Direct Testimony and Schedules
William T. Kowalowski

Before the Minnesota Public Utilities Commission
State of Minnesota

In the Matter of the Application of Northern States Power Company
for Authority to Increase Rates for Natural Gas Service in Minnesota

Docket No. G002/GR-23-413
Exhibit___(WTK-1)

Property Taxes

November 1, 2023

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Schedules

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND OCCUPATION.

A. My name is William T. Kowalowski. I am a Senior Tax Planning Consultant in Tax Services for Xcel Energy Services Inc. (XES), the service company affiliate of Northern States Power Company – Minnesota (NSPM or the Company) and an operating company of Xcel Energy Inc. (Xcel Energy).

Q. PLEASE SUMMARIZE YOUR QUALIFICATIONS AND EXPERIENCE.

A. I have over 20 years of experience working in the property tax field, including serving as an appraiser and manager of Centrally Assessed Property for the State of Utah and Manager of State Assessed Property for the State of Colorado. In my current position, I coordinate property tax and related planning responsibilities across Xcel Energy operating company states. A summary of my qualifications and experience is provided as Exhibit___(WTK-1), Schedule 1.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. I provide the Company's annual property tax expense forecast for the 2024 test year. Specifically, I discuss our overall forecast methodology and the inputs used to develop the forecast. I also provide support for the Company's request for a property tax true-up.

Q. BEFORE TURNING TO FORECAST DETAILS, PLEASE DISCUSS WHAT YOU BELIEVE THE GOAL IS IN DETERMINING THE APPROPRIATE LEVEL OF PROPERTY TAXES TO INCLUDE IN RATES.

A. Property taxes are a necessary cost of providing service to our customers. While property taxes may fluctuate due to changes dictated by the Minnesota

Department of Revenue (DOR) and changes in tax rates at the local level, increases in our property taxes are largely due to investments in our system. As such, we believe rates should be set to allow the Company to recover this cost of service and, at the same time, to ensure customers pay only actual property taxes incurred.

Q. WHAT IS THE COMPANY'S FORECASTED PROPERTY TAX EXPENSE AMOUNT FOR THE TEST YEAR?

A. Our 2024 NSPM (Total Company)[1] property tax forecast, by state, is shown in Table 1 below. For comparison purposes, Table 1 also shows our actual 2022 property taxes and our current 2023 forecast. Table 1 also provides this information at the Minnesota gas jurisdictional level. Company witness Benjamin C. Halama provides support for the property tax expense amounts included in the 2024 test year, including how the NSPM (Total Company) property tax expense is appropriately allocated. Detailed calculations of the NSPM (Total Company) property tax expense for 2022-2024 are provided in Exhibit___(WTK-1), Schedules 2 through 4.

[1] Total Company or NSPM refers to Northern States Power Company-Minnesota that provides service to gas and electric customers in Minnesota, North Dakota, and South Dakota.

Table 1

Property Tax Expense

($ Millions)

Component	2022 Actual	2023 Forecast	2024 Test Year
Minnesota Tax (Total Company)	$202.8	$200.2	$215.6
North Dakota Tax (Total Company)	$7.4	$8.1	$8.9
South Dakota Tax (Total Company)	$6.2	$5.9	$6.5
Iowa Taxing Tax (Total Company)	$0	$0.2	$0.4
NSPM (Total Company)	**$216.4**	**$214.4**	**$231.4**
State of Minnesota Gas Jurisdiction	**$18.6**	**$20.3**	**$22.7**

Since the State of Minnesota taxes for the gas and electric utilities account for over 93 percent of the NSPM (Total Company) property taxes, the discussion in my testimony focuses on Minnesota. However, consistent with prior rate cases, the Company is seeking recovery of its total property tax expense for NSPM (i.e., taxes paid to Minnesota, North Dakota, South Dakota, and Iowa), as adjusted as set forth in the Direct Testimony of Company witness Halama. In addition, unless noted otherwise, the numbers I provide are for both our gas and electric utilities, consistent with how we estimate property taxes for financial statement purposes.

Q. HOW IS THE REMAINDER OF YOUR DIRECT TESTIMONY ORGANIZED?

A. I present the remainder of my testimony in the following sections:

- *Section II*: Property Tax Expense Forecasts;
- *Section III*: Forecast Analysis;
- *Section IV*: Proposed Property Tax True-Up; and
- *Section V*: Conclusion.

II. PROPERTY TAX EXPENSE FORECASTS

A. Forecast Methodology

Q PLEASE DESCRIBE HOW THE DOR DETERMINES A VALUE FOR THE COMPANY'S PROPERTY AND HOW THAT VALUE IS USED TO DETERMINE PROPERTY TAXES.

A. The first step in the property tax process is determining the market value of all the Company's property. In Minnesota, different types of utility property are valued differently. Utility operating property is valued by the DOR using the formulas set forth in Minnesota Rules part 8100.0300. Non-operating property (e.g., offices, garages, warehouses, land, etc.) is valued by local assessors using traditional valuation techniques. The DOR determines the value of the Company's overall system, determines how much of the Company's total system value is attributable to Minnesota, and then apportions that amount to each county. Counties add these DOR-apportioned values to their own assessed values to arrive at our tax base for each parcel. Finally, the property tax rate for each taxing jurisdiction (i.e., county, city, school district, etc.) is applied to the value for each parcel to determine our property tax liability.

Q. PLEASE DESCRIBE THE DOR'S PROCESS FOR VALUING THE COMPANY'S OPERATING PROPERTY.

A. The DOR begins by determining the unit to value: gas, electric, or a combined unit. The DOR primarily uses two appraisal methodologies to establish the system unit value for the Company's entire gas or electric system (i.e., including all the property in all the states in which the Company operates).

One appraisal method used by the DOR is referred to as the cost indicator of value, and it is calculated based on the net book value of the Company's property plus construction work in progress (CWIP).

The other appraisal method used by the DOR is referred to as the income indicator of value. The basic calculation of the income approach is that the Company's net operating income (NOI) is divided by a weighted average cost of capital (known as the capitalization rate or "Cap Rate").[2]

Next, the DOR reconciles the two approaches by applying weightings to the cost and income indicators of value. For example, in the 2023 initial assessment from the DOR for NSPM's gas system, the DOR applied 50 percent weight to the cost method and 50 percent to the income approach. The result of this calculation is the total system unit value.

The DOR then applies allocators, based on plant and revenue, to the total system unit value to determine the Minnesota portion of the total system unit value, which is referred to as the Minnesota-allocated value.

Next, the DOR reduces the Minnesota-allocated value by deductions and exclusions, for property that is exempt (such as pollution control equipment) or locally assessed (such as land), to determine the apportionable market value. This is the value that is apportioned to the various Minnesota taxing jurisdictions in which NSPM operates. An example of this calculation is

[2] Under Minn. R. 8100.0300, the DOR may also utilize other approaches to value utility property, but it rarely relies on any approach other than the cost approach and the income approach.

included as Schedule 2. This entire process is based on formulas and processes articulated in Minn. Rules Ch. 8100.

Q. PLEASE DESCRIBE HOW UTILITY PROPERTY IS VALUED IN NORTH DAKOTA AND SOUTH DAKOTA.

A. Both of these states use a method similar to the method used by Minnesota to value utility property. North Dakota Century Code § 57-06-14 explains how utility property is valued in that state. Additional information related to the North Dakota property tax system can be found in Chapter 57-06 of the North Dakota Century Code.

