Giant Electricity Tax on Ratepayers Eliminated in Legislative Session

The Connecticut Legislature, near the end of the 2011 session, eliminated a much-maligned tax on electricity ratepayers that had been passed to balance the 2010 budget. The tax would have been in the form of bonds issued by the State that would have been paid back through charges on electricity bills for about eight years. Estimates of the costs of the tax to ratepayers were close to one billion dollars ($1,000,000,000). The line item of the electricity bill that would have been used to charge ratepayers is called the "competitive transition assessment" or "CTA," and so the tax was often referred to as the "CTA tax." The CTA line item had once been a large item on the electricity bill but had been shrinking in recent years. The tax would have reversed this trend and vastly increased CTA charges for an additional eight years.

This tax was the subject of litigation by State Senator Joe Markley that went all the way to the Connecticut Supreme Court. OCC filed a "friend of the Court" or "amicus curiae" brief with the Supreme Court in support of Senator Markley's position. Although the Supreme Court ultimately decided that the tax was legal, the litigation may have caused a delay in implementation of the bonds and the tax, allowing time for the Legislature to reconsider and repeal the tax in this session.

The only piece of the tax that had been implemented to date was a $40 million tax affecting customers in Connecticut Light & Power Company ("CL&P") territory. This tax arose from a statutory provision separate from the bonds but part of the same 2010 budgetary measure, and existed for the first six months of 2011. The Legislature, in repealing the larger tax, did not provide for a refund of the $40 million paid by CL&P customers.

OCC generally opposes taxes on ratepayers as "hidden" taxes. Utility bills should pay for utility service and not be used a vehicle for obtaining significant budget relief. Moreover, in comparison to income taxation or property taxation, taxes on utility bills, based on volume of service used, tend to be less progressive. For example, a struggling single parent household with 3 children and an income of $40,000 would not be charged if income taxes increase, which is appropriate since such a family likely has little or no extra money once current bills are paid. However, that same household does use electricity and will face a burden when taxes are increased based on the volume of electricity used. An electricity tax, like a sales tax, is a blunt instrument that fails to account for the <u>percentage</u> of a household's resources that are being taken. It also keeps Connecticut Energy costs high, a further drag on a Connecticut economic recovery.

Accordingly, OCC commends the Legislature and the Governor for repealing the tax, commends Senator Markley for aggressively opposing the tax, and hopes we have seen the last of such proposals.