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

8100.0100 DEFINITIONS.

Subpart 1. **Scope.** As used in this chapter, the following words, terms, and phrases shall have the meanings given to them by this part, except where the context clearly indicates a different meaning.

Subp. 2. **Allocation.** "Allocation" means the process of dividing the unit value of a utility company among the states in which the utility operates.

Subp. 3. **Apportionment.** "Apportionment" means the process of distributing that portion of the utility company's unit value which has been allocated to Minnesota to the various taxing districts in which the utility company operates.

Subp. 4. **Book depreciation.** "Book depreciation" means the depreciation shown by a utility company on its corporate books, and allowed the company by various regulatory agencies.

Subp. 5. **Capitalization rate.** "Capitalization rate" means the relationship of income to capital investment or value, expressed as a percentage.

Subp. 6. **Electric company.** "Electric company" means any company engaged in the generation, transmission, or distribution of electric power, excluding cooperatives and municipal corporations.

Subp. 7. **Gas distribution company.** "Gas distribution company" means any company engaged in the distribution of natural or synthetic gas, excluding the cooperatives and municipal corporations.

Subp. 8. MR 1989 [Repealed, 14 SR 1806]

Subp. 8. **Integrated company.** "Integrated company" means any company engaged in two or more utility operations within Minnesota, such as electric distribution and gas distribution, within the framework of one corporate structure.

Subp. 9. MR 1989 [Renumbered 8100.0100, subpart 8]

Subp. 9. **Net operating earnings.** "Net operating earnings" means earnings from the system plant of the utility after the deduction of operating expenses, depreciation, and taxes, but before any deduction for interest.

Subp. 10. MR 1989 [Repealed, 14 SR 1806]

Subp. 10. **Non-formula-assessed property.** "Non-formula-assessed property" means property of a utility which is valued by the local or county assessor rather than by the commissioner of revenue.

Subp. 11. MR 1989 [Renumbered 8100.0100, subpart 9]

Subp. 11. **Operating property.** "Operating property" means any property, owned or leased, except land that is directly associated with the generation, transmission, or distribution of electricity, natural gas, gasoline, petroleum products, or crude oil. Examples of operating property include, but are not limited to, substations, transmission and distribution lines, generating plants, and pipelines. Land, garages, warehouses, office buildings, pole yards, radio communication towers, and parking lots are examples of nonoperating property.

Subp. 12. MR 1989 [Renumbered 8100.0100, subpart 10]

Subp. 12. **Pipeline company.** "Pipeline company" means any company engaged in the transmission of natural gas, gasoline, petroleum products, or crude oil via a fixed line of pipes.

Subp. 13. MR 1989 [Renumbered 8100.0100, subpart 11]

Subp. 13. **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.

Subp. 14. MR 1989 [Renumbered 8100.0100, subpart 12]

Subp. 14. **System plant.** "System plant" means the total tangible property, real and personal, of a company which is used in its utility operations in all states in which it operates.

Subp. 14a. MR 1989 [Renumbered 8100.0100, subpart 13]

Subp. 15. MR 1989 [Renumbered 8100.0100, subpart 14]

Subp. 15. **Throughput.** "Throughput" means the amount of product measured in barrels, gallons, or cubic feet which passes through a pipeline.

Subp. 16. MR 1989 [Renumbered 8100.0100, subpart 15]

Subp. 16. **Unit value.** "Unit value" means the value of the system plant of a utility company taken as a whole without any regard to the value of its component parts.

Subp. 17. MR 1989 [Renumbered 8100.0100, subpart 16]

Subp. 17. **Weighted pipeline miles.** "Weighted pipeline miles" means the product obtained by multiplying the number of miles of each size of a pipeline by the diameter in inches of each size. Example: a six-mile pipeline three miles of which is ten inches in diameter and three miles of which is 30 inches in diameter would have a weighted miles product of 120.

Subp. 18. MR 1989 [Renumbered 8100.0100, subpart 17]

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: *11 SR 635; 12 SR 58; 13 SR 394; 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.

Subp. 2. **Market approach.** Market value implies a price for which an entire public utility enterprise might reasonably change hands between willing and informed buyers and sellers. The term presupposes a market of normal activity, no urgency to buy or sell on the part of either the buyer or seller, and continued operation of the utility as a single entity. Public utility property is seldom transferred as a whole unit under these circumstances. Consequently, after consideration of this approach, it has been decided that valuation of utility properties by this approach is speculative and unreliable and will not be employed as a method of valuation for utility property at this time.