South Dakota Codified Laws § 10-35-10.1 explains how utility property is valued in that state. Additional information related to the South Dakota property tax system can be found in Chapter 10-35 of the South Dakota Codified Laws.

Q. PLEASE DESCRIBE THE DOR'S VALUATION AND ADMINISTRATIVE APPEAL PROCESS.

A. The DOR typically presents an initial valuation to the Company by early July, and we have 30 days from the date that initial valuation is received to request an administrative appeal with the DOR. In an administrative appeal, the utility files a request explaining its reasons why it disputes the DOR's valuation, and then the utility and the DOR have a conference in which they exchange views. In most cases, the administrative appeal ends with the execution of a settlement agreement in which the DOR and the utility agree to a revised apportionable market value. The administrative appeal process is set forth in Minn. Stat. § 273.372, subds. 4 and 5.

Each year, the Company evaluates the initial valuation, the methodology used, and the appraisal inputs relied on by the DOR, and pursues an administrative appeal when it is in the best interest of its customers. While the administrative appeal process is not guaranteed to result in a favorable adjustment, the Company has consistently been successful in negotiating settlement values materially below the initially proposed valuations. However, the resulting agreement is a "black box" settlement; in other words, it is just a compromise, and it is not accompanied by or based on a revised valuation calculation.

Q. GIVEN THIS PROCESS, HOW DID THE COMPANY FORECAST ITS PROPERTY TAXES FOR THE 2024 TEST YEAR?

A. Our forecast of property taxes is based on the same key variables that were used in prior rate cases: the Company's forecasted investments and net operating income, the most recently available versions of the DOR valuation inputs, and the most recently available overall effective tax rate.

Q. DOES THE COMPANY RECEIVE REFUNDS OF ANY PROPERTY TAX PAYMENTS AFTER RECEIPT OF A FINAL BILL?

A. Generally, no. Property tax is unlike income tax and sales tax where sometimes refunds or adjustments take years, after the relevant taxing period, to be resolved. For property tax, the DOR's valuation is finalized months before the property tax bills are received. From time to time, there may be very small adjustments or refunds relating to a specific parcel of property.

Q. WHAT INPUTS DID THE COMPANY USE TO DEVELOP ITS 2024 PROPERTY TAX FORECAST?

A. Our current 2024 property tax forecast is based on the data inputs identified in Table 2 below.

Table 2

Inputs to 2024 Property Tax Forecast

Category	Variable	Data Inputs
Investments	Plant	Projected December 31, 2023 Plant Balances
	Net Operating Income	Actual 2021 & 2022 and Projected 2023 Net Operating Income
DOR Valuation Inputs	DOR Capitalization Rates	Actual 2023 DOR Capitalization Rates (Received May 2023)
	DOR Weighting of Indicators of Value	Implicit in the Actual 2023 DOR Settlement Agreement (Received August 2023)
Effective Tax Rate	Local Tax Rates	2022 Effective Rate (Received March and April 2023)

Q. DID THE COMPANY USE THE SAME VARIABLES LISTED IN TABLE 2 TO PERFORM ITS FORECAST FOR THE COMPANY'S PREVIOUS GAS RATE CASE?

A. Yes. We also used the same variables in our 2016, 2019, 2020, and 2022 test year electric rate cases.

Q. WHY ARE THE DATA INPUTS IN TABLE 2 THE MOST APPROPRIATE TO USE IN FORECASTING THE 2024 PROPERTY TAX EXPENSE?

A. The data inputs in Table 2 represent the most current and best information available at the time of filing the rate case. Use of these data inputs means that our forecast does not require speculation about future macroeconomic circumstances, while ensuring that the forecast is based on current

circumstances and market conditions. Accordingly, it results in the most reasonable and sound forecast of the 2024 property tax expense.

Q. HAS THE COMPANY CONSIDERED OTHER APPROACHES TO FORECASTING PROPERTY TAX EXPENSE?

A. Yes. It is important to remember that the Company has to forecast property tax expense for a given year many months before all of the variables for that year have been settled.

We have considered using projected future capitalization rates and local tax rates. Capitalization rates are influenced by interest rates and capital markets and are created by the DOR using methodologies that may evolve from year to year. Local tax rates are influenced by numerous factors, including budget needs, inflation, and property values for all taxpayers. By their nature, these macroeconomic factors are very difficult to predict. In contrast, the methodology described herein is more reliable, because it does not require speculation about future macroeconomic circumstances. Moreover, our current methodology means that the forecasting process is consistent from one year to the next, so that each year's forecast can be compared to previous years' forecasts.

We have also considered using averages or trends derived from the Company's actual tax expense in previous years. We strongly believe that approach fails to recognize that many important factors – the nuances of the DOR's valuation methodology, the effective local tax rate, macroeconomic circumstances, and the Company's performance and investments – typically vary from year to year, often in a complex manner. We have concluded that there is no clear trend or

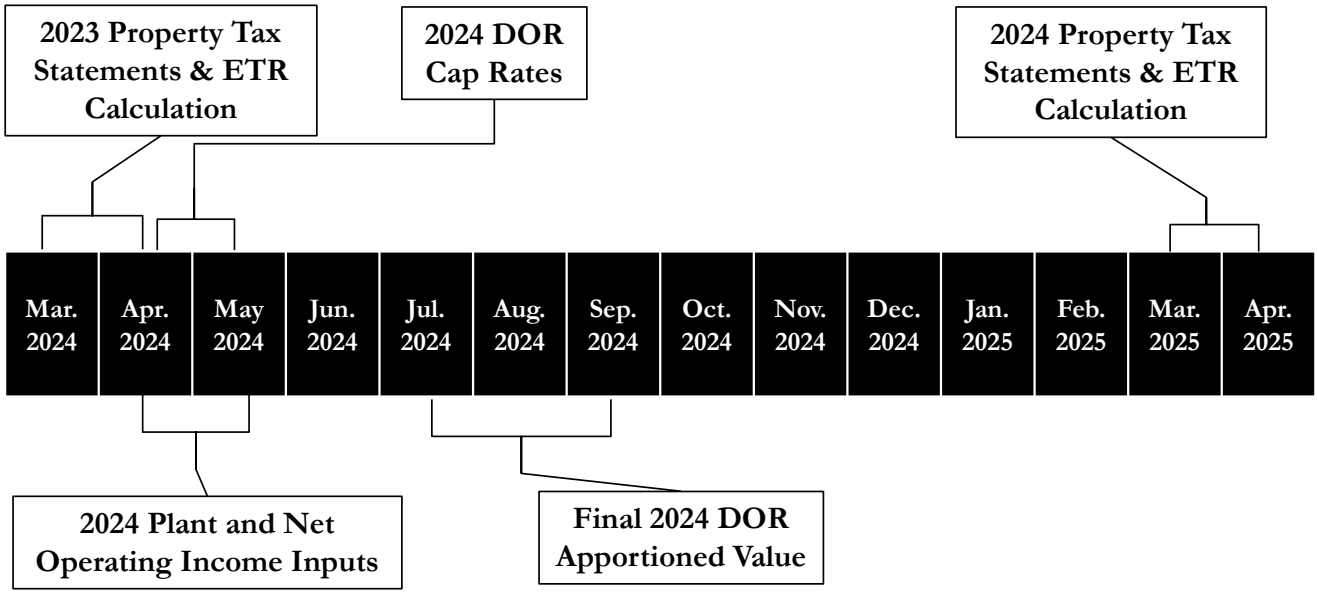
formula that can be reliably used to extrapolate property tax expense for an upcoming year from previous years' actual tax expense.

