

Direct Testimony and Schedules
Christopher A. Arend

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 Electric Service in Minnesota

Docket No. E002/GR-19-564
Exhibit___(CAA-1)

Property Taxes

November 1, 2019

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1 **I. INTRODUCTION**

2
3 Q. PLEASE STATE YOUR NAME AND OCCUPATION.

4 A. My name is Christopher A. Arend. I am a Senior Director of Tax Services for
5 Xcel Energy Services Inc. (XES), which provides services to Northern States
6 Power Company (NSPM or the Company).

7
8 Q. PLEASE SUMMARIZE YOUR QUALIFICATIONS AND EXPERIENCE.

9 A. I have over 25 years of corporate tax experience, including serving as Senior
10 Director of Tax Services for XES. In my current position, I oversee and
11 manage tax planning and defense responsibilities associated with XES's
12 income, property and sales taxes. A summary of my qualifications and
13 experience is provided as Exhibit___(CAA-1), Schedule 1.

14
15 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

16 A. I provide the Company's annual property tax expense forecast for 2020, 2021
17 and 2022 (the proposed multi-year rate plan period). Specifically, I discuss our
18 overall forecast methodology and the inputs we used to develop the forecasts
19 in each year. I also provide a discussion of how property taxes were treated in
20 our last rate case, how they should be treated in this case, and historical
21 information related to our property taxes.

22
23 Q. BEFORE TURNING TO FORECAST DETAILS, PLEASE DISCUSS WHAT YOU BELIEVE
24 THE GOAL IS IN DETERMINING THE APPROPRIATE LEVEL OF PROPERTY TAXES
25 TO INCLUDE IN RATES.

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

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

6
7 Q. HOW DO YOU PROPOSE TO ENSURE THAT CUSTOMERS ONLY PAY PROPERTY
8 TAXES THAT ARE ACTUALLY INCURRED?

9 A. While we are requesting that the Commission approve these forecasted
10 amounts for inclusion in rates, we are also proposing a true-up mechanism
11 that will ensure customers pay only property taxes that are actually incurred.
12 In our most recent rate case we used the same mechanism and we were able to
13 reflect the lower actual property tax amounts through an interim rate refund
14 and lower final rates. We believe this worked well in our last rate case, and we
15 are proposing similar treatment of property taxes in this case. I provide
16 further detail about what occurred and how property taxes were treated in our
17 last rate case in Section III of my testimony.

18
19 Q. WHAT ARE THE COMPANY'S FORECASTED PROPERTY TAX EXPENSE AMOUNTS
20 FOR THE MULTI-YEAR RATE PLAN PERIOD?

21 A. Our 2020-2022 total Company property tax forecasts, by state taxing
22 jurisdiction, are shown in Table 1 below. For comparison purposes, Table 1
23 also shows our actual 2018 property taxes and our current 2019 forecast.
24 Table 1 also provides this information at the Minnesota electric jurisdictional
25 level. Company witness Mr. Benjamin Halama provides support for the
26 Minnesota electric jurisdiction property tax expense amounts, including how
27 the total Company property tax expense is appropriately allocated to the

1 relevant regulatory jurisdictions. Detailed calculations of the total Company
2 property tax expense for 2018-2022 are provided in Exhibit___(CAA-1),
3 Schedules 2-6.

4
5 **Table 1**
6 **Forecasted NSPM Property Tax Expense**
7 **(\$ Million)**

8

9 Component	2018	2019	2020	2021	2022
	Actual	Forecast	Forecast	Forecast	Forecast
10 Minnesota Taxing Jurisdiction	\$203.9	\$205.6	\$210.9	\$221.1	\$238.4
11 North Dakota Taxing Jurisdiction	\$5.6	\$7.2	\$6.9	\$7.2	\$7.6
12 South Dakota Taxing Jurisdiction	\$4.4	\$4.4	\$4.6	\$4.9	\$5.8
13 Iowa Taxing Jurisdiction	\$0	\$0	\$0	\$0	\$0.2
14 Total Company	\$213.9	\$217.2	\$222.4	\$233.2	\$252.0
15 MN Electric Jurisdiction	\$156.0	\$156.2	\$158.2	\$165.3	\$179.1

16

17 Since Minnesota taxes account for over 94 percent of the total Company
18 property taxes, the discussion in my testimony focuses on the Minnesota
19 taxing jurisdiction. However, consistent with prior rate cases, the Company is
20 seeking recovery of the total property tax expense. In addition, unless noted
21 otherwise, the numbers I provide are for both electric and gas, consistent with
22 how we estimate property taxes for financial statement purposes.

23
24 Q. WERE THESE FORECAST AMOUNTS DEVELOPED USING THE SAME APPROACH
25 THAT THE COMPANY USED IN THE LAST RATE CASE?

26 A. Yes, our overall forecasting approach is the same, and we are using similar
27 data inputs for the variables in our property tax forecast calculation.

1 Specifically, our forecasts in this case reflect the most recent actual Minnesota
2 DOR valuation inputs, which were finalized in August 2019.

3
4 Q. PLEASE DESCRIBE HOW APPLICATION OF THE MOST RECENT ACTUAL
5 MINNESOTA DOR VALUATION INPUTS IMPACTED THE COMPANY'S
6 FORECASTED PROPERTY TAX EXPENSE IN THIS CASE.

7 A. While the DOR's final valuation is not guaranteed from year to year, the
8 valuation process is understood and the valuation inputs appear to be stable.
9 As a result, these inputs are reasonably predictable and we believe that
10 forecasting property taxes using the actual DOR valuation inputs received in
11 2019 is appropriate.

12
13 I discuss the DOR valuation inputs further in Section II.B. of my testimony.
14 In addition, I provide analysis of our property tax forecasts and a historical
15 analysis of our property taxes in Section III.

16
17 Q. WHAT WAS THE COMMISSION'S DECISION RELATED TO PROPERTY TAXES IN
18 YOUR LAST RATE CASE?

19 A. In our last rate case, Docket No. E002/GR-15-826, the Commission
20 approved \$163.1 million in property taxes for 2016-2019, of which \$151.6 was
21 included in base rates and the remaining \$11.5 was included in various riders.
22 The Commission also approved a true-up mechanism for the portion included
23 in base rates that required an annual compliance filing to show actual property
24 taxes and a refund or payment to customers based on the difference between
25 the projected property tax and the actual property tax for the respective year.
26 Property taxes related to riders are trued up through separate rider
27 proceedings.

1 Q. HOW DO THE 2020-2022 FORECASTED PROPERTY TAX AMOUNTS COMPARE
2 WITH THE LEVEL OF PROPERTY TAXES APPROVED BY THE COMMISSION AND
3 INCLUDED IN RATES?

4 A. Tables 2 and 3 below make two comparisons. First, Table 2 shows the
5 property tax expense currently included in rates for 2018 and 2019 compared
6 to the jurisdictionalized 2020-2022 forecasted amounts.

