

Document RD1490

- 0001.01 Department of Revenue
0001.02
0001.03 Proposed Permanent Rules Relating to Valuation and Assessment of
0001.04 Electric, Gas Distribution, and Pipeline Companies (Utility
0001.05 Companies)
0001.06
0001.07 Rules as Proposed
0001.08 8100.0100 DEFINITIONS.
0001.09 Subpart 1. to 7. [Unchanged.]
0001.10 Subp. 8. [See Repealer.]
0001.11 Subp. 9. [Unchanged.]
0001.12 Subp. 10. [See Repealer.]
0001.13 Subp. 11. to 14. [Unchanged.]
0001.14 **Subp. 14a. Qualifying construction work in**
0001.15 **progress. "Qualifying construction work in progress" means the**
0001.16 **cost of materials and associated charges included in**
0001.17 **construction work in progress which is not yet attached to the**
0001.18 **utility property.**
0001.19 Subp. 15. to 18. [Unchanged.]
0001.20 8100.0200 INTRODUCTION.
0001.21 The commissioner of revenue will estimate the valuation of
0001.22 the entire system of a utility company operating within the
0001.23 state. The entire system will be valued as a unit instead of
0001.24 valuing the component parts, utilizing data relating to the cost
0001.25 of the property and the earnings of the company owning or
0001.26 operating the property. The resulting valuation will be
0001.27 allocated or assigned to each state in which the utility company
0001.28 operates. Finally, by the process of apportionment, the portion
0001.29 allocated to Minnesota will be distributed to the various taxing
0001.30 districts within the state. Most of the data used in the
0001.31 valuation, allocation, and apportionment process will be drawn
0001.32 from reports submitted to the Department of Revenue by the
0001.33 utility companies. These reports will include Minnesota
0001.34 Department of Revenue Annual Utility Reports (UTL forms), Annual
0001.35 Reports to the Federal Energy Regulatory Commission and Annual

- 0002.01 Reports to the Interstate Commerce Commission. Periodic
0002.02 examinations of the supporting data for these reports will be
0002.03 made by the Department of Revenue.
0002.04 The methods, procedures, indicators of value,
0002.05 capitalization rates, weighting percents, and allocation factors
0002.06 will be used as described in parts 8100.0300 to 8100.0600 for
0002.07 ~~1988~~ 1989 and subsequent years.
0002.08 As in all property valuations the commissioner of revenue
0002.09 reserves the right to exercise his or her judgment whenever the
0002.10 circumstances of a valuation estimate dictate the need for it.
0002.11 8100.0300 VALUATION.
0002.12 Subpart 1. and 2. [Unchanged.]
0002.13 Subp. 3. **Cost approach.** The cost factor to be considered
0002.14 in the utility valuation formula is the original cost less
0002.15 depreciation of the system plant, plus improvements to the
0002.16 system plant, plus the original cost of construction work in
0002.17 progress on the assessment date. The original cost of any
0002.18 leased operating property used by the utility must be reported
0002.19 to the commissioner in conjunction with the annual utility
0002.20 report. If the original cost of the leased operating property
0002.21 is not available, the commissioner shall make an estimate of the
0002.22 cost by capitalizing the lease payments. Depreciation will not
0002.23 be allowed on construction work in progress. Depreciation will
0002.24 be allowed as a deduction from cost in the amount allowed on the
0002.25 accounting records of the utility company, as such records are
0002.26 required to be maintained by the appropriate regulatory agency.
0002.27 Depreciation, however, shall not exceed the prescribed
0002.28 percentage of cost: for electric companies, 20 percent; for gas
0002.29 distribution companies, 50 percent; and for pipeline companies,
0002.30 50 percent. If the amount of depreciation shown on the
0002.31 company's books exceeds these percentages, the company may
0002.32 deduct ~~30~~ 40 percent of the excess for the assessment year 1989
0002.33 and 50 percent of the excess for the assessment year 1990 and
0002.34 subsequent.
0002.35 ~~A modification to the cost approach to value will be~~
0003.01 ~~considered by the commissioner when valuing electric utility~~
0003.02 ~~property. The original cost of an electric utility's major~~
0003.03 ~~generating plants will be increased if the cost of the plant~~
0003.04 ~~falls below a certain standard. The standard to be used will be~~
0003.05 ~~a national average of the cost per kilowatt of installed~~
0003.06 ~~capacity. The cost per kilowatt of installed capacity is the~~
0003.07 ~~total construction cost of the generating plant divided by the~~