Q. YOU MENTIONED EARLIER THAT THE COMPANY UPDATES ITS INTERNAL PROPERTY TAX FORECASTS AS INFORMATION IS RECEIVED DURING THE YEAR. WHEN DOES THE COMPANY TYPICALLY RECEIVE SUCH INFORMATION?

A. Figure 1 below shows when we expect to receive information regarding our 2024 property taxes.

Figure 1

Property Tax Timeline



Q. PLEASE EXPLAIN HOW THE COMPANY PROPOSES TO UPDATE ITS 2024 PROPERTY TAX FORECAST?

A. Consistent with our proposal for a true-up, we propose to submit updated information in an annual filing once property taxes for a given year are final.

For example, as to the 2024 forecast, we expect to receive the property tax statements in the spring of 2025 and would submit the filing thereafter.

Q. DOES THE COMPANY SEEK TO INCLUDE THE ENTIRE 2024 PROPERTY TAX EXPENSE AS FORECASTED HEREIN IN ITS BASE RATE REQUEST?

A. No. The Company believes its property tax expense forecast for the 2024 test year ($22.7 million for the Minnesota Gas Jurisdiction, as highlighted in Table 1) is as accurate as reasonably possible, and that it would therefore be reasonable to include the entire forecasted amount in base rates. But the Company is proposing to establish base rates using a property tax amount for the 2024 test year of $18.6 million, based upon our actual 2022 property tax (for the Minnesota Gas Jurisdiction), subject to true-up as set forth below and in the Direct Testimony of Company witness Halama.

B. Data Inputs

Q. WHAT IS THE PURPOSE OF THIS SECTION OF YOUR DIRECT TESTIMONY?

A. In this section of my testimony I discuss the different data inputs that were used to determine the Company's 2024 property tax forecast.

1. Plant

Q. WHAT PLANT DATA DID THE COMPANY USE IN ITS 2024 PROPERTY TAX FORECAST?

A. Our current 2024 property tax forecast is based upon our current projection of December 31, 2023 plant balances. The Company's final 2024 property tax expense will be based on the final December 31, 2023 plant balances.

1 *2. Net Operating Income*

2 Q. WHAT NET OPERATING INCOME DATA DID THE COMPANY USE IN ITS 2024
3 PROPERTY TAX FORECAST?

4 A. Our current 2024 property tax forecast is based upon actual 2021 and 2022 net
5 operating income and our current projection of 2023 net operating income. The
6 Company's final 2024 property tax expense will be based upon actual 2021,
7 2022, and 2023 net operating income. The DOR uses a three-year weighted
8 average method for determining the net operating income for use in the income
9 indicator (as required by Minn. R. 8100.0300, subp. 4), and so we use the same
10 three-year weighted average method in our forecast process.

11

12 *3. DOR Capitalization Rate*

13 Q. WHAT DOR CAPITALIZATION RATE DID THE COMPANY USE IN ITS 2024
14 PROPERTY TAX FORECAST?

15 A. Our 2024 property tax forecast is based on the most recent information
16 available, which is the 2023 actual capitalization rates developed by the DOR
17 for each industry. Final property taxes will be based on the DOR's final 2024
18 capitalization rates for each industry for each year.

19

20 *4. DOR Weighting of Cost and Income Indicators of Value*

21 Q. WHAT WEIGHTING OF THE COST AND INCOME INDICATORS OF VALUE DID THE
22 COMPANY USE IN ITS 2024 PROPERTY TAX FORECAST?

23 A. Our 2024 property tax forecast is based on the most recent actual information
24 available, which as to weightings is the effective weightings of the cost and
25 income indicators of value that are implicit from the value we settled to with
26 the DOR in our administrative appeal in 2023. Final property taxes will be based
27 on the DOR's weightings for each specific year.

While the DOR reviews, and may adjust, the weightings every year, we believe that using the most recent weightings, as implied from the most recent settlement with the DOR, provides the most reasonable property tax forecast. We also believe use of the implicit weightings of the cost and income indicators of value, as derived from the settlement of the most recent administrative appeal, is appropriate because it is the most recent information available. As mentioned before, the settlement of the administrative appeal is a "black box" that does not specify which determinants of the initial valuation were modified. Using the implied weightings from the most recent settled value is a reasonable way to anticipate how the DOR will value the Company's property for the year being forecast. The assumption is that the DOR will consistently interpret inputs to valuation over time and therefore weigh the valuation approaches in the same way in the next year. Any other assumption about the DOR's weighting of the approaches would be conjecture and provide no reliable insight as to how the DOR would determine the Company's final valuation.

5. Local Tax Rates

Q. WHAT LOCAL TAX RATES DID THE COMPANY USE IN ITS 2024 PROPERTY TAX FORECAST?

A. Our current forecast of the 2024 property tax expense is based upon actual 2022 local tax rates. The local tax rates are mathematically converted into an effective tax rate as provided in Exhibit___(WTK-1), Schedule 5. This is the most recent, and therefore the most accurate, tax rate data applicable to NSPM – Gas property at this time. Specifically, the resulting 2.67 percent effective tax rate used in our forecasts is based upon 2022 final tax statements received in March and April 2023. This tax rate was used to calculate the 2023 forecasted Minnesota property tax as well as the 2024 forecasted property tax shown on

Exhibit___(WTK-1), Schedule 6. Final 2024 property taxes will be based on the final statements received in March and April of 2025.

III. FORECAST ANALYSIS

Q. WHAT ARE THE DRIVERS OF THE COMPANY'S FORECASTED MINNESOTA PROPERTY TAXES FOR THE 2024 TEST YEAR AS COMPARED TO THE COMPANY'S ACTUAL 2022 PROPERTY TAX EXPENSE?

A. As described above, the Company's property tax expense is a function of three primary variables: (1) the Company's investments and income; (2) DOR valuation inputs; and (3) local property tax rates. It is easiest to look at the drivers by tracing these variables from 2022 through the 2023 forecast and then to the 2024 test year.

Exhibit___(WTK-1), Schedule 6 compares our 2023 forecast to 2022 actual property tax expense. It shows that our forecasted 2023 Minnesota property tax expense is essentially flat as compared to 2022. One of the DOR inputs, its Cap Rates for both the electric and gas industry, experienced unprecedented increases for 2023; an increased Cap Rate has the effect of lowering the value, all other things being equal. Specifically, our 2023 property tax forecast uses the actual Cap Rates used by the DOR this year: 8.0 percent for electric and 7.83 percent for gas. For electric, this represents a 166 basis-point or 26 percent increase, and for gas it is a 137 basis-point or 21.2 percent increase, over the prior year. Although the Company's plant and net operating income increased in 2023 as compared to 2022, the large upward shifts in the DOR's Cap Rates held the electric valuation relatively flat and the gas valuation to a comparatively modest increase. In addition, the actual effective tax rate applied to our

valuation forecast decreased from approximately 2.9 percent for 2022 to 2.67 percent for 2023, which further held the overall tax expense flat in spite of the Company's growth.

