

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

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**8100.0100 DEFINITIONS.**

*[For text of subs 1 to 5, see M.R.]*

Subp. 5a. **Earnings growth rate.** "Earnings growth rate" means the average increase or decrease in the five-year moving average earnings per share, expressed as a percentage, as computed in the annual capitalization rate study. The rate will be adjusted to normalize income to one year in the future.

*[For text of subs 6 to 16, see M.R.]*

Subp. 17. [Repealed, 21 SR 749]

**Statutory Authority:** *MS s 270.06*

**History:** *21 SR 749*

**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), Reports to the Minnesota Public Utilities Commission, Annual Reports to Shareholders, 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, allocation factors, and equalization will be used as described in parts 8100.0300 to 8100.0700 for 1997 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:** *21 SR 749*

**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 1997 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 com-

missioner 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, except that depreciation may be reduced if available information indicates the amount deducted does not equal actual accrued depreciation when the current estimated remaining life is considered.

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 50 percent of the excess.

The cost indicator of value computed in accordance with this subpart will be weighted for each type of utility company as follows: electric companies, 75 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<br>(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.  | 50% Excess Depreciation Allowance                     | \$ 1,200,000   |
| 9.  | Total Allowable Depreciation                          | \$ 38,800,000  |
| 10. | Total Cost Indicator of Value                         | \$ 166,700,000 |

**Subp. 4 Income approach.** The income indicator of value will be estimated by weighting the capitalized net operating earnings of the utility company, adjusted for the earnings growth rate, for the most recent three years as follows: most recent year, 40 percent; previous year, 35 percent; and final year, 25 percent. The earnings growth rate adjustment is performed by adding the earnings growth rate, expressed in decimal form, to one, squaring the sum of the two numbers, and multiplying the result by the net operating income figure. The net income, adjusted for the earnings growth rate, 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; and
- D. the yield on common stock of utilities.

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, 25 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:

|   | 1993       | 1994       | 1995        |
|---|------------|------------|-------------|
| 1. Net Operating Income   | \$ 500,995 | \$ 420,850 | \$ 510,990  |
| 2. Earnings Growth Rate   | 0.32%      | 0.32%      | 0.32%       |
| 3. Adjusted Earnings<br>(Line 1 times 1 plus<br>Line 2 squared) | 504,206    | 423,548    | 514,266     |
| 4. Weighting Factor   | 25%        | 35%        | 40%         |
| 5. Weighted Income to<br>be Capitalized                         | 126,052    | 148,242    | 205,706     |
| 6. Capitalized Income<br>at 10.00%                              | 1,260,520  | 1,482,420  | 2,057,060   |
| 7. Total Income Indicator<br>of Value                           |            |            | \$4,800,000 |

*[For text of subs 5 and 6, see M.R.]*

Subp 7. [Repealed, 21 SR 749]

*[For text of subp 8, see M.R.]*

**Statutory Authority:** *MS s 270.06*

**History:** *21 SR 749*

#### 8100.0400 ALLOCATION.

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

Subp 4. **Pipeline companies.** The allocation of pipeline companies shall be the original cost of the utility property located in Minnesota divided by the total original cost of the property in all states of operation weighted at 75 percent. Additionally, throughput of product from operations in Minnesota divided by throughput of product from operations in all states is weighted at 25 percent.

The following example illustrates the allocation of value of property of a pipeline company and the weights given to each factor:

|  |              |         |        |
|--|--------------|---------|--------|
| 1. Minnesota Plant Cost                          | \$13,500,000 |         |        |
| 2. System Plant Cost                             | \$39,300,000 | x .75 = | 25.76% |
| 3. Minnesota Throughput<br>(Mcf or Barrel miles) | 8,940,000    | x .25 = | 8.01%  |
| 4. System Throughput<br>(Mcf or Barrel miles)    | 27,900,000   |         |        |
| 5. Total Percentage Allocable<br>to Minnesota    |              |         | 33.76% |

**Statutory Authority:** *MS s 270.06*

**History:** *21 SR 749*