CHAPTER 8100
DEPARTMENT OF REVENUE
PROPERTY EQUALIZATION DIVISION
AD VALOREM TAXES; UTILITIES

8100.0100 DEFINITIONS.

[For text of subps 1 to 7, see M.R.]

Subp. 8. [Repealed, 14 SR 1806]

[For text of subp 9, see M.R.]

Subp. 10. [Repealed, 14 SR 1806]

[For text of subps 11 to 14, see M.R.]

Subp. 14a. **Qualifying construction work in progress.** "Qualifying construction work in progress" means the cost of materials and associated charges which are not yet placed in a permanent site.

[For text of subps 15 to 18, see M.R.]

Statutory Authority: *MS s 270.06*

History: *14 SR 1806*

8100.0200 INTRODUCTION.

The commissioner of revenue will estimate the valuation of the entire system of a utility company operating within the state. The entire system will be valued as a unit instead of valuing the component parts, utilizing data relating to the cost of the property and the earnings of the company owning or operating the property. The resulting valuation will be allocated or assigned to each state in which the utility company operates. Finally, by the process of apportionment, the portion allocated to Minnesota will be distributed to the various taxing districts within the state. Most of the data used in the valuation, allocation, and apportionment process will be drawn from reports submitted to the Department of Revenue by the utility companies. These reports will include Minnesota Department of Revenue Annual Utility Reports (UTL forms), Annual Reports to the Federal Energy Regulatory Commission and Annual Reports to the Interstate Commerce Commission. Periodic examinations of the supporting data for these reports will be made by the Department of Revenue.

The methods, procedures, indicators of value, capitalization rates, weighting percents, and allocation factors will be used as described in parts 8100.0300 to 8100.0600 for 1990 and subsequent years.

As in all property valuations, the commissioner of revenue reserves the right to exercise his or her judgment whenever the circumstances of a valuation estimate dictate the need for it.

Statutory Authority: *MS s 270.06*

History: *14 SR 1806*

8100.0300 VALUATION.

Subpart 1. **General.** Because of the unique character of public utility companies, such as being subject to stringent government regulations over operations and earnings, the traditional approaches to valuation estimates of property (cost, capitalized income, and market) must be modified when utility property is valued. Consequently, for the 1990 and subsequent assessment years, the value of utility company property will be estimated in the manner provided in this chapter.

[For text of subp 2, see M.R.]

Subp. 3. **Cost approach.** The cost factor to be considered in the utility valuation formula is the original cost less depreciation of the system plant, plus improvements to the system plant, plus the original cost of construction work in progress on the assessment date. The original cost of any leased operating property used by the utility must be reported to the commissioner in conjunction with the annual utility report. If the original cost of the leased operating property is not available, the commissioner shall make an estimate of the cost by capitalizing the lease payments. Depreciation will not be allowed on construction work in progress. Depreciation will be allowed as a deduction from cost in the amount allowed on the accounting records of the utility company, as such records are required to be maintained by the appropriate regulatory agency.

Depreciation, however, shall not exceed the prescribed percentage of cost: for electric companies, 20 percent; for gas distribution companies, 50 percent; and for pipeline companies, 50 percent. If the amount of depreciation shown on the company's books exceeds these percentages, the company may deduct 40 percent of the excess for the assessment year 1990 and 50 percent of the excess for the assessment year 1991 and subsequent.

The cost indicator of value computed in accordance with this subpart will be weighted for each type of utility company as follows: electric companies, 85 percent; gas distribution companies, 75 percent; and pipeline companies, 75 percent.

The following example illustrates how the cost indicator of value would be computed for an electric company:

1.	Utility Plant	$200,000,000
2.	Construction Work in Progress	$ 5,500,000
3.	Total Plant	$205,500,000
4.	Nondepreciable Plant (Land, Intangibles, C.W.I.P.)	$ 17,500,000
5.	Depreciable Plant	$188,000,000
6.	Book Depreciation	$ 40,000,000
7.	Maximum Depreciation (20%)	$ 37,600,000
8.	40% Excess Depreciation Allowance	$ 960,000
9.	Total Allowable Depreciation	$ 38,560,000
10.	Total Cost Indicator of Value	$166,940,000

Subp. 4. **Income approach.** The income indicator of value will be estimated by weighting the capitalized net operating earnings of the utility company for the most recent three years as follows: most recent year, 40 percent; previous year, 35 percent; and final year, 25 percent. The net income will be capitalized by applying to it a capitalization rate which will be computed by using the band of investment method. This method will consider:

A. the capital structure of utilities;

B. the cost of debt or interest rate;

C. the yield on preferred stock of utilities;

D. the yield on common stock of utilities; and

E. deferred taxes.

Rates will be computed for electric companies, gas distribution companies, and pipeline companies. The rates will be recalculated each year using the method described in this subpart.

The income indicator of value computed in accordance with this subpart will be weighted for each class of utility company as follows: electric companies, 15 percent; gas distribution companies, 25 percent; and pipeline companies, 25 percent.

