

Department of Fiscal Services
Maryland General Assembly

FISCAL NOTE

House Bill 1277 (Delegate Rosapepe)
Ways and Means

Preventing Leakage in Public Service Company Franchise
Tax on Gas and Electricity Companies

This bill provides that the value of natural gas or electricity delivered by a public utility for retail consumption is included in the definition of gross receipts.

This bill is effective October 1, 1997, and applies to all tax years beginning after December 31, 1997.

Fiscal Summary

State Effect: General fund revenues could increase by an estimated \$3.0 million in FY 1998 which reflects six months of sales; out-year estimates reflect annualization and growth in natural gas sold by gas brokers. Expenditures would not be affected.

(in millions)	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002
GF Revenues	\$3.0	\$6.6	\$7.3	\$8.0	\$8.8
GF Expenditures	0.0	0.0	0.0	0.0	0.0
Net Effect	\$3.0	\$6.6	\$7.3	\$8.0	\$8.8

Note: () - decrease; GF - general funds; FF - federal funds; SF - special funds

Local Effect: None.

Small Business Effect: Minimal impact on small businesses, as discussed below.

Fiscal Analysis

Background: In recent years, natural gas customers have been purchasing more gas through gas brokers who operate nationwide. These brokers purchase gas, often at prices lower than those charged by local utilities, and distribute the gas through the nationwide pipeline system. Local utilities are required to distribute it through their systems to the customer. Although

this distribution system is currently used only by large users of natural gas, it will shortly become available to residential customers. Since these gas brokers are not utilities, they are not subject to the public service company franchise tax (gross receipts tax). This bill would require the local utilities to collect the tax based on their prices for gas purchased through gas brokers.

State Revenues: An estimated \$300 million of natural gas will be purchased through gas brokers in fiscal 1998. Sales through brokers are estimated to increase by about 10% annually. Under this bill, the 2% gross receipts tax would result in about \$3.0 million in fiscal 1998 (due to the application of the tax effective January 1, 1998), and \$6.6 million in fiscal 1999.

The Public Service Commission is currently studying the same type of distribution system for electricity, whereby electricity consumers would not have to purchase electricity through the local utilities. Under current law, gross receipts derived from these purchases would not be subject to the gross receipts tax. This bill would therefore prevent a revenue loss from this development in the market.

Small Business Effect: This bill could have a minimal effect on small businesses. Any small businesses currently purchasing gas through gas brokers would pay approximately 2% more for their natural gas; most businesses purchasing gas in this manner are not small businesses. Since the cost of gas purchased through gas brokers would still cost less than that purchased from local utilities, it is anticipated that any gas brokers which are small businesses would not be affected by this bill.

Information Source(s): Department of Assessments and Taxation, Department of Fiscal Services

Fiscal Note History: First Reader - March 2, 1997

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