

## **SHARED REVENUE UTILITY PAYMENT**

In general, gas and electric utilities are exempt from property taxes. They are taxed instead by the state on gross receipts. As a consequence, local governments cannot directly charge utilities for the cost of services provided to these entities. Shared revenue utility payments, however, help counties and municipalities where utility property is located to pay for services provided to tax-exempt utility property. The payments are also viewed as partial compensation for the air pollution, noise, traffic congestion, and land use limitations caused by the presence of utility property.

The shared revenue utility payment consists of seven components. Four components -- the ad valorem payment, spent nuclear fuel storage payment, the minimum payment, and the per capita limit -- have existed since the 1970s. Two components -- the megawatt-based payment and the incentive payments -- went into effect in 2005. A new component -- a special minimum -- went into effect for 2009 payments.

### **Component 1: Ad valorem payment**

The ad valorem payment represents well over 90% of the payments generated through the original four components of the shared revenue utility formula, and about one-half of the payments from all seven components. This payment is based on the "net book value" of "qualifying property" for "eligible utilities" located in a municipality on December 31 of the year before payment. Thus, payments in 2010 were based on the "net book value" located in a municipality on December 31, 2009. The payment equals 9 mills (\$9 per \$1,000, or 0.009%) of the "net book value" located in a municipality. For property in a town, the town is paid 3 mills and the county is paid 6 mills. For property in a village or city, the village or city is paid 6 mills and the county is paid 3 mills. The total value of "qualifying property" in a municipality may not exceed \$125 million per utility company or, for a property owned by two or more utilities, \$125 million for the specific property.

"Net book value" is a property's original cost minus depreciation. For payment calculation purposes, depreciation is normally calculated on a straight-line basis over the useful life of the property.

"Qualifying property" includes (a) production plants that began operations before January 1, 2004, that have not subsequently been rebuilt or repowered, (b) substations, and (c) general structures. However, the value of the land on which "qualifying property" is located is not included when payments are calculated. Electric production plant consists of generating station buildings and associated boilers, reactors, reservoirs, dams, waterways, fuel holders, engines, prime movers, and generators. Gas production plant consists of facilities where propane or other gases are injected into the distribution system at times of peak load. Electric substations are facilities that connect the local distribution lines to the interstate electric transmission system. Gas substations are facilities that connect the local distribution lines to interstate gas transmission pipelines. General structures include office buildings, garages, maintenance facilities, and related structures.

"Eligible utilities" include: (1) private companies that produce, transmit, or distribute electricity or gas in two or more municipalities, (2) electric cooperatives; (3) municipal utilities (for property outside the municipality that owns the utility) (4) municipal electric association projects (multi-municipal entities that own electric plants and/or purchase and transmit electricity to their members); and (5) qualified wholesale electric companies (entities that sell 95% or more of their power at wholesale and have a total generating capacity of 50 megawatts or more).

When qualifying utility property is annexed, the municipality losing the property continues to receive payments such that the first year's payment equals the payment attributable to the annexed property, with the payment reduced to \$0 in equal amounts over the next five years.

When calculating payments, the net book value of "qualifying property" in a municipality may not be less than the net book value as of December 31, 1989, minus the value of property removed since that date. Beginning with payments in 2009, this guarantee is affected by another component (see Component 7, below).

### **Component 2: Spent nuclear fuel storage payment**

This payment provides \$50,000 to each municipality and county in which spent nuclear fuel is stored on December 31 of the prior year. If the nuclear fuel storage facility is located within one mile of another municipality or county, the municipality or county where the fuel is stored is paid \$40,000 and the nearby municipality or county is paid \$10,000.

### **Component 3: Minimum payment**

For an electric generation facility with a rated capacity of 200 megawatts (MW) or more on January 1, 2004, and not subsequently rebuilt or repowered, the payment to a municipality or county where such a plant is located may not be less than \$75,000.

### **Component 4: Megawatt-based payment**

This payment applies to electric generation facilities that began operation or were rebuilt or "repowered" after December 31, 2003. The payment is \$2,000 per megawatt (MW) of name-plate generating capacity. For property in a town, the town is paid one-third (\$666.67) and the county is paid two-thirds (\$1,333.33). For property in a village or city, the village or city is paid two-thirds (\$1,333.33) and the county is paid one-third (\$666.67). For a plant in two or more municipalities or counties, this payment is shared based on the value in each municipality or county as of the later of December 31, 2004, or the date the plant becomes operational.

An electric generating plant is deemed rebuilt or "repowered" if any of the following are done: (a) The boiler on an existing fossil fuel steam unit is replaced with a combustion turbine and heat recovery steam generator and the steam turbine and heat rejection system are reused. (b) A heat recovery steam generator is added to a simple cycle combustion turbine. (c) An existing power generation unit is demolished or abandoned and replaced with a new power generation unit at the same site. (d) The steam generating equipment at a combustion-based renewable facility is replaced to increase efficiency or capacity, as long as the facility remains a combustion-based renewable facility.

