

Minnesota Attorney General: Administrative Rules Proceedings

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Version 3
August 20, 2018

Our File No. 1165

RULE REVIEW CHECKLIST

DATE RULE RECEIVED 5-31-85
DATE FOR REVIEW 6-9-85
DATE DUE 6-14-85

Adopted w/a hearing _____
Adopted w/o hearing ✓
Temporary rule _____

Approved 6-10-85 mjc Disapproved _____ Returned to Agency _____

Resubmitted _____ Due _____
Approved _____ Disapproved _____ Returned to Agency _____

Date filed w/Secretary of State 6-11-85 Revisor approved 6.3.85 disapproved _____

✓ Rule as Adopted

✓ Rule as Proposed See SR.

✓ Order Adopting 5.29.85 Date

N/A Notice of Intent to Solicit Outside Opinion

✓ Order for rulemaking
N/A date of Hearing

N/A Certificate of Board's Authorizing Resolution

✓ Notice of rulemaking
✓ Sufficiency minor noncompliance with 14.22 (1)+(5) "encouragement" is not included.

✓ Affidavit of Mailing Notice or rulemaking
4.18.85 At least 30 days prior to ~~hearing~~/adoption

? Mailing list Certificate dated 2.8.85, two months prior to mailing

✓ Publication in State Register
4.22.85 At least 30/~~20~~ days prior to ~~hearing~~/adoption

N/A Hearing Examiner's Report

Chief Hearing Examiner's Report(s)
_____ Approving H.E.'s Report
_____ Approving agency action

Agency's Findings of Fact

LCRAR Report or agency Affidavit

Certificate of Board's Resolution Adopting Rules

Order Approving Incorporation by Reference

✓ Statement of Need and Reasonableness

N/A Petition for Adoption of a Rule

✓ Record (includes transcript or tape, exhibits, comments received by agency, requests for a hearing, and other relevant materials)

✓ Certificate of Compliance w/Rulemaking Procedures

N/A Affidavit of Mailing Notice of Submission to Attorney General

✓ Notice of Submission to the Attorney General

STATE OF MINNESOTA

DEPARTMENT OF REVENUE

P.O. Box 64446
St. Paul, MN 55164

Telephone: 612/296-5134

May 31, 1985

Office of the Attorney General
204 State Administration Building
50 Sherburne Avenue
St. Paul, Minnesota 55155

Re: Adoption of a Revised Rule Governing the Valuation of Utility Companies

Dear Sir or Madam:

Enclosed please find the documents for your review as required by Minnesota Rules 2000.0400:

A. Order adopting Rule.
B. Notice of Intent to Adopt a Rule Without a Public Hearing.
C. Order for Notice of Intent to Adopt Rules without Public Hearing.
D. Affidavit of Mailing.
E. Mailing List Certificate.
F. Statement of Need and Reasonableness.
G. Rule as Proposed.
H. Copy of the State Register Volume 9, Number 43, in which the rule was published.
I. Certificate of Compliance with Rulemaking Procedure.

Please note that there were no changes from the rules as proposed to the rules as adopted and that no one requested to be notified when these rules were submitted to the Attorney General for review.

If you have any questions, please contact me.

Sincerely yours,

GERALD D. GARSKI, Manager
State Assessed Properties
Property Equalization Division

GDG:dh

RECEIVED
MAY 31 1985
ATTORNEY GENERAL
ADMINISTRATIVE AGENCIES

SF-00006-03

STATE OF MINNESOTA

DEPARTMENT ATTORNEY GENERAL

Office Memorandum

TO: ARTHUR C. ROEMER, Commissioner
Department of Revenue

DATE: 6-10-85

ATTN: DOROTHY A. Mc CLUNG
Director of Legal Research

FROM: MARTHA J. CASSERLY MJC
Special Assistant Attorney General

PHONE: 296-4692

SUBJECT: In the Matter of the Proposed Adoption of Rules of the Minnesota Department of Revenue Governing the Valuation and Assessment of Electric, Gas Distribution and Pipeline Companies (Utility Companies).

The above-referenced rule has been approved as to its legality by the Attorney General on June 10, 1985.

Enclosed is the agency's copy of the approved rule. This office has already filed two copies of the approved rule with the Secretary of State, who will forward one copy to the Revisor of Statutes. The fourth copy is being retained by this division of the Attorney General's Office for its records.

Also enclosed are any petitions, requests, submission or comments received by the agency and any extra copies of documents which the agency submitted to the Attorney General.

In order for a permanent rule without a hearing to become effective, your agency must publish a notice of adoption in the State Register in accordance with Minn. Stat. § 14.27. An emergency rule becomes effective five working days after approval by the Attorney General; however, the agency must publish a notice in the State Register in accordance with Minn. Stat. § 14.34.

If you have any questions in this regard, please contact me.

MJC:sz

Enclosures

cc: Maryanne Hruby
Executive Director
Legislative Commission to Review
Administrative Rules

Duane Harves
Chief Administrative Law Judge
Office of Administrative Hearings

G

AG copy

Department of Revenue

Adopted Rule Relating to Property; Utility Valuation

Rule as Adopted

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 1985 and subsequent assessment years, until economic and technological factors dictate a change, the value of utility company property will be estimated in the manner provided in this chapter.

Subp. 2. [Unchanged.]

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.

A modification to the cost approach to value will be considered by the commissioner when valuing electric utility

property. The original cost of an electric utility's major generating plants will be increased if the cost of the plant falls below a certain standard. The standard to be used will be a national average of the cost per kilowatt of installed capacity. The cost per kilowatt of installed capacity is the total construction cost of the generating plant divided by the number of kilowatts the plant is capable of producing. The national average to be used will be computed by totaling the construction costs, excluding the cost of land, for major generating plants within the 48 contiguous United States. The total cost of the plants will be divided by the total generating capacity of the same plants to arrive at an average cost per kilowatt of installed capacity. A separate average will be computed for each type of plant: gas turbine, hydroelectric, and steam-electric. The plants used in the calculation will exclude nuclear electric generating plants.

The information used to compute the average will be drawn from the latest issue of the United States Department of Energy publication, Historical Plant Cost and Annual Production Expenses for Selected Electric Plants. All plants included in this publication will be used in the computation of the national average by type of plant.

An example of this computation of the national average cost per kilowatt of installed capacity is as follows:

Steam-Electric Generating Plants

Plant	Plant Cost Excluding Land	Plant Capacity
A	$ 14,000,000	100,000 kw
B	13,000,000	90,000 kw
C	17,000,000	110,000 kw
D	14,500,000	80,000 kw
E	18,000,000	120,000 kw
F	10,000,000	70,000 kw
G	19,000,000	130,000 kw
H	9,000,000	60,000 kw
I	20,000,000	140,000 kw
J	8,000,000	50,000 kw
	$142,500,000	950,000 kw

Total plant cost ($142,500,000) divided by total plant capacity (950,000 kw) equals $150 average cost per kilowatt of installed capacity.

The national average cost per kilowatt of installed

capacity will be compared to the specific cost per kilowatt of installed capacity for each of the major generating plants owned by the utility being valued. If the national average cost per kilowatt is greater than the subject plant cost, the subject plant will have additional dollars incorporated into its cost in order to raise its cost per kilowatt to the national average. If the subject plant's cost per kilowatt equals or exceeds the national average, no cost will be added.

The following example illustrates this procedure:

XYZ Utility

Steam-Electric Generating Plants

		#1	#2
1.	Plant		
2.	Installed Capacity	100,000 kw	50,000 kw
3.	Year in Service	1970	1950
4.	Cost of Plant (Exclusive of Land)	$15,200,000	$5,000,000
5.	Specific Plant Cost per kw	$152	$100
6.	National Average Cost per kw	$150	$150
7.	Deficiency	none	$ 50
8.	Additional Cost (Line 7 x Line 2)	none	$2,500,000

This additional cost to be added to the original cost of the specific plant will be reduced by an allowance for pollution control equipment and an allowance for obsolescence.

The allowance for pollution control equipment will be computed annually by totaling the construction costs, exclusive of land, of all major generating plants within Minnesota by type of plant. A total will also be made of the cost of the equipment in these plants which has been approved for tax exempt status in accordance with Minnesota Statutes, section 272.02, subdivision 1, clause (9). This total will also be computed by type of plant. The total of the approved pollution control equipment will be divided by the total construction cost, exclusive of land, of the plants in order to calculate a percentage. This percentage will be the ratio of dollars spent for pollution control equipment to total dollars spent to construct a specific type of power plant. This percentage will then be used to reduce the gross additional cost to be added to the cost of the specific generating plant. An example of this

process is as follows:

Steam-Electric Plants Within Minnesota

Plant	Plant Cost Excluding Land	Cost of Approved Pollution Control Equipment
A	$15,200,000	$1,500,000
B	10,000,000	1,000,000
C	5,000,000	700,000
D	20,000,000	2,000,000
E	16,500,000	1,470,000
	$66,700,000	$6,670,000

Total cost of approved pollution control equipment ($6,670,000) divided by total plant cost ($66,700,000) equals ten percent ratio of pollution control equipment expenditures to total expenditures for generating plant construction.

XYZ Utility

Steam-Electric Plant #2

1. Additional Cost Due to Computation of Average Cost per kw of Installed Capacity	$2,500,000
2. 10% Allowance for Pollution Control Equipment	250,000
3. Additional Cost to be Added after Adjustment for Pollution Control Equipment	2,250,000

The allowance for obsolescence which will be applied to the additional plant construction cost will be computed annually for hydroelectric and steam-electric generating plants. The information needed to compute the obsolescence factors will be drawn from the same publication that is used to compute the national average cost per kilowatt of installed capacity figure. Gas turbine plants will not have any obsolescence allowance applied to the additional cost added to the plants.

The obsolescence allowance for hydroelectric plants will be calculated through the use of a "plant factor." The plant factor is computed by dividing the number of kilowatt hours a generating plant actually produced in a year by the number of kilowatt hours the plant was capable of producing. The plant factor is normally expressed as a percentage. The mathematical expression of this factor is: net generation (kwh) divided by annual installed capacity (hours in a year X installed capacity (kw)). A standard plant factor will be computed for

hydroelectric plants by averaging the plant factors of the ten plants with the highest plant factors in the average cost per kilowatt of installed capacity study. This standard will then be compared to an average of the most recent three years' plant factor of the subject plant. The amount the subject plant deviates from the standard is the amount of obsolescence which will be applied to the added cost.

An example of this obsolescence allowance computation is shown below.

Hydroelectric Plants

Plant	Net Generation kwh (000)	Plant Capability kwh (000)	Plant Factor
A	400,150	755,000	53 %
B	300,040	577,000	52 %
C	250,000	480,000	52 %
D	600,000	1,250,000	48 %
E	896,000	1,600,000	56 %
F	700,000	1,400,000	50 %
G	507,000	975,000	52 %
H	450,000	1,000,000	45 %
I	376,000	800,000	47 %
J	810,000	1,800,000	45 %
		Average	50 %

XYZ Utility

Hydroelectric Plant #4

Year	Net Generation kwh (000)	Plant Capability kwh (000)	Plant Factor
19XX	400,000	1,000,000	40 %
19XX	500,000	1,000,000	50 %
19XX	450,000	1,000,000	45 %
		Average	45 %

Hydroelectric plant #4 plant factor (45 percent) divided by standard plant factor (50 percent) equals 90 percent. Therefore, hydroelectric plant #4 deviates from the standard by ten percent, or is ten percent obsolete.

The obsolescence allowance for steam-electric generating plants will be computed annually using two indicators. The first indicator will be the plant factor. The plant factor for steam-electric plants will be computed and applied in the same manner as the computation specified for hydroelectric plants. The only difference will be that the information used for the computation will be drawn from the latest Fossil-Fueled Steam-Electric Plant Section of the latest Historical Plant Cost and Annual Production and Expenses for Selected Electric Plants

publication rather than the Hydro-Electric Plant section. Plant factors of the ten best steam-electric generating plants within the study period will be averaged. This average will be compared to the most recent three-year average plant factor for the subject plant. The subject plant's deviation from the standard plant factor is the amount of indicated obsolescence.

The second indicator which will be used to compute an obsolescence allowance for steam-electric generating plants will be a thermal efficiency factor. The source of information for this computation will also be the latest issue of the United States Department of Energy's publication, Historical Plant Cost and Annual Production Expenses for Selected Electric Plants, Fossil-Fueled Steam Electric Plant Section. Thermal efficiency for a generating plant is measured by the number of British thermal units (Btu's) required to produce one kilowatt hour. This efficiency rating can be obtained by dividing the number of kilowatt hours produced by a generating plant by the number of Btu's needed to produce this power. The number of Btu's used can be obtained by multiplying the units of fuel burned by the generating plant - tons of coal, gallons of oil, or cubic feet of gas - by the average Btu content of the fuel unit. The standard thermal efficiency factor will be computed by averaging the thermal efficiency factor of the ten most efficient steam-electric generating plants within the study period used to compute the average cost per kilowatt of installed capacity. This standard thermal efficiency factor will then be compared to the thermal efficiency factor of the subject plant. The amount the subject plant deviates from the standard is the amount of obsolescence indicated by this factor.