7

8

9

Table 2
NSPM Jurisdictionalized Property Tax Expense

10

(\$ Million)

11

	2018 In Rates	2019 In Rates	2020 Forecast	2021 Forecast	2022 Forecast
Property Tax Expense	\$163.1	\$163.1	\$158.2	\$165.3	\$179.1
Increase over Previous Year		\$0	(\$4.9)	\$7.1	\$13.8

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Second, Table 3 shows our 2020-2022 forecasts compared to 2018 actuals and
our current 2019 forecasted amount. Compared to our current 2019 forecast,
the increase in forecasted property tax expense in 2020 is \$2.0 million on a
jurisdictional basis. As shown in Exhibit___(CAA-1), Schedule 10, the
Minnesota taxing jurisdiction accounts for virtually all of the year-to-year
increases in property taxes.

21

22

Table 3

23

NSPM Jurisdictionalized Property Tax Expense

24

(\$ Million)

25

	2018 Actual	2019 Forecast	2020 Forecast	2021 Forecast	2022 Forecast
Property Tax Expense	\$156.0	\$156.2	\$158.2	\$165.3	\$179.1
Increase over Previous Year		\$0.2	\$2.0	\$7.1	\$13.8

26

27

1 Q. IS THE COMPANY SEEKING TO RECOVER PROPERTY TAXES AS PART OF ITS
2 MULTI-YEAR RATE PLAN PROPOSAL?

3 A. Yes. Company witness Mr. Benjamin Halama has incorporated the 2020
4 forecasted amount into the 2020 revenue requirements, and he has
5 incorporated the 2021 and 2022 forecasted amounts into the multi-year rate
6 plan revenue requirements. As I mentioned earlier, we also propose an annual
7 compliance filing and true-up that would allow rates to reflect actual property
8 taxes for each year.

9

10 Q. PLEASE DESCRIBE THE COMPANY'S PROPOSED TRUE-UP MECHANISM.

11 A. Given the expected procedural schedule for this case, we believe it will be
12 possible to reflect actual property taxes for 2020 in final rates, while 2021 and
13 2022 rates would include forecasted property tax amounts. We propose to
14 continue submitting annual compliance filings that show actual property taxes
15 for 2021 and 2022 once they are finalized. Any over-recovery could be
16 refunded, or any under-recovery could be charged, through an appropriate
17 mechanism at that time. I discuss our proposal for an annual compliance
18 filing and true-up more specifically in Section II below, where I present the
19 property tax information timeline in more detail.

20

21 Q. IF SUCH A SYMMETRICAL TRUE-UP IS NOT ADOPTED, WHAT DO YOU
22 RECOMMEND?

23 A. For the reasons discussed in detail in my testimony, I believe a symmetrical
24 true-up is reasonable and fair to both customers and the Company. However,
25 if the Commission does not agree with that approach, I believe the forecasted
26 property tax levels I have presented should be used for the purpose of setting

1 rates. These forecasts represent the most accurate information available at
2 this time.

3
4 Q. HOW IS YOUR TESTIMONY ORGANIZED?

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

- 6 • Section II: Property Tax Expense Forecasts;
- 7 • Section III: Forecast Analysis; and
- 8 • Section IV: Conclusion.

9
10 **II. PROPERTY TAX EXPENSE FORECASTS**

11
12 **A. Forecast Methodology**

13 Q PLEASE DESCRIBE HOW THE COMPANY'S PROPERTY IS ASSESSED A VALUE AND
14 HOW THE ASSESSED VALUE IS USED TO ATTRIBUTE PROPERTY TAXES.

15 A. The first step in the property tax process is determining the value of the
16 Company's property. In Minnesota, different types of utility property are
17 valued differently. Utility operating property is valued by the DOR using the
18 formulas described in Minnesota Rule 8100.0300. Non-operating property
19 (e.g. offices, garages, warehouses, land, etc.) is valued by local assessors using
20 traditional valuation techniques. The DOR also determines how much of the
21 Company's total system value is attributable to Minnesota. The Minnesota
22 value is then apportioned to each county. Counties add the portion
23 apportioned to them with the property they assess themselves to arrive at our
24 tax base within the jurisdiction. Finally, each jurisdiction applies its own
25 individual property tax rate to our tax base to determine our property tax
26 liability. Additional detail on Minnesota's property tax system is available in
27 Chapter 8100 of the Minnesota Rules.

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

3 A. The DOR begins by determining the system unit value, which is an estimated
4 valuation of the Company's entire electric or gas system, in all states in which
5 the Company operates, based on two different appraisal methods. One
6 appraisal method is referred to as the cost indicator of value, and it is
7 calculated based on the Company's net book value plus construction work in
8 progress (CWIP).

9
10 A second appraisal method used by the DOR is referred to as the income
11 indicator of value. The basic calculation divides the Company's net operating
12 income by a weighted average cost of capital.

13
14 Next, the DOR applies weightings to the cost and income indicators of value.
15 For example, in 2019 the DOR applied 17.5% weight to the cost method and
16 82.5% to the income method in determining the value of NSPM's electric
17 system. The result of this calculation is the total system unit value.

18
19 Allocators, based on plant and revenue, are then applied to the total system
20 unit value to determine the Minnesota portion of the total system unit value,
21 which is referred to as the Minnesota allocated value.

22
23 Next, the Minnesota allocated value is reduced by deductions and exclusions
24 to value, such as pollution control and wind production property, to
25 determine the apportionable market value. This is the value that is
26 apportioned to the various Minnesota taxing jurisdictions that NSPM operates
27 in.

1 An example of this calculation is attached as Exhibit__ (CAA-1), Schedule 2.

2
3 Q. PLEASE DESCRIBE HOW WIND ENERGY PROPERTY IS TAXED IN MINNESOTA.

4 A. Minnesota Statute § 272.029 explains how wind energy conversion property is
5 taxed in that state. The wind energy conversion system is exempt from the
6 valuation of a company's utility operating property and is instead taxed based
7 on production using a rate of .12 cents per kilowatt-hour of electricity
8 produced by the system. This tax is included in our MN forecast as seen in
9 schedules 2-6.

10
11 Q. PLEASE DESCRIBE HOW UTILITY PROPERTY IS VALUED IN NORTH DAKOTA
12 AND SOUTH DAKOTA.

13 A. North Dakota Century Code § 57-06-14 explains how utility property is valued
14 in that state. The assessment process in North Dakota is similar to the
15 Minnesota process. Additional information related to the North Dakota
16 property tax system can be found in Chapter 57-06 of the North Dakota
17 Century Code.

18
19 South Dakota Codified Laws § 10-35-10.1 explains how utility property is
20 valued in that state. The assessment process in South Dakota is similar to the
21 Minnesota process. Additional information related to the South Dakota
22 property tax system can be found in Chapter 10-35 of the South Dakota
23 Codified Laws.