0003.08 ~~number of kilowatts the plant is capable of producing. The~~
 0003.09 ~~national average to be used will be computed by totaling the~~
 0003.10 ~~construction costs, excluding the cost of land, for major~~
 0003.11 ~~generating plants within the 48 contiguous United States. The~~
 0003.12 ~~total cost of the plants will be divided by the total generating~~
 0003.13 ~~capacity of the same plants to arrive at an average cost per~~
 0003.14 ~~kilowatt of installed capacity. A separate average will be~~
 0003.15 ~~computed for each type of plant: gas turbine, hydroelectric,~~
 0003.16 ~~and steam electric. The plants used in the calculation will~~
 0003.17 ~~exclude nuclear electric generating plants.~~
 0003.18 ~~The information used to compute the average will be drawn~~
 0003.19 ~~from the latest issue of the United States Department of Energy~~
 0003.20 ~~publication, Historical Plant Cost and Annual Production~~
 0003.21 ~~Expenses for Selected Electric Plants. All plants included in~~
 0003.22 ~~this publication will be used in the computation of the national~~
 0003.23 ~~average by type of plant.~~
 0003.24 ~~An example of this computation of the national average cost~~
 0003.25 ~~per kilowatt of installed capacity is as follows:~~
 0003.26 ~~Steam Electric Generating Plants~~
 0000.00 ~~<\$TABLE /8 LJ,21 LJ,58 RJ;0,0,0>~~
 0003.27 ~~⌈⌈Plant Cost⌈⌈~~
 0003.28 ~~⌈⌈Plant⌈⌈Excluding Land⌈⌈Plant Capacity⌈⌈~~
 0000.00 ~~<\$TABLE /10 LJ,32 RJ,57 RJ;0,0,0>~~
 0003.29 ~~⌈A⌈\$ 14,000,000⌈100,000 kw⌈~~
 0003.30 ~~⌈B⌈13,000,000⌈90,000 kw⌈~~
 0003.31 ~~⌈C⌈17,000,000⌈110,000 kw⌈~~
 0003.32 ~~⌈D⌈14,500,000⌈80,000 kw⌈~~
 0003.33 ~~⌈E⌈18,000,000⌈120,000 kw⌈~~
 0003.34 ~~⌈F⌈10,000,000⌈70,000 kw⌈~~
 0003.35 ~~⌈G⌈19,000,000⌈130,000 kw⌈~~
 0003.36 ~~⌈H⌈9,000,000⌈60,000 kw⌈~~
 0003.37 ~~⌈I⌈20,000,000⌈140,000 kw⌈~~
 0003.38 ~~⌈J⌈8,000,000⌈50,000 kw⌈~~
 0003.39 ~~⌈⌈\$142,500,000⌈950,000 kw⌈~~
 0003.40 ~~Total plant cost (\$142,500,000) divided by total plant~~
 0003.41 ~~capacity (950,000 kw) equals \$150 average cost per kilowatt of~~
 0003.42 ~~installed capacity.~~
 0004.01 ~~The national average cost per kilowatt of installed~~
 0004.02 ~~capacity will be compared to the specific cost per kilowatt of~~
 0004.03 ~~installed capacity for each of the major generating plants owned~~
 0004.04 ~~by the utility being valued. If the national average cost per~~
 0004.05 ~~kilowatt is greater than the subject plant cost, the subject~~

0004.06 ~~plant will have additional dollars incorporated into its cost in~~
 0004.07 ~~order to raise its cost per kilowatt to the national average.~~
 0004.08 ~~If the subject plant's cost per kilowatt equals or exceeds the~~
 0004.09 ~~national average, no cost will be added.~~
 0004.10 ~~The following example illustrates this procedure:~~
 0004.11 ~~XYZ Utility~~
 0004.12 ~~Steam Electric Generating Plants~~
 0000.00 ~~<\$TABLE /7 LJ,11 LJ,45 RJ,58 RJ;0,0,0>~~
 0004.13 ~~1. Plant #1 #2~~
 0004.14 ~~2. Installed Capacity 100,000 kw 50,000 kw~~
 0004.15 ~~3. Year in Service 1970 1950~~
 0004.16 ~~4. Cost of Plant~~
 0004.17 ~~(Exclusive of Land) \$15,200,000 \$5,000,000~~
 0004.18 ~~5. Specific Plant~~
 0004.19 ~~Cost per kw \$152 \$100~~
 0004.20 ~~6. National Average~~
 0004.21 ~~Cost per kw \$150 \$150~~
 0004.22 ~~7. Deficiency none \$ 50~~
 0004.23 ~~8. Additional Cost~~
 0004.24 ~~(Line 7 x Line 2) none \$2,500,000~~
 0004.25 ~~This additional cost to be added to the original cost of~~
 0004.26 ~~the specific plant will be reduced by an allowance for pollution~~
 0004.27 ~~control equipment and an allowance for obsolescence.~~
 0004.28 ~~The allowance for pollution control equipment will be~~
 0004.29 ~~computed annually by totaling the construction costs, exclusive~~
 0004.30 ~~of land, of all major generating plants within Minnesota by type~~
 0004.31 ~~of plant. A total will also be made of the cost of the~~
 0004.32 ~~equipment in these plants which has been approved for tax exempt~~
 0004.33 ~~status in accordance with Minnesota Statutes, section 272.02,~~
 0004.34 ~~subdivision 1, clause (9). This total will also be computed by~~
 0004.35 ~~type of plant. The total of the approved pollution control~~
 0004.36 ~~equipment will be divided by the total construction cost,~~
 0004.37 ~~exclusive of land, of the plants in order to calculate a~~
 0004.38 ~~percentage. This percentage will be the ratio of dollars spent~~
 0004.39 ~~for pollution control equipment to total dollars spent to~~
 0004.40 ~~construct a specific type of power plant. This percentage will~~
 0004.41 ~~then be used to reduce the gross additional cost to be added to~~
 0004.42 ~~the cost of the specific generating plant. An example of this~~
 0005.01 ~~process is as follows:~~
 0005.02 ~~Steam Electric Plants Within Minnesota~~
 0000.00 ~~<\$TABLE /9 LJ,20 LJ,40 LJ;0,0,0>~~
 0005.03 ~~Cost of Approved~~

