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

8100.0100 DEFINITIONS.

[Foı text of subps 1 to 5, see M R]

Subp 5a. [Repealed, 24 SR 1106]

Subp 6 **Electric company.** "Electrıc company" means any company engaged ın the generatıon, transmıssıon, or dıstrıbutıon of electric power, excludıng munıcıpal corporatıons

Subp 7 **Gas distribution company.** "Gas dıstrıbutıon company" means any company engaged ın the dıstrıbutıon of natural or synthetıc gas, excludıng munıcıpal corporatıons.

[For text of subps 8 to 16, see M R]

Statutory Authority: *MS s 270.06, 270 11*

History: *24 SR 1106*

8100.0200 INTRODUCTION.

The commıssıoner of revenue wıll estımate the valuatıon of the entıre system of a utılıty company operatıng wıthm the state The entıre system will be valued as a unıt ınstead of valuıng the component parts, utılızing data relatıng to the cost of the property and the earnıngs of the company ownıng or operatıng the property The resultıng valuatıon wıll be allocated or assigned to each state ın whıch the utılıty company operates Fınally, by the process of apportıonment, the portıon allocated to Mınnesota wıll be dıstrıbuted to the varıous taxıng dıstrıcts wıthın the state Most of the data used ın the valuatıon, allocatıon, and apportıonment process wıll be drawn from reports submıtted to the Department of Revenue by the utılıty companıes These reports wıll ınclude Mınnesota Department of Revenue Annual Utılıty Reports (UTL forms), Reports to the Mmnesota Publıc Utılıtıes Commıssıon, Annual Reports to Shareholders, Annual Reports to the Federal Energy Regulatory Commıssıon, Umted States Department of Agrıculture, Rural Utılıty Servıce or equıvalent, and Annual Reports to the Interstate Commerce Commıssıon Perıodıc examinatıons of the supportıng data for these reports wıll be made by the Department of Revenue

The methods, procedures, ındıcators of value, capıtalızatıon rates, weıghtıng percents, allocatıon factors, and equalızatıon wıll be used as descrıbed ın parts 8100 0300 to 8100 0700 for 2000 and subsequent years

As ın all property valuatıons, the commıssıoner of revenue reserves the rıght to exercıse hıs or her judgment whenever the cırcumstances of a valuatıon estımate dıctate the need for ıt

Statutory Authority: *MS s 270 06, 270 11*

Hıstory: *24 SR 1106*

8100.0300 VALUATION.

Subpart 1 **General.** Because of the unıque character of publıc utılıty companies, such as beıng subject to strıngent government regulatıons over operatıons and earnıngs, the tradıtıonal approaches to valuatıon estımates of property (cost, capıtalızed ıncome, and market) must be modıfıed when utılıty property ıs valued. Consequently, for the

2000 and subsequent assessment years, the value of utility company property will be estimated in the manner provided in this chapter

[For text of subps 2 and 3, see M R]

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; 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.

		1998	1999	2000
1	Net Operating Income	$ 394,000	$ 450,000	$ 470,000
2	Weighting Factor	25%	35%	40%
3	Weighted Income to be Capitalized	98,500	157,500	188,000
4	Capitalized Income at 9 25%	1,064,865	1,702,703	2,032,432
5.	Total Income Indicator of Value			$4,800,000

[For text of subp 5, see M R]

Subp. 6. **Valuation of utility property of cooperatives and other noncommon carrier or nonregulated utilities.** Cooperative associations may irrevocably elect to have their property valued using the unit value method described in subparts 1 to 5 Cooperative associations not electing umt valuation and other types of utilities which do not operate in the traditional profit-making mode, are not common carriers, or are nonregulated, will have their utility property valued on the basis of historical cost only Elections made by a cooperative association prior to November 1 of any year will be effective the next assessment year Such elections will be in a format prescribed by the commissioner Depreciation will be allowed as a deduction from the historical cost in increments of 2-1/2 percent per year, but the maximum depreciation allowed shall not exceed 25 percent of the cost of the utility operating property. Additions to existmg utility property will be depreciated 2-1/2 percent per year until they reach the 25 percent maximum Retirements of utility property will be deducted from the cost basis at the appropriate depreciation level of the retired property.

The following example illustrates this process for an electric cooperative association not electing valuation under subparts 1 to 5:

1	Cost of Substation	$1,000,000
2	Value 1st year @ 97.5%	975,000
3	Value 2nd year @ 95%	950,000
4	Value 3rd year @ 92.5%	925,000

5	Value 4th year @ 90%	900,000
6.	Value 5th year @ 87 5%	875,000
7	Value 6th year @ 85%	850,000
8	Value 7th year @ 82.5%	825,000
9	Value 8th year @ 80%	800,000
10	Value 9th year @ 77.5%	775,000
11	Value 10th year @ 75%	750,000
12.	Value 11th and succeeding years at 75%	750,000

[For text of subp 8, see M R]

Statutory Authority: *MS s 270 06, 270 11*

History: *24 SR 1106*

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

Subpart 1. **Deduction for exempt or non-formula-assessed property.** After the Minnesota portion of the unit value of the utility company, except for electric cooperatives, is determined, any property which is non-formula-assessed or which is exempt from ad valorem tax, will be deducted from the Minnesota portion of the unit value Only that qualifying property located within the state of Minnesota may be excluded

[For text of subps 2 to 4, see M.R]

Subp. 4a **Deduction for exempt or non-formula-assessed property of cooperatives electing to be valued under part 8100.0300, subparts 3 to 5.** In the case of cooperative associations valued using unit valuation, exempt or non-formula-assessed property shall be deducted to the extent included in the unit value The value to be deducted shall be computed by adding the cost of all exempt or locally assessed property and dividing by the cost of all property in Minnesota The resulting percentage shall be multiplied by the Minnesota portion of the unit value to arrive at the amount to be deducted The amount to be deducted is subtracted from the Minnesota portion of the umt value

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

1.	Minnesota portion of Unit Value	$1,000,000
2	Cost of Excludable Items	
	a Land Assessed Locally	10,000
	b. Land Rights	15,000
	c. General Plant Items	100,000
	d. Rural Distribution Lines	865,000
3.	Total Cost of Excludable Items	990,000
4	Total Cost of Minnesota Property	1,100,000
5	Percent Excludable equals Line 3 divided by Line 4	90.0%
6.	Amount Excludable equals Line 5 times Line 1	900,000
7	Minnesota Apportionable Value equals Line 1 minus line 6	100,000

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

Statutory Authority: *MS s 270.06, 270 11*

History: *24 SR 1106*