24
25 Q. DOES THE COMPANY HAVE ANY PLANT OR PORTION OF PLANT THAT IS NON-
26 REGULATED? IF YES, HOW IS THE NON-REGULATED PLANT HANDLED FOR
27 PROPERTY TAXES?

1 A. Yes, the Company owns a steam line that connects the Sherco generation
2 plant to an adjacent Liberty Paper facility. This steam line is non-regulated
3 property. There are no property taxes corresponding to this non-regulated
4 steam line because it is not treated as taxable property by either the DOR or
5 local taxing jurisdictions. The steam line falls outside the definition of
6 “operating property” and is therefore not subject to valuation by the DOR for
7 property tax purposes. The steam line is also not included in the calculation
8 of local property taxes, because it is personal property, not real estate. Thus
9 there are no property taxes corresponding to this non-regulated steam line.

10
11 Q. PLEASE DESCRIBE THE DOR’S ASSESSMENT AND APPEAL PROCESS

12 A. The DOR typically presents an initial assessment by early July, and we have 30
13 days from the date the initial assessment is received to request an
14 administrative appeal with the DOR. While a settlement for less than the
15 initially assessed value is not guaranteed, the Company pursues an appeal if it
16 is in the best interest of its customers.

17
18 Q. GIVEN THIS PROCESS, HOW DOES THE COMPANY FORECAST ITS PROPERTY
19 TAXES?

20 A. We forecast property taxes based on the same key variables used in prior rate
21 cases, such as investments, DOR valuation inputs, and effective tax rate. We
22 also propose to update our property tax forecasts to incorporate actual
23 information on an annual basis via the true-up mechanism. As I noted earlier,
24 we propose to continue the annual compliance filing showing actual property
25 taxes once finalized. Consistent with the current process approved in the
26 Company’s last rate case, this would be submitted by July 1 of each year
27 showing the actual property taxes for the prior year.

1 Q. HAS THE COMPANY RECEIVED A REFUND OF ANY PROPERTY TAX PAYMENTS
2 SINCE JANUARY 1, 2005?

3 A. No, NSPM has not received a refund of any property tax payments since
4 January 1, 2005.

5

6 Q. WHAT INPUTS DID THE COMPANY USE TO DEVELOP ITS 2020 PROPERTY TAX
7 FORECAST?

8 A. Our current 2020 property tax forecast is based on the data shown in Table 4
9 below.

10

11

Table 4

12

Inputs to 2020 Property Tax Forecast

13

Category	Variable	Data Inputs
Investments	Plant	Projected December 31, 2019 Plant Balances
	Net Operating Income	Actual 2017 & 2018 and Projected 2019 Net Operating Income
DOR Valuation Inputs	DOR Capitalization Rates	Actual 2019 DOR Capitalization Rates (Received May 2019)
	DOR Weighting of Indicators of Value	Actual 2019 DOR Weighting (Received August 2019)
Effective Tax Rate	Local Tax Rates	2018 Effective Rate (Received March and April 2019)

14

15
16
17
18
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20
21
22 Q. DID THE COMPANY USE THE SAME VARIABLES LISTED IN TABLE 4 IN ITS 2016
23 RATE CASE APPLICATION?

24 A. Yes. We used the same variables in our last rate case application.

1 Q. ARE THE DATA INPUTS IN TABLE 4 THE MOST APPROPRIATE TO USE IN
2 FORECASTING THE 2020 PROPERTY TAX EXPENSE?

3 A. Yes. The information in Table 4 represents the most current information
4 available at this time and results in a reasonable and sound forecast of the
5 2020 property tax expense.

6

7 Q. IN THIS CASE YOU PROVIDE PROPERTY TAX FORECASTS FOR 2021 AND 2022 AS
8 WELL. WHICH OF THE DATA INPUTS CHANGE IN THE FORECAST CALCULATION
9 FOR THOSE YEARS?

10 A. The only data inputs that change in forecasting property taxes for 2021 and
11 2022 are the investment forecast component. We update these inputs because
12 we have projected plant balances and net operating income projections for
13 2021 and 2022, and it is reasonable to update our forecast to include that
14 information.

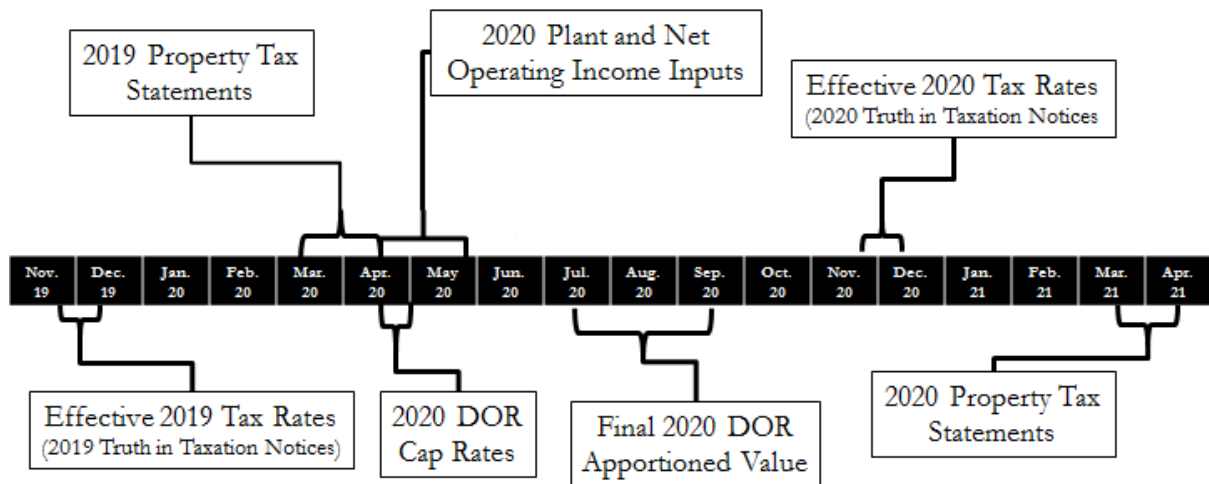
15

16 The 2021 and 2022 forecasts, however, use the same DOR valuation inputs
17 and effective tax rate shown in Table 4. The DOR and local taxing authorities
18 control these variables and can make different decisions that affect these
19 inputs every year. As such, we do not forecast these inputs. We believe using
20 the most recent, actual information available at this time, as shown in Table 4,
21 is appropriate for our 2021 and 2022 forecasts.

22

- 1 Q. YOU MENTIONED EARLIER THAT THE COMPANY UPDATES ITS INTERNAL
 2 PROPERTY TAX FORECASTS AS VARIOUS INFORMATION IS RECEIVED DURING
 3 THE YEAR. WHEN DOES THE COMPANY TYPICALLY RECEIVE SUCH
 4 INFORMATION?
- 5 A. Figure 1 below shows when we expect to receive information regarding our
 6 2020 property taxes in 2020 and 2021. This schedule is the same every year,
 7 so can be applied to information we will receive related to 2021 and 2022
 8 property taxes, as well.