The two obsolescence figures for the subject plant as indicated by both the plant and thermal efficiency factors will then be averaged. This resulting average is the obsolescence allowance which will be applied to the cost added to the subject plant as a result of the average cost per kilowatt of installed capacity computation. In no instance shall the original cost of a generating plant be reduced by an allowance for obsolescence

unless its cost is increased through the use of the average cost per kilowatt of installed capacity computation.

The following examples illustrate computation of the standard thermal efficiency factor; obsolescence indicated by the application of this factor to the subject plant; average obsolescence for steam-electric generating plants; and obsolescence allowance adjustment of the added cost due to the use of the average cost per kilowatt of installed capacity for the subject plant.

Steam-Electric Generating Plants

Plant	Net Generation kwh (Millions)	Btu's Used (Millions)	Btu's per kwh
A	2,000	18,400,000	9,200
B	6,000	53,400,000	8,900
C	8,000	72,000,000	9,000
D	5,000	45,500,000	9,100
E	3,000	26,400,000	8,800
F	1,000	9,000,000	9,000
G	4,000	36,600,000	9,150
H	9,000	80,550,000	8,950
I	7,000	61,950,000	8,850
J	5,000	45,250,000	9,050
		Average	9,000

XYZ Utility Company

Steam-Electric Plant #2

Net Generation kwh (Millions)	Btu's Used (Millions)	Btu's per kwh
2,000	21,600,000	10,800

Steam-electric plant #2 thermal efficiency factor (10,800 Btu's per kwh) divided by standard thermal efficiency factor (9,000 Btu's per kwh) equals 120 percent. Therefore, steam-electric plant #2 deviates from the standard by 20 percent or is 20 percent obsolete.

XYZ Utility Company

Steam-Electric Plant #2

1.	Obsolescence Indicated by Plant Factor	10%
2.	Obsolescence Indicated by Thermal Efficiency Factor	20%
3.	Obsolescence Allowance (Average of 1 and 2)	15%
4.	Additional Cost due to Computation of Average Cost per kw of Installed Capacity	$2,500,000
5.	15% Obsolescence Allowance	375,000
6.	Additional Cost to be Added after Adjustment for Obsolescence	2,125,000

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 (Cost)		$200,000,000
2.	Construction in Progress		5,500,000
3.	Additional Value From Average Cost per kw Computation		2,000,000
4.	Total Plant		207,500,000
5.	Nondepreciable Plant (Land, Intangibles, C.W.I.P.)	17,500,000	
6.	Depreciable Plant	190,000,000	
7.	Book Depreciation or Maximum 20%		36,100,000
8.	Total Cost Indicator of Value		171,400,000

Any company for which a modification is made under this subpart due to the average cost per kilowatt adjustment being made to original cost of a plant or plants located in Minnesota shall have an alternative cost indicator computation made without giving effect to the average cost per kilowatt adjustment of such plant or plants.

Subp. 4. Income approach to valuation. The income indicator of value will be estimated by weighting the 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. After considering, as far as possible, all conditions that may exist in the future that may affect the present annual return, including risk, life expectancy of the property, and cost of money, the capitalization rates used to compute value for the assessment will be: electric companies, 11.25 percent; gas distribution companies, 11.50 percent; and pipeline companies, 11.75 percent. 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. and 6. [Unchanged.]

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. [Unchanged.]

STATE OF MINNESOTA
DEPARTMENT OF STATE
FILED
JUN 11 1985
Joan Anderson Growe
Secretary of State
2:45 PM

APPROVED AS TO FORM AND LEGALITY
June 10 1985
HUBERT H. HUMPHREY, III
ATTORNEY GENERAL
BY MJ Cassidy
SPECIAL ASSISTANT ATTORNEY GENERAL

A

STATE OF MINNESOTA
DEPARTMENT OF REVENUE

In the Matter of the Proposed Adoption of Rules of the State of Minnesota Department of Revenue Governing the Valuation and Assessment of Electric, Gas Distribution and Pipeline Companies (Utility Companies)	)))))	ORDER ADOPTING RULES

Notice of the Commissioner's intent to adopt the above-entitled rules without a public hearing was published in the State Register on Monday April 22, 1985, and was sent by the United States mail to all persons on the list maintained by the agency pursuant to Minnesota Statutes section 15.0412, subdivision 4, on April 18, 1985. After affording interested and affected persons an opportunity to submit comments for 30 days after Notice, receiving fewer than 25 written requests for a public hearing within the 30-day comment period, reviewing and considering the comments, and determining the need for and reasonableness of the above-captioned rules.

NOW, THEREFORE, IT IS ORDERED that these rules identified as Ad Valorem Tax Rules, Chapter One, 13 MCAR S 1.0003 are adopted this 29 day of May, 1985, pursuant to authority vested in me by Minnesota Statutes section 270.06 (14).

STATE OF MINNESOTA

Arthur C. Roemer

COMMISSIONER OF REVENUE

DEPARTMENT OF REVENUE
PROPERTY EQUALIZATION DIVISION

In the Matter of the Proposed Adoption of Revisions to Rules of the State of Minnesota Department of Revenue Governing the Valuation and Assessment of Electric, Gas Distribution and Pipeline Companies (Utility Companies).

Notice of Intent to Adopt Rules Without a Public Hearing

Notice is hereby given that the State of Minnesota Department of Revenue proposes to adopt the above-entitled rules without a public hearing. The Commissioner has determined that the proposed adoption of these rules will be noncontroversial in nature and has elected to follow the procedures set forth in Minnesota Statutes 14.21 to 14.28 (1984).

Persons interested in these rules shall have 30 days to submit comments on the proposed rules. The proposed rules may be modified if the modifications are supported by data and views submitted to the agency and do not result in a substantial change in the proposed language.

Unless 25 or more persons submit written requests for a public hearing on the proposed rules within the 30-day comment period, a public hearing will not be held. In the event a public hearing is required, the agency will proceed according to the provisions of Minnesota Statutes sections 14.14 to 14.20.

Persons who wish to submit comments or a written requests for a public hearing should submit such comments or request to:

Ronald Cook
Property Equalization Division
Department of Revenue
Centennial Office Building
St. Paul, Minnesota 55145
(612) 296-5137

Authority for the adoption of these rules is contained in Minnesota Statutes sections: 270.06 (14); 270.11, Subd. 1 and 6; 273.33, Subd. 2; 273.37, Subd. 2; and 273.38. Additionally, a Statement of Need and Reasonableness that describes the need for and reasonableness of each provision of the proposed rules and identifies the data and information relied upon to support the proposed rules has been prepared and is available from Ronald Cook at the above mentioned address, upon request.

Upon adoption of the final rules without a public hearing, the proposed rules, this Notice, the Statement of Need and Reasonableness, all written comments received, and the final Rules as Adopted will be delivered to the Attorney General for review as to form and legality, including the issue of substantial change. Persons who wish to be advised of the submission of this material to the Attorney General, or who wish to receive a copy of the final rules as proposed for adoption, should submit a written statement of such request to Ronald Cook, at the above mentioned address.

The proposed rules if adopted will effectively amend the current rules of the Department of Revenue relating to ad valorem (property) taxes imposed on utilities. The present rules deal generally with the valuation, allocation and apportionment of property of electric, gas distribution, pipelines and cooperative electric companies. The proposed rules if adopted would: modify the income approach to value by increasing the capitalization rate by .5%; modify the cost approach to value by increasing the maximum depreciation allowances by 1% for electric utilities and 2.5% for pipelines and gas distribution companies and also specifically modify the cost approach to value for electric utility companies by revising the calculation and application of the average cost per kilowatt of installed capacity factor.

A copy of the proposed rule is included with this notice. Additional copies are available together with a statement of need and may be obtained by contacting Ronald Cook at the above mentioned address.

STATE OF MINNESOTA

Arthur A. Roemer

COMMISSIONER OF REVENUE

SP:N17

Date February 25, 1985

C

STATE OF MINNESOTA

DEPARTMENT OF REVENUE

In the Matter of the Proposed Adoption of Rules of the State Department of Revenue Governing the Valuation and Assessment of Electric, Gas Distribution and Pipeline Companies (Utility Companies)

ORDER FOR NOTICE OF INTENT TO ADOPT RULES WITHOUT PUBLIC HEARING

IT IS ORDERED this 25th day of February, 1985, that a Notice of Intent to Adopt Rules Without Public Hearing in the above-entitled matter be given to all persons who have registered their names with the State Department of Revenue for that purpose and be published in the State Register.

STATE OF MINNESOTA

Arthur C. Roemer

COMMISSIONER OF REVENUE

D

In the Matter of the Proposed Adoption of Rules of the State of Minnesota Governing the Valuation and Assessment of Electric, Gas Distribution and Pipeline Companies (Utilities)

AFFIDAVIT OF MAILING

STATE OF MINNESOTA)
COUNTY OF RAMSEY) ss.

Ronald K. Cook, being first duly sworn deposes and says:

That on the 18th day of April 19 85, at the City of St. Paul, County of Ramsey, State of Minnesota, he served the attached Notice of Intent to Adopt Rules Without Public Hearing by depositing in the State of Minnesota Central Mail System for United States mailing at said City of St. Paul, a copy thereof, properly enveloped, with postage prepaid, on all persons and associations who have requested that their names be placed on file with the State of Minnesota for the purpose of receiving notice of the proposed adoption of rules by this Department.

Ronald K Cook
Ronald K. Cook

Subscribed and sworn to before me this 29th day of May, 19 85.

Patricia Zentzis

PATRICIA ZENTZIS
NOTARY PUBLIC-MINNESOTA
RAMSEY COUNTY
MY COMMISSION EXPIRES APRIL 19, 1989

E

STATE OF MINNESOTA

DEPARTMENT OF REVENUE

PROPERTY EQUALIZATION DIVISION

IN THE MATTER OF THE PROPOSED ADOPTION OF REVISIONS TO RULES GOVERNING THE VALUATION AND ASSESSMENT OF ELECTRIC, GAS DISTRIBUTION, AND PIPELINE COMPANIES, (UTILITY COMPANIES)

CERTIFICATE OF COMPLETENESS AND ACCURACY

I hereby certify that the attached pages number 1 through 29 consisting of 330 typewritten names and addresses constitute the complete list of persons, associations and other interested groups who, as of 8 o'clock a.m., this 8th day of February, 1985, have requested pursuant to Minn. Stat. Section 14.14, subd. 1, that their names be placed on file with the Department of Revenue for the purpose of receiving notice of public hearing on proposed rules on the subject captioned above.

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Minneapolis, MN 55402

Steven E. Pierce
323 E. Blue Earth
Fairmont, MN 56031

Pillsbury Company - MS 1075
608 - 2nd Avenue South
Minneapolis, MN 55402
Attn: Kenneth A. Johnson
Director of Taxation

Pioneer Hi-Bred International, Inc.
1206 Mulberry Street
Des Moines, IA 50308
Attn: Karen Benhart, Tax Manager

Pipestone Cooperative Ass'n
202 N.W. 2
Pipestone, MN 56164

Thomas M. Polt
Attorney at Law
McCarthy Building
Eyota, MN 55934

Poly-Tech
1401 West 94th Street
Minneapolis, MN 55431
Attn: Geno Tamparelli

Orville H. Prechel
Public Accountant
3560 Dakota Avenue
St. Louis Park, MN 55416

PRENTICE-HALL, Inc.
Englewood Cliffs, NJ 07632
Attn: R. Jerry Alba
Planning Coordinator
State and Local Taxes

Prentice-Hall, Inc.
Englewood Cliffs, NJ 07632
Attn: Stephen L. Taylor

Production Credit
Assoc. of Faribault
P. O. Box 695
Faribault, MN 55021

Proximity Controls, Inc.
Drawer C, Highway 210 E.
Fergus Falls, MN 56537

Professional Instruments Co.
4601 Highway 7
Minneapolis, MN 55416

Ralph's Electric
Route 1, Box 434
Alexandria, MN 56308
Attn: Ralph Ziegelman

Chris Rasmussen
Certified Public Accountant
309 Wallace Street
Ivanhoe, MN 56142

Reese, Winter & Erickson, Ltd.
421 West Fourth Street
Red Wing, MN 55066
Attn: David L. Erickson, C.P.A.