0005.04 ~~Plant Cost/Pollution~~
 0005.05 ~~Plant/Excluding Land/Control Equipment~~
 0000.00 <TABLE /11 LJ,31 RJ,51 RJ;0,0,0>
 0005.06 ~~A,\$15,200,000,\$1,500,000~~
 0005.07 ~~B,\$10,000,000,\$1,000,000~~
 0005.08 ~~C,\$5,000,000,\$700,000~~
 0005.09 ~~D,\$20,000,000,\$2,000,000~~
 0005.10 ~~E,\$16,500,000,\$1,470,000~~
 0005.11 ~~\$66,700,000,\$6,670,000~~
 0005.12 Total cost of approved pollution control equipment
 0005.13 (\$6,670,000) divided by total plant cost (\$66,700,000) equals
 0005.14 ten percent ratio of pollution control equipment expenditures to
 0005.15 total expenditures for generating plant construction.
 0005.16 XYZ Utility
 0005.17 Steam Electric Plant #2
 0000.00 <TABLE /4 LJ,8 LJ,59 RJ;0,0,0>
 0005.18 ~~1. Additional Cost Due to Computation of~~
 0005.19 ~~Average Cost per kw of Installed~~
 0005.20 ~~Capacity,\$2,500,000~~
 0005.21 ~~2. 10% Allowance for Pollution Control~~
 0005.22 ~~Equipment,\$250,000~~
 0005.23 ~~3. Additional Cost to be Added after~~
 0005.24 ~~Adjustment for Pollution Control~~
 0005.25 ~~Equipment,\$2,250,000~~
 0005.26 The allowance for obsolescence which will be applied to the
 0005.27 additional plant construction cost will be computed annually for
 0005.28 hydroelectric and steam electric generating plants. The
 0005.29 information needed to compute the obsolescence factors will be
 0005.30 drawn from the same publication that is used to compute the
 0005.31 national average cost per kilowatt of installed capacity
 0005.32 figure. Gas turbine plants will not have any obsolescence
 0005.33 allowance applied to the additional cost added to the plants.
 0005.34 The obsolescence allowance for hydroelectric plants will be
 0005.35 calculated through the use of a "plant factor." The plant
 0005.36 factor is computed by dividing the number of kilowatt hours a
 0005.37 generating plant actually produced in a year by the number of
 0005.38 kilowatt hours the plant was capable of producing. The plant
 0005.39 factor is normally expressed as a percentage. The mathematical
 0005.40 expression of this factor is: net generation (kwh) divided by
 0005.41 annual installed capacity (hours in a year multiplied by
 0005.42 installed capacity (kw)). A standard plant factor will be
 0005.43 computed for hydroelectric plants by averaging the plant factors

0005.44 of the ten plants with the highest plant factors in the average
0006.01 cost per kilowatt of installed capacity study. This standard
0006.02 will then be compared to an average of the most recent three
0006.03 years' plant factor of the subject plant. The amount the
0006.04 subject plant deviates from the standard is the amount of
0006.05 obsolescence which will be applied to the added cost.
0006.06 An example of this obsolescence allowance computation is
0006.07 shown below.