9
 10 **Figure 1**
 11 **2020 Property Tax Timeline**



- 21 Q. THE COMPANY HAS INCORPORATED SOME UPDATED INFORMATION INTO ITS
 22 FORECASTS AT VARIOUS TIMES DURING THE COURSE OF SOME PRIOR RATE CASE
 23 PROCEEDINGS. PLEASE EXPLAIN HOW THE COMPANY PROPOSES TO UPDATE
 24 ITS FORECASTS IN THIS CASE.
- 25 A. We propose to submit updated information in an annual filing once property
 26 taxes for a given year are final. For example, our first update would be filed
 27 after we receive 2020 property tax statements in the spring of 2021. That

1 filing would include final property tax amounts for 2020 because we would
2 have the updated actual 2020 DOR valuation inputs and actual effective tax
3 rate at that time. We would file our next update after we receive final 2021
4 property tax information in the spring of 2022. A similar update schedule
5 would be used for subsequent years.

6
7 Q. GIVEN THE PROCEDURAL TIMELINE FOR THIS CASE, WHAT LEVEL OF
8 PROPERTY TAXES WOULD BE INCLUDED IN RATES FOR 2021, AND 2022?

9 A. The level of property taxes included in rates for 2021 and 2022 depends on
10 the timing of the Commission's final decision in this case, but would use the
11 forecasted property taxes based on the most recent data inputs available at the
12 time the Commission makes its decision. In this case, we believe that could be
13 the forecasts included in our 2021 compliance filing.

14
15 Q. PLEASE EXPLAIN HOW YOUR PROPOSAL FOR AN ANNUAL COMPLIANCE FILING
16 AND TRUE-UP MECHANISM WOULD WORK FOR 2021 AND 2022 PROPERTY
17 TAXES.

18 A. We propose to submit annual compliance filings that will show actual property
19 taxes for 2021 and 2022 after we receive final property tax statements in the
20 spring of the following years. Our compliance filings would show actual
21 property taxes compared to the amount included in rates for the respective
22 year. Any over-recovery could be refunded – or symmetrically, any under-
23 recovery could be charged – through an appropriate mechanism at that time.

24
25 Q. WHY DO YOU BELIEVE A TRUE-UP MECHANISM IS APPROPRIATE IN THIS CASE?

26 A. Because there is still uncertainty about the finality of DOR valuations each
27 year, final property taxes could be higher or lower than our forecasts. Thus,

1 we believe a symmetrical true-up mechanism is appropriate in this case. A
2 true-up mechanism that reflects actual property taxes in a given year – either
3 higher or lower than what is approved for inclusion in rates – allows the
4 Company to recover this cost of providing service and at the same time
5 ensures customers only pay actual property tax amounts for a given year.

6
7 **B. Data Inputs**

8 *1. Plant*

9 Q. WHAT PLANT DATA DID THE COMPANY USE IN ITS 2020-2022 PROPERTY TAX
10 FORECASTS?

11 A. Our current 2020 property tax forecast is based upon our current projection
12 of December 31, 2019 plant balances. The Company's final 2020 property tax
13 expense will be based on the final December 31, 2019 plant balances.

14 Similarly, the 2021 and 2022 property tax forecasts are based upon our current
15 projections of December 31, 2020 and 2021 plant balances, respectively, and
16 final property taxes for those years will be based on the final plant balances as
17 of December 31 each year.

18
19 *2. Net Operating Income*

20 Q. WHAT NET OPERATING INCOME DATA DID THE COMPANY USE IN ITS 2020-
21 2022 PROPERTY TAX FORECASTS?

22 A. Our current 2020 property tax forecast is based upon actual 2017 and 2018
23 net operating income and our current projection of 2019 net operating
24 income. The Company's final 2020 property tax expense will be based upon
25 actual 2017, 2018 and 2019 net operating income. The calculation method for
26 net operating income is dictated by the DOR. The DOR used a three-year

1 weighted average method for 2019 property taxes and we use this three-year
2 weighted method in our 2020-2022 property tax forecasts.

3
4 Our 2021 net operating income is based on actual 2018 and projected 2019
5 and 2020 net operating income. Final 2021 net operating income will be
6 based on actual 2018, 2019 and 2020 net operating income.

7
8 Following the same process, 2022 net operating income is based on projected
9 2019, 2020 and 2021 net operating income. Final 2022 net operating income
10 will be based on actual 2019, 2020 and 2021 net operating income.

11
12 *3. DOR Capitalization Rates*

13 Q. WHAT DOR CAPITALIZATION RATES DID THE COMPANY USE IN ITS 2020-2022
14 PROPERTY TAX FORECASTS?

15 A. Our 2020-2022 property tax forecasts are based on the most recent actual
16 information available, which are the actual DOR capitalization rates we
17 received in 2019. Final property taxes will be based on the DOR's final
18 capitalization rates 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 2020-2022 PROPERTY TAX FORECASTS?

23 A. Our 2020-2022 property tax forecasts are based on the most recent actual
24 information available, which are the actual DOR weightings of the cost and
25 income indicators of value we received in 2019. Final property taxes will be
26 based on the DOR's weightings for each specific year.

1 While the DOR reviews and may adjust these weightings every year, and prior
2 years' weightings do not dictate the DOR's decision in any year, we believe
3 using the most recent weightings provides a reasonable property tax forecast.
4 We also believe use of the 2019 actual weightings of the cost and income
5 indicators of value is appropriate because it is the most recent actual
6 information available.

7
8 *5. Local Tax Rates*

9 Q. WHAT LOCAL TAX RATES DID THE COMPANY USE IN ITS 2020-2022 PROPERTY
10 TAX FORECAST?

11 A. Our current forecast of the 2020-2022 property tax expense is based upon
12 2018 local tax rates. The local tax rates are mathematically converted into an
13 effective tax rate as provided in Exhibit___(CAA-1), Schedule 7. This is the
14 most accurate recent tax rate data available at this time. Specifically, the
15 resulting 3.11% effective tax rate used in our forecasts is based upon 2018
16 final tax statements received in March and April 2019. This tax rate was used
17 to calculate the 2018 Minnesota property tax as well as the 2019 forecasted
18 property tax. Exhibit___(CAA-1), Schedule 8. Final 2020-2022 property taxes
19 will be based on the final statements received in March and April of the
20 following year.

21
22 **III. FORECAST ANALYSIS**

23
24 Q. WHAT IS DRIVING THE INCREASE IN 2020 MINNESOTA PROPERTY TAXES FROM
25 THE 2019 LEVELS?

26 A. As described above, the Company's property tax expense is a function of
27 three primary variables: investments; DOR valuation inputs; and local

1 property tax rates. The increase in our forecasted 2020 Minnesota taxing
2 jurisdiction property tax expense is driven primarily by the investment
3 variable. For example, our 2020 property tax forecast includes over \$1.3
4 billion in additional taxable property and over \$25 million in additional net
5 operating income. Exhibit___(CAA-1), Schedule 9 compares our 2020
6 forecast to 2019 property tax expense.

