

March 30, 2022

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue
Analysis of H.F. 3944 (Sandstede), 1st Engrossment

	Fund Impact			
	<u>F.Y. 2022</u>	<u>F.Y. 2023</u>	<u>F.Y. 2024</u>	<u>F.Y. 2025</u>
		(000's)		
Credit for Excess Energy Costs	\$0	(\$14,700)	\$0	\$0
Addition for Deducted Excess Energy Costs	<u>\$0</u>	<u>\$300</u>	<u>\$0</u>	<u>\$0</u>
General Fund Total	\$0	(\$14,400)	\$0	\$0

Effective retroactively for tax year 2021.

EXPLANATION OF THE BILL

Proposed Law: As a result of extreme weather in February 2021, wholesale natural gas prices rose dramatically for the “critical period” between February 12, 2021, and February 17, 2021, resulting in higher natural gas utility bills for many customers. The bill would offer a refundable tax credit to qualifying customers of certain municipal natural gas utilities.

The bill would require every nonprofit municipal utility company that sells natural gas to retail customers in Minnesota to disclose a notice to each of its customers. The notice would calculate the amount of natural gas used by the customer during the critical period, multiplied by the additional price paid per unit by a customer for gas during “critical period” relative to price paid per unit during the period of February 5 to February 10, 2021. Taxpayers would be able to claim a tax credit in the amount specified in the notice retroactively for tax year 2021.

Companies taxed as pass-through entities would be eligible to claim the credit, with the amount allocated to a partner, member, or shareholder based on their share of the entity’s income. Taxpayers who deducted excess energy costs in calculating federal adjusted gross income and claimed the credit would have to include the excess energy costs as an addition to income.

REVENUE ANALYSIS DETAIL

- Since data on daily natural gas prices by utility is not publicly available, this analysis uses the imputed difference in natural gas bills for February 2021 and February 2020, plus data on any known surcharges levied after February 2021 to recover critical period costs, as a proxy for the tax credit calculation in this proposal.
- The bill would impact 33 municipal natural gas utilities and their customers. Annual natural gas reports filed with the Department of Commerce were available from at least one year since 2014 for 32 of the 33 utilities. The City of Brownton, which did not have Department of Commerce reports, directly provided estimates of impacted customers and quantities purchased.

REVENUE ANALYSIS DETAIL (Cont.)

- These reports include monthly sales and customer numbers for the previous year. Data for 2020 was available for only 8 of these utilities. In the remainder of cases, a linear regression model was used to predict February 2020 sales using data on population and average February temperatures, along with city-level fixed effects. This regression model was also used to predict sales for February 2021.
- The number of impacted customers was gathered from the Department of Commerce reports and grown by the change in population from the covered year to 2020 based on U.S. Census data.
- Pricing data was gathered from municipalities or directly from utilities. Rates were averaged across customer classes to impute the amount paid by typical customers in February 2020 and February 2021. Data was available for 26 of the 33 utilities. Where pricing data was unavailable, a weighted average of natural gas rates from other utilities was used instead.
- At least two utilities, those in Austin and Owatonna, levied surcharges on bills for months after February 2021 to recover critical period costs. The costs of these surcharges were directly added to the final estimate in lieu of comparing customer bills from February 2020 and February 2021.
- This analysis assumes that 40% of commercial and industrial customers are entities with pass-through income.
- This analysis assumes that taxpayers who declare excess energy costs as an addition will pay a marginal tax rate of 8% on that income.
- Revenue impacts are allocated to the fiscal year 2023.

Number of Taxpayers: About 84,500 tax returns would be affected in tax year 2021, including 81,500 residential customers and 3,000 commercial/industrial customers. Overall, the average net decrease in tax would be \$171. For residential customers, the average decrease in tax would be \$141. For commercial/industrial customers, the average credit would be \$1,073, with an average increase in tax of \$86, for a net decrease of \$987.

Minnesota Department of Revenue
Tax Research Division
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