Roger L. Reinhart, C.P.A.
607 Washington Street
Box 425
Brainerd, MN 56401

Revoluntionary Heat Systems, Inc.
241 Second Avenue
Foley, MN 56329

Barbara J. Richter
Box 21
Clear Lake, MN 55319

David G. Roald
Hessian, McKasy & Soderberg
1500 Midwest Plaza West Building
Minneapolis, MN 55402

Roberts-Hamilton Company
P. O. Box 16248
Minneapolis, MN 55416
Attn: John E. Loberg, Vice Pres., Finance

Rogers, Knutson & Company, Ltd.
Certified Public Accountants
211 South Front Street
P. O. Box 876
Mankato, MN 56001

S & FA Reporting Services, Inc.
1101 - 15th Street N.W.
Washington, D.C. 20005
Attn: Regulatory Department

St. Paul Bank for Cooperatives
Farm Credit Banks Building
375 Jackson Street
St. Paul, MN 55101
Attn: Joel A. Huser

St. Paul Co., In
Corp. Law Department
385 Washington Street
St. Paul, MN 55102
Attn: Claudia Smith

Savings League of Minnesota
625 - 2nd Avenue South
Minneapolis, MN 55402

Earl J. Schaefer, LPA, PA
Licensed Public Accountants
Suite 410, Southdale Office Centre
6800 France Avenue South
Edina, MN 55435

Wayne L. Schauble
160 East Main Street
Lewiston, MN 55952

Schneiderman's Furniture Inc.
Route 1
Meadowlands, MN 55765
Attn: Larry Schneiderman

Evelyn L. Schocker
1941 Flandrau Street
St. Paul, MN 55109

S. L. Schroeder
8273 Scott Avenue North
Brooklyn Park, MN 55443

Pamela J. Schwanke, CPA
2124 Dupont Avenue South, Suite 3
Minneapolis, MN 55405

Sell Bros., Inc.
Walnut Grove
MN 56180

Sevenich, Butler, Gerlach & Brazil, Ltd.
901 Jefferson Avenue
St. Paul, MN 55102
Attn: Larry P. Butler

Pamela J. Shea
Accountant
2209 Person Parkway
Brooklyn Park, MN 55444

Shelly's Chips & Paints
918 South Dellwood Street
Cambridge, MN 55008

Shekeda Hearing Conservation, Inc.
P. O. Box 8747
White Bear Lake, MN 55110

Shopko Stores, Inc.
Attn: Carol Wolfe
2800 South Ashland
Green Bay, WI 54303

Sibley House Association
4533 47th Avenue South
Minneapolis, MN 55406
Attn: Mrs. Harper R. Wilcos, Financial Sec.

Ronald B. Sieloff, P.A.
Attorney at Law
9th Floor, Commerce Building
St. Paul, MN 55101

Simma, Flottemesch & Company
Certified Public Accountants
103 North Knowles Avenue
P. O. Box 158
New Richmond, WI 54017

D. D. Simpson
Route 2, Box 69
Park Rapids, MN 56470

Mary Smith
Box 164
Red Barn Building
South Highway 65 & 23
Mora, MN 55051

Smith Sharpening & Repair
Route 2, Box 92
Grove City, MN 56243

Susan Southwick
1400 W. Ryan Ave.
St. Paul, MN 55113

Space Center, Inc.
L. A. Klepperich
444 Lafayette Road
St. Paul, MN 55101

Frank M. Srdar & Associates
7545 16th Avenue South
Minneapolis, MN 55423

Spartan Mechanical, Inc.
9801 Valley View Road
Eden Prairie, MN 55344
Attn: John Pierson, Sec. - Treas.

Springsteel Resort and Marina, Inc.
Warroad, MN 56763
Attn. Dick Soderberg

Standard Upholstering Co., Inc.
Box 8595
Minneapolis, MN 55408
Attn: Maurice L. Londer

Ms. Mary Stanton
Staff Associate/Finance
State University System
407 Capitol Square Building
550 Cedar Street
St. Paul, MN 55101

Stirtz, Bernards & Casey
Lawrence Mahoney
2010 North Central Life Tower
445 Minnesota Street
St. Paul, MN 55101

Stiles Stores, Inc.
P. O. Box 1068
1550 Grand Avenue
Waukegan, IL 60085

Super Valu Stores, Inc.
101 Jefferson Avenue South
Hopkins, MN 55343
Attn: Robert J. Murphy
Corporate Tax Manager

Sylvester Brothers
Highway 65 at 221st Ave. NE
Cedar, MN 55011

Tax-MEN, Inc.
923 W. Excelsior
Hopkins, MN 55343
Attn: James C. Berger, Vice President

Technical Services for Electronic, Inc.
P. O. Box 687
Arlington, MN 55307

Tenney Company
207 South First Street
Buffalo, MN 55313
Attn: Mr. Harold Tenney

Kathy Terpstra
Route 2, Box 147
Brooten, MN 56316

Tomas Terres
110 Fourth Street,Box 449
Albany, MN 56307

Edwin E. Thores[illegible], Inc.
P. O. Box 507
Grand Marais, MN 55604

Thunderbird Aviation
5100 Eden Avenue
Minneapolis, MN 55436
Attn: Steven L. Schadegg, Acct.

Neal Tilsner, Accountant
1119 St. Paul Avenue
St. Paul, MN 55116

Timpte, Inc.
5990 N. Washington Street
P. O. Box 16423
Denver, CO 80216
Attn: Steven M. Alexander

Touche Ross
900 Pillsbury Center
Minneapolis, MN 55402
Attn: Mark Schneider

Touche Ross & Co.
900 Pillsbury Center
Minneapolis, MN 55402
Attn: Mark A. Sellner

Tri-County Community Action
Program, Inc.
404 NE 2nd Avenue
Little Falls, MN 56345
Attention: Mark G. Sexton, Planner

Tri-Mac Building Supply, Inc.
571 East Fourth Street
Winona, MN 55987
Attn: Don McNally

TRW Cinch Connectors
Electronic Components Div.
1501 Morse Avenue
Elk Grove Village, IL 60007
Attn: General Accounting Mgr.

Tuscargra Lodge & Outfitters
Gunflint Trail
Grand Marais, MN 55604

Tushner's Market, Inc.
501 E. Third Street
Winona, MN 55987

University of Minnesota
271 19th Avenue S.
645 BA Tower
Minneapolis, MN 55455
Attn: Frederick R. Jacobs, Director
Graduate Studies in Taxation

Village Inn Pancake House, Inc.
400 West 48th Avenue
Denver, CO 80216
Attn. Tax Department

Wagemaker & Wagemaker
Law Offices
106 South Ninth Street
Olivia, MN 56277
Attn: James Wagemaker

Richard S. Wayne, CPA
437 1st National Bank Building
Rochester, MN 55901

Weather Shield Mfg., Inc.
P. O. Box 309
Medford, WI 54451
Attn: Roger M. Orlady, CPA
Assistant Controller

Stan Weinberger
P. O. Box 966
St. Cloud, MN 56301

Wells Drug Co.
36 South Broadway
Wells, MN 56097

R. B. Whitacre & Co., Inc.
P. O. Box 3586
105 State Street
St. Paul, MN 55165
Attn: W. C. Branum

White Motor-Hopkins
130 - 9th Avenue South
Hopkins, MN 55343
Attn: Paul M. Leegard
Personnel Administrator

Whole Person Assoc., Inc.
Box 3151
Duluth, MN 55804

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Attorneys at Law
2022 IDS Center
Minneapolis, MN 55402
Attn: Mr. Robert B. Fering

City of Winona
City Hall
4th & Lafayette St.
Winona, MN 55987
Attn: Darrel Johnson, Finance Dir.

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Attorney at Law
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Crookston, MN 56716

Wolverton Farmers Elevator
Wolverton, MN 56594

Eleanor Ziesmer
Olivia, MN 56277

Kielas Weber Renner
11601 Minnetonka Mills Road
Minnetonka, MN 55343

COUNTY ASSESSORS

Aitkin County Assessor
Aitkin County Courthouse
Aitkin, MN 56431

Anoka County Assessor
Anoka County Courthouse
Anoka, MN 55303

Becker County Assessor
Becker County Courthouse
Detroit Lakes, MN 56501

Beltrami County Assessor
Beltrami County Courthouse
Bemidji, MN 56601

Benton County Assessor
Benton County Courthouse
Foley, MN 56329

Big Stone County Assessor
Big Stone County Courthouse
Ortonville, MN 56278

Blue Earth County Assessor
Blue Earth County Courthouse
Mankato, MN 56001

Brown County Assessor
Brown County Courthouse
New Ulm, MN 56073

Carlton County Assessor
Carlton County Courthouse
Carlton, MN 55718

Carver County Assessor
Carver County Courthouse
Chaska, MN 55318

Cass County Assessor
Cass County Courthouse
Walker, MN 56484

Chippewa County Assessor
Chippewa County Courthouse
Montevideo, MN 56265

Chisago County Assessor
Chisago County Courthouse
Center City, MN 55012

Clay County Assessor
Clay County Courthouse
Moorhead, MN 56560

Clearwater County Assessor
Clearwater County Courthouse
Bagley, MN 56621

Cook County Assessor
Cook County Courthouse
Grand Marais, MN 55604

Cottonwood County Assessor
Cottonwood County Courthouse
Windom, MN 56101

Crow Wing County Assessor
Crow Wing County Courthouse
Brainerd, MN 56401

Dakota County Assessor
Dakota County Courthouse
Hastings, MN 55033

Dodge County Assessor
Dodge County Courthouse
Mantorville, MN 55955

Douglas County Assessor
Douglas County Courthouse
Alexandria, MN 56308

Faribault County Assessor
Faribault County Courthouse
Blue Earth, MN 56013

Fillmore County Assessor
Fillmore County Courthouse
Preston, MN 55965

Freeborn County Assessor
Freeborn County Courthouse
Albert Lea, MN 56007

Goodhue County Assessor
Goodhue County Courthouse
Red Wing, MN 55066

Grant County Assessor
Grant County Courthouse
Elbow Lake, MN 56531

COUNTY ASSESSORS (Continued)

Hennepin County Assessor
Room A-2103
Hennepin County Gov't Center
300 South 6th Street
Minneapolis, MN 55487

Houston County Assessor
Houston County Courthouse
Caledonia, MN 55921

Hubbard County Assessor
Hubbard County Courthouse
Park Rapids, MN 56470

Isanti County Assessor
Isanti County Courthouse
Cambridge, MN 55008

Itasca County Assessor
Itasca County Courthouse
Grand Rapids, MN 55744

Jackson County Assessor
Jackson County Courthouse
Jackson, MN 56143

Kanabec County Assessor
Kanabec County Courthouse
Mora, MN 55051

Kandiyohi County Assessor
Kandiyohi County Courthouse
Willmar, MN 56201

Kittson County Assessor
Kittson County Courthouse
Hallock, MN 56728

Koochiching County Assessor
Koochiching County Courthouse
International Falls, MN 56649

Lac Qui Parle County Assessor
Lac Qui Parle Co. Courthouse
Madison, MN 56256

Lake County Assessor
Lake County Courthouse
Two Harbors, MN 55616

Lake of the Woods Co. Assessor
Lake of the Woods Co. Courthouse
Baudette, MN 56623

Le Sueur County Assessor
Le Sueur County Courthouse
Le Center, MN 56057

Lincoln County Assessor
Lincoln County Courthouse
Ivanhoe, MN 56142

Lyon County Assessor
Lyon County Courthouse
Marshall, MN 56258

Mc Leod County Assessor
Mc Leod County Courthouse
Glencoe, MN 55336

Mahnomen County Assessor
Mahnomen County Courthouse
Mahnomen, MN 56557

Marshall County Assessor
Marshall County Courthouse
Warren, MN 56762

Martin County Assessor
Martin County Courthouse
Fairmont, MN 56031

Meeker County Assessor
Meeker County Courthouse
Litchfield, MN 55355

Mille Lacs County Assessor
Mille Lacs County Courthouse
Milaca, MN 56353

Morrison County Assessor
Morrison County Courthouse
Little Falls, MN 56345

Mower County Assessor
Mower County Courthouse
Austin, MN 55912

Murray County Assessor
Murray County Courthouse
Slayton, MN 56172

Nicollet County Assessor
Nicollet County Courthouse
St. Peter, MN 56082

Nobles County Assessor
Nobles County Courthouse
Worthington, MN 56187

COUNTY ASSESSORS (Continued)

Norman County Assessor
Norman County Courthouse
Ada, MN 56510

Olmsted County Assessor
Olmsted County Courthouse
Rochester, MN 55901

Ottertail County Assessor
Ottertail County Courthouse
Fergus Falls, MN 56537

Pennington County Assessor
Pennington County Courthouse
Thief River Falls, MN 56701

Pine County Assessor
Pine County Courthouse
Pine City, MN 55063

Pipestone County Assessor
Pipestone County Courthouse
Pipestone, MN 56164

Polk County Assessor
Polk County Courthouse
Crookston, MN 56716

Pope County Assessor
Pope County Courthouse
Glenwood, MN 56334

Ramsey County Assessor
Ramsey County Courthouse
St. Paul, MN 55102

Red Lake County Assessor
Red Lake County Courthouse
Red Lake Falls, MN 56750

Redwood County Assessor
Redwood County Courthouse
Redwood Falls, MN 56283

Renville County Assessor
Renville County Courthouse
Olivia, MN 56277

Rice County Assessor
Rice County Courthouse
Faribault, MN 55021

Rock County Assessor
Rock County Courthouse
Luverne, MN 56156

Roseau County Assessor
Roseau County Courthouse
Roseau, MN 56751

St. Louis County Assessor
St. Louis County Courthouse
Duluth, MN 55802

Scott County Assessor
Scott County Courthouse
Shakopee, MN 55379

Sherburne County Assessor
Sherburne County Courthouse
Elk River, MN 55330

Sibley County Assessor
Sibley County Courthouse
Gaylord, MN 55334

Stearns County Assessor
Stearns County Courthouse
St. Cloud, MN 56301

Steele County Assessor
Steele County Courthouse
Owatonna, MN 55060

Stevens County Assessor
Stevens County Courthouse
Morris, MN 56267

Swift County Assessor
Swift County Courthouse
Benson, MN 56215

Todd County Assessor
Todd County Courthouse
Long Prairie, MN 56347

Traverse County Assessor
Traverse County Courthouse
Wheaton, MN 56296

Wabasha County Assessor
Wabasha County Courthouse
Wabasha, MN 55981

Wadena County Assessor
Wadena County Courthouse
Wadena, MN 56482

Waseca County Assessor
Waseca County Courthouse
Waseca, MN 56093

COUNTY ASSESSORS (Continued)