0006.08 Hydroelectric Plants

0000.00 <\$TABLE /6 LJ,17 LJ,34 LJ,53 LJ;0,0,0>

0006.09 ~~Plant~~Net Generation~~Plant~~Plant Capability~~Plant~~Plant

0006.10 ~~Plant~~kw (000)~~Plant~~kw (000)~~Plant~~Factor~~Plant~~

0000.00 <\$TABLE /8 LJ,20 LJ,45 RJ,57 RJ;0,0,0>

0006.11 ~~A~~400,150~~Plant~~755,000~~Plant~~53 %~~Plant~~

0006.12 ~~B~~300,040~~Plant~~577,000~~Plant~~52 %~~Plant~~

0006.13 ~~C~~250,000~~Plant~~480,000~~Plant~~52 %~~Plant~~

0006.14 ~~D~~600,000~~Plant~~1,250,000~~Plant~~48 %~~Plant~~

0006.15 ~~E~~896,000~~Plant~~1,600,000~~Plant~~56 %~~Plant~~

0006.16 ~~F~~700,000~~Plant~~1,400,000~~Plant~~50 %~~Plant~~

0006.17 ~~G~~507,000~~Plant~~975,000~~Plant~~52 %~~Plant~~

0006.18 ~~H~~450,000~~Plant~~1,000,000~~Plant~~45 %~~Plant~~

0006.19 ~~I~~376,000~~Plant~~800,000~~Plant~~47 %~~Plant~~

0006.20 ~~J~~810,000~~Plant~~1,800,000~~Plant~~45 %~~Plant~~

0006.21 ~~Plant~~PlantAverage 50 %~~Plant~~

0006.22 XYZ Utility

0006.23 Hydroelectric Plant #4

0000.00 <\$TABLE /6 LJ,17 LJ,34 LJ,53 LJ;0,0,0>

0006.24 ~~Plant~~Net Generation~~Plant~~Plant Capability~~Plant~~Plant

0006.25 ~~Year~~kw (000)~~Plant~~kw (000)~~Plant~~Factor~~Plant~~

0000.00 <\$TABLE /6 LJ,20 LJ,45 RJ,57 RJ;0,0,0>

0006.26 ~~19XX~~400,000~~Plant~~1,000,000~~Plant~~40 %~~Plant~~

0006.27 ~~19XX~~500,000~~Plant~~1,000,000~~Plant~~50 %~~Plant~~

0006.28 ~~19XX~~450,000~~Plant~~1,000,000~~Plant~~45 %~~Plant~~

0006.29 ~~Plant~~PlantAverage 45 %~~Plant~~

0006.30 Hydroelectric plant #4 plant factor (45 percent) divided by
0006.31 standard plant factor (50 percent) equals 90 percent.
0006.32 Therefore, hydroelectric plant #4 deviates from the standard by
0006.33 ten percent, or is ten percent obsolete.
0006.34 The obsolescence allowance for steam electric generating
0006.35 plants will be computed annually using two indicators. The
0006.36 first indicator will be the plant factor. The plant factor for
0006.37 steam electric plants will be computed and applied in the same

0006.38 manner as the computation specified for hydroelectric plants.
0006.39 The only difference will be that the information used for the
0006.40 computation will be drawn from the latest Fossil Fueled Steam
0006.41 Electric Plant Section of the latest Historical Plant Cost and
0006.42 Annual Production and Expenses for Selected Electric Plants
0006.43 publication rather than the Hydroelectric Plant section. Plant
0006.44 factors of the ten best steam electric generating plants within
0006.45 the study period will be averaged. This average will be
0007.01 compared to the most recent three year average plant factor for
0007.02 the subject plant. The subject plant's deviation from the
0007.03 standard plant factor is the amount of indicated obsolescence.
0007.04 The second indicator which will be used to compute an
0007.05 obsolescence allowance for steam electric generating plants will
0007.06 be a thermal efficiency factor. The source of information for
0007.07 this computation will also be the latest issue of the United
0007.08 States Department of Energy's publication, Historical Plant Cost
0007.09 and Annual Production Expenses for Selected Electric Plants,
0007.10 Fossil Fueled Steam Electric Plant Section. Thermal efficiency
0007.11 for a generating plant is measured by the number of British
0007.12 thermal units (Btu's) required to produce one kilowatt hour.
0007.13 This efficiency rating can be obtained by dividing the number of
0007.14 kilowatt hours produced by a generating plant by the number of
0007.15 Btu's needed to produce this power. The number of Btu's used
0007.16 can be obtained by multiplying the units of fuel burned by the
0007.17 generating plant -- tons of coal, gallons of oil, or cubic feet
0007.18 of gas -- by the average Btu content of the fuel unit. The
0007.19 standard thermal efficiency factor will be computed by averaging
0007.20 the thermal efficiency factor of the ten most efficient steam
0007.21 electric generating plants within the study period used to
0007.22 compute the average cost per kilowatt of installed capacity.
0007.23 This standard thermal efficiency factor will then be compared to
0007.24 the thermal efficiency factor of the subject plant. The amount
0007.25 the subject plant deviates from the standard is the amount of
0007.26 obsolescence indicated by this factor.
0007.27 The two obsolescence figures for the subject plant as
0007.28 indicated by both the plant and thermal efficiency factors will
0007.29 then be averaged. This resulting average is the obsolescence
0007.30 allowance which will be applied to the cost added to the subject
0007.31 plant as a result of the average cost per kilowatt of installed
0007.32 capacity computation. In no instance shall the original cost of
0007.33 a generating plant be reduced by an allowance for obsolescence
0007.34 unless its cost is increased through the use of the average cost