### **Component 5: Incentive payments**

A power plant that qualifies for the megawatt-based payment is also eligible for incentive payments. There are three incentive payments. A power plant may qualify for none, or up to three, of these payments: (a) If a non-nuclear-powered plant has a name-plate capacity of at least 1 MW and is built on the site of or adjacent to an existing power plant, a decommissioned power plant, or a brownfield, the municipality and county are each paid \$600 per MW. (b) If a plant has a name-plate capacity of at least 50 MW and is classified by the Public Service Commission of Wisconsin (PSCW) as a base load plant (generally, a plant designed to operate at least 60% of the time), the municipality and county are each paid \$600 per MW. (c) If a plant has a name-plate capacity of at least 1 MW and is a "co-generation facility" (producing both electricity and a side-product, such as steam, for sale), the municipality and county are each paid \$1,000 per MW. Alternatively, if a plant has a name-plate capacity of at least 1 MW and derives its energy from an "alternative energy source" (biomass; fuel cells not using a fossil fuel; garbage resulting from the handling, processing, storage, or consumption of food; hydroelectric plants with a name-plate capacity of less than 60 MW; non-vegetation-based industrial, commercial, and household waste; geothermal; solar; wind; wave action), the municipality and county are each paid \$1,000 per MW, prorated to reflect the percentage of the energy actually derived from "alternative energy sources". For a power plant that qualifies for both of these payments, only the cogeneration payment is made.

Incentive payments for power plants located in two or more municipalities or counties are split on the same bases that the megawatt-based payment is split.

#### **Component 6: Per capita limit**

The total payment from the ad valorem payment, the minimum payment, and the megawatt-based components may not exceed \$425 per capita for municipalities and \$125 per capita for counties. Payments under the spent nuclear fuel storage and incentive payment components are exempt from this limit. (Before 2009, the per capita limits were \$300 for municipalities and \$100 for counties.)

#### **Component 7: Special minimum payment**

Beginning with payments in 2009, for electric generating facilities that began operating before January 1, 2004 and that have not been not subsequently rebuilt or "repowered", the payment will be the greater of (a) the amount calculated under the net book value based payment, using the current net book value, or (b) the amount calculated under the \$2,000 per MW payment plus, for plants using an "alternative fuel source", any applicable incentive payments. Once payments are made under alternative (b), all future payments will be based on alternative (b). However, if the amount calculated under the net book value payment using the guaranteed value (net book value as of December 31, 1989, minus the value of property removed since that date) is greater than the amounts calculated under alternatives (a) or (b), then the payment is based on the guaranteed net book value.

#### **General Information**

Initial payments under the megawatt-based and incentive payments are made in the year after the plant becomes operational. Thus, for a plant that began operation or was repowered in 2011, the first megawatt-based and incentive payments will be made in 2012.

From 2005 to 2010, shared revenue utility payments were made from two appropriations. The payments for power plants that began operating before January 1, 2004, and not subsequently

rebuilt or repowered, and the payments for substations and general structures were made from the appropriation under sec. 20.835 (1) (d) -- Shared revenue account. The payments for power plants that began operation or are rebuilt or repowered after December 31, 2003 were made from the appropriation under s. 20.835 (1) (dm) – Public utility distribution account. Beginning with distributions in 2011, all shared revenue utility payments will be made appropriation under s. 20.835 (1) (dm) -- Public utility distribution account.

Using 2012 payments as an example, the shared revenue utility payment is made on the following schedule: (a) On September 15, 2011, municipalities and counties were provided with an estimate (the "original estimate") of their payment for 2012. (b) On the fourth Monday in July 2012, 15% of the "original estimate" will be paid. (c) On the third Monday in November 2012, the payment will be "re-estimated" to reflect any updates in the data used to calculate the payment. The difference between this "re-estimate" and the amount paid in July 2012 will be distributed. (d) On the third Monday in November 2013, the payment will be "re-cast" to reflect any corrections that need to be made to the "re-estimated" payment. No further adjustments to the 2012 payment will be made.

Shared revenue utility payments to municipalities and counties for 2004 to 2012 are noted in the table below. The large increase in total payments in 2009 compared to 2008 was primarily due to the large number of existing power plants that qualified for MW-based payments under the special minimum payment (see Component 7 earlier in this paper).

Year	Municipalities	Counties	Total
2004	\$ 16,722,923	\$ 17,082,483	\$ 33,805,406
2005	16,642,723	17,176,187	33,818,910
2006	18,963,033	19,658,620	38,621,653
2007	19,393,630	20,065,796	39,459,426
2008	19,597,215	20,327,889	39,925,105
2009	28,748,422	28,405,389	57,153,811
2010	30,041,269	29,281,515	59,322,785
2011	32,250,062	30,928,139	63,178,200
2012	33,609,986	31,953,819	65,563,805