Washington County Assessor
Washington County Courthouse
Stillwater, MN 55082

Watonwan County Assessor
Watonwan County Courthouse
St. James, MN 56081

Wilkin County Assessor
Wilkin County Courthouse
Breckenridge, MN 56520

Winona County Assessor
Winona County Courthouse
Winona, MN 55987

Wright County Assessor
Wright County Courthouse
Buffalo, MN 55313

Yellow Medicine Co. Assessor
Yellow Medicine Co. Courthouse
Granite Falls, MN 56241

COUNTY AUDITORS

Aitkin County Auditor
Aitkin County Courthouse
Aitkin, MN 56431

Anoka County Auditor
Anoka County Courthouse
Anoka, MN 55303

Becker County Auditor
Becker County Courthouse
Detroit Lakes, MN 56501

Beltrami County Auditor
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Bemidji, MN 56601

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Blue Earth County Courthouse
Mankato, MN 56001

Brown County Auditor
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New Ulm, MN 56073

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Carlton, MN 55718

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Walker, MN 56484

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Albert Lea, MN 56007

Goodhue County Auditor
Goodhue County Courthouse
Red Wing, MN 55066

Grant County Auditor
Grant County Courthouse
Elbow Lake, MN 56531

COUNTY AUDITORS (Continued)

Hennepin County Auditor
Dept. of Property Taxation
Level 6A - Henn. Co. Gov't Center
300 South 6th Street
Minneapolis, MN 55487

Houston County Auditor
Houston County Courthouse
Caledonia, MN 55921

Hubbard County Auditor
Hubbard County Courthouse
Park Rapids, MN 56470

Isanti County Auditor
Isanti County Courthouse
Cambridge, MN 55008

Itasca County Auditor
Itasca County Courthouse
Grand Rapids, MN 55744

Jackson County Auditor
Jackson County Courthouse
Jackson, MN 56143

Kanabec County Auditor
Kanabec County Courthouse
Mora, MN 55051

Kandiyohi County Auditor
Kandiyohi County Courthouse
Willmar, MN 56201

Kittson County Auditor
Kittson County Courthouse
Hallock, MN 56728

Koochiching County Auditor
Koochiching County Courthouse
Int'l Falls, MN 56649

Lac Qui Parle County Auditor
Lac Qui Parle Co. Courthouse
Madison, MN 56256

Lake County Auditor
Lake County Courthouse
Two Harbors, MN 55616

Lake of the Woods County Auditor
Lake of the Woods Co. Courthouse
Baudette, MN 56623

Le Sueur County Auditor
Le Sueur County Courthouse
Le Center, MN 56057

Lincoln County Auditor
Lincoln County Courthouse
Ivanhoe, MN 56142

Lyon County Auditor
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Marshall, MN 56258

Mc Leod County Auditor
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Glencoe, MN 55336

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Mahnomen, MN 56557

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Warren, MN 56762

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Fairmont, MN 56031

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Meeker County Courthouse
Litchfield, MN 55355

Mille Lacs County Auditor
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Milaca, MN 56353

Morrison County Auditor
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Little Falls, MN 56345

Mower County Auditor
Mower County Courthouse
Austin, MN 55912

Murray County Auditor
Murray County Courthouse
Slayton, MN 56172

Nicollet County Auditor
Nicollet County Courthouse
St. Peter, MN 56082

Nobles County Auditor
Nobles County Courthouse
Worthington, MN 56187

COUNTY AUDITORS (Continued)

Norman County Auditor
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Ada, MN 56510

Olmsted County Auditor
Olmsted County Courthouse
Rochester, MN 55901

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Otter Tail County Courthouse
Fergus Falls, MN 56537

Pennington County Auditor
Pennington County Courthouse
Thief River Falls, MN 56701

Pine County Auditor
Pine County Courthouse
Pine City, MN 55063

Pipestone County Auditor
Pipestone County Courthouse
Pipestone, MN 56164

Polk County Auditor
Polk County Courthouse
Crookston, MN 56716

Pope County Auditor
Pope County Courthouse
Glenwood, MN 56334

Ramsey County Auditor
Ramsey County Courthouse
St. Paul, Mn 55102

Red Lake County Auditor
Red Lake County Courthouse
Red Lake Falls, MN 56750

Redwood County Auditor
Redwood County Courthouse
Redwood Falls, MN 56283

Renville County Auditor
Renville County Courthouse
Olivia, MN 56277

Rice County Auditor
Rice County Courthouse
Faribault, MN 55021

Rock County Auditor
Rock County Courthouse
Luverne, MN 56156

Roseau County Auditor
Roseau County Courthouse
Roseau, MN 56751

St. Louis County Auditor
St. Louis County Courthouse
Duluth, MN 55802

Scott County Auditor
Scott County Courthouse
Shakopee, MN 55379

Sherburne County Auditor
Sherburne County Courthouse
Elk River, MN 55330

Sibley County Auditor
Sibley County Courthouse
Gaylord, MN 55334

Stearns County Auditor
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St. Cloud, MN 56301

Steele County Auditor
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Owatonna, MN 55060

Stevens County Auditor
Stevens County Courthouse
Morris, MN 56267

Swift County Auditor
Swift County Courthouse
Benson, MN 56215

Todd County Auditor
Todd County Courthouse
Long Prairie, MN 56347

Traverse County Auditor
Traverse County Courthouse
Wheaton, MN 56296

Wabasha County Auditor
Wabasha County Courthouse
Wabasha, MN 55981

Wadena County Auditor
Wadena County Courthouse
Wadena, MN 56482

Waseca County Auditor
Waseca County Courthouse
Waseca, MN 56093

COUNTY AUDITORS (Continued)

Washington County Auditor
Washington County Courthouse
Stillwater, MN 55082

Watonwan County Auditor
Watonwan County Courthouse
St. James, MN 56081

Wilkin County Auditor
Wilkin County Courthouse
Breckenridge, MN 56520

Winona County Auditor
Winona County Courthouse
Winona, MN 55987

Wright County Auditor
Wright County Courthouse
Buffalo, MN 55313

Yellow Medicine County Auditor
Yellow Medicine County Courthouse
Granite Falls, MN 56241

UTILITIES

Karen Baker
17 State Capitol
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4901 West 77th Street
Minneapolis, MN 55435

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LAKEHEAD PIPELINE COMPANY
3025 Tower Avenue
Superior, Wisconsin 54880

Jay Trevino, Tax Agent
MIDWESTERN GAS TRANS. COMPANY
P. O. Box 2511
Tennessee Building
Houston, Texas 7700,

Kay Sharp, Property Tax Manager
MINNESOTA GAS COMPANY
201 South 7th Street
Minneapolis, MN 55402

Mark F. Dahlberg, Vice-President
NORTHWESTERN WISCONSIN ELECTRIC
Grantsburg, Wisconsin 54840

Donna Perry, Tax Agent
PORTAL PIPELINE COMPANY
2900 1st National Bank Building
Dallas, Texas 75202

Dean Koop, Tax Agent
WILLIAMS PIPELINE COMPANY
P. O. Box 2400
Tulsa, Oklahoma 74101

Hall L. Shella, Secretary/Treasurer
HOME LIGHT AND POWER COMPANY
Jasper, MN 56156

Frank Larson, Manager Taxes
INTERSTATE POWER COMPANY
1000 Main Street
Dubuque, Iowa 52001

R. J. Kucharski, Treasurer & Cont.
IOWA ELECTRIC LIGHT AND POWER
P. O. Box 351
Cedar Rapids, Iowa 52406

NATIONAL TAX SERVICE
3140 North Harbor Lane
Minneapolis, MN 55441

Gregg Oxley
UNITED POWER ASSOCIATION
Elk River, MN 55330

Richard B. Heltzel, Tax Representative
MID AMERICA PIPELINE
1800 South Baltimore Avenue
Tulsa, Oklahoma 74119

Gary Woodman, Sr. Property Agent
MINNESOTA PIPELINE COMPANY
Box 2256
Wichita, Kansas 67201

Bruce Gangnon, Manager of Taxes
MINNESOTA POWER COMPANY
30 West Superior Street
Duluth, MN 55802

Vern Kester, Supervisor/Taxes
OTTER TAIL POWER COMPANY
215 South Cascade Street
Fergus Falls, MN 56537

Paul Zuppke, President
WESTERN GAS UTILITIES
3900 Washington Avenue North
Minneapolis, MN 55412

Gary Woodman, Sr. Property Agent
WOOD RIVER PIPELINE
P. O. Box 2256
Wichita, Kansas 67201

Tom Maus, Acc't Manager
INTER CITY GAS LIMITED, INC.
910 Cloquet Avenue
Cloquet, MN 55720

Robert Foster, Director
Property Tax Department
INTERNORTH
2223 Dodge Street
Omaha, Nebraska 68102

Clyde Birch, Property Tax Agent
NORTHERN BORDER PIPELINE
224 South 108th Avenue
P.O. 3330
Omaha, Nebraska 68103

UTILITIES

(Continued)

Robert Dolan, Property Tax Manager
NORTHERN STATES POWER COMPANY
414 Nicollet Mall
Minneapolis, MN 55402

John H. Murray, Secretary/Treasurer
GREAT PLAINS NATURAL GAS COMPANY
8404 Indian Hills Drive
Omaha, Nebraska 68114

Gary Lund, Tax Agent
MONTANA DAKOTA UTILITIES
400 North Fourth Street
Bismarck, North Dakota 58501

Orbin A. Holt, Secretary/Treasurer
BIGFORK VALLEY ELECTRIC SERVICE
Bigfork, MN 56628

Jim Weston, Tax Agent
DOME EXP. & PROD. PIPELINE
P. O. 200
Calgary, Alberta, Canada T2 P2 H8

Pat McInerney, Tax Agent
GREAT LAKES GAS TRANSMISSION
2100 Buhl Building
Detroit, Michigan 48226

Lloyd Crum
COMMUNITY UTILITIES COMPANY
Racine, MN 55967

Michelle Leak
NORTH CENTRAL PUBLIC SERVICE
1080 Montreal Avenue
St. Paul, MN 55102

9505.5090 DEPARTMENT RESPONSIBILITY.

If two of the three physicians concur that the requested surgical procedure is appropriate, the department shall certify that the requirements of this part are met and shall assign an authorization number within 30 working days of the department's receipt of the necessary information and forms.

If two of the three physicians concur that the requested surgical procedure is inappropriate, then the department shall deny authorization of reimbursement for the requested surgical procedure. The department shall send the recipient a copy of the notice denying authorization for the surgery and a statement of the recipient's right to appeal as provided in Minnesota Statutes, section 256.045.

9505.5095 DOCUMENTATION OF EXEMPTIONS.

When the surgical procedure is exempt under part 9505.5040 from the second or third opinion requirement, the provider shall submit documentation to support the basis of the exemption with the claim for payment. In the alternative, approval of the exemption may be requested prior to providing the health service. The request shall be submitted on a form supplied by the department and attached to a prior authorization form. If the requests are approved, an authorization number will be assigned within 30 working days of the department's receipt of the request.

9505.5100 INDEPENDENT PHYSICIAN EVALUATION.

The commissioner shall have the right to order an independent evaluation by a physician selected by the recipient and approved by the commissioner when the commissioner has reason to believe, based on parts 9505.1750 to 9505.2150, that the requested surgical procedure is not necessary. If the recipient needs assistance locating an appropriate physician, the services of the local county medical society, or any other physician referral resource may be utilized. If the selected physician determines the procedure is not necessary, the commissioner shall deny authorization.

9505.5105 FAIR HEARINGS AND APPEALS.

Subpart 1. Appealable actions. A recipient may appeal any of the following department actions:

A. the department has failed to act with reasonable promptness on a request for prior authorization or on an authorization request under the second surgical opinion program, as established under parts 9505.5020, subpart 1, and 9505.5090;

B. the department has denied a request for prior authorization;

C. the department has denied an authorization request under the second surgical opinion program; or

D. the department has proposed a reduction in service as an alternative to authorization of a proposed service for which prior authorization was requested.

Subp. 2. No right to appeal. The right to appeal shall not apply to the list of surgical procedures established according to Minnesota Statutes, section 256B.02, subdivision 8.

Subp. 3. Request for fair hearing. When a recipient requests assistance from a local agency in filing an appeal with the department, the local agency shall provide the assistance.

The request for a hearing must be submitted in writing by the recipient to the appeals unit of the department. The request must be filed either:

A. within 30 days of the date notice of denial of the prior authorization request or request for authorization of a surgical procedure was received; or

B. no later than 90 days from the date notice of denial was received if the appeals referee finds there was good cause for the delay.