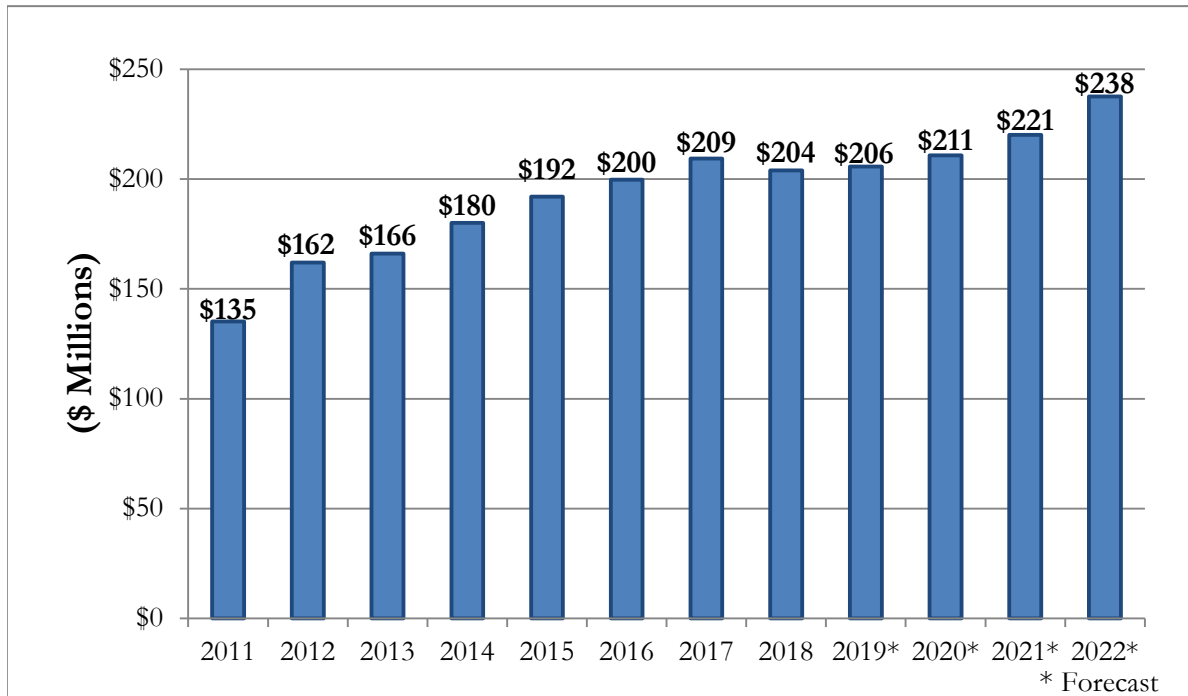
7
8 Q. WHAT IS DRIVING THE INCREASE IN 2021-2022 MINNESOTA PROPERTY TAXES?

9 A. Like the change between 2019 and 2020, the increase in 2021-2022 property
10 taxes is driven by the investment variable. Exhibit___(CAA-1), Schedules 10
11 and 11 show how our additional investments impact the 2021-2022 forecasts.

12
13 Q. ARE THE FORECASTED INCREASES IN 2020-2022 MINNESOTA PROPERTY TAXES
14 CONSISTENT WITH PAST INCREASES IN MINNESOTA PROPERTY TAXES?

15 A. Yes. As Minnesota taxes account for over 94 percent of total Company
16 property taxes, Figure 2 below shows NSPM property taxes for the Minnesota
17 taxing jurisdiction for 2011 through 2022. As shown, property taxes have
18 increased each year since 2011, except for 2018. The 2018 property tax is
19 slightly lower than 2017 due to more favorable weightings by the DOR for the
20 cost and income indicators of value.

1 **Figure 2**
 2 **NSPM Minnesota Taxing Jurisdiction Electric and Gas Property Taxes**



14 Exhibit___(CAA-1), Schedule 12 shows the Company’s property taxes since
 15 2011.

17 Q. WHAT IS DRIVING THE INCREASES IN THE NORTH DAKOTA AND SOUTH
 18 DAKOTA PROPERTY TAXES INCLUDED IN THE COMPANY’S FORECASTS?

19 A. Similar to Minnesota, the property tax increases in North Dakota and South
 20 Dakota are driven by the investment variable.

22 Q. WHAT DID THE COMMISSION APPROVE WITH RESPECT TO PROPERTY TAX IN
 23 THE LAST RATE CASE?

24 A. The Commission approved \$163.1 million in property taxes for 2016-2019, of
 25 which \$151.6 was included in base rates and the remaining \$11.5 was included
 26 in various riders. The Commission also approved a true-up mechanism if the
 27 amount on the final property tax statements for any of these years was more

1 or less than the amount included in base rates. In that case, we would make
2 annual adjustments for the difference (on a Minnesota electric jurisdictional
3 basis). As previously stated, property taxes related to riders are trued up
4 through separate rider proceedings.

5
6 Q. WHAT WERE THE RESULTS OF THE BASE RATE TRUE-UP MECHANISM FOR EACH
7 YEAR?

8 A. 2016 property taxes were updated in rebuttal testimony and included in the
9 rate case settlement, eliminating the need for a true-up filing.

10
11 Final 2017 property taxes shown on the MN, ND and SD property tax
12 statements received in February through April 2018 were \$144.7 million on a
13 Minnesota electric jurisdictional basis for base rates, or \$6.9 million (or 4.5%)
14 less than the amount reflected in base rates. The decrease from the forecast
15 provided in the last rate case to the final property tax statements was primarily
16 due to a decrease in the tax rate.

17
18 Final 2018 property taxes shown on the MN, ND and SD property tax
19 statements received in February through April 2019 were \$142.8 million on a
20 Minnesota electric jurisdictional basis for base rates, or \$8.8 million (or 5.8%)
21 less than the amount reflected in base rates. The decrease from the forecast
22 provided in the last rate case to the final property tax statements was due to a
23 favorable valuation settlement that led to a reduced tax.

24
25 Final 2019 property tax statements for MN, ND and SD will not be available
26 until February through April 2020.

1 Q. FINAL 2017 AND 2018 PROPERTY TAXES WERE LESS THAN THE AMOUNTS IN
2 RATES FOR THOSE YEARS. HOW DID THE COMPANY ADDRESS THIS?

3 A. The property tax reductions were refunded to customers through the annual
4 true-up process.

5

6

IV. CONCLUSION

7

8 Q. PLEASE SUMMARIZE YOUR TESTIMONY.

9 A. The forecasted 2020, 2021 and 2022 total Company property tax expense is
10 \$222.4 million, \$233.2 million and \$252.0 million, respectively, the allocation
11 of which to the appropriate regulatory jurisdictions will be discussed by
12 Company witness Mr. Benjamin Halama. Forecasted property taxes for all
13 operating jurisdictions are increasing due to ongoing system investments and
14 represent a continuation of recent increases.