Exhibit___(WTK-1), Schedule 7 compares our 2024 forecast to our 2023 forecast. It shows an increase from about $214.4 million to about $231.4 million. The forecast for the 2024 test year uses the same DOR Cap Rates and other inputs as in 2023 (because there is no more current data to use). But the Company anticipates increases in its NOI and plant from 2023 to 2024. As the Cap Rates and tax rates are held constant, the increase reflected in the 2024 test year is the result of the Company's forecasted increases in plant in service and NOI.

Said another way, the increase from 2023 to 2024 is driven by the increase in the Company's property and income from 2023 to 2024. To make the 2024 property tax forecast closer to flat as compared to 2023, one would have to assume that the Company's expected increase in property and income in 2024 would be offset by one or more of: (a) continued increases in the DOR's Cap Rate; (b) the DOR agreeing, in the settlement process, to place more weight on the Income Approach than they did in 2023; or (c) continued decreases in the effective local tax rate. There is no basis for these assumptions.

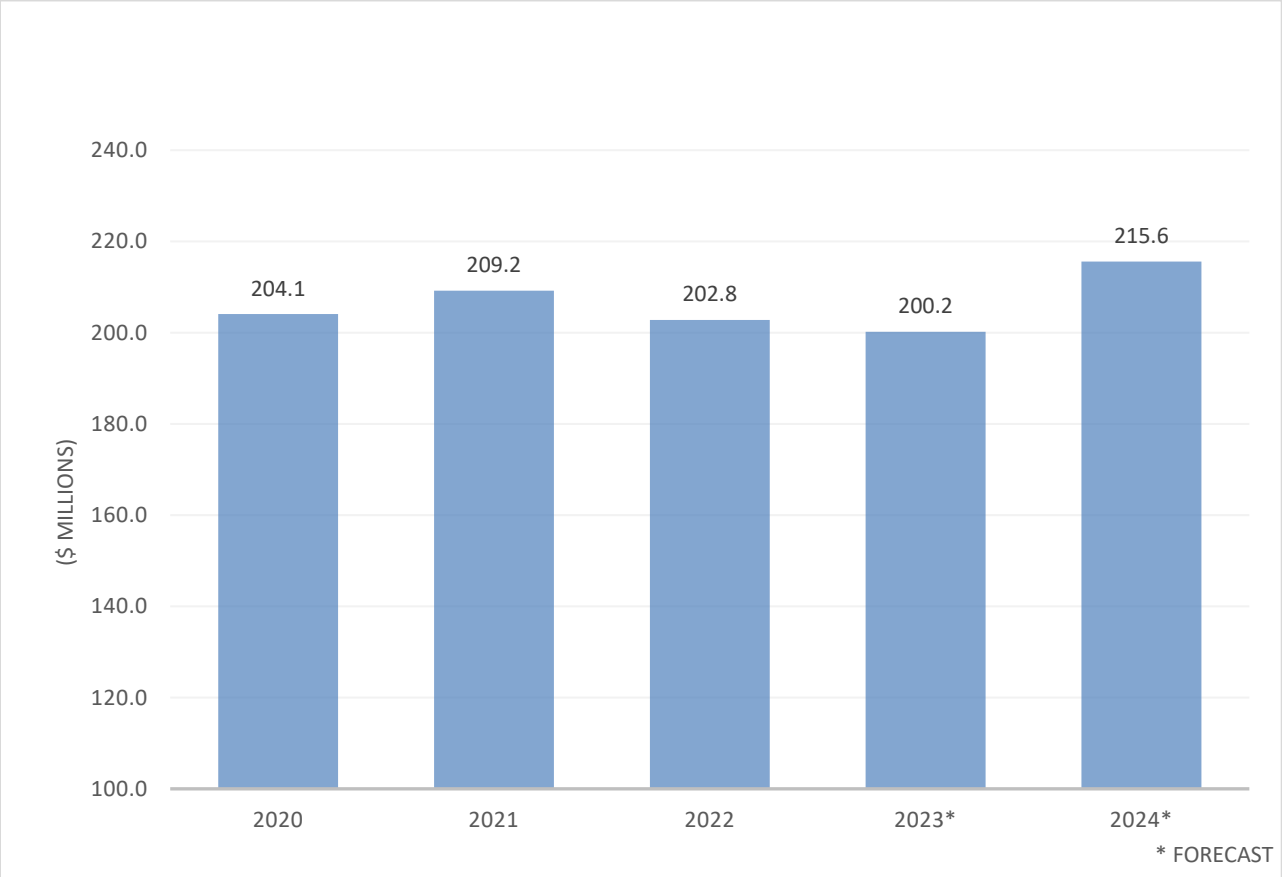
Q. HOW DOES THE FORECASTED 2024 MINNESOTA PROPERTY TAX EXPENSE COMPARE WITH PAST CHANGES IN MINNESOTA PROPERTY TAXES?

A. Figure 2 below shows NSPM (Total Company) for Minnesota for 2020 through 2024. It shows that the Company's property taxes have sometimes increased, and sometimes stayed relatively flat, through this period. The amount of

Minnesota tax each year is driven by the interplay between the DOR's Cap Rates, the DOR's weightings, the effective local tax rates, and changes in the Company's plant in service and NOI. Each of these variables changes from year to year, often in partially offsetting ways. The result, as shown on Figure 2 below, is that there is no clear trend from one year to the next.

Figure 2

NSPM (Total Company) for Minnesota Gas and Electric Property Taxes



Q. HOW HAVE THE COMPANY'S NORTH DAKOTA AND SOUTH DAKOTA PROPERTY TAXES CHANGED OVER THE LAST FEW YEARS?

A. Similar to Minnesota, the property taxes in North Dakota and South Dakota have generally been increasing over the past few years, although more modestly than in Minnesota. These increases are driven by the investment and income variables.

IV. PROPERTY TAX TRUE-UP

Q. DOES THE COMPANY PROPOSE A PROPERTY TAX TRUE-UP MECHANISM IN THIS CASE?

A. Yes. In our previous gas rate case, a property tax true-up mechanism was approved as part of the settlement; also, an identical true-up mechanism has been in place for our electric utility for its last several rate cases.

Q. WHY SHOULD A PROPERTY TAX TRUE-UP MECHANISM CONTINUE FOR THE COMPANY'S GAS UTILITY?

A. Even though our methodology for forecasting the Company's property tax expense is reasonable and effective, some factors affecting the property tax expense—particularly the DOR's Cap Rate, weightings, and local tax rates—are out of our control and are not fully predictable. As a result, final property taxes in any given year could be higher or lower than our forecasts. We believe a symmetrical true-up mechanism reflecting actual rates in each year—either higher or lower than what is approved in rates—allows the Company to recover this cost of providing service and at the same time ensures that customers only pay actual property tax amounts for a given year. Moreover,

the true-up process that has been in place has worked well, in both the gas and the electric context.

Q. DOES THE COMPANY'S PROPOSAL REGARDING THE AMOUNT OF PROPERTY TAXES IN BASE RATES IMPACT THE REQUESTED TRUE-UP MECHANISM?

A. No. As noted above, the Company proposes to include a property tax amount in base rates for the 2024 test year for the Minnesota gas jurisdiction of $18.6 million, as discussed by Company witness Halama. As Company witness Halama states, $18.6 million is equivalent to the actual property tax expense for the Minnesota Gas Jurisdiction for 2022. Ultimately, the Company's actual property tax expense for each year will be addressed through the true-up process similar to the current true-up process for property taxes for both our electric and gas businesses.