Subp. 4. Fair hearing. A referee shall conduct the hearing according to Minnesota Statutes, section 256.045, subdivision 4.

Subp. 5. Commissioner's ruling. Within 90 days of the date of receipt of the recipient's request for a hearing, the commissioner shall make a ruling to uphold, reverse, or modify the action or decision of the department. The commissioner's ruling shall be binding upon the department and the recipient unless a request for judicial review is filed pursuant to Minnesota Statutes, section 256.045, subdivision 7.

REPEALER. Minnesota Rules, parts 9500.0980; 9500.1070, subparts 4, items A, and B, subitems (1) and (5); 6, items A, subitem

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(3); B, subitem (3); C, subitem (1); D, subitem (1), and that part of subitem (2) which reads: "The medical assistance program will pay for multiple family group-psychotherapy or group-psychotherapy for up to two hours per week for a ten-week period"; 7, item A; 10, item E, subitems (1), (2), (3), and (4); 16, item A; and 18, item B; and that part of subpart 19, item D, which reads: "Prior authorization must be obtained on any services for which payment is claimed under this section,"; and 9505.1020, subpart 4, items Q and R, are repealed.

Department of Revenue

Proposed Rule Relating to Property; Utility Valuation

Notice of Intent to Adopt Rules without a Public Hearing

Notice is hereby given that the State of Minnesota Department of Revenue proposes to adopt the above-entitled rules without a public hearing. The Commissioner has determined that the proposed adoption of these rules will be noncontroversial in nature and has elected to follow the procedures set forth in Minnesota Statutes 14.21 to 14.28 (1984).

Persons interested in these rules shall have 30 days to submit comments on the proposed rules. The proposed rules may be modified if the modifications are supported by data and views submitted to the agency and do not result in a substantial change in the proposed language.

Unless 25 or more persons submit written requests for a public hearing on the proposed rules within the 30-day comment period, a public hearing will not be held. In the event a public hearing is required, the agency will proceed according to the provisions of Minnesota Statutes sections 14.14 to 14.20.

Persons who wish to submit comments or a written request for a public hearing should submit such comments or request to:

Ronald Cook
Property Equalization Division
Department of Revenue
Centennial Office Building
St. Paul, Minnesota 55145
(612) 296-5137

Authority for the adoption of these rules is contained in Minnesota Statutes sections: 270.06 (14); 270.11, Subd. 1 and 6; 273.33, Subd. 2; 273.37, Subd. 2; and 273.38. Additionally, a Statement of Need and Reasonableness that describes the need for and reasonableness of each provision of the proposed rules and identifies the data and information relied upon to support the proposed rules has been prepared and is available from Ronald Cook at the above mentioned address, upon request.

Upon adoption of the final rules without a public hearing, the proposed rules, this notice, the Statement of Need and Reasonableness, all written comments received, and the final Rules as Adopted will be delivered to the Attorney General for review as to form and legality, including the issue of substantial change. Persons who wish to be advised of the submission of this material to the Attorney General, or who wish to receive a copy of the final rules as proposed for adoption, should submit a written statement of such request to Ronald Cook, at the above mentioned address.

The proposed rules if adopted will effectively amend the current rules of the Department of Revenue relating to ad valorem (property) taxes imposed on utilities. The present rules deal generally with the valuation, allocation and apportionment of property of electric, gas distribution, pipelines and cooperative electric companies. The proposed rules if adopted would: modify the income approach to value by increasing the capitalization rate by .5%; modify the cost approach to value by increasing the maximum depreciation allowances by 1% for electric utilities and 2.5% for pipelines and gas distribution companies and also specifically modify the cost approach to value for electric utility companies by revising the calculation and application of the average cost per kilowatt of installed capacity factor.

A copy of the proposed rule is included with this notice. Additional copies are available together with a statement of need and may be obtained by contacting Ronald Cook at the above mentioned address.

February 25, 1985

Arthur C. Roemer
Commissioner of Revenue

Rule as Proposed

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 ~~1982~~ 1985 and subsequent assessment years, until economic and technological factors dictate a change, the value of utility company property will be estimated in the manner provided in this chapter.

Subp. 2. [Unchanged.]

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, ~~19~~ 20 percent; for gas distribution companies, ~~47.5~~ 50 percent; and for pipeline companies, ~~47.5~~ 50 percent.

A modification to the cost approach to value will be considered by the commissioner when valuing electric utility property. The original cost of an electric utility's major generating plants will be increased if the cost of the plant falls below a certain standard. The standard to be used will be a national average of the cost per kilowatt of installed capacity. The cost per kilowatt of installed capacity is the total construction cost of the generating plant divided by the number of kilowatts the plant is capable of producing. The national average to be used will be computed by totaling the construction costs, excluding the cost of land, for major generating plants within the 48 contiguous United States. The total cost of the plants will be divided by the total generating capacity of the same plants to arrive at an average cost per kilowatt of installed capacity. A separate average will be computed for each type of plant: gas turbine, hydroelectric, and steam-electric. The plants used in the calculation will exclude ~~federally constructed multipurpose projects, and~~ nuclear electric generating plants.

The information used to compute the average will be drawn from the latest ~~issues~~ issue of the ~~following~~ United States Department of Energy ~~publications: Hydro Electric Plant Construction Cost and Annual Production Expenses; Steam-Electric Plant Construction Cost and Annual Production Expenses; and Gas Turbine Electric Plant Construction Cost and Annual Production Expenses~~ publication, Historical Plant Cost and Annual Production Expenses for Selected Electric Plants. ~~The~~ All plants ~~which~~ included in this publication will be used in the computation of the national average ~~will be those plants built during the most recent 15 years included in these publications~~ by type of plant.

An example of this computation of the national average cost per kilowatt of installed capacity is as follows:

Steam-Electric Generating Plants

Plant	Plant Cost Excluding Land	Plant Capacity
A	$ 14,000,000	100,000 kw
B	13,000,000	90,000 kw
C	17,000,000	110,000 kw
D	14,500,000	80,000 kw
E	18,000,000	120,000 kw
F	10,000,000	70,000 kw
G	19,000,000	130,000 kw
H	9,000,000	60,000 kw
I	20,000,000	140,000 kw
J	8,000,000	50,000 kw
	$142,500,000	950,000 kw

Total plant cost ($142,500,000) divided by total plant capacity (950,000 kw) equals $150 average cost per kilowatt of installed capacity.

The national average cost per kilowatt of installed capacity will be compared to the specific cost per kilowatt of installed capacity for each of the major generating plants owned by the utility being valued. If the national average cost per kilowatt is greater than the

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subject plant cost, the subject plant will have additional dollars incorporated into its cost in order to raise its cost per kilowatt to the national average. If the subject plant's cost per kilowatt equals or exceeds the national average, no cost will be added.

The following example illustrates this procedure:

XYZ Utility
Steam-Electric Generating Plants

1. Plant	#1	#2
2. Installed Capacity	100,000 kw	50,000 kw
3. Year in Service	1970	1950
4. Cost of Plant (Exclusive of Land)	$15,200,000	$5,000,000
5. Specific Plant Cost per kw	$152	$100
6. National Average Cost per kw	$150	$150
7. Deficiency	none	$ 50
8. Additional Cost (Line 7 × Line 2)	none	$2,500,000

This additional cost to be added to the original cost of the specific plant will be reduced by an allowance for pollution control equipment and an allowance for obsolescence.

The allowance for pollution control equipment will be computed annually by totaling the construction costs, exclusive of land, of all major generating plants within Minnesota by type of plant. A total will also be made of the cost of the equipment in these plants which has been approved for tax exempt status in accordance with Minnesota Statutes, section 272.02, subdivision 1, clause ~~(15)~~ (9). This total will also be computed by type of plant. The total of the approved pollution control equipment will be divided by the total construction cost, exclusive of land, of the plants in order to calculate a percentage. This percentage will be the ratio of dollars spent for pollution control equipment to total dollars spent to construct a specific type of power plant. This percentage will then be used to reduce the gross additional cost to be added to the cost of the specific generating plant. An example of this process is as follows:

Steam-Electric Plants Within Minnesota

Plant	Plant Cost Excluding Land	Cost of Approved Pollution Control Equipment
A	$15,200,000	$1,500,000
B	10,000,000	1,000,000
C	5,000,000	700,000
D	20,000,000	2,000,000
E	16,500,000	1,470,000
	$66,700,000	$6,670,000

Total cost of approved pollution control equipment ($6,670,000) divided by total plant cost ($66,700,000) equals ten percent ratio of pollution control equipment expenditures to total expenditures for generating plant construction.

XYZ Utility
Steam-Electric Plant #2

1. Additional Cost Due to Computation of Average Cost per kw of Installed Capacity	$2,500,000
2. 10% Allowance for Pollution Control Equipment	250,000
3. Additional Cost to be Added after Adjustment for Pollution Control Equipment	2,250,000

The allowance for obsolescence which will be applied to the additional plant construction cost will be computed annually for hydroelectric and steam-electric generating plants. The information needed to compute the obsolescence factors will be drawn from the same ~~publications~~ publication that ~~are~~ is used to compute the national average cost per kilowatt of installed capacity figure. Gas turbine plants will not have any obsolescence allowance applied to the additional cost added to the plants.

The obsolescence allowance for hydroelectric plants will be calculated through the use of a "plant factor." The plant factor is

computed by dividing the number of kilowatt hours a generating plant actually produced in a year by the number of kilowatt hours the plant was capable of producing. The plant factor is normally expressed as a percentage. The mathematical expression of this factor is: net generation (kwh) divided by annual installed capacity (hours in a year × installed capacity (kw)). A standard plant factor will be computed for hydroelectric plants by averaging the plant factors of the ten plants with the highest plant factors in the ~~15 year~~ average cost per kilowatt of installed capacity study ~~period~~. This standard will then be compared to an average of the most recent three years' plant factor of the subject plant. The amount the subject plant deviates from the standard is the amount of obsolescence which will be applied to the added cost.

An example of this obsolescence allowance computation is shown below.

Hydroelectric Plants

Plant	Net Generation kwh (000)	Plant Capability kwh (000)	Plant Factor
A	400,150	755,000	53%
B	300,040	577,000	52%
C	250,000	480,000	52%
D	600,000	1,250,000	48%
E	896,000	1,600,000	56%
F	700,000	1,400,000	50%
G	507,000	975,000	52%
H	450,000	1,000,000	45%
I	376,000	800,000	47%
J	810,000	1,800,000	45%
		Average	50%

XYZ Utility

Hydroelectric Plant #4

Year	Net Generation kwh (000)	Plant Capability kwh (000)	Plant Factor
19XX	400,000	1,000,000	40%
19XX	500,000	1,000,000	50%
19XX	450,000	1,000,000	45%
		Average	45%

Hydroelectric plant #4 plant factor (45 percent) divided by standard plant factor (50 percent) equals 90 percent. Therefore, hydroelectric plant #4 deviates from the standard by ten percent, or is ten percent obsolete.

The obsolescence allowance for steam-electric generating plants will be computed annually using two indicators. The first indicator will be the plant factor. The plant factor for steam-electric plants will be computed and applied in the same manner as the computation specified for hydroelectric plants. The only difference will be that the information used for the computation will be drawn from the latest ~~Steam Electric Plant Construction Cost and Annual Production Expense~~ Fossil-Fueled Steam-Electric Plant Section of the latest Historical Plant Cost and Annual Production and Expenses for Selected Electric Plants publication rather than the Hydro-Electric Plant ~~publication~~ section. Plant factors of the ten best steam-electric generating plants within the ~~15-year~~ study period will be averaged. This average will be compared to the most recent three-year average plant factor for the subject plant. The subject plant's deviation from the standard plant factor is the amount of indicated obsolescence.

The second indicator which will be used to compute an obsolescence allowance for steam-electric generating plants will be a thermal efficiency factor. The source of information for this computation will also be the latest issue of the United States Department of Energy's publication, ~~Steam Electric Plant Construction Cost and Annual Production Expenses~~ Historical Plant Cost and Annual Production Expenses for Selected Electric Plants, Fossil-Fueled Steam Electric Plant Section. Thermal efficiency for a generating plant is measured by the number of British thermal units (Btu's) required to produce one kilowatt hour. This efficiency rating can be obtained by dividing the number of kilowatt hours produced by a generating plant by the number of Btu's needed to produce this power. The number of Btu's used can be obtained by multiplying the units of fuel burned by the generating plant—tons of coal,

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gallons of oil, or cubic feet of gas—by the average Btu content of the fuel unit. The standard thermal efficiency factor will be computed by averaging the thermal efficiency factor of the ten most efficient steam-electric generating plants within the ~~15-year~~ study period used to compute the average cost per kilowatt of installed capacity. This standard thermal efficiency factor will then be compared to the thermal efficiency factor of the subject plan. The amount the subject plant deviates from the standard is the amount of obsolescence indicated by this factor.

The two obsolescence figures for the subject plant as indicated by both the plant and thermal efficiency factors will then be averaged. This resulting average is the obsolescence allowance which will be applied to the cost added to the subject plant as a result of the average cost per kilowatt of installed capacity computation. In no instance shall the original cost of a generating plant be reduced by an allowance for obsolescence unless its cost is increased through the use of the average cost per kilowatt of installed capacity computation.