15

16 Our forecasts in this case reflect different data inputs for some variables,
17 namely the actual DOR valuation inputs and local tax rates received in 2019.
18 We believe using the actual 2019 DOR valuation inputs and local tax rates
19 results in accurate forecasts.

20

21 The Company is seeking recovery of property taxes as part of its multi-year
22 rate plan, with rates that include forecasted property tax amounts. The
23 Company is also proposing to continue the annual compliance filing and true-
24 up mechanism that reflects actual property taxes in a given year for all
25 operating jurisdictions. This approach would allow the Company to recover
26 this cost of providing service and at the same time ensure that customers only
27 pay actual property tax amounts for a given year.

1 Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

2 A. Yes, it does.

**Statement of Qualifications
Christopher A. Arend**

Current Responsibilities

As Senior Director, Tax Services, I oversee and manage the tax planning, policy and defense responsibilities associated with Xcel Energy's income, property and sales/use taxes.

Experience

1991 – Present	Xcel Energy Inc.	Senior Director, Tax Services
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Education

2000	Master of Business Taxation	University of Minnesota
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1991	Bachelor of Science – Accounting	Minnesota State University - Mankato
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**Northern States Power Company
Total Company Property Taxes**

	2018	
	Electric	Gas
System Unit Value Calculation		
Plant In Service, 12/31/17 Forecast	17,908,692,706	1,432,701,717
CWIP, 12/31/17 Forecast	646,162,033	29,970,731
Depreciation, 12/31/17 Forecast	(7,141,933,801)	(626,397,006)
Cost Indicator of Value	A <u><u>\$11,412,920,938</u></u>	<u><u>\$836,275,442</u></u>
Income Indicator		
2015 NOI x 25%	145,235,552	9,568,490
2016 NOI x 35%	225,715,729	10,750,737
2017 NOI x 40%	253,725,602	16,588,372
NOI to Capitalize	\$624,676,883	\$36,907,598
Capitalization Rate	6.92%	7.01%
Income Indicator of Value	B <u><u>\$9,027,122,583</u></u>	<u><u>\$526,499,263</u></u>
Apply Weightings		
	17.6% / 82.4%	14.1% / 85.9%
Cost Indicator	\$2,008,674,100	\$117,914,800
Income Indicator	\$7,438,349,000	\$452,262,900
Total System Unit Value	C <u><u>\$9,447,023,100</u></u>	<u><u>\$570,177,700</u></u>
Allocation of System Value		
MN Plant in Service	16,748,966,876	1,333,010,948
System Plant in Service	18,554,854,739	1,462,672,448
Plant Ratio x 90%-Elec / x 75%-Gas	81.24%	68.36%
MN Gross Revenue	3,896,590,411	459,203,224
System Gross Revenue	4,430,077,743	521,668,646
Revenue Ratio x 10%-Elec / x 25%-Gas	8.80%	22.01%
MN Allocated Value Percentage	90.04%	90.37%
MN Allocated Value	D <u><u>\$8,506,099,600</u></u>	<u><u>\$515,269,600</u></u>
Depreciable Excludables - Other	2,426,855,592	62,001,764
Land	202,360,514	3,308,815
CWIP	519,066,464	15,695,869
Other - Held for Future Use	0	0
Subtotal	3,148,282,570	81,006,448
Ratio - System Unit Value / Cost Indicator	82.77%	68.18%
Deductions to MN Allocated Value	<u><u>\$2,605,833,500</u></u>	<u><u>\$55,230,200</u></u>
Sliding Scale Market Value Exclusion	262,685,124	0
Deduct/Excl to MN Allocated Value	E <u><u>\$2,868,518,624</u></u>	<u><u>\$55,230,200</u></u>
Apportionable Market Value	<u><u>\$5,637,580,976</u></u>	<u><u>\$460,039,400</u></u>
Effective Tax Rate	3.11%	3.11%
Forecasted Property Tax - Elec & Gas	<u><u>\$175,103,265</u></u>	<u><u>\$14,288,824</u></u>
Rounded	\$175,080,000	\$14,280,000
Locally Assessed	11,400,000	960,000
Wind Production	2,160,000	
Total Property Tax	<u><u>\$188,640,000</u></u>	<u><u>\$15,240,000</u></u>
Total MN Property Tax		203,880,000
North Dakota & South Dakota Property Tax		\$9,978,000
Total NSPM Forecasted Property Tax		\$213,858,000

Support for the Calculation of Minnesota Apportionable Market Value

- 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.

**Northern States Power Company
Total Company Property Taxes**

	2019 Forecast	
	Electric	Gas
System Unit Value Calculation		
Plant In Service, 12/31/18 Forecast	18,785,885,144	1,553,069,391
CWIP, 12/31/18 Forecast	646,162,033	29,970,731
Depreciation, 12/31/18 Forecast	(7,580,685,435)	(664,745,428)
Cost Indicator of Value	A <u><u>\$11,851,361,742</u></u>	<u><u>\$918,294,694</u></u>
Income Indicator		
2016 NOI x 25%	161,225,521	7,679,098
2017 NOI x 35%	222,009,901	14,514,825
2018 NOI x 40%	251,826,272	19,796,144
NOI to Capitalize	\$635,061,694	\$41,990,066
Capitalization Rate	7.20%	7.37%
Income Indicator of Value	B <u><u>\$8,820,301,312</u></u>	<u><u>\$569,743,097</u></u>
Apply Weightings		
	17.5% / 82.5%	17.5% / 82.5%
Cost Indicator	\$2,073,988,300	\$160,701,600
Income Indicator	\$7,276,748,600	\$470,038,100
Total System Unit Value	C <u><u>\$9,350,736,900</u></u>	<u><u>\$630,739,700</u></u>
Allocation of System Value		
MN Plant in Service	17,338,963,372	1,443,743,214
System Plant in Service	19,432,047,177	1,583,040,122
Plant Ratio x 90%-Elec / x 75%-Gas	80.31%	68.40%
MN Gross Revenue	3,972,407,981	515,183,890
System Gross Revenue	4,495,459,910	585,546,154
Revenue Ratio x 10%-Elec / x 25%-Gas	8.84%	22.00%
MN Allocated Value Percentage	89.15%	90.40%
MN Allocated Value	D <u><u>\$8,336,181,900</u></u>	<u><u>\$570,188,700</u></u>
Depreciable Excludables - Other	2,485,708,281	79,483,774
Land	204,030,610	3,334,390
CWIP	474,771,637	10,576,779
Other - Held for Future Use	0	0
Subtotal	3,164,510,528	93,394,943
Ratio - System Unit Value / Cost Indicator	78.90%	68.69%
Deductions to MN Allocated Value	<u><u>\$2,496,798,800</u></u>	<u><u>\$64,153,000</u></u>
Sliding Scale Market Value Exclusion	198,328,370	0
Deduct/Excl to MN Allocated Value	E <u><u>\$2,695,127,170</u></u>	<u><u>\$64,153,000</u></u>
Apportionable Market Value	<u><u>\$5,641,054,730</u></u>	<u><u>\$506,035,700</u></u>
Effective Tax Rate	3.11%	3.11%
Forecasted Property Tax - Elec & Gas	\$175,436,802	\$15,737,710
Rounded	\$175,440,000	\$15,720,000
Locally Assessed	11,280,000	960,000
Wind Production	2,160,000	
Total Property Tax	\$188,880,000	\$16,680,000
Total MN Property Tax		205,560,000
North Dakota & South Dakota Property Tax		\$11,562,000
Total NSPM Forecasted Property Tax		\$217,122,000

Support for the Calculation of Minnesota Apportionable Market Value

- 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.

