WASHINGTON STATE DEPARTMENT OF REVENUE

SPECIAL NOTICE

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Increase in Tax Deduction for Low Density Power Businesses

Effective July 1, 1996, the maximum deduction available to light and power businesses whose customers live in low population density areas increases from $200,000 per month to $400,000 per month. The law prescribes two methods of calculating the deduction. The percentages in Method One have been doubled by new legislation (House Bill 2440). **The lesser of the two amounts derived from the calculation must still be used.**

Method One

The first method is based on the wholesale power costs for the power business and the average number of customers per mile of distribution line:

Customer Density:	Deduction:
Fewer than 5.5 customers per mile	50% of Wholesale Power Costs
From 5.5 to 11 customers per mile	40% of Wholesale Power Costs
From 11 to 17 customers per mile	30% of Wholesale Power Costs
More than 17 customers per mile	No Deduction is Allowed

Method Two

The second method is based on the wholesale power costs for the power business and the percentage by which its average retail electric power rate exceeds the state average electric power rate.

Example:
State Rate: $.05 per kwhr.   Power Bus. Rate: $.07 per kwhr.
$0.07 ÷ $0.05 = 1.4 = 140%

The state rate divided by the power business rate equals 1.4 or 140%. The power business rate exceeds the state rate by 40%. Thus, the deduction under this method is 40% of the wholesale power costs.

A power business selling more than 50% of its kilowatt hours to irrigators shall use only sales to non-irrigators in the calculation. The Department of Revenue will determine the state average electric rate and inform power businesses of the figure to use for each calendar year.

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