0007.35 per kilowatt of installed capacity computation. For the 1988
0007.36 and subsequent assessments the additional cost after adjustments
0008.01 for obsolescence to be added to the cost indicator of value will
0008.02 be reduced by 75 percent.
0008.03 The following examples illustrate computation of the
0008.04 standard thermal efficiency factor; obsolescence indicated by
0008.05 the application of this factor to the subject plant; average
0008.06 obsolescence for steam electric generating plants; and
0008.07 obsolescence allowance adjustment of the added cost due to the
0008.08 use of the average cost per kilowatt of installed capacity for
0008.09 the subject plant.
0008.10 Steam Electric Generating Plants
0000.00 <\$TABLE /1 LJ,12 LJ,45 RJ,53 LJ;0,0,0>
0008.11 ⌘⌘Net Generation⌘Btu's Used⌘Btu's⌘
0008.12 ⌘Plant⌘kwh (Millions)⌘(Millions)⌘per kwh⌘
0000.00 <\$TABLE /3 LJ,17 LJ,45 RJ,58 RJ;0,0,0>
0008.13 ⌘A⌘2,000⌘18,400,000⌘9,200⌘
0008.14 ⌘B⌘6,000⌘53,400,000⌘8,900⌘
0008.15 ⌘C⌘8,000⌘72,000,000⌘9,000⌘
0008.16 ⌘D⌘5,000⌘45,500,000⌘9,100⌘
0008.17 ⌘E⌘3,000⌘26,400,000⌘8,800⌘
0008.18 ⌘F⌘1,000⌘9,000,000⌘9,000⌘
0008.19 ⌘G⌘4,000⌘36,600,000⌘9,150⌘
0008.20 ⌘H⌘9,000⌘80,550,000⌘8,950⌘
0008.21 ⌘I⌘7,000⌘61,950,000⌘8,850⌘
0008.22 ⌘J⌘5,000⌘45,250,000⌘9,050⌘
0008.23 ⌘⌘⌘Average 9,000⌘
0008.24 XYZ Utility Company
0008.25 Steam Electric Plant #2
0000.00 <\$TABLE /7 LJ,31 LJ,48 LJ;0,0,0>
0008.26 ⌘Net Generation kwh⌘Btu's Used⌘Btu's⌘
0008.27 ⌘(Millions)⌘(Millions)⌘per kwh⌘
0008.28 ⌘2,000⌘21,600,000⌘10,800⌘
0008.29 Steam electric plant #2 thermal efficiency factor (10,800
0008.30 Btu's per kwh) divided by standard thermal efficiency factor
0008.31 (9,000 Btu's per kwh) equals 120 percent. Therefore, steam
0008.32 electric plant #2 deviates from the standard by 20 percent or is
0008.33 20 percent obsolete.
0008.34 XYZ Utility Company
0008.35 Steam Electric Plant #2
0000.00 <\$TABLE /3 LJ,7 LJ,60 RJ;0,0,0>
0008.36 ⌘1.⌘Obsolescence Indicated by Plant Factor⌘10%⌘

- 0008.37 ~~2. Obsolescence Indicated by Thermal Efficiency~~
- 0008.38 ~~Factor 20%~~
- 0008.39 ~~3. Obsolescence Allowance (Average of 1 and 2) 15%~~
- 0008.40 ~~4. Additional Cost due to Computation of~~
- 0008.41 ~~Average Cost per kw of Installed Capacity \$2,500,000~~
- 0008.42 ~~5. 15% Obsolescence Allowance \$ 375,000~~
- 0008.43 ~~6. Additional Cost to be Added after~~
- 0008.44 ~~Adjustment for Obsolescence \$2,125,000~~
- 0008.45 ~~7. Adjustment Factor 75%~~
- 0008.46 ~~8. Net Additional Cost to be Added \$ 531,250~~
- 0008.47 The cost indicator of value computed in accordance with
- 0008.48 this subpart will be weighted for each type of utility company
- 0008.49 as follows: electric companies, 85 percent; gas distribution
- 0009.01 companies, 75 percent; and pipeline companies, 75 percent.
- 0009.02 The following example illustrates how the cost indicator of
- 0009.03 value would be computed for an electric company:
- 0000.00 <TABLE /1 LJ,6 LJ,62 RJ;0,0,0>
- 0009.04 1. Utility Plant \$200,000,000
- 0009.05 2. Construction Work in Progress \$ 5,500,000
- 0009.06 3. Additional Value From Average Cost
- 0009.07 per KW Computation After Factoring \$ 531,250
- 0009.08 4 3. Total Plant \$206,031,250
- 0009.09 \$205,500,000
- 0009.10 5 4. Nondepreciable Plant
- 0009.11 (Land, Intangibles, C.W.I.P.) \$ 17,500,000
- 0009.12 6 5. Depreciable Plant \$188,531,250
- 0009.13 \$188,000,000
- 0009.14 7 6. Book Depreciation \$ 40,000,000
- 0009.15 8 7. Maximum Depreciation (20%) \$ 37,706,250
- 0009.16 \$ 37,600,000
- 0009.17 9 8. 30% 40% Excess Depreciation Allowance \$ 688,125
- 0009.18 \$ 960,000
- 0009.19 10 9. Total Allowable Depreciation \$ 38,394,375
- 0009.20 \$ 38,560,000
- 0009.21 11 10. Total Cost Indicator of Value \$167,636,875
- 0009.22 \$166,940,000
- 0009.23 Any company for which a modification is made under this
- 0009.24 subpart due to the average cost per kilowatt adjustment being
- 0009.25 made to original cost of a plant or plants located in Minnesota
- 0009.26 shall have an alternative cost indicator computation made
- 0009.27 without giving effect to the average cost per kilowatt
- 0009.28 adjustment of such plant or plants.