The following examples illustrate computation of the standard thermal efficiency factor; obsolescence indicated by the application of this factor to the subject plant; average obsolescence for steam-electric generating plants; and obsolescence allowance adjustment of the added cost due to the use of the average cost per kilowatt of installed capacity for the subject plant.

Steam-Electric Generating Plants

Plant	Net Generation kwh (Millions)	Btu's Used (Millions)	Btu's per kwh
A	2,000	18,400,000	9,200
B	6,000	53,400,000	8,900
C	8,000	72,000,000	9,000
D	5,000	45,500,000	9,100
E	3,000	26,400,000	8,800
F	1,000	9,000,000	9,000
G	4,000	36,600,000	9,150
H	9,000	80,550,000	8,950
I	7,000	61,950,000	8,850
J	5,000	45,250,000	9,050
		Average	9,000

XYZ Utility Company

Steam-Electric Plant #2

Net Generation kwh (Millions)	Btu's Used (Millions)	Btu's per kwh
2,000	21,600,000	10,800

Steam-electric plant #2 thermal efficiency factor (10,800 Btu's per kwh) divided by standard thermal efficiency factor (9,000 Btu's per kwh) equals 120 percent. Therefore, steam-electric plant #2 deviates from the standard by 20 percent or is 20 percent obsolete.

XYZ Utility Company

Steam-Electric Plant #2

1. Obsolescence Indicated by Plant Factor	10%
2. Obsolescence Indicated by Thermal Efficiency Factor	20%
3. Obsolescence Allowance (Average of 1 and 2)	15%
4. Additional Cost due to Computation of Average Cost per kw of Installed Capacity	$2,500,000
5. 15% Obsolescence Allowance	375,000
6. Additional Cost to be Added after Adjustment for Obsolescence	2,125,000

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 (Cost)		$200,000,000
2. Construction in Progress		5,500,000
3. Additional Value From Average Cost per kw Computation		2,000,000
4. Total Plant		207,500,000
5. Nondepreciable Plant (Land, Intangibles, C.W.I.P.)	17,500,000	
6. Depreciable Plant	190,000,000	
7. Book Depreciation or (Maximum ~~19%;~~ 20%		36,100,000
8. Total Cost Indicator of Value		171,400,000

Any company for which a modification is made under this subpart due to the average cost per kilowatt adjustment being made to original cost of a plant or plants located in Minnesota shall have an alternative cost indicator computation made without giving effect to the average cost per kilowatt adjustment of such plant or plants.

Subp. 4. Income approach to valuation. The income indicator of value will be estimated by weighting the 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. After considering, as far as possible, all conditions that may exist in the future that may affect the present annual return, including risk, life expectancy of the property, and cost of money, the capitalization rates used to compute value for the assessment will be: electric companies, ~~10.75~~ 11.25 percent; gas distribution companies, ~~11.0~~ 11.50 percent; and pipeline companies, ~~11.25~~ 11.75 percent. 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:

	~~1980~~ 1982	~~1981~~ 1983	~~1982~~ 1984
1. Net Operating Income	~~$ 570,240~~	~~$ 467,650~~	~~$ 554,400~~
	$ 596,160	$ 488,911	$ 579,600
2. Capitalized Income @ ~~11%~~ 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. and 6. [Unchanged.]

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.

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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
~~1977~~ 1979	1,200,000
~~1978~~ 1980	1,300,000
~~1979~~ 1981	1,150,000
~~1980~~ 1982	1,100,000
~~1981~~ 1983	1,050,000
	5,800,000 Total
	1,160,000 Average Throughout

1. ~~1982~~ 1984 Throughput	1,000,000 Barrels
2. Percent of ~~1982~~ 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	~~4,750,000~~	5,000,000
3. Excess Depreciation	~~1,250,000~~	1,000,000
4. 50% of Excess Depreciation	~~625,000~~	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 ~~47.5%~~ 50%)	~~4,750,000~~	5,000,000
11. Obsolescence Allowance	~~625,000~~	500,000
12. Cost Indicator of Value	~~5,675,000~~	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:

	~~1979~~ 1982	~~1980~~ 1983	~~1981~~ 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		~~9%~~	11.75%
7. Capitalization rate converted to term of 8 years		~~18.0674%~~	19.9548%
8. Capitalized Income/Income Indicator of Value		~~$5,534,831~~	$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. [Unchanged.]

ADOPTED RULES

The adoption of a rule becomes effective after the requirements of Minn. Stat. § 14.14-14.28 have been met and five working days after the rule is published in *State Register*, unless a later date is required by statutes or specified in the rule.

If an adopted rule is identical to its proposed form as previously published, a notice of adoption and a citation to its previous *State Register* publication will be printed.

If an adopted rule differs from its proposed form, language which has been deleted will be printed with strikeouts and new language will be underlined. The rule's previous *State Register* publication will be cited.

An emergency rule becomes effective five working days after the approval of the Attorney General as specified in Minn. Stat. § 14.33 and upon the approval of the Revisor of Statutes as specified in § 14.36. Notice of approval by the Attorney General will be published as soon as practicable, and the adopted emergency rule will be published in the manner provided for adopted rules under § 14.18.

Department of Energy and Economic Development Energy and Economic Development Authority

Adopted Emergency Rules Relating to the Technology Product Loan Program

The rules proposed and published at *State Register*, Volume 9, Number 28, pages 1544-1548, January 7, 1985 (9 S.R. 1544) and Volume 9, Number 29, pages 1612-1613, January 14, 1985 (9 S.R. 1612) are adopted with the following modifications:

Rules as Adopted

8300.4101 [Emergency] DEFINITIONS.

Subp. 6. Derivative product. "Derivative product" means a product that ~~takes~~ contains or uses part of a previous product ~~in its make up~~.

Subp. 8. Product. "Product" means something produced by a business and that exists in a usable form. Product includes, but is not limited to, a technology related product, a conceptual product, or a prototype product, and all technical and user documenta-

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tion, drawings, prototypes, models, test results, and source codes associated with the product.

8300.4102 [Emergency] TECHNOLOGY PRODUCT LOAN PROGRAM.

Subpart 1. Purpose. The authority shall make technology product loans to eligible applicants in compliance with Minnesota Statutes, chapter 116M in order to help create or retain jobs for the state. The authority shall also consider the value of the product to promote the public good of the state, especially in education and training. Loans may be made to eligible applicants for the development and marketing of technology-related products that exist as completed products, prototypes, or as conceptual ~~product designs~~ products.

Subp. 5. Maximum term. The maximum term of the loan may not exceed the average useful life of the computer and other technology-related equipment~~,~~ or the following limit, whichever is less:

A. computer ~~or~~ and other technology-related equipment, four years;

B. working capital, three years;

C. combination of items A and B, weighted average.

Subp. 7. Security requirements. In addition to security interests in collateral as specified in part 8300.3013 [Emergency] as proposed at *State Register*, volume 9, page 826 (October 22, 1984), and as adopted at *State Register*, volume ~~.~~ 9, page ~~.~~ 1615, (January ~~.~~ 14, 1985), the authority shall require a security interest in the product in the form of a royalty on the product and, in case of default, full rights to the product, including all patents, copyrights, mask work, trade secrets, trademarks, service marks, and any other intellectual property rights. The royalty payment must be based upon net receipts of the product not to exceed 25 percent and must be set forth in a security agreement that shall be entered into at the same time the loan is made. Royalty payments must be made to the authority in accordance with the schedule appearing in the security agreement.

Subp. 9. Loan payments; royalties. Loan payments must be made as provided in the amortization schedule. The first principal payment is due ~~upon the date of completion of the product or~~ 12 months after ~~the date of~~ issuance of the final proceeds of the loan~~, whichever occurs first~~.

8300.4105 [Emergency] LOAN DEFAULT.

If the commissioner determines the loan to be in default, the authority may take such actions provided in law or in equity to protect its interests. Upon default, the commissioner shall notify the loan recipient in writing of the default and give the loan recipient 60 days to re-establish the good standing of the loan. During this time period the commissioner may permit the borrower to sell or reassign the product rights or licenses, prepare derivative products, or undertake other measures that will increase the probability that remaining loan payments will be made. If the loan remains in default at the end of the initial 60-day time period, the commissioner may extend the time period for an additional 60 days if the loan recipient can demonstrate that the additional period of time is necessary to re-establish the good standing of the loan. If the loan remains in default at the end of the initial 60-day time period and any granted extension, all product rights as provided in the security agreement ~~revert~~ transfer automatically to the authority. The loan recipient shall also provide to the commissioner, if requested, all relevant materials including technical documentation, drawings, prototypes, models, test results, and source code associated with the product.

8300.4106 [Emergency] DISPOSITION OF ACQUIRED PRODUCTS.

Subpart 1. Sales. For product rights acquired under loan default, the authority may sell the acquired product and all intellectual property rights incident to in a commercially reasonable manner to any person or business.

8300.4107 [Emergency] CERTIFICATIONS.

For products financed by the authority, the eligible loan recipient shall agree to and execute a certification statement acceptable in form and content to the commissioner. This statement must certify at least the following:

A. that the product is original;

B. that the product does not infringe upon copyrights ~~and~~, patents, mask work, trade secrets, trademarks, service marks, and any other intellectual product rights;

C. that the product will ~~basically~~ substantially perform the tasks it has represented in its documentation that it will perform;

D. that the loan recipient will hold the authority harmless.

8300.4109 [Emergency] CONTENT OF APPLICATION.

In addition to the data required by part 8300.3012 [Emergency], as proposed at *State Register*, volume 9, page 826 (October 22, 1984), and as adopted at *State Register*, volume ~~.~~ 9, page ~~.~~ 1615, (January ~~.~~ 14, 1985), an applicant for the technology product loan program shall provide the following information:

F

State of Minnesota
Department of Revenue

In the Matter of the Proposed Rules of the Department of Revenue Governing the Valuation and Assessment of Electric, Gas Distribution and Pipeline Companies (Utility Companies)

Statement of Need and Reasonableness

The above-captioned rules are being proposed in order to update and revise the current Rules and Regulations of the Department of Revenue Relating to Ad Valorem (Property) Taxes. The current rules have been in effect since 1975. They have been revised five times. Once in 1976, 1979, 1982, 1983 and again in 1984; however, it is the announced intention of the Department of Revenue to revise the rules whenever conditions, economic or otherwise, dictate a need for revision. This intention is clearly expressed in Minn. Rule 8100.0200, Introduction, of the current rules, "The methods, procedures, indicators of value, capitalization rates, weighing percents, and allocation factors will be used as described in Minn. Rules Parts 8100.0300 to 8100.0600 for 1982 and subsequent years, or until, in the opinion of the Commissioner of Revenue, different conditions justify a change." (emphasis supplied) It is now the opinion of the Commissioner of Revenue that the rules should be revised.

This document has been prepared as a verbatim affirmative presentation of the facts necessary to establish the statutory authority, need for, and reasonableness of the proposed new rules. It is submitted pursuant to Minn. Rule 1400.0500 requiring a Statement of Need and Reasonableness.

In order to solicit outside information and opinion in the preparation of these proposed rules an open forum type discussion meeting was held on January 17, 1985. This meeting was attended by members of the Department of Revenue together with city and county assessors and representatives of various utility companies. A list of those in attendance, the agenda, meeting notes, and correspondence received relative to this meeting is available in the Department of Revenue. Various suggestions and comments made at these meetings were received and duly considered by the agency.

Authority to Adopt Rules

Minn. Stat. § 270.06 (14) states that the ..."Commissioner of Revenue may promulgate rules and regulations for the administration and enforcement of the property tax. Such rules and regulations shall have the force and effect of law..." The above captioned rules are encompassed within this authority.

Further, Minn. Stat. § 270.11, Subd. 1 and 6 gives the Commissioner of Revenue the authority to review, modify, revise, raise or lower the assessed valuation of any real or personal property of any individual, co-partnership, company, association or corporation. The Commissioner of Revenue is also charged with the responsibility under Minn. Stat. §§ 273.33, Subd. 2; 273.37, Subd. 2; and 273.38 of assessing the... "personal property, consisting of the pipeline system of mains, pipes and equipment attached thereto, of pipeline companies and others engaged in the operations or business of transporting natural gas, gasoline or other petroleum products by pipelines... transmission lines of less than 69kv, transmission lines of 69kv and above

located in an unorganized township and distribution lines, (of electric companies) and equipment attached thereto, having a fixed situs outside the corporate limits of cities... the distribution lines, and the attachments and appurtenances thereto, (of electric companies) used primarily for supplying electricity to farmers at retail...". Such assessments are best discharged through the promulgation of such rules as are being proposed here.

Adoption of Proposed Rules
Need and Reasonableness

The agency is currently proposing revisions to the existing body of the ad valorem rules for utility property. These revisions concern Minn. Rules 8100.0300, Subd. 3, Cost approach.

This approach utilizes the capitalization of income in a mathematical process in an attempt to derive a value which represents the present worth of the future earnings of the property. The capitalization process has two major factors: 1) the income to be capitalized and 2) the capitalization rate. We propose to change one of these factors to more accurately reflect current economic conditions.