IV. CONCLUSION

Q. PLEASE SUMMARIZE YOUR DIRECT TESTIMONY.

A. The forecasted 2024 NSPM (Total Company) property tax expense is $231.4 million. Our forecasts in this case are based on the most recently available data, which we believe results in a forecast for the 2024 test year that is as accurate as reasonably possible. Ultimately, continuation of the property tax true-up protects both customers and the Company from property tax variability that is outside the Company's control.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

Statement of Qualifications

William T. Kowalowski

Responsibilities

As an Utility Tax Appraiser, I performed various tasks related to appraising public utility companies for property tax assessment.

As a Manager of Centrally Assessed Property, I supervised the annual assessment process of appraising utility companies related to property taxes for the State of Utah.

As a Manager of State Assessed Properties, I oversaw the annual assessment process of appraising utility companies related to property taxes for the State of Colorado.

As a Senior Tax Consultant, I perform tax planning, policy analysis, and related responsibilities associated with Xcel Energy's property taxes.

Experience

2003–2008	Utah State Tax Commission	Utility Tax Appraiser
2008–2015	Utah State Tax Commission	Manager Centrally Assessed
2015–2020	Colorado Department of Property	Manager State Assessed Prop
2020–Present	Xcel Energy Inc.	Sr. Tax Analyst, Tax Services

Education

1995	International Agricultural Economics	University of Wyoming
2012	Master of Business Administration	University of Phoenix

NSPM Total Company Property Taxes

		2022 Electric	2022 Gas
System Unit Value Calculation			
Plant In Service, 12/31/21		22,564,919,014	1,950,121,188
CWIP, 12/31/21		1,024,680,250	75,962,694
Depreciation, 12/31/21		(9,278,922,468)	(746,541,245)
Cost Indicator of Value	A	14,310,676,796	1,279,542,637
Income Indicator			
2019 NOI x 25%		173,178,863	13,662,688
2020 NOI x 35%		263,603,762	15,249,858
2021 NOI x 40%		306,408,850	17,851,509
NOI to Capitalize		743,191,474	46,764,055
Capitalization Rate		6.34%	6.46%
Income Indicator of Value	B	11,722,262,996	723,901,779
Apply Weightings		5.0% / 95.0%	26.0% / 74.0%
Cost Indicator		715,533,800	332,681,100
Income Indicator		11,136,149,800	535,687,300
Total System Unit Value	C	**11,851,683,600**	**868,368,400**
Allocation of System Value			
MN Plant in Service		20,292,283,027	1,837,586,854
System Plant in Service		23,589,599,264	2,026,083,882
Plant Ratio x 90%-Elec / x 75%-Gas		77.42%	68.03%
MN Gross Revenue		4,290,574,988	542,275,167
System Gross Revenue		4,887,254,162	626,925,479
Revenue Ratio x 10%-Elec / x 25%-Gas		8.78%	21.63%
MN Allocated Value Percentage		86.20%	89.66%
MN Allocated Value	D	10,216,151,300	778,579,100
Net Depreciable Excludables		3,649,255,124	101,678,366
Non-Depreciable Excludables		786,784,774	70,040,781
Subtotal		4,436,039,898	171,719,147
Ratio - System Unit Value / Cost Indicator		82.82%	67.87%
Deductions to MN Allocated Value	E	3,673,928,200	116,545,800
Settled MN Apportionable Market Value*		6,532,500,000	663,250,000
Sliding Scale Market Value Exclusion		229,436,000	0
Taxable Market Value		6,303,064,000	663,250,000
Effective Tax Rate		2.67%	2.67%
Property Tax - Elec & Gas		**168,291,809**	**17,708,775**
Rounded		168,288,000	17,712,000
Locally Assessed		10,032,000	1,056,000
Wind Production		5,652,000	
Solar Production			
Total Property Tax		**183,972,000**	**18,768,000**
Total MN Property Tax			**202,740,000**
North Dakota & South Dakota Property Tax			13,620,000
Total NSPM Property Tax			**216,360,000**

* The MN Apportionable Market Value is the actual settlement with the MNDOR in 2022.

NSPM Total Company Property Taxes

		2023 Forecast Electric	2023 Forecast Gas
System Unit Value Calculation			
Plant In Service, 12/31/22		23,682,592,799	2,203,028,378
CWIP, 12/31/22		1,000,394,659	43,840,266
Depreciation, 12/31/22		(9,516,950,790)	(795,245,480)
Cost Indicator of Value	**A**	15,166,036,668	1,451,623,164
Income Indicator			
2020 NOI x 25%		188,288,401	10,892,756
2021 NOI x 35%		268,107,743	15,620,070
2022 NOI x 40%		337,101,104	25,782,610
NOI to Capitalize		793,497,249	52,295,436
Capitalization Rate		8.00%	7.83%
Income Indicator of Value	**B**	9,918,715,613	667,885,520
Apply Weightings		35.5% / 64.5%	33.2% / 66.8%
Cost Indicator		5,378,225,400	481,938,900
Income Indicator		6,401,310,900	446,147,500
Total System Unit Value	**C**	**11,779,536,300**	**928,086,400**
Allocation of System Value			
MN Plant in Service		21,233,062,799	2,041,974,031
System Plant in Service		24,682,987,458	2,246,868,644
Plant Ratio x 90%-Elec / x 75%-Gas		77.42%	68.16%
MN Gross Revenue		4,835,019,277	878,772,954
System Gross Revenue		5,479,199,211	1,020,030,748
Revenue Ratio x 10%-Elec / x 25%-Gas		8.82%	21.54%
MN Allocated Value Percentage		86.25%	89.70%
MN Allocated Value	**D**	10,159,270,200	832,480,200
Net Depreciable Excludables		3,753,273,830	136,526,733
Non-Depreciable Excludables		1,151,121,493	31,568,781
Subtotal		4,904,395,323	168,095,514
Ratio - System Unit Value / Cost Indicator		77.67%	63.93%
Deductions to MN Allocated Value	**E**	3,809,268,300	107,470,800
Settled MN Apportionable Market Value*		6,350,000,000	725,000,000
Sliding Scale Market Value Exclusion		224,636,000	0
Taxable Market Value		6,125,364,000	725,009,400
Effective Tax Rate		2.67%	2.67%
Forecasted Property Tax - Elec & Gas		**163,547,219**	**19,357,751**
Rounded		163,548,000	19,356,000
Locally Assessed		9,996,000	1,188,000
Wind Production		6,120,000	
Solar Production			
Total Property Tax		**179,664,000**	**20,544,000**
Total MN Property Tax			**200,208,000**
North Dakota, South Dakota, & Iowa Property Tax			14,238,000
Total NSPM Forecasted Property Tax			**214,446,000**

* The MN Apportionable Market Value is the actual settlement with the MNDOR in 2023.