0009.29 Subp. 4. **Income approach.** The income indicator of value
 0009.30 will be estimated by weighting the capitalized net operating
 0009.31 earnings of the utility company for the most recent three years
 0009.32 as follows: most recent year, 40 percent; previous year, 35
 0009.33 percent; and final year, 25 percent. The net income will be
 0009.34 capitalized by applying to it a capitalization rate which will
 0009.35 be computed by using the band of investment method. This method
 0009.36 will consider:
 0009.37 A. the capital structure of utilities;
 0009.38 B. the cost of debt or interest rate;
 0009.39 C. the yield on preferred stock of utilities;
 0009.40 D. the yield on common stock of utilities; and
 0009.41 E. deferred taxes.
 0009.42 ~~For 1988 the capitalization rate will be: electric~~
 0009.43 ~~companies, 11.25 percent; gas distribution companies, 11.50~~
 0009.44 ~~percent; and pipeline companies, 11.75 percent. These Rates~~
 0009.45 ~~will be computed for electric companies, gas distribution~~
 0010.01 ~~companies, and pipeline companies. The rates will be~~
 0010.02 recalculated each year using the method described in this
 0010.03 subpart.
 0010.04 The income indicator of value computed in accordance with
 0010.05 this subpart will be weighted for each class of utility company
 0010.06 as follows: electric companies, 15 percent; gas distribution
 0010.07 companies, 25 percent; and pipeline companies, 25 percent.
 0010.08 The following example illustrates how the income indicator
 0010.09 of value would be computed for a gas distribution company:
 0000.00 <\$TABLE /1 LJ,5 LJ,37 RJ,50 RJ,62 RJ;0,0,0>
 0010.10 \$\$\$1982 \$1983 \$1984 \$
 0010.11 \$\$\$\$\$\$
 0010.12 \$1. \$Net Operating Income\$ 596,160\$ 488,911\$ 579,600\$
 0010.13 \$2. \$Capitalized Income\$\$\$\$\$
 0010.14 \$\$@ 11.5%\$5,184,000\$4,251,400\$5,040,000\$
 0010.15 \$\$\$\$\$\$
 0010.16 \$3. \$Weighting Factor\$25 percent\$35 percent\$40 percent\$
 0010.17 \$4. \$Weighted Capitalized\$1,296,000\$1,488,000\$2,016,000\$
 0010.18 \$\$Income\$\$\$\$\$
 0010.19 \$5. \$Total Income\$\$\$\$\$
 0010.20 \$\$Indicator of Value\$\$\$\$4,800,000\$
 0010.21 Subp. 5. **Unit value computation.** The unit value of the
 0010.22 utility company will be the total of the weighted indicators of
 0010.23 value.
 0010.24 The following is an example of the computation of the unit

0010.25 value for a gas distribution company:

0010.26 1. Cost Indicator of Value:

0010.27 \$5,000,000 x 75% = \$3,750,000

0010.28 2. Income Indicator of Value:

0010.29 \$4,800,000 x 25% = \$1,200,000

0010.30 3. Unit Value of Gas Distribution Company:

0010.31 100% \$4,950,000

0010.32 ~~Any company whose cost indicator was modified under subpart~~

0010.33 ~~3 to reflect the average cost per kilowatt adjustment of a plant~~

0010.34 ~~or plants located in Minnesota shall have an alternative unit~~

0010.35 ~~value computation made without giving effect to the modification~~

0010.36 ~~in respect of such plant or plants.~~

0010.37 Subp. 6. to 8. [Unchanged.]

0010.38 8100.0400 ALLOCATION.

0010.39 Subpart 1. [Unchanged.]

0010.40 Subp. 2. **Electric companies.** The original cost of the

0010.41 utility property located in Minnesota divided by the total

0011.01 original cost of the property in all states of operation is

0011.02 weighted at 90 percent. Gross revenue derived from operations

0011.03 in Minnesota divided by gross operations revenue from all states

0011.04 is weighted at ten percent.

0011.05 The following example illustrates this formula, assuming a

0011.06 unit value of \$20,000,000.