The following example illustrates how the income indicator of value would be computed for a gas distribution company:

		1982	1983	1984
1.	Net Operating Income	$ 596,160	$ 488,911	$ 579,600
2.	Capitalized Income @ 11.5%	5,184,000	4,251,400	5,040,000
3.	Weighting Factor	25 percent	35 percent	40 percent
4.	Weighted Capitalized Income	1,296,000	1,488,000	2,016,000
5.	Total Income Indicator of Value			4,800,000

Subp. 5. **Unit value computation.** The unit value of the utility company will be the total of the weighted indicators of value.

The following is an example of the computation of the unit value for a gas distribution company:

1. Cost Indicator of Value:
   $5,000,000 x 75% = $3,750,000
2. Income Indicator of Value:
   $4,800,000 x 25% = $1,200,000
3. Unit Value of Gas Distribution Company:
   100% $4,950,000

[For text of subps 6 to 8, see M.R.]

Statutory Authority: *MS s 270.06*

History: *14 SR 1806*

8100.0400 ALLOCATION.

[For text of subpart 1, see M.R.]

Subp. 2. **Electric companies.** The original cost of the utility property located in Minnesota divided by the total original cost of the property in all states of operation is weighted at 90 percent. Gross revenue derived from operations in Minnesota divided by gross operations revenue from all states is weighted at ten percent.

The following example illustrates this formula, assuming a unit value of $20,000,000.

1.	Minnesota Plant Cost	$115,000,000	
			x .90 = 50.49%
2.	System Plant Cost	$205,000,000	
3.	Minnesota Gross Revenue	40,000,000	
			x .10 = 3.8%
4.	System Gross Revenue	$105,000,000	

5.	Total Percentage Allocable to Minnesota	54.29%
6.	Unit Value of System Plant	$20,000,000
7.	Amount of Value Allocable to Minnesota	$10,858,000

[For text of subps 3 and 4, see M.R.]

Statutory Authority: *MS s 270.06*

History: *14 SR 1806*

8100.0500 ADJUSTMENTS FOR NON-FORMULA-ASSESSED OR EXEMPT PROPERTY.

[For text of subps 1 to 3, see M.R.]

Subp. 4. **Deduction for exempt property.** A deduction from the Minnesota portion of the unit value shall also be made for property, real or personal, which is exempt from ad valorem tax. For instance, pollution control equipment for which an exemption has been granted is exempt. The original cost of qualifying construction work in progress shall be excluded from the Minnesota portion of the unit value. A deduction from the Minnesota portion of the unit value shall be made at original cost, less the applicable rate of depreciation used in the valuation process under part 8100.0300. The value of personal property, such as office machinery and vehicles, which is not taxed, shall also be excluded from the Minnesota portion of the unit value. The deduction shall be at original cost less the applicable rate of depreciation utilized in the valuation process.

The following example illustrates how these items are deducted from the Minnesota portion of the unit value.

1.	Minnesota Portion of Unit Value		$5,000,000
2.	Excludable Items - Nondepreciable		
	a. Land Assessed Locally		3,000
	b. Land Rights		2,000
	c. Qualifying construction work in progress		5,000
3.	Excludable Items - Depreciable		
	a. General Plant Items	$10,000	
	b. Pollution Control Equipment	10,000	
	c. Gross Depreciable Items	20,000	
	d. Depreciated at 25 percent	5,000	
	e. Net Depreciable Excludable Items		15,000
4.	Total Excludable Items		25,000
5.	Minnesota Apportionable Value		$ 4,975,000

[For text of subp 5, see M.R.]

Statutory Authority: *MS s 270.06*

History: *14 SR 1806*

8100.0600 APPORTIONMENT.

Subpart 1. **Apportionment to taxing district.** After the unit valuation of the utility company has been allocated to the state of Minnesota and has been adjusted under part 8100.0500, the determined amount shall be apportioned or distributed to the taxing districts in Minnesota in which the company operates.

This apportionment will be made by the commissioner of revenue on the basis of information submitted by the utility companies in annual reports filed with the commissioner.

Subp. 2. **Required information.** The following information must be submitted for each taxing district:

A. the original cost of the company's operating property by classification, including the cost of leased taxable property;

B. the original cost of any new additions since the last assessment, including work in progress on the assessment date; and

C. the original cost of any retirements made after the last assessment.

Subp. 3. **Required information when new taxing district established.** Whenever a new taxing district is established, the information submitted by the utility companies for the taxing district must be submitted in the same form as enumerated in subpart 2, items A to C. If the utility, because of administrative difficulty, is forced to make estimates of values and costs for property within new taxing districts, these estimates must be approved by the commissioner.

Subp. 4. **Market value of the operating utility property.** The total market value of each company's operating utility property in Minnesota shall be:

The current original cost in each taxing district as of the last assessment date plus original cost of new construction reduced by the original cost of property retired since the last assessment date. The Minnesota portion of the unit value as adjusted under this rule shall be divided by the total current original cost to determine a percentage. The resulting percentage shall be multiplied by the current original cost in each taxing district to determine the market value in each district.

Subp. 5. [Repealed, 14 SR 1806]

Statutory Authority: *MS s 270.06*

History: *14 SR 1806*