NSPM Total Company Property Taxes

		2024 Forecast Electric	2024 Forecast Gas
System Unit Value Calculation			
Plant In Service, 12/31/23 Forecast		24,940,243,201	2,421,178,681
CWIP, 12/31/23 Forecast		910,476,903	41,932,817
Depreciation, 12/31/23 Forecast		(9,805,415,932)	(845,658,462)
Cost Indicator of Value	**A**	$16,045,304,172	$1,617,453,036
Income Indicator			
2021 NOI x 25%		191,505,531	11,157,193
2022 NOI x 35%		294,963,466	22,559,784
2023 Estimated NOI x 40%		368,617,200	27,745,200
NOI to Capitalize		$855,086,197	$61,462,177
Capitalization Rate		8.00%	7.83%
Income Indicator of Value	**B**	$10,688,577,467	$784,957,557
Apply Weightings		35.5% / 64.5%	33.2% / 66.8%
Cost Indicator		$5,690,033,900	$536,994,400
Income Indicator		$6,898,162,100	$524,351,600
Total System Unit Value	**C**	**$12,588,196,000**	**$1,061,346,000**
Allocation of System Value			
MN Plant in Service		22,206,133,547	2,228,560,777
System Plant in Service		25,850,720,104	2,463,111,499
Plant Ratio x 90%-Elec / x 75%-Gas		77.31%	67.86%
MN Gross Revenue		4,835,019,277	878,772,954
System Gross Revenue		5,479,199,211	1,020,030,748
Revenue Ratio x 10%-Elec / x 25%-Gas		8.82%	21.54%
MN Allocated Value Percentage		86.14%	89.40%
MN Allocated Value	**D**	$10,842,916,600	$948,800,900
Net Depreciable Excludables		4,043,832,323	176,402,241
Non-Depreciable Excludables		1,060,586,577	30,442,769
Subtotal		5,104,418,900	206,845,010
Ratio - System Unit Value / Cost Indicator		78.45%	65.62%
Deductions to MN Allocated Value	**E**	$4,004,624,900	$135,728,300
MN Apportionable Market Value		$6,838,291,700	$813,072,600
Sliding Scale Market Value Exclusion		224,636,000	0
Taxable Market Value		$6,613,655,700	$813,072,600
Effective Tax Rate		2.67%	2.67%
Forecasted Property Tax - Elec & Gas		**$176,584,607**	**$21,709,038**
Rounded		$176,580,000	$21,708,000
Locally Assessed		9,948,000	1,224,000
Wind Production		6,072,000	
Solar Production		60,000	
Total Property Tax		**$192,660,000**	**$22,932,000**
Total MN Property Tax			**215,592,000**
North Dakota, South Dakota, & Iowa Property Tax			$15,846,000
Total NSPM Forecasted Property Tax			**$231,438,000**

Minnesota Property Taxes By County for 2022 and Tax Rate Calculation
($s)

	Truth-in-Taxation Notices*			Property Tax Statements		
COUNTY	**Total Taxes**	**Total Value**	**Blended Rate**	**Total Taxes**	**Total Value**	**Blended Rate**
Anoka	1,320,046	46,978,000	2.81%	2,813,241	103,307,400	2.72%
Becker	73,618	3,566,600	2.06%	72,738	3,566,600	2.04%
Beltrami	63,256	2,516,900	2.51%	92,461	3,656,773	2.53%
Benton	838,442	27,379,700	3.06%	1,317,456	42,345,500	3.11%
Blue Earth	2,395,040	95,624,995	2.50%	2,998,932	121,532,100	2.47%
Brown	201,524	8,588,800	2.35%	217,286	9,037,200	2.40%
Carver	1,641,016	61,113,200	2.69%	2,580,598	96,790,800	2.67%
Cass	192,244	9,897,300	1.94%	278,374	14,866,600	1.87%
Chippewa	1,057,716	28,830,000	3.67%	1,267,488	37,302,500	3.40%
Chisago	2,622,396	90,185,700	2.91%	3,438,430	120,003,900	2.87%
Clay	571,642	27,377,300	2.09%	789,718	34,359,200	2.30%
Crow Wing	700,938	34,693,500	2.02%	695,328	34,693,500	2.00%
Cottonwood	10,174	286,400	3.55%	15,366	535,400	2.87%
Dakota	10,812,942	403,880,800	2.68%	13,490,116	507,298,200	2.66%
Dodge	205,282	7,095,500	2.89%	533,421	20,091,600	2.65%
Douglas	512,476	20,764,700	2.47%	533,312	22,062,100	2.42%
Faribault	97,658	4,610,300	2.12%	108,919	5,205,900	2.09%
Freeborn	82,100	3,717,000	2.21%	138,856	5,768,000	2.41%
Goodhue	25,428,538	952,700,900	2.67%	25,938,560	978,872,500	2.65%
Grant	95,296	4,236,200	2.25%	94,272	4,236,200	2.23%
Hennepin	16,347,672	530,933,500	3.08%	34,455,366	1,136,745,600	3.03%
Houston	32,702	1,082,500	3.02%	138,635	4,543,800	3.05%
Hubbard	45,846	2,196,300	2.09%	45,524	2,196,300	2.07%
Isanti	126,382	4,983,700	2.54%	125,362	4,990,400	2.51%
Itasca	147,078	5,344,200	2.75%	275,102	9,910,600	2.78%
Jackson	385,072	19,577,700	1.97%	381,300	19,577,700	1.95%
Kandiyohi	308,560	11,274,900	2.74%	534,110	19,505,500	2.74%
Koochiching	54,662	1,886,200	2.90%	396,268	15,809,300	2.51%
Lac qui Parle	-	-	0.00%	766	58,300	1.31%
Lake of the Woods	-	-	0.00%	225,876	7,775,200	2.91%
Le Sueur	682,196	26,570,100	2.57%	849,101	32,987,100	2.57%
Lincoln	921,186	49,019,100	1.88%	1,244,270	60,568,800	2.05%
Lyon	1,634,530	62,175,000	2.63%	1,433,966	66,316,600	2.16%
Martin	65,960	2,198,500	3.00%	121,960	6,117,800	1.99%
McLeod	251,657	9,918,600	2.54%	443,284	16,218,400	2.73%
Meeker	159,928	6,027,100	2.65%	252,168	8,568,000	2.94%
Morrison	27,446	919,900	2.98%	23,472	799,900	2.93%
Mower	250,214	10,726,700	2.33%	266,754	11,533,400	2.31%
Murray	549,428	33,339,600	1.65%	636,362	38,347,600	1.66%
Nicollet	622,682	25,617,500	2.43%	603,906	24,568,100	2.46%
Nobles	1,503,580	71,714,300	2.10%	1,458,192	71,744,300	2.03%
Norman	9,236	481,300	1.92%	15,536	800,300	1.94%
Olmstead	602,602	25,678,100	2.35%	763,465	29,996,100	2.55%
Ottertail	278,924	13,974,900	2.00%	296,748	13,974,900	2.12%
Pine	178,638	8,010,600	2.23%	176,664	7,344,600	2.41%
Pipestone	498,042	19,273,500	2.58%	609,390	26,189,000	2.33%
Polk	92,560	4,276,100	2.16%	74,236	4,276,100	1.74%
Pope	180,362	8,173,600	2.21%	354,330	16,670,900	2.13%
Ramsey	14,900,104	443,417,900	3.36%	22,432,130	667,652,700	3.36%
Redwood	519,970	25,906,600	2.01%	572,591	28,700,700	2.00%
Renville	911,742	40,310,100	2.26%	1,041,716	46,860,200	2.22%
Rice	1,615,758	86,616,200	1.87%	2,566,084	93,642,000	2.74%
Rock	351,462	19,747,900	1.78%	313,774	17,786,100	1.76%
Roseau	395,798	15,164,500	2.61%	526,434	19,343,400	2.72%
St. Louis	973,982	34,175,100	2.85%	961,168	34,387,500	2.80%
Scott	3,140,766	112,961,700	2.78%	3,708,532	135,386,200	2.74%
Sherburne	14,698,252	564,333,800	2.60%	14,652,144	583,909,600	2.51%
Sibley	1,149,400	46,518,400	2.47%	1,271,740	51,574,100	2.47%
Stearns	3,750,940	132,231,000	2.84%	5,797,516	199,796,600	2.90%
Steele	54,284	2,091,400	2.60%	163,828	5,560,700	2.95%
Todd	130,108	4,708,200	2.76%	138,126	5,029,200	2.75%
Wabasha	623,312	25,318,500	2.46%	977,666	39,211,300	2.49%
Waseca	890,922	8,543,600	10.43%	669,790	21,279,600	3.15%
Washington	13,731,990	515,604,600	2.66%	16,778,870	633,038,100	2.65%
Watonwan	333,820	14,134,200	2.36%	310,977	13,023,900	2.39%
Wilkin	114,652	4,658,800	2.46%	118,242	4,862,100	2.43%