We currently use three years of net utility operating income as the income to be capitalized. This is the income after expenses, depreciation and taxes, but before interest expense. This level of income is usually referred to as the income developed by the regulatory agency. It excludes all income from operations and investments that are not directly related to the operation of the company. This particular income stream is preferred by most utility appraisers, and has the most acceptance throughout the country.

The agency uses three years of these net utility operating earnings in order to level out the peaks and valleys inherent in income determination. This leveling out provides for a relatively stable value, rather than a value which would vary widely from year to year. At present the three years are weighted 40% for the first year's income, 35% for the second and 25% for the third. This weighing of income provides for the most attention to be paid to the most recent performance of the company and attempts to strike a balance between stable income and the recognition of current economic conditions effecting a company.

A capitalization rate is then applied to this weighted income. The capitalization rate is an anticipated rate of return from an investment; a rate at which income is processed (capitalized) to indicate the probable capital value. Usually this rate is commensurate with the risk of the business venture.

In developing a capitalization rate three basic methods are available. They are:

1. The Summation Method - which uses the "safe rate" (usually that of government bonds) and adds to it an allowance for management, non-liquidity, and risk. This method is usually considered to be the least reliable and is not in common use by appraisers of utility property.

2. The Comparative Method - which computes a capitalization rate by measuring the actions of purchasers in the market place. However, since utilities very seldom sell as a unit there are few market transactions from which a rate can be developed. For this reason this method is rarely used in the field of utility valuation.

3. The Band of Investment Method - which is the combination of the rate applicable to the portion of the capital structure represented by debt with the rate applicable to the portion of the capital structure represented by equity. The rate developed is a weighted average, the weighing representing percentages of the mortgage and equity position or bands of investment. This method, which is currently used by the agency, is the most generally accepted method of developing a capitalization rate for use in the appraisal of utilities.

The computation of the capitalization rate using the band of investment method is done on the basis of an average utility within an industry; that is, all companies within one industry (i.e. electric, gas distribution, pipeline) share the same rate. This is done as a matter of convenience due to the agency's lack of time and personnel. It is common practice for utility appraisers all across the country to apply a single capitalization rate to companies within the same industry.

The information used in the computation of the cap rate is taken from the latest edition of Moody's Public Utility Manual and includes the following techniques:

1. A determination of what percent of the capital structure of the average utility is made up of long term debt, preferred stock and common equity.
2. A determination of the average interest rate for contracted indebtedness, commonly referred to as the embedded cost of debt. This average interest rate will make up the debt portion of the capitalization rate.
3. A determination of the average dividend rate of the outstanding preferred stock. This dividend rate will make up the preferred stock portion of the capitalization rate.
4. A determination of the rate of return for common equity; which will make up the equity portion of the cap rate.
5. The application of the determined rate to the various bands of investment to develop the capitalization rate for the average utility.
6. The final step is to assign a risk factor to each type of utility to establish a cap rate for that particular industry.

Attached to this document is an example of the application of these techniques. You will note that the average utility cap rate as computed is 11.5%. We have adjusted this rate to allow for risk as follows:

1. Electric utilities - adjusted to 11.25% because they have lower than average interest rates and better than average earnings stability.
2. Gas distribution utilities - no adjustment made. This group represents the average utility.
3. Pipeline companies - adjusted to 11.75% because they have a higher risk factor than the average utility. Pipelines usually pay a slightly higher rate of interest, and because they do not have a monopoly, as do electric and gas companies, their earnings are less stable.

The revision proposed by the agency is occasioned by the fact that the last calculation of the capitalization rate in 1984 - using the same sources and methodology as shown in our Exhibit - resulted in a 11% average utility capitalization rate. As is evidenced by the Exhibit the data now results in the calculation of a 11.5% average utility capitalization rate.

The agency believes that the amending of the present rules to incorporate these revisions to the current capitalization rates is both reasonable and logical. The major factor causing the proposed changes in the capitalization rates, over those currently in use, is the increase in the interest rates. It is a matter of record that these rates have risen steadily over the past few years.

Interest rates may be advertised which would tend to indicate that our proposed capitalization rates are too low and should be adjusted to even higher levels; however, it must be kept in mind that the interest rates in question are those currently in effect. The income which comprises the income stream is an average of three year's historical income. The capitalization rate proposed by the agency is also based on historical information. It is paramount in appraisal practice to match the correct income stream to the corresponding capitalization rate. In the agency's judgment the rates as now proposed accurately reflect the proper capitalization rate to be applied to the weighted income stream. The combination of these two elements into the income indicator of value will produce an equitable estimate of the worth of a utility. The agency is committed to a policy of review and change, as it witnessed by our introductory statement on page 1 of this document. As economic conditions change, the computation of both the capitalization rate and the income stream may well change. At this time, however, the agency believes the rates as proposed should be adopted.

The second proposed change in the rules concerns the amount of depreciation which will be allowed as a reduction of the cost of the utility's property. There are several types of cost which are used in the appraisal of utilities:

1. Original Cost - Original cost is the actual cost of a property when it was first acquired or constructed.
2. Book Cost - Book cost is the original cost of a property less accrued depreciation.
3. Reproduction Cost - Reproduction cost is the present dollar cost to reproduce a replica of the existing property, i.e. what the property would cost today. Reproduction cost is obtained by trending known costs up or down, depending on whether current construction costs are greater or less than when the property was first constructed.
4. Replacement Cost - Replacement cost is the present dollar cost to replace a property with one having similar or equal usefulness.

The estimation of value by use of the cost approach requires the use of the proper type of cost, and then computing the loss in value due to depreciation.

Depreciation is made up of three factors:

1. Physical deterioration which is the loss in value from original cost caused by normal use and wearing out of the property.
2. Functional obsolescence which is a loss in value because of functional deficiencies or inadequacies within the property itself. Normally, functional obsolescence would result from technological changes which result in better, more efficient techniques.
3. Economic obsolescence which is a loss in value caused by factors outside the property itself.

In the case of electric utilities the various elements of depreciation are considered by the Federal Energy Regulatory Commission which then specifies what rates of depreciation are to be used by the various utilities for different classes of assets.

The four major electric utilities operating within Minnesota are currently at the following depreciation level:

Original Cost of Plant in Service	$5,264,012,804
Accrued Depreciation	1,383,366,422
Book Cost of Plant in Service	3,880,646,384
Ratio of Depr. to Original Cost	(Approx.) 26%

The rules propose to allow the electric companies a maximum of 20% depreciation. The difference between 26% and 20% is the agency's method of calculating replacement cost for the utility's property and acts as a hedge against inflation.

Minn. Stat. § 273.11, Subd. 1 requires that ..."all property shall be valued at its market value." With most types of property the concept of market value equates to replacement cost. The owner of a 20 year old three bedroom, 1000 square foot rambler does not have his property valued by the local assessor at the original cost of $20,000; neither does the assessor use book cost. The assessor would use some form of either reproduction or replacement cost. When the house was built in 1965 construction costs must have been approximately $20 per square foot; hence, the selling price, (market value, original cost) of $20,000. Today, inflation has pushed these same construction costs to $70 per square foot, so the market value or replacement cost of the property is $70,000.

The agency recognizes that a multimillion dollar utility does not sell in the same way a three bedroom rambler might. It also recognizes that in most instances the utility is limited in its earnings by its rate base; (rate base is normally original cost less depreciation). However, it is readily apparent that because of inflation the cost of replacing the facilities at today's prices would be more than the original cost at the time of installation. Our holding of the depreciation at a specified maximum attempts to recognize both the wearing out and obsolescence of the facilities together with the fact that to replace or reproduce the facility would produce more value. The agency believes that the proposed maximum depreciation allowance is a reasonable and viable method of accomplishing both these objectives.

The major pipeline and gas distribution companies have the following depreciation levels.

Original Cost of Plant in Service	$4,684,656,977
Accrued Depreciation	2,017,277,418
Book Cost of Plant in Service	2,667,379,559
Ratio of Depr. to Original Cost	(Approx.) 43%

The proposed values would allow pipeline and gas distribution companies a maximum of 50% depreciation. The overall industry average depreciation rate of 43% does not exceed the maximum allowable depreciation as in the case of electric utilities. The agency is aware of this difference. We believe that because of the dissimilarity between the industries that the depreciation rates are proper. The electric industry is constantly updating and replacing its property so that overall depreciation rate is fairly low. In the pipeline industry, on the other hand, it is common practice to build a line and leave it in place for years. Since the pipes are

normally buried they are not easily accessible as are electric wires. In addition, the state of the art in the pipeline industry changes much more slowly than in the electric industry. There are only so many ways you can design a pipe, while new and different ways for transmitting electricity are regularly being discovered. (Witness the change from transporting electricity in A.C. form to the D.C. mode.) There is very little replacement and updating in the pipeline field. Minnesota has operating pipelines which were built in the 1940's. Because of this longer life span of pipeline property, a larger depreciation allowance is necessary to adequately reflect the loss in value of the property. The same rationale holds true in most instances for gas distribution companies.

There is a further consideration to be looked at as well. It is an acknowledged fact that the need for electricity will go on for the foreseeable future. The demand for electric power can be met in a number of ways; by hydro power, nuclear energy or coal fired generating plants. In short, the electric industry is here to stay. Gas and oil in the other hand are not quite as stable or certain. It may well be that a pipeline may not have nearly as long a life as the builder intended either because the source of supply is exhausted, or is cut off for political or economic reasons. This of course, has a decided effect on the market value of the property. A prospective buyer would be much more willing to pay a higher price for a long term monopoly utility, than for a relatively short term speculative utility. The larger depreciation allowance given to pipelines and gas distribution companies is one of the agency's methods of recognizing this fact. We believe the proposal to be reasonable in its concept, and necessary if we are to find a realistic estimate of market value for these types of utilities.

The third change in Minn. Rules 8100 concerns adjusting electric utility property to take into account the effect of inflation on property values. This change is aimed at a specific type of electric utility asset, the major generating plants. The adjustment is accomplished through the use of a special study called the "Average Cost per Kilowatt of Installed Capacity."

The "Average Cost per Kilowatt of Installed Capacity" is a method of replacement cost which computes the national average cost of building a major generating plant. This average is then applied to all major plants operated by a utility. If the national average is higher than the original cost of the plant the original cost is increased to that of the average; if the national average is lower no adjustment is made.

The reason this average is computed and used can best be explained by again using the homeowner as a comparison. The appraiser can best estimate the value of the three bedroom rambler by using two methods; 1) comparable sales, and 2) cost per square foot of construction. It is apparent that major utility generating plants do not sell frequently on the open market. Therefore the comparable sales avenue of appraisal is not generally available to us. Major generating plants are not built on a square foot basis, but rather on a capacity basis. They are measured and classed as to how many kilowatts they can produce operating at maximum capacity. Therefore, instead of using the square foot construction costs of generating plants to estimate current worth, as we would in the case of a house, we utilize cost per kilowatt.

We feel that this is a fair and workable technique of calculating an accurate measure of replacement cost for a number of reasons.

1. It follows accepted appraisal techniques of comparing construction costs for like properties.
2. It makes no adjustment on smaller standby units which are often kept in working condition by a utility for emergency use only.
3. By using the national average, the utility in Minnesota receives the benefit of warm weather building methods which are usually less costly.
4. The method gives the utility the advantage of the most advanced technology used in building power plants, and refutes the argument "We wouldn't build a plant like that today."
5. It typically produces an additional value only for older plants and does not produce an across the board increase for the newer plants.

The proposed revision would broaden the study for computing the national average for hydro-electric, steam and gas turbine plants. The agency believes that this revision is both necessary and reasonable because of a drastic change in the reporting of information used in the computation of this study.

In prior years the U.S. Department of Energy compiled information submitted to it by the various electric utilities operating within the United States into a series of publications. Three of these annual publications dealt with the construction costs and annual production expenses of the various types of plants. These publications were entitled: Hydroelectric Plant Construction Cost and Annual Production Expenses; Thermal - Electric Plant Construction Cost and Annual Production Expenses and Gas Turbine Electric Plant Construction Cost and Annual Production Expenses. The last edition of these publications listed 378 hydro, 647 steam and 435 gas turbine plants.

The three publications have now been condensed by the Energy Information Administration into one publication entitled Historical Plant Cost and Annual Production Expenses for Selected Electric Plants. This report lists only 286 hydro, 375 steam and 64 gas turbine plants. It becomes readily apparent that more than 50% of the plants have been deleted from the data which forms the basis of the study. In order to preserve the statistical integrity of the study the agency believes it is both reasonable and necessary to revise the rules to provide for a broad study base and eliminate drastic yearly fluctuations which are inherent in a small sample base.

Commensurate with this revision the agency also proposes to change the period used for the computation of the obsolescence factors. These factors; plant use and thermal efficiency, are presently calculated by using only plants constructed during the last 15 years. The proposal is to broaden the study to include all plants of a specific type included in the Historical Plant Cost and Annual Production Expenses for Selected Electric Plants publication. These obsolescence allowances are applied only to hydro and steam type generating plants.