**Northern States Power Company
Total Company Property Taxes**

	2020 Budget	
	Electric	Gas
System Unit Value Calculation		
Plant In Service, 12/31/19 Forecast	20,638,456,814	1,662,065,962
CWIP, 12/31/19 Forecast	646,162,033	29,970,731
Depreciation, 12/31/19 Forecast	(8,162,832,674)	(696,688,817)
Cost Indicator of Value	A <u><u>\$13,121,786,172</u></u>	<u><u>\$995,347,877</u></u>
Income Indicator		
2017 NOI x 25%	158,578,501	10,367,732
2018 NOI x 35%	220,347,988	17,321,626
2019 Estimated NOI x 40%	275,556,400	20,740,800
NOI to Capitalize	\$654,482,889	\$48,430,158
Capitalization Rate	7.20%	7.37%
Income Indicator of Value	B <u><u>\$9,090,040,126</u></u>	<u><u>\$657,125,616</u></u>
Apply Weightings		
	17.5% / 82.5%	17.5% / 82.5%
Cost Indicator	\$2,296,312,600	\$174,185,900
Income Indicator	\$7,499,283,100	\$542,128,600
Total System Unit Value	C <u><u>\$9,795,595,700</u></u>	<u><u>\$716,314,500</u></u>
Allocation of System Value		
MN Plant in Service	18,996,684,184	1,542,890,849
System Plant in Service	21,284,618,846	1,692,036,694
Plant Ratio x 90%-Elec / x 75%-Gas	80.33%	68.39%
MN Gross Revenue	3,972,407,981	515,183,890
System Gross Revenue	4,495,459,910	585,546,154
Revenue Ratio x 10%-Elec / x 25%-Gas	8.84%	22.00%
MN Allocated Value Percentage	89.17%	90.39%
MN Allocated Value	D <u><u>\$8,734,732,700</u></u>	<u><u>\$647,476,700</u></u>
Depreciable Excludables - Other	3,258,966,472	83,108,663
Land	204,030,610	3,334,390
CWIP	353,708,246	7,910,772
Other - Held for Future Use	0	0
Subtotal	3,816,705,328	94,353,825
Ratio - System Unit Value / Cost Indicator	74.65%	71.97%
Deductions to MN Allocated Value	<u><u>\$2,849,170,500</u></u>	<u><u>\$67,906,400</u></u>
Sliding Scale Market Value Exclusion	200,000,000	0
Deduct/Excl to MN Allocated Value	E <u><u>\$3,049,170,500</u></u>	<u><u>\$67,906,400</u></u>
Apportionable Market Value	<u><u>\$5,685,562,200</u></u>	<u><u>\$579,570,300</u></u>
Effective Tax Rate	3.11%	3.11%
Forecasted Property Tax - Elec & Gas	<u><u>\$176,820,984</u></u>	<u><u>\$18,024,636</u></u>
Rounded	\$176,880,000	\$18,000,000
Locally Assessed	11,160,000	1,080,000
Wind Production	3,720,000	
Total Property Tax	<u><u>\$191,760,000</u></u>	<u><u>\$19,080,000</u></u>
Total MN Property Tax		210,840,000
North Dakota & South Dakota Property Tax		\$11,562,000
Total NSPM Forecasted Property Tax		\$222,402,000

Support for the Calculation of Minnesota Apportionable Market Value

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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:
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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.

**Northern States Power Company
Total Company Property Taxes**

	2021 Budget	
	Electric	Gas
System Unit Value Calculation		
Plant In Service, 12/31/20 Forecast	21,839,438,317	1,760,473,890
CWIP, 12/31/20 Forecast	1,212,858,215	42,750,482
Depreciation, 12/31/20 Forecast	(8,871,194,221)	(736,130,706)
Cost Indicator of Value	A <u><u>\$14,181,102,311</u></u>	<u><u>\$1,067,093,666</u></u>
Income Indicator		
2018 NOI x 25%	157,391,420	12,372,590
2019 Estimated NOI x 35%	241,111,850	18,148,200
2020 Estimated NOI x 40%	307,862,400	23,172,400
NOI to Capitalize	\$706,365,670	\$53,693,190
Capitalization Rate	7.20%	7.37%
Income Indicator of Value	B <u><u>\$9,810,634,306</u></u>	<u><u>\$728,537,174</u></u>
Apply Weightings		
	17.5% / 82.5%	17.5% / 82.5%
Cost Indicator	\$2,481,692,900	\$186,741,400
Income Indicator	\$8,093,773,300	\$601,043,200
Total System Unit Value	C <u><u>\$10,575,466,200</u></u>	<u><u>\$787,784,600</u></u>
Allocation of System Value		
MN Plant in Service	20,384,599,351	1,646,494,663
System Plant in Service	23,052,296,532	1,803,224,372
Plant Ratio x 90%-Elec / x 75%-Gas	79.59%	68.48%
MN Gross Revenue	3,972,407,981	515,183,890
System Gross Revenue	4,495,459,910	585,546,154
Revenue Ratio x 10%-Elec / x 25%-Gas	8.84%	22.00%
MN Allocated Value Percentage	88.43%	90.48%
MN Allocated Value	D <u><u>\$9,351,884,800</u></u>	<u><u>\$712,787,500</u></u>
Depreciable Excludables - Other	3,870,424,758	89,807,065
Land	204,030,610	3,334,390
CWIP	312,900,052	6,360,320
Other - Held for Future Use	0	0
Subtotal	4,387,355,419	99,501,776
Ratio - System Unit Value / Cost Indicator	74.57%	73.83%
Deductions to MN Allocated Value	<u><u>\$3,271,650,900</u></u>	<u><u>\$73,462,200</u></u>
Sliding Scale Market Value Exclusion	200,000,000	0
Deduct/Excl to MN Allocated Value	E <u><u>\$3,471,650,900</u></u>	<u><u>\$73,462,200</u></u>
Apportionable Market Value	<u><u>\$5,880,233,900</u></u>	<u><u>\$639,325,300</u></u>
Effective Tax Rate	3.11%	3.11%
Forecasted Property Tax - Elec & Gas	<u><u>\$182,875,274</u></u>	<u><u>\$19,883,017</u></u>
Rounded	\$182,880,000	\$19,920,000
Locally Assessed	11,040,000	1,200,000
Wind Production	6,000,000	
Total Property Tax	<u><u>\$199,920,000</u></u>	<u><u>\$21,120,000</u></u>
Total MN Property Tax		221,040,000
North Dakota & South Dakota Property Tax		\$12,162,000
Total NSPM Forecasted Property Tax		\$233,202,000

Support for the Calculation of Minnesota Apportionable Market Value

- 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.

