

# ENRICHMENT Chapter 5

## TAXES AS A PRODUCTION COST

*Companies view taxes as a production cost. If a company's taxes go up, the cost of production goes up, and the supply curve shifts to the left. If taxes go down, production costs go down, and the supply curve shifts to the right.*

**Directions:** Read the passage below and then answer the questions that follow on a separate sheet of paper.

LOCKPORT—More than 20 years ago, New York State Electric & Gas constructed a coal-fired power plant along the Lake Ontario shoreline in Somerset [New York]. The 675-megawatt Kintigh Generating Station, also known as AES Somerset, is the county's largest taxpayer. The cost of its success was \$18 million in taxes this year. AES Somerset officials want to dial back that number. The company has applied for a payment-in-lieu-of-taxes (PILOT) agreement that would give them "tax certainty" for the next 25 years. The company's desire to know the future of its bills is tied to their intention to apply for an advanced clean-coal plant to be built on the empty half of its 1,800-acre property.

Project director Jon Reimann said if the company proposes the plant on the Somerset site without a PILOT, it will be the only one without a stable grasp on its financial future. "Tax certainty allows AES the best opportunity to put together the most competitive bid process," Reimann said. "The proposed PILOT is very fair as compared to other sites in the state."

. . . There are some financial and electrical benefits to the county if the PILOT is granted. AES will be contracted to provide 5 megawatts of discounted power to Niagara County if the first PILOT is granted and another 5 megawatts if they are chosen for the clean-coal plant and get a PILOT for it. . . .

**Source:** "PILOT in the air," by Tasha Kates, *Lockport Union-Sun & Journal*, October 22, 2006.

1. What does AES Somerset plan to do to boost the supply of electricity to customers?
2. Why does the company want to know what its taxes will be for the next 25 years?
3. How might taxes affect the company's ability to offer customers electricity at low rates?
4. If the company builds another clean-coal plant, how would the supply curve for electricity shift?
5. What would the shift in the supply curve mean for area customers?