0000.00 <TABLE /1 LJ,5 LJ,43 RJ,45 LJ,58 RJ;0,0,0>

0011.07 1. Minnesota Plant Cost \$115,000,000

0011.08 x .90 = 50.49%

0011.09 2. System Plant Cost \$205,000,000

0011.10

0011.11 3. Minnesota Gross Revenue \$40,000,000

0011.12 x .10 = 3.8%

0011.13 4. System Gross Revenue \$105,000,000

0011.14

0000.00 <TABLE /1 LJ,5 LJ,57 RJ;0,0,0>

0011.15 5. Total Percentage

0011.16 Allocable to Minnesota 54.29%

0011.17

0011.18 6. Unit Value of System Plant \$20,000,000

0011.19

0011.20 7. Amount of Value Allocable to Minnesota \$10,858,000

0011.21 ~~If any modification has been made to the cost indicator~~

0011.22 ~~under part 8100.0300, subpart 3 to reflect the average cost per~~

0011.23 ~~kilowatt adjustment of a plant or plants located in Minnesota,~~

- 0011.24 ~~an alternative computation of the Minnesota allocation shall be~~
 0011.25 ~~made without giving effect to the modification in respect of~~
 0011.26 ~~such plant or plants.~~
 0011.27 Subp. 3. and 4. [Unchanged.]
 0011.28 8100.0500 ADJUSTMENTS FOR NON-FORMULA-ASSESSED OR
 EXEMPT
 0011.29 PROPERTY.
 0011.30 Subpart 1. to 3. [Unchanged.]
 0011.31 Subp. 4. **Deduction for exempt property.** A deduction from
 0011.32 the Minnesota portion of the unit value shall also be made for
 0011.33 property, real or personal, which is exempt from ad valorem
 0011.34 tax. For instance, pollution control equipment for which an
 0011.35 exemption has been granted is exempt. The original cost of
 0011.36 qualifying construction work in progress shall be excluded from
 0011.37 the Minnesota portion of the unit value. A deduction from the
 0011.38 Minnesota portion of the unit value shall be made at original
 0011.39 cost, less the applicable rate of depreciation used in the
 0011.40 valuation process under part 8100.0300. The value of personal
 0011.41 property, such as office machinery and vehicles, which is not
 0011.42 taxed, shall also be excluded from the Minnesota portion of the
 0012.01 unit value. The deduction shall be at original cost less the
 0012.02 applicable rate of depreciation utilized in the valuation
 0012.03 process.
 0012.04 The following example illustrates how these items are
 0012.05 deducted from the Minnesota portion of the unit value. deducted
 0012.06 from the Minnesota portion of the unit value.
 0000.00 <\$TABLE /1 LJ,5 LJ,50 RJ,63 RJ;0,0,0>
 0012.07 1. Minnesota Portion of
 0012.08 Unit Value \$5,000,000
 0012.09
 0012.10 2. Excludable Items - Nondepreciable
 0012.11 a. Land Assessed Locally \$3,000
 0012.12 b. Land Rights \$2,000
 0012.13 c. Qualifying construction work in progress \$5,000
 0012.14
 0012.15 3. Excludable Items - Depreciable
 0012.16 a. General Plant Items \$10,000
 0012.17 b. Pollution Control Equipment \$10,000
 0012.18 c. Gross Depreciable Items \$20,000
 0012.19 d. Depreciated at 25 percent \$5,000
 0012.20 e. Net Depreciable Excludable Items \$15,000
 0012.21

- 0012.22 ~~¶4. Total Excludable Items~~ ~~¶~~ ~~20,000~~ 25,000 ~~¶~~
- 0012.23 ~~¶¶¶¶~~
- 0012.24 ~~¶5. Minnesota Apportionable Value~~ ~~¶~~ ~~\$4,980,000~~ 4,975,000 ~~¶~~
- 0012.25 ~~If any modification has been made to the cost indicator~~
- 0012.26 ~~under part 8100.0300, subpart 3 to reflect the average cost per~~
- 0012.27 ~~kilowatt adjustment of a plant or plants located in Minnesota,~~
- 0012.28 ~~an alternative computation of the Minnesota apportionable value~~
- 0012.29 ~~shall be made without giving effect to the modification in~~
- 0012.30 ~~respect of such plant or plants.~~
- 0012.31 Subp. 5. [Unchanged.]
- 0012.32 8100.0600 APPORTIONMENT.
- 0012.33 Subpart 1. **Apportionment to taxing district.** After the
- 0012.34 unit valuation of the utility company has been allocated to the
- 0012.35 state of Minnesota and has been adjusted under part 8100.0500,
- 0012.36 the determined amount shall be apportioned or distributed to the
- 0012.37 taxing districts in Minnesota in which the company operates.
- 0012.38 This apportionment will be made by the commissioner of revenue
- 0012.39 on the basis of information submitted by the utility companies
- 0012.40 in annual reports filed with the commissioner.
- 0012.41 ~~If any modification has been made to the cost indicator~~
- 0012.42 ~~under part 8100.0300, subpart 3 to reflect the average cost per~~
- 0012.43 ~~kilowatt adjustment of a plant or plants located in Minnesota,~~
- 0012.44 ~~the apportionment to the taxing districts made under subpart 4~~
- 0013.01 ~~shall be based upon the Minnesota apportionable value~~
- 0013.02 ~~alternatively computed in part 8100.0500, subpart 4 without~~
- 0013.03 ~~giving effect to the modification in respect of such plant or~~
- 0013.04 ~~plants.~~
- 0013.05 Subp. 2. **Required information.** The following information
- 0013.06 must be submitted for each taxing district:
- 0013.07 ~~A. the market value of the company's operating~~
- 0013.08 ~~property by classification, as reflected in the last assessment,~~
- 0013.09 ~~including the cost of leased taxable property;~~
- 0013.10 ~~B. the original cost of the company's operating~~
- 0013.11 ~~property by classification, including the cost of leased taxable~~
- 0013.12 ~~property;~~
- 0013.13 ~~Ⓒ B. the original cost of any new additions since the~~
- 0013.14 ~~last assessment, including work in progress on the assessment~~
- 0013.15 ~~date;~~
- 0013.16 ~~D. the market value of any retirements made after the~~
- 0013.17 ~~last assessment, as reflected in that assessment; and~~
- 0013.18 ~~E C. the original cost of any retirements made after~~
- 0013.19 ~~the last assessment.~~