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

Subp. 6. **Valuation of utility property of cooperatives and other noncommon carrier or nonregulated utilities.** Cooperative associations 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. 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 existing 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:

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

Subp. 7. **Obsolescence allowances.** The commissioner shall adjust the value calculated under this part through the use of an obsolescence allowance. This allowance is intended to be used in order to recognize the effect the curtailment or termination of a pipeline's source of supply may have on its value. This allowance must be applied for each year at the time the utility files its Minnesota Department of Revenue Annual Utility Report. The utility's eligibility for this allowance will be based on the relevant facts for the specific valuation year. The application of an obsolescence allowance in any previous year shall have no bearing on the use of the allowance for a subsequent year. In order for a pipeline or a gas distribution company to be eligible for this allowance it must meet certain criteria or standards listed below. It is mandatory that standards in items A, B, and C be met by the utility. It is highly desirable that standards in items D and E also be met.

A. The utility shall demonstrate that its source of supply for gas or oil will be terminated within the next ten years.

B. The utility shall be at, or above, the maximum depreciation allowance specified by subpart 3.

C. The utility shall have made application to the appropriate regulatory agency for increased depreciation allowances, and the application shall not have been denied or rejected.

D. The utility must not have made any major capital expenditures within the last three years.

E. The utility must not have sold any long-term bonds or signed any long-term notes within the last three years.

If the utility has made major capital expenditures or entered into long-term debt obligations within the last three years, a satisfactory explanation of the rationale for these actions shall be made to the commissioner before an allowance for obsolescence will be granted.

The obsolescence allowances which may be applied to the utility's value will be calculated in the following manner:

(1) Method 1. A five-year average of the utility's annual throughput will be calculated. The throughput for the assessment year will be compared to this average and a percentage calculated. This percentage will be applied to the cost indicator of value calculated under subpart 3 in order to adjust the indicator for obsolescence. The adjusted cost indicator of value will be used in the calculation of the unit value under subpart 5. The following is an example of this procedure:

Year	Throughput in Barrels
1979	1,200,000
1980	1,300,000
1981	1,150,000
1982	1,100,000

1983	1,050,000	
	5,800,000 Total	
	1,160,000 Average Throughput	
1. 1984 Throughput		1,000,000 Barrels
2. Percent of 1984 Throughput to Five-Year Average Throughput		86%
3. Cost Indicator of Value		$6,300,000
4. Cost Indicator Adjusted for Obsolescence		5,418,000

(2) Method 2. The book depreciation shown on the books and accounts of the utility will be compared to the depreciation allowed by subpart 3. If the book depreciation exceeds the maximum depreciation allowance, 50 percent of the excess depreciation will be used in the calculation of the cost indicator of value. An example of this calculation is as follows:

1. Book Depreciation	$ 6,000,000
2. Maximum Allowable Depreciation	5,000,000
3. Excess Depreciation	1,000,000
4. 50% of Excess Depreciation	500,000
5. Utility Plant	11,000,000
6. Construction Work in Progress	50,000
7. Total Plant	11,050,000
8. Nondepreciable Plant (Land, CWIP)	1,050,000
9. Depreciable Plant	10,000,000
10. Depreciation (Maximum 50%)	5,000,000
11. Obsolescence Allowance	500,000
12. Cost Indicator of Value	5,550,000

(3) Method 3. The income indicator of value computed in accordance with subpart 4 will be calculated by capitalizing the utility's three-year weighted net operating earnings for a specific term of years rather than into perpetuity. The term of years to be used will be the number of years remaining until the expected expiration of the utility's source of supply for product (oil, gas), or the number of years remaining until the utility's major assets (pipeline, pump stations, storage tanks, and similar assets) are fully depreciated, whichever is greater. An example of this capitalization process is as follows:

	1982	1983	1984
1. Net Operating Earnings	$1,320,000	$1,000,000	$800,000
2. Weighting	25%	35%	40%
3. Weighted Net Operating Earnings	$330,000	$350,000	$320,000
4. Total Weighted Net Operating Earnings		$1,000,000	
5. Terms of years until major assets are fully depreciated			8
6. Capitalization rate pursuant to subpart 4			11.75%
7. Capitalization rate converted to term of 8 years			19.9548%
8. Capitalized Income/Income Indicator of Value			$5,011,325

The commissioner shall apply to the valuation process whichever of the three obsolescence methods is most appropriate in order to equitably recognize the effect of obsolescence on the utility's value.

