

Utility Taxes

City tax increases PSE expenses - The electric tariff (Schedules 80 and 81) and the natural gas tariff (Schedule 1) provide that when a city enacts a tax on PSE's revenue (for example a 6.0% tax) that PSE pass through that tax expense in the form of higher rates to customers within the jurisdiction imposing the tax. These schedules also provide that the adjustment to rates include the effect of state and local taxes.

When PSE's revenue increases the amount of state and local taxes due also increases - When rates are increased to pass through the expense of city tax, revenue increases and therefore all taxes on PSE's revenue also increase, including the amount of city tax due.

Sort of Taxes on Taxes - State taxes are included in the rates charged for all electric and natural gas service; however, when a city tax is imposed on PSE (which increases revenue) PSE must pay additional amounts of state taxes. Likewise, when the city tax results in increased revenue PSE must pay an additional amount of city tax unless the City's ordinance provides for a deduction of the amount of the taxes. Then since there are additional state and local taxes due to the city tax, revenue is increased again and the revenue increase/tax increase/revenue increase/tax increase circle goes around again and again.

No impact on customers outside of city - Because the state taxes are considered when determining the City taxes, then electric and natural gas rates to all other customers Company-wide are not increased due to the effect of State taxes on city tax revenue.

Example:

Tariff Charges	=	\$100.00
Effect of City Tax at 6.25%	=	\$ 6.25
Total Billing	=	\$106.25
Taxable Revenue*	=	\$100.00
Additional Revenue Subject to State taxes: \$6.25		

Taxes paid to City:

Taxable Revenue of \$100.00 X City Ordinance Rate of 6.00% = \$6.00

Additional Taxes paid to the State:

Additional Taxable Revenue of \$6.25 X State Utility Tax Rate of 3.873% = \$0.24

Additional Taxes paid to the State:

Additional Taxable Revenue of \$6.25 X State Filing Fee Rate of 0.02% = \$0.01

Tax Related Revenue Collected by PSE = \$6.25

Tax Amounts Paid by PSE Due to City Tax = \$6.25

* In this example the city allows a deduction of city tax.

Also, in this example, the city allows a deduction for uncollectible accounts. When there is no deduction for uncollectible amounts the effect of city tax rate applied must be increased.

State law (RCW 82.16.090) requires that PSE show the rate, origin and approximate amount of each tax levied upon PSE's revenue that is added as a component of the total customer bill. Thus, the city tax and State utility tax are both detailed on PSE customer bills.