Winona	645,168	24,402,100	2.64%	1,079,750	42,779,100	2.52%
Wright	17,613,946	845,320,900	2.08%	18,805,353	889,382,800	2.11%
Yellow Medicine	428,156	19,715,100	2.17%	507,812	23,088,200	2.20%
Other Bills & Reimbursements						
Subtotal	151,854,021	5,775,297,895	2.63%	197,011,229	7,379,960,673	2.67%
Wind Tax				5,668,970		
Total MN Tax				202,680,199		
North & South Dakota Property Tax				13,672,515		
Total NSPM Property Tax				216,352,714		

* Truth-in-Taxation notices no longer include county-wide average distribuition bills

NSPM Total Company Property Taxes

		2022		2023 Forecast		2022 vs. 2023	
		Electric	Gas	Electric	Gas	Electric	Gas
System Unit Value Calculation							
Plant In Service, 12/31		22,564,919,014	1,950,121,188	23,682,592,799	2,203,028,378	1,117,673,785	252,907,190
CWIP, 12/31		1,024,680,250	75,962,694	1,000,394,659	43,840,266	(24,285,591)	(32,122,428)
Depreciation, 12/31		(9,278,922,468)	(746,541,245)	(9,516,950,790)	(795,245,480)	(238,028,322)	(48,704,235)
Cost Indicator of Value	A	14,310,676,796	1,279,542,637	15,166,036,668	1,451,623,164	855,359,872	172,080,527
Income Indicator							
Year 1 NOI x 25%		173,178,863	13,662,688	188,288,401	10,892,756	15,109,539	(2,769,932)
Year 2 NOI x 35%		263,603,762	15,249,858	268,107,743	15,620,070	4,503,982	370,212
Year 3 NOI x 40%		306,408,850	17,851,509	337,101,104	25,782,610	30,692,255	7,931,101
NOI to Capitalize		743,191,474	46,764,055	793,497,249	52,295,436	50,305,775	5,531,381
Capitalization Rate		6.34%	6.46%	8.00%	7.83%	1.66%	1.37%
Income Indicator of Value	B	11,722,262,996	723,901,779	9,918,715,613	667,885,520	(1,803,547,383)	(56,016,260)
Apply Weightings		5.0% / 95.0%	26.0% / 74.0%	35.5% / 64.5%	33.2% / 66.8%		
Cost Indicator		715,533,800	332,681,100	5,378,225,400	481,938,900	4,662,691,600	149,257,800
Income Indicator		11,136,149,800	535,687,300	6,401,310,900	446,147,500	(4,734,838,900)	(89,539,800)
Total System Unit Value	C	**11,851,683,600**	**868,368,400**	**11,779,536,300**	**928,086,400**	**(72,147,300)**	**59,718,000**
Allocation of System Value							
MN Plant in Service		20,292,283,027	1,837,586,854	21,233,062,799	2,041,974,031	940,779,772	204,387,177
System Plant in Service		23,589,599,264	2,026,083,882	24,682,987,458	2,246,868,644	1,093,388,194	220,784,762
Plant Ratio x 90%-Elec / x 75%-Gas		77.42%	68.03%	77.42%	68.16%	0.00%	0.13%
MN Gross Revenue		4,290,574,988	542,275,167	4,835,019,277	878,772,954	544,444,289	336,497,787
System Gross Revenue		4,887,254,162	626,925,479	5,479,199,211	1,020,030,748	591,945,049	393,105,269
Revenue Ratio x 10%-Elec / x 25%-Gas		8.78%	21.63%	8.82%	21.54%	0.04%	-0.09%
MN Allocated Value Percentage		86.20%	89.66%	86.25%	89.70%	0.05%	0.04%
MN Allocated Value	D	10,216,151,300	778,579,100	10,159,270,200	832,480,200	(56,881,100)	53,901,100
Net Depreciable Excludables		3,649,255,124	101,678,366	3,753,273,830	136,526,733	104,018,705	34,848,367
Non-Depreciable Excludables		786,784,774	70,040,781	1,151,121,493	31,568,781	364,336,719	(38,472,000)
Subtotal		4,436,039,898	171,719,147	4,904,395,323	168,095,514	468,355,424	(3,623,633)
Ratio - System Unit Value / Cost Indicator		82.82%	67.87%	77.67%	63.93%	-5.15%	-3.94%
Deductions to MN Allocated Value	E	3,673,928,200	116,545,800	3,809,268,300	107,470,800	135,340,100	(9,075,000)
Settled MN Apportionable Market Value*		6,532,500,000	663,250,000	6,350,000,000	725,000,000	(182,500,000)	61,750,000
Sliding Scale Market Value Exclusion		229,436,000	0	224,636,000	0	(4,800,000)	0
Taxable Market Value		6,303,064,000	663,250,000	6,125,364,000	725,009,400	(177,700,000)	61,759,400
Effective Tax Rate		2.67%	2.67%	2.67%	2.67%	0.00%	0.00%
Property Tax - Elec & Gas		**168,291,809**	**17,708,775**	**163,547,219**	**19,357,751**	**(4,744,590)**	**1,648,976**
Rounded		168,288,000	17,712,000	163,548,000	19,356,000	(4,740,000)	1,644,000
Locally Assessed		10,032,000	1,056,000	9,996,000	1,188,000	(36,000)	132,000
Wind Production		5,652,000		6,120,000		468,000	
Solar Production		0		0		0	
Total Property Tax		**183,972,000**	**18,768,000**	**179,664,000**	**20,544,000**	**(4,308,000)**	**1,776,000**
Total MN Property Tax			**202,740,000**		**200,208,000**		**(2,532,000)**
North Dakota, South Dakota, & Iowa Property Tax			13,620,000		14,238,000		618,000
Total NSPM Property Tax			**216,360,000**		**214,446,000**		**(1,914,000)**

* The MN Apportionable Market Value is the actual settlement with the MNDOR in 2022

