

## **Nebraska Power Association Opposition Statement – LB 406**

Chairman Hadley, Members of the Revenue Committee, for the record my name is Laura Kapustka. I am the Chief Financial Officer at Lincoln Electric System and I am testifying today on behalf of the Nebraska Power Association (NPA) in opposition to LB406.

The NPA is a voluntary organization representing all segments of Nebraska's power industry: municipalities, public power districts, public power and irrigation districts and cooperatives which are engaged in generation, transmission, or distribution of electricity within our state.

Nebraska is the only state in the U.S. where every home and business is served by a publicly controlled utility. Publicly owned utilities exist to serve customers. There are no stockholders, and thus no profit motive. Public Power electric prices do not include a profit. Nebraska's utilities focus exclusively on keeping electric rates low and customer service high.

Nebraska utilities currently do not pay sales tax on fuel they purchase and use in generation when more than 50% of the fuel purchased is used directly in the generation of electricity.

The NPA is opposed to the elimination of this exemption which is currently provided for in 77-2704.13 and which is included in LB406. Elimination of this exemption will cause a double taxation on fuel.

Under LB 406, a tax will be assessed on fuel purchased and used in generation. A second taxation of this fuel will occur when the final product (electricity) is sold to the end consumer. Loss of this tax exemption will create a direct and immediate rate increase to utility customers.

The loss of this exemption will erode our competitive positioning, especially as compared to the majority of the other states in our region that continue to have the exemption for fuel used in generation.

Nebraska utilities have one source of revenue - - and it is from the individuals and businesses in the state that purchase energy. Utilities will be unable to absorb this additional cost and the loss of the exemption will result in a direct and immediate rate increase to customers. The range of impact is from less than 1% to over 1.5%.

<b>Utility</b>	<b>Overall Rate Increase</b>
Lincoln Electric System	0.7%
Nebraska Public Power District	1.5%
Omaha Public Power District	1.4%

Many businesses and farms in Nebraska are significant electricity consumers. The increased cost of electricity, which will be passed on to them by their utility as a result of LB 406, will directly increase the cost of their end product and put them at a competitive disadvantage.

In addition to paying tax on the fuel used to make the electricity, under LB 406, the sales tax exemption on electricity consumed in agriculture, processing and manufacturing will be eliminated. This is a substantial cost increase for these customers; many of whom are very large consumers of electricity. The products they manufacture are then taxed at the time of sale which results in a triple tax.

The loss of both exemptions translates to average rate increases to individual customers ranging from 4% to 9%.

Utility	Average Rate Increase to Large Energy Customers
Lincoln Electric System	7% to 7.5%
Nebraska Public Power District	7% to 9%
Omaha Public Power District	8% to 8.5%

Currently many businesses and consumers are implementing processes and equipment to decrease the amount of energy they consume in an effort to lower their costs.

Although this is not currently a significant reduction, to the extent this trend continues, the reliability of the revenue stream from sales tax on fuel will continue to erode.

While there will be, and have been, many testimonies opposing the taxation of inputs to business, the NPA believes that the exemption on fuel should not be eliminated as it results in double taxation, which is not a good policy.

In summary, while we appreciate the Governor's initiative to look at the tax policies of our State, NPA believes that the net impact of the double taxation on fuel, will work against this intended goal. Thank you for the opportunity to share our concerns and I would be happy to answer any questions.