Commentary

It's time for state to end tax on utility equipment

Minnesota levy makes electricity more costly for consumers than in other states

By Tom Micheletti

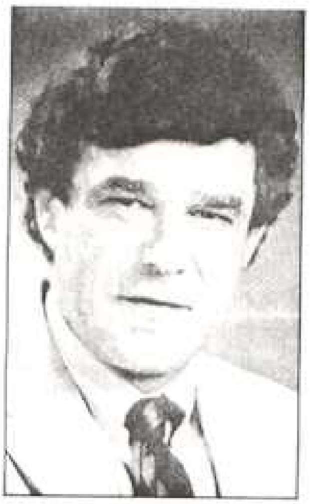
With Minnesota's projected budget surplus now exceeding $2 billion, our Legislature has perhaps its best opportunity in recent history to undertake meaningful property tax reform.

The Legislature should seize this opportunity to correct what is unquestionably the most inequitable aspect of our archaic tax system: the tax on electric utility personal property (equipment).

Minnesota's utilities are the only industry in the state that must pay property taxes on equipment, as well as land and buildings. Because of this unusual tax, Northern States Power Co. is the state's largest property tax payer, with an annual bill of about $152 million for electric facilities. If NSP were in virtually any other business, its property tax bill would be about $20 million. The $132 million difference is attributable to the tax NSP must pay on its turbines, generators, transformers, electric lines and other equipment.

The equipment tax is a cost of doing business, and is passed on to NSP customers. As a result, this tax artificially inflates a typical residential customer's electric bill by about 10 percent. In other words, in any given year an entire month's electric bill goes to pay the equipment tax. Moreover, this is a "hidden" tax that most customers do not even realize they are paying.

Today, NSP serves all customers within certain defined service territories. Our rates are subject to approval by the Public Utilities



About the author

➤ Tom Micheletti is vice president of public and government affairs at Northern States Power Co. in Minneapolis.

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A recent study by the Minnesota Taxpayers Association concluded that the effective tax rate on Minnesota utilities is two to three times higher than the tax on utilities in our neighboring states. Moreover, average electric rates for commercial, industrial and residential customers are as low or lower in at least two of our neighboring states. Accordingly, NSP expects fierce competition from generators across state borders.

To compound the problem, other types of utilities within Minnesota are able to escape all or part of this tax burden. The equipment tax places NSP at a significant disadvantage with competitors in the state, in addition to those from other states. For Minnesotans to realize the true benefits of competition, this gross inequity must be eliminated.

On Feb. 24 in this space, John Warren of the Cooperative Power Association executive boasted

tal impacts? Or should Minnesota perpetuate policies that favor out-of-state utilities — and forfeit jobs, revenues and environmental controls to other states? The decision is easy, and the time to make it is now, for several reasons.

First, the budget surplus has revived legislative interest in comprehensive property tax reform. If that reform occurs and this issue is not addressed, lawmakers probably will not have an appetite for additional property tax reform for several more years.

Second, enacting reform now would allow for a gradual, incremental change over several years, making it an easier adjustment for all affected parties. On the other hand, if nothing is done until competition occurs, an abrupt and more disruptive approach will be necessary.

Finally, the tax is patently unfair to all NSP customers who ultimately have to pay it. There is no rational reason why this inequity should continue.

Times are changing in the electric industry. We — NSP, the state and our host communities — must be prepared to change, too. Failure to recognize change, and prepare for it, will only guarantee that the transition will be more painful and less productive than necessary.

Co. in Minneapolis.

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Today, NSP serves all customers within certain defined service territories. Our rates are subject to approval by the Public Utilities Commission, but our customers have to pay them; they cannot yet choose to buy their power from some other source. Therefore, our customers have to pay this tax no matter how high it is.

A change is coming

Tomorrow, however, things will be different. The electric industry's days as a regulated monopoly are clearly numbered. Airlines, rail carriers and telephone companies all have seen their monopolies replaced by open competition, and the electric industry is next.

Congress and several states, including Minnesota, are considering legislation that would eliminate electric monopolies and give customers the right to buy electricity from the providers of their choice. Both Republicans and Democrats have the same result in mind.

Once the electric industry becomes competitive, our customers will have a choice, and we believe they will choose to buy power from whichever source can provide it at the lowest cost. Even though NSP may be able to generate electricity more efficiently than others, our significantly higher tax burden will hinder our ability to compete with other utilities with higher production costs and lower tax burdens.

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On Feb. 24 in this space, John Warren of the Cooperative Power Association executive boasted that his company "wisely" located its plants in the lower-taxing states of North Dakota and Wisconsin, instead of Minnesota. NSP chose to locate plants in Minnesota, where we provide thousands of good jobs, significant tax revenues and heavy investment in the communities we serve. We would like to stay here.

Complicated answer

Although the problem created by the equipment tax is easily recognized, the solution is more elusive. The primary beneficiaries of this tax have been the communities where electric generation facilities are located. The counties, cities and school districts in these host communities have come to rely on the equipment tax as a significant portion of the local tax base. For the city of Becker, for example, the equipment tax makes up approximately 75 percent of its property tax base. Accordingly, any solution must be sensitive to this local reliance.

The state is at a critical juncture as it examines its tax and energy policies. Should Minnesota encourage local generation, which provides thousands of jobs, retains revenues and allows the state to regulate environmen-

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