NSPM Total Company Property Taxes

		2023 Forecast		2024 Forecast		2023 vs. 2024	
		Electric	Gas	Electric	Gas	Electric	Gas
System Unit Value Calculation							
Plant In Service, 12/31		23,682,592,799	2,203,028,378	24,940,243,201	2,421,178,681	1,257,650,402	218,150,303
CWIP, 12/31		1,000,394,659	43,840,266	910,476,903	41,932,817	(89,917,756)	(1,907,449)
Depreciation, 12/31		(9,516,950,790)	(795,245,480)	(9,805,415,932)	(845,658,462)	(288,465,142)	(50,412,982)
Cost Indicator of Value	A	15,166,036,668	1,451,623,164	16,045,304,172	1,617,453,036	879,267,504	165,829,872
Income Indicator							
Year 1 NOI x 25%		188,288,401	10,892,756	191,505,531	11,157,193	3,217,130	264,437
Year 2 NOI x 35%		268,107,743	15,620,070	294,963,466	22,559,784	26,855,723	6,939,714
Year 3 NOI x 40%		337,101,104	25,782,610	368,617,200	27,745,200	31,516,096	1,962,590
NOI to Capitalize		793,497,249	52,295,436	855,086,197	61,462,177	61,588,948	9,166,741
Capitalization Rate		8.00%	7.83%	8.00%	7.83%	0.00%	0.00%
Income Indicator of Value	B	9,918,715,613	667,885,520	10,688,577,467	784,957,557	769,861,854	117,072,038
Apply Weightings		35.5% / 64.5%	33.2% / 66.8%	35.5% / 64.5%	33.2% / 66.8%		
Cost Indicator		5,378,225,400	481,938,900	5,690,033,900	536,994,400	311,808,500	55,055,500
Income Indicator		6,401,310,900	446,147,500	6,898,162,100	524,351,600	496,851,200	78,204,100
Total System Unit Value	C	**11,779,536,300**	**928,086,400**	**12,588,196,000**	**1,061,346,000**	**808,659,700**	**133,259,600**
Allocation of System Value							
MN Plant in Service		21,233,062,799	2,041,974,031	22,206,133,547	2,228,560,777	973,070,748	186,586,746
System Plant in Service		24,682,987,458	2,246,868,644	25,850,720,104	2,463,111,499	1,167,732,646	216,242,855
Plant Ratio x 90%-Elec / x 75%-Gas		77.42%	68.16%	77.31%	67.86%	-0.11%	-0.30%
MN Gross Revenue		4,835,019,277	878,772,954	4,835,019,277	878,772,954	0	0
System Gross Revenue		5,479,199,211	1,020,030,748	5,479,199,211	1,020,030,748	0	0
Revenue Ratio x 10%-Elec / x 25%-Gas		8.82%	21.54%	8.82%	21.54%	0.00%	0.00%
MN Allocated Value Percentage		86.25%	89.70%	86.14%	89.40%	-0.11%	-0.30%
MN Allocated Value	D	10,159,270,200	832,480,200	10,842,916,600	948,800,900	683,646,400	116,320,700
Net Depreciable Excludables		3,753,273,830	136,526,733	4,043,832,323	176,402,241	290,558,494	39,875,508
Non-Depreciable Excludables		1,151,121,493	31,568,781	1,060,586,577	30,442,769	(90,534,916)	(1,126,012)
Subtotal		4,904,395,323	168,095,514	5,104,418,900	206,845,010	200,023,577	38,749,496
Ratio - System Unit Value / Cost Indicator		77.67%	63.93%	78.45%	65.62%	0.78%	1.68%
Deductions to MN Allocated Value	E	3,809,268,300	107,470,800	4,004,624,900	135,728,300	195,356,600	28,257,500
MN Apportionable Market Value*		6,350,000,000	725,000,000	6,838,291,700	813,072,600	488,291,700	88,072,600
Sliding Scale Market Value Exclusion		224,636,000	0	224,636,000	0	0	0
Taxable Market Value		6,125,364,000	725,009,400	6,613,655,700	813,072,600	488,291,700	88,063,200
Effective Tax Rate		2.67%	2.67%	2.67%	2.67%	0.00%	0.00%
Forecasted Property Tax - Elec & Gas		**163,547,219**	**19,357,751**	**176,584,607**	**21,709,038**	**13,037,388**	**2,351,287**
Rounded		163,548,000	19,356,000	176,580,000	21,708,000	13,032,000	2,352,000
Locally Assessed		9,996,000	1,188,000	9,948,000	1,224,000	(48,000)	36,000
Wind Production		6,120,000		6,072,000		(48,000)	
Solar Production		0		60,000		60,000	
Total Property Tax		**179,664,000**	**20,544,000**	**192,660,000**	**22,932,000**	**12,996,000**	**2,388,000**
Total MN Property Tax			**200,208,000**		**215,592,000**		**15,384,000**
North Dakota, South Dakota, & Iowa Property Tax			14,238,000		15,846,000		1,608,000
Total NSPM Forecasted Property Tax			**214,446,000**		**231,438,000**		**16,992,000**

A Minn. R. 8100.0300, subp. 3 describes in part the cost indicator of value as:

The cost factor to be considered in the utility valuation formula is the original cost less depreciation of the system plant, plus the cost of improvements to the system plant, plus the original cost of all types of construction work in progress that are installed by the assessment date, plus the cost of property held for future use, plus the cost of contributions in aid of construction.

B Minn. R. 8100.0300, subp. 4, explains the process for calculating the income indicator of value:

The income indicator of value is estimated by weighting the capitalized net operating earnings of the utility company for the most recent three years as follows: most recent year, 40 percent; previous year, 35 percent; and final year, 25 percent. Utilities may request the removal of nonrecurring items of income or expense. The commissioner must determine if removal of the item is appropriate. The net income is capitalized by applying a capitalization rate that is computed by using the band of investment method. This method considers:

A. the capital structure of utilities;

B. the cost of debt or interest rate;

C. the yield on preferred stock of utilities;

D. the yield on common stock of utilities; and

E. the risk-free rate, relative risk, and risk premiums for public utility companies.

Capitalization rates are computed each year for electric companies, gas distribution companies, natural gas transmission systems, and fluid pipeline companies. The rates are recalculated each year using the method described in this subpart.

Minn. R. 8100.0100, subp. 9 defines net operating earnings as follows:

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

Minn. R. 8100.0100, subp. 5, defines capitalization rate as:

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

C Minn. R. 8100.0300, subp. 5, explains the process for calculating the system unit value:

The unit value of the utility company is equal to the total of the weighted indicators of value. The total weighting must equal 100 percent. The default weightings of the indicators are: market indicator, 0 percent; cost indicator, 50 percent; income indicator, 50 percent.

D Minn. R. 8100.0400, subp. 2, explains the process for calculating the allocation of electric value attributable to Minnesota:

The original cost of the utility property located in Minnesota divided by the total original cost of the property in all states of operation is weighted at 90 percent. Gross revenue derived from operations in Minnesota divided by gross operations revenue from all states is weighted at ten percent.

Minn. R. 8100.0400, subp. 3, explains the process for calculating the allocation of gas value attributable to Minnesota:

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

E Minn. R. 8100.0500, subp. 1, explains the process for adjusting the valuation performed under Rule 8100.0300:

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

Minn. R. 8100.0500, subp. 2, describes the types of property excluded from the valuation performed under Rule 8100.0300:

The following properties are valued by the local or county assessor and, therefore, the formula provided herein for the valuation of utility property is not applicable to such property:

A. land;

B. nonoperating property; and

C. rights-of-way

Minn. R. 8100.0500, subp. 3, further explains the calculation of deduction to Minnesota value:

The Minnesota portion of the unit value is reduced by the value included in the unit value of the company for land, rights-of-way, nonoperating property, and exempt property. This amount is calculated by determining the ratio of the unit value computed in part 8100.0300, subpart 5, to the cost less depreciation allowed in part 8100.0300, subpart 3. This ratio is multiplied by the cost less depreciation of the property to be deducted.