Subp. 8. **Retirements.** Utility operating property may be retired from the utility system while still in place if certain criteria are met:

A. The property must be physically disconnected from the utility system. In the case of electrical plants, the disconnection or dismantling of wires, cables, connectors, or transformers would constitute physical disconnection. In the case of pipelines, the disconnection of pipes, valves, or fittings would be evidence of physical disconnection.

B. An affidavit of retirement should be filed by the utility with the commissioner at least 30 days prior to the assessment date. This affidavit shall indicate the facility being retired and the date it was taken out of service.

The utility should make every effort to inform the commissioner of pending major retirements. The commissioner in turn shall notify the county assessor of impending major retirements as soon as this information becomes available to the department.

Utility property which is retired in place shall continue to be taxed for ad valorem purposes. However, its market value shall not be determined on the basis of its value as utility operating property.

If a utility should choose to temporarily retire a facility pending the development of an alternate fuel, greater demand, increased source of supply, or another valid reason, the cost of this facility must be transferred to the appropriate regulatory agency's account entitled "Held for Future Use." Standby facilities will not be considered to be temporarily retired unless their costs are carried in this account. Temporarily retired utility facilities will be valued taking into account a number of factors including age of the facility, type of facility, amount of maintenance and additional costs needed to restore the facility to operational status, length of retirement, and earning potential of the facility. In no instance shall a temporarily retired facility be valued lower than if the facility were considered nonoperating utility property.

Statutory Authority: *MS s 270.06 cl (14); 270.11 subds 1,6; 273.33 subd 2; 273.37 subd 2; 273.38*

History: *7 SR 1797; 8 SR 2723; 10 SR 18; 11 SR 635; 12 SR 58; 13 SR 394; 14 SR 1806*

8100.0400 ALLOCATION.

Subpart 1. **General.** After the unit value of the utility property has been estimated, the portion of value which is attributable to Minnesota must be determined. This process of dividing the unit value of a utility company among the states in which the utility operates is called allocation. Each of the factors in the allocation formula is assigned a weighted percentage to denote the relative importance assigned to that factor. The resulting sum of the weighted factors multiplied by the unit value yields the valuation of the utility property which will, after the adjustments described in part 8100.0500, be subject to ad valorem tax in the state of Minnesota.

The factors to be considered in making allocations of unit value to Minnesota for the utility companies and the weight assigned to each factor for each class are specified in this rule.

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

Subp. 3. **Gas distribution companies.** The allocation of value of gas distribution companies shall be made considering the same factors as are used to determine the allocation of value of electric companies. The weight given to the original cost factor will be 75 percent, and gross revenue shall be weighted 25 percent.

Subp. 4. **Pipeline companies.** In addition to the cost factor and the gross revenue factor, the factor of weighted pipeline miles shall be considered in allocating the value of pipeline companies. Weighted pipeline miles means the number of miles of pipeline multiplied by the diameter of the pipe, measured in inches. To illustrate, a pipeline six miles long has three miles of pipe with a diameter of ten inches and three miles of pipe with a diameter of 30 inches. The weighted pipeline miles is 120.

3 miles x 10" diameter	=	30
3 miles x 30" diameter	=	90
Weighted pipeline miles	=	120

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	x .75 =	25.76%
2.	System Plant Cost	$39,300,000		
3.	Minnesota Gross Revenue	$ 2,980,000	x .05 =	1.60%
4.	System Gross Revenue	$ 9,300,000		
5.	Minnesota Weighted Pipeline Miles	$ 9,500	x .20 =	7.01%
6.	System Weighted Pipeline Miles	$ 27,100		
7.	Total Percentage Allocable to Minnesota			34.37%

Statutory Authority: *MS s 270.06*

History: *14 SR 1806*

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 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.

Subp. 2. **Valuation formula not applicable to certain utility property.** The following properties will be valued by the local or county assessor and, therefore, the formula provided herein for the valuation of utility property will not be applicable for such property:

A. land;

B. nonoperating property; and

C. rights-of-way.

Subp. 3. **Deduction for cost of land and rights of way; application to nonoperating property.** The Minnesota portion of the unit value will be reduced by the original cost of land and rights-of-way. In the case of nonoperating property, the deduction shall be original cost, less the rate of depreciation applicable in the valuation process pursuant to part 8100.0300.

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

Subp. 5. **Burden of proof and responsibility of utility company.** The utility company shall have the burden of proof to establish that the value of any property should be excluded from the Minnesota portion of the unit value. Accordingly, the utility company shall have the responsibility to submit, in the form required by the commissioner of revenue, such schedules of exempt or non-formula-assessed property as he may require.

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*