency Portfolio Standard," New York State Public Service Commission, Issued and Effective October 25, 2011

A Snapshot of New York's Annual Electricity Taxes

\$1.6 Billion Annually in Electricity Taxes

The following table reflects a summary of the state electricity taxes highlighted above.



The preceding excludes a number of items, including above average property tax rates that are often assessed to utilities and woven into rates. In addition, many local and county jurisdictions tax residential electricity usage. This includes a 4 ½ percent tax rate in New York City. [xiii]

xiii. "Local Sales and Use Tax Rates on Residential Energy, Effective March 1, 2015," New York State Department of Taxation and Finance, retrieved March 2, 2015 <http://www.tax.ny.gov/pdf/publications/sales/pub718r.pdf>





Conclusion and Recommendations

With New Yorkers' electricity rates and taxes high, particularly because of the frigid and brutal winter, several steps should be taken immediately.

- The **Gross Receipts Tax** should be cut by at least 50 percent this year and repealed next year.
- The 18-a assessment should be permanently capped at a rate not to exceed 0.33 percent.
- The **Public Service Commission** should only support new generation and transmission projects that are market competitive and fully disclose the taxpayer subsidies that have financed and are financing various energy projects.

With these steps, New York will lower its electricity costs delivering economic relief for consumers and make the state more competitive, while also creating a more favorable business environment.

About the Authors:

About the Authors: Arthur “Jerry” Kremer, former chairman of the New York Assembly Ways and Means Committee, is chairman and Richard Thomas is Executive Director of the New York Affordable Reliable Electricity Alliance (New York AREA). Founded in November 2003, New York AREA is a diverse group of more than 150 business, labor, and community groups whose mission and purpose is to ensure an ample and reliable electricity supply and economic prosperity for years to come.