- 0013.20 Subp. 3. **Required information when new taxing district**
0013.21 **established.** Whenever a new taxing district is established, the
0013.22 information submitted by the utility companies for the taxing
0013.23 district must be submitted in the same form as enumerated in
0013.24 subpart 2, items A to E C. If the utility, because of
0013.25 administrative difficulty, is forced to make estimates of values
0013.26 and costs for property within new taxing districts, these
0013.27 estimates must be approved by the commissioner.
- 0013.28 Subp. 4. **Market value of the operating utility property.**
0013.29 The total market value of each company's operating utility
0013.30 property in Minnesota shall be ~~divided by the greater of:~~
0013.31 The current original cost in each taxing district as of the
0013.32 last assessment date plus original cost of new construction
0013.33 reduced by the original cost of property retired since the last
0013.34 assessment date. The Minnesota portion of the unit value as
0013.35 adjusted under this rule shall be divided by the total current
0013.36 original cost to determine a percentage. The resulting
0014.01 percentage shall be multiplied by the current original cost in
0014.02 each taxing district to determine the market value in each
0014.03 district.
- 0014.04 ~~A. the last market value of the company's operating~~
0014.05 ~~utility property in each taxing district, plus original cost of~~
0014.06 ~~new construction, reduced by the last market value of property~~
0014.07 ~~retired since the last assessment; or~~
- 0014.08 ~~B. the original cost of the company's operating~~
0014.09 ~~utility property in each taxing district plus original cost of~~
0014.10 ~~new construction reduced by the original cost of property~~
0014.11 ~~retired since the last assessment multiplied by the percentage~~
0014.12 ~~as specified below.~~
- 0014.13 ~~For the 1982 assessment year the original costs shall be~~
0014.14 ~~multiplied by 77.5 percent.~~
- 0014.15 ~~For the 1983 assessment year the original costs shall be~~
0014.16 ~~multiplied by 80 percent.~~
- 0014.17 ~~For the 1984 assessment year the original costs shall be~~
0014.18 ~~multiplied by 82.5 percent.~~
- 0014.19 ~~For the 1985 assessment year the original costs shall be~~
0014.20 ~~multiplied by 85 percent.~~
- 0014.21 ~~For the 1986 assessment year the original costs shall be~~
0014.22 ~~multiplied by 87.5 percent.~~
- 0014.23 ~~For the 1987 assessment year the original costs shall be~~
0014.24 ~~multiplied by 90 percent.~~
- 0014.25 ~~For the 1988 assessment year the original costs shall be~~

- 0014.26 ~~multiplied by 92.5 percent.~~
- 0014.27 ~~For the 1989 assessment year the original costs shall be~~
- 0014.28 ~~multiplied by 95 percent.~~
- 0014.29 ~~For the 1990 assessment year the original costs shall be~~
- 0014.30 ~~multiplied by 97 percent.~~
- 0014.31 ~~For the 1991 assessment year the original costs shall be~~
- 0014.32 ~~multiplied by 100 percent.~~
- 0014.33 ~~All computations made under alternative A or B shall be~~
- 0014.34 ~~made without giving effect to any modification to reflect the~~
- 0014.35 ~~average cost per kilowatt adjustment made under part 8100.0300,~~
- 0014.36 ~~subpart 3.~~
- 0015.01 ~~For this purpose, the last market value and the last~~
- 0015.02 ~~assessment shall mean the latest assessment immediately prior to~~
- 0015.03 ~~the current assessment. The portion of unit value to be~~
- 0015.04 ~~assigned to each taxing district will be the resulting~~
- 0015.05 ~~percentage multiplied by the Minnesota portion of the unit~~
- 0015.06 ~~value, as adjusted pursuant to this rule.~~
- 0015.07 ~~Subp. 5. [See Repealer.]~~
- 0015.08
- 0015.09 REPEALER. Minnesota Rules, parts 8100.0100, subparts 8 and
- 0015.10 10; and 8100.0600, subpart 5 are repealed.