Gas turbine plants will not be eligible for this allowance because the design and operation of these units has not changed appreciably from their introduction to the present time. These units were first introduced in the mid-1960's and are normally purchased in a packaged form much as one would buy an auxiliary generator, the only difference being the size. The cost per kilowatt of installed capacity of these units has varied only slightly over the years and the operating characteristics of all the units is fairly uniform since most are based on a relatively standard aircraft type jet engine. The agency believes that at this time there is no need to apply an obsolescence allowance to the plants; however, this position may change in the

future if technological discoveries advance the state of the art to a point where obsolescence is warranted.

The age and operating characteristics of hydro and steam plants varies a substantial amount. If the intent of the average cost per kilowatt of installed capacity concept is to bring the cost per kilowatt of older plants up to relatively present day levels then the agency believes that it is only proper and reasonable to recognize the fact that even though an older plant may generate, or be capable of generating, as much power as a newer plant it may well do so with much less efficiency. Since this lack of efficiency, or obsolescence, would have an effect on the plant's market value, the agency believes that an allowance should be made for this fact. The example of the residential home can again be used to illustrate this point. A home of 1,000 square feet with a very fuel efficient heating system would be worth more than a comparable size home with an outdated, inefficient furnace.

The agency presently measures this obsolescence by establishing a standard and comparing the specific plant to the standard. The amount the specific plant varies from the standard is the amount the plant is obsolete.

One of the standards used for this measurement of obsolescence is called the "plant factor." The plant factor compares how much electrical energy a generating plant actually produced in a year to the maximum amount of energy it could have produced. For example, if a plant could have produced 1,000,000 KWH but only produced 500,000 KWH it was operating at a plant factor of 50%.

The plant factor is a good indicator of a generating plant's obsolescence because it actually measures obsolescence in two ways, economic and functional. If there is a low demand for a generating plant's product, electricity, then the plant will be operated at less then full capacity; hence a low plant factor. This lack of demand, or economic obsolescence, impacts a property's market value in much the same manner as a hotel built on a secondary road would most likely have a lower market value than one built near a busy freeway.

The plant factor would also recognize the downtime a generating plant experiences for maintenance and repair. It is logical to assume that an older plant would experience more time out of service for repair than a new one; simply because the component parts of the older plant have been exposed to more wear and tear, or are of an outmoded design which is not as reliable as a newer design. Another term for this frequency of repair and maintenance would be functional obsolescence. Thus, the more a generating plant is down for maintenance, the lower its plant factor would be, and the more functional obsolescence would be applied to this plant.

In order to compute the standard factor, the agency proposes to look at those plants which were used to compute the national average cost per kilowatt of installed capacity. Since these are the plants which serve to make up the basis of the additional value, it is only reasonable to use the operating characteristics of these same plants to compute the standard plant factor. The proposed rules detail how this standard is to be computed, and it is a very simple mathematical formula. The formula multiplies the installed capacity of the various plants in kilowatt hours (KWH) times the number of hours in a year; the product of this computation is the maximum amount of power the plant could have generated in a year. The amount of KWH the plant actually produced is then divided by this optimum generation amount and a percentage developed. This computation is done for all generating

plants within the study period. The ten plants with the highest or best plant factor are then selected out of the study and an average computed of their plant factors. The use of ten plants insures that a stable index will be used each year without abrupt fluctuations due to one or two plants operating under highly unusual circumstances. This then becomes the standard. Plant factors are then computed in the same manner for each hydro or steam generating plant which would have additional cost dollars added to it because of the application of the average cost per kilowatt of installed capacity computation. Plant factors are computed for the most recent three years, and then averaged. A three year time span is used in order to minimize the downtime effect a major overhaul or repair due to an accident might have on the net generation of a plant. This three year average plant factor is then compared to the standard plant factor. The amount or percent the three year average deviates from the standard is the amount of obsolescence measured by the application of this method. This percentage will then be used to reduce the gross additional value added to the hydro-electric plants. Steam-electric plants will have an additional obsolescence factor computed.

Hydro-electric plants differ from steam plants in that hydro plants essentially use no fuel, they are powered by the movement of water. Steam electric plants on the other hand must burn a fuel to create heat to make steam; just as their name implies. Therefore, one of the measures of the efficiency of such a plant is the amount of fuel needed to produce a unit of electric power. This is called the "thermal efficiency factor." Since the fuels used in steam-electric plants vary; coal, oil, natural gas; the only common attribute of the various fuels is that they all contain British Thermal Units (BTU). The computation of the thermal efficiency factor measures the numbers of BTU's a plant would require to produce one KWH of electric power. This measure of a steam plants efficiency is a very viable measure of obsolescence, particularly in light of current costs of energy. A plant which requires a greater amount of fuel to produce a KWH would be less attractive to a buyer than one which could generate a KWH using a very small amount of fuel.

The thermal efficiency standard will be computed by again selecting the ten plants using the least amount of fuel or BTU's to produce a KWH from all those plants which comprise the study used to calculate the average cost per kilowatt of installed capacity. This standard will then be compared to the actual thermal efficiency of the subject steam electric plants.

There is no need to use a three year average thermal efficiency factor because the operating characteristics of a plant do not vary from year to year with respect to the utilization of fuel. The plants are much like an automobile in that a particular model of car may be rated at 20 MPG; one year it may actually get 18 MPG, another 22 but it would not suddenly jump up to 40 MPG. The amount or percentage that the subject plant deviates from the standard is the amount of obsolescence in the subject plant as measured by this thermal efficiency factor.

These two measures of obsolescences for steam electric plants; plant factor and thermal efficiency factor, are then averaged and this average obsolescence percentage is used to reduce the gross additional value added to the plant. Note that the agency is not proposing to adopt new indicators of obsolescence but merely to revise the period used to calculate these indicators.

EXHIBIT I

STATEMENT OF NEED AND REASONABLENESS

CAPITALIZATION RATE WORK-UP

A. The figures used in the study on the capitalization of the average utility were obtained from the Moodys Public Utility Manual Special Features Section and represent historic value figures. The results showed a make-up of 52% debt, 9% preferred stock and 39% common stock for the average utility.

B. The rates used in the Cost of Money Study represent the average of three different kinds of utility bonds. This study considered the imbedded debt of utilities and calculated a rate of 10.15%.

C. The indicated rates shown in the Common Stock Yield and Growth Study represent yields obtained by adding the dividend yield to the percent of earnings per share increase over a ten year moving average. This study not only considers dividend yield but appreciation in per share prices. The average indicated rate was calculated to be 13.78%.

D. The rate shown in Preferred Stock Study is the dividend yield only and does not reflect appreciation in the stock price. The average yield rate is shown as 11.13%.

E. The resulting capitalization rate calculation was obtained by adding a weighted debt cap rate percentage, a weighted preferred stock cap rate percentage, and a weighted common stock yield percentage.

CAPITALIZATION OF AVERAGE UTILITY WORKSHEET

ALL INFORMATION FROM 1983 MOODY'S PUBLIC UTILITY MANUAL
SPECIAL FEATURES SECTION

10 YEAR STUDY - HOW THE AVERAGE UTILITY IS CAPITALIZED

	YEAR	PERCENT OF DEBT	PERCENT OF PREFERRED	PERCENT OF COMMON
Electric Companies	1974	55.0%	12.7%	32.3%
	1975	53.5%	12.8%	33.7%
	1976	52.5%	12.9%	34.6%
	1977	50.9%	13.1%	36.1%
	1978	50.5%	12.9%	36.6%
	1979	51.4%	12.7%	35.8%
	1980	51.3%	12.7%	36.2%
	1981	51.8%	11.9%	36.3%
	1982	50.3%	11.7%	38.0%
	1983	48.1%	11.5%	39.7%
	Average	51.5%	12.5%	35.9%
Transmission Companies	1974	59.6%	5.8%	34.6%
	1975	58.3%	5.3%	36.4%
	1976	55.5%	5.5%	39.1%
	1977	51.9%	4.9%	43.2%
	1978	52.4%	5.5%	42.1%
	1979	51.3%	5.3%	42.3%
	1980	51.5%	5.7%	42.8%
	1981	52.1%	4.9%	43.0%
	1982	51.2%	5.4%	43.4%
	1983	46.6%	6.4%	47.0%
	Average	53.0%	5.5%	41.4%
Distribution Companies	1974	56.0%	8.3%	35.8%
	1975	54.9%	8.8%	36.4%
	1976	53.0%	9.4%	37.6%
	1977	51.0%	9.9%	39.1%
	1978	48.3%	10.3%	41.3%
	1979	47.1%	9.8%	43.1%
	1980	47.5%	9.0%	43.5%
	1981	50.2%	7.9%	41.9%
	1982	50.3%	7.3%	42.4%
	1983	47.2%	7.3%	45.5%
	Average	50.5%	8.8%	40.7%
Rounded Average of Three Industry Averages		52 %	9 %	39 %

10 YEAR PREFERRED STOCK YIELD

YEAR	YIELD IN PERCENT
1974	9.95%
1975	10.63%
1976	9.12%
1977	8.43%
1978	9.03%
1979	9.76%
1980	12.82%
1981	15.11%
1982	14.42%
1983	12.06%
Average	11.13%

CAPITALIZATION OF AVERAGE UTILITY WORKSHEET

ALL INFORMATION FROM 1982 MOODY'S PUBLIC UTILITY MANUAL SPECIAL FEATURES SECTIONS

10 YEAR STUDY - COMMON STOCK YIELD AND GROWTH IN EARNINGS

YEAR	AVERAGE MARKET PRICE	DIVIDEND PER SHARE	DIVIDEND YIELD PER CENT	EARNINGS PER SHARE	5 YEAR MOVING AVERAGE EARNINGS PER SHARE	% EARNINGS PER SHARE INCREASE	INDICATED RATE
1974	$48.26	$4.83	10.01%	$ 7.63	$ 7.39	1.93%	11.94%
1975	$51.25	$4.97	9.70%	$ 7.77	$ 7.56	2.30%	12.00%
1976	$60.10	$5.18	8.62%	$ 7.86	$ 7.71	1.98%	10.60%
1977	$67.55	$5.54	8.20%	$ 8.83	$ 7.93	2.85%	11.05%
1978	$63.54	$5.81	9.14%	$ 8.59	$ 8.16	2.64%	11.78%
1979	$60.28	$6.22	10.32%	$ 8.95	$ 8.42	3.19%	13.51%
1980	$54.80	$6.58	12.01%	$ 8.98	$ 8.64	2.62%	14.63%
1981	$55.41	$6.99	12.62%	$10.46	$ 9.16	6.02%	18.64%
1982	$63.56	$7.43	11.69%	$10.90	$ 9.58	4.59%	16.28%
1983	$74.04	$7.87	10.63%	$11.88	$10.23	6.78%	17.41%
Average	$59.88	$6.14	10.29%	$ 9.19	$ 8.48	3.49%	13.78%

15 YEAR COST OF MONEY STUDY

YEAR	AVG. YIELD ALL UTILITY BONDS	AVG. YIELD NEWLY ISSUED BONDS	AVG. YIELD NEW GAS LIGHT & POWER
1969	7.99%	7.07%	7.98%
1970	8.85%	8.76%	8.79%
1971	7.71%	7.47%	7.70%
1972	7.46%	7.16%	7.50%
1973	7.88%	7.45%	7.91%
1974	9.21%	8.36%	9.59%
1975	9.76%	8.90%	9.97%
1976	8.80%	9.06%	8.92%
1977	8.38%	8.17%	8.43%
1978	9.22%	9.21%	9.30%
1979	10.64%	10.39%	10.85%
1980	13.09%	13.23%	13.46%
1981	16.30%	16.28%	16.31%
1982	14.56%	15.55%	14.93%
1983	12.53%	12.77%	12.70%
	10.16%	9.99%	10.29%
Average Cost of Three Money Indicators			10.15%

COMPUTATION OF AVERAGE CAP. RATE		CAP. RATE
1.	Average Utility Debt Cost	10.15%
2.	Average Debt Percent of Capitalization	52%
3.	Weighted Debt Cap. Rate Factor	5.28%
4.	Avg. Utility Preferred Stock Yield	11.13%
5.	Avg. Preferred Stock Percent of Capitalization	9.00%
6.	Weighted Preferred Stock Cap. Rate Factor	1.00%
7.	Average Utility Equity Return	13.78%
8.	Avg. Equity Percent of Capitalization	39%
9.	Weighted Equity Capitalization Rate Factor	5.37%
	Avg. Utility Cap. Rate	11.65%
	Rounded to	11.50%

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STATE OF MINNESOTA

DEPARTMENT OF REVENUE

PROPERTY TAX DIVISION

STATE ASSESSED PROPERTIES

IN THE MATTER OF THE PROPOSED ADOPTION OF REVISIONS TO RULES GOVERNING THE VALUATION AND ASSESSMENT OF ELECTRIC, GAS DISTRIBUTION, AND PIPELINE COMPANIES, (UTILITY COMPANIES)

STATEMENT OF COMPLIANCE WITH RULEMAKING PROCEDURES

I, DOROTHY A. McCLUNG, Director of Legal Research, do hereby declare that I have examined the rules and all related documents and that, based on my examination and my personal familiarity with the applicable procedures, the Administrative Hearings, and the rules of the Attorney General have been followed. There are no exceptions.

Dorothy A McClung

DOROTHY A. McCLUNG,

Dated: May 29, 1985