**Northern States Power Company
Total Company Property Taxes**

	2022 Budget	
	Electric	Gas
System Unit Value Calculation		
Plant In Service, 12/31/21 Forecast	22,580,962,405	1,865,790,665
CWIP, 12/31/21 Forecast	1,720,017,681	62,426,555
Depreciation, 12/31/21 Forecast	(9,648,715,395)	(778,571,615)
Cost Indicator of Value	A <u><u>\$14,652,264,691</u></u>	<u><u>\$1,149,645,604</u></u>
Income Indicator		
2019 Estimated NOI x 25%	172,222,750	12,963,000
2020 Estimated NOI x 35%	269,379,600	20,275,850
2021 Estimated NOI x 40%	331,307,600	24,937,200
NOI to Capitalize	\$772,909,950	\$58,176,050
Capitalization Rate	7.20%	7.37%
Income Indicator of Value	B <u><u>\$10,734,860,417</u></u>	<u><u>\$789,362,958</u></u>
Apply Weightings		
	17.5% / 82.5%	17.5% / 82.5%
Cost Indicator	\$2,564,146,300	\$201,188,000
Income Indicator	\$8,856,259,800	\$651,224,400
Total System Unit Value	C <u><u>\$11,420,406,100</u></u>	<u><u>\$852,412,400</u></u>
Allocation of System Value		
MN Plant in Service	21,309,446,506	1,757,937,081
System Plant in Service	24,300,980,086	1,928,217,219
Plant Ratio x 90%-Elec / x 75%-Gas	78.92%	68.38%
MN Gross Revenue	3,972,407,981	515,183,890
System Gross Revenue	4,495,459,910	585,546,154
Revenue Ratio x 10%-Elec / x 25%-Gas	8.84%	22.00%
MN Allocated Value Percentage	87.76%	90.38%
MN Allocated Value	D <u><u>\$10,022,548,400</u></u>	<u><u>\$770,410,300</u></u>
Depreciable Excludables - Other	3,881,040,624	96,571,115
Land	204,030,610	3,334,390
CWIP	319,396,667	9,052,471
Other - Held for Future Use	0	0
Subtotal	4,404,467,901	108,957,976
Ratio - System Unit Value / Cost Indicator	77.94%	74.15%
Deductions to MN Allocated Value	<u><u>\$3,432,842,300</u></u>	<u><u>\$80,792,300</u></u>
Sliding Scale Market Value Exclusion	200,000,000	0
Deduct/Excl to MN Allocated Value	E <u><u>\$3,632,842,300</u></u>	<u><u>\$80,792,300</u></u>
Apportionable Market Value	<u><u>\$6,389,706,100</u></u>	<u><u>\$689,618,000</u></u>
Effective Tax Rate	3.11%	3.11%
Forecasted Property Tax - Elec & Gas	<u><u>\$198,719,860</u></u>	<u><u>\$21,447,120</u></u>
Rounded	\$198,720,000	\$21,480,000
Locally Assessed	11,040,000	1,200,000
Wind Production	6,000,000	
Total Property Tax	<u><u>\$215,760,000</u></u>	<u><u>\$22,680,000</u></u>
Total MN Property Tax		238,440,000
Iowa, North Dakota & South Dakota Property Tax		\$13,542,000
Total NSPM Forecasted Property Tax		\$251,982,000

Support for the Calculation of Minnesota Apportionable Market Value

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Minnesota Property Taxes By County - 2018
 (\$s)

COUNTY	Truth-in-Taxation Notices			Property Tax Statements		
	Total Taxes	Total Value	Blended Rate	Total Taxes	Total Value	Blended Rate
Anoka	2,931,510	85,117,700	3.44%	2,983,810	85,117,700	3.51%
Becker	86,692	3,794,800	2.28%	84,798	3,507,800	2.42%
Beltrami	102,100	3,144,900	3.25%	65,414	2,157,000	3.03%
Benton	1,384,246	37,245,700	3.72%	1,341,404	36,034,700	3.72%
Blue Earth	2,867,952	101,151,800	2.84%	2,700,240	94,019,300	2.87%
Brown	230,466	8,849,100	2.60%	240,483	8,849,100	2.72%
Carver	2,456,705	75,275,100	3.26%	2,518,998	76,206,000	3.31%
Cass	244,876	10,252,300	2.39%	243,128	10,252,300	2.37%
Chippewa	1,601,707	43,690,200	3.67%	1,492,992	40,552,100	3.68%
Chisago	3,556,251	96,595,200	3.68%	3,580,798	96,595,200	3.71%
Clay	497,964	23,010,700	2.16%	468,154	21,647,600	2.16%
Crow Wing	544,906	20,928,200	2.60%	523,383	17,510,800	2.99%
Dakota	13,035,305	409,449,700	3.18%	13,079,741	408,176,900	3.20%
Dodge	471,924	12,669,700	3.72%	472,138	12,644,500	3.73%
Douglas	556,487	20,658,200	2.69%	560,040	20,659,500	2.71%
Faribault	22,187	753,700	2.94%	22,055	753,700	2.93%
Freeborn	35,236	985,700	3.57%	35,129	985,700	3.56%
Grant	25,915,921	882,954,900	2.94%	27,083,650	881,215,300	3.07%
Goodhue	99,958	4,158,500	2.40%	101,528	4,158,500	2.44%
Hennepin	36,508,657	1,038,746,100	3.51%	37,272,733	1,038,645,600	3.59%
Houston	185,708	4,798,400	3.87%	182,998	4,798,400	3.81%
Hubbard	57,312	2,142,500	2.68%	57,712	2,142,500	2.69%
Isanti	87,226	2,736,200	3.19%	88,210	2,736,200	3.22%
Itasca	249,821	8,360,800	2.99%	275,648	8,360,800	3.30%
Jackson	652,156	30,164,700	2.16%	613,158	27,882,800	2.20%
Kandiyohi	600,763	17,635,700	3.41%	613,638	17,785,900	3.45%
Koochiching	330,420	11,902,000	2.78%	327,626	11,749,500	2.79%
Lac qui Parle	-	-	0.00%	634	56,400	1.12%
Lake of the Woods	-	-	0.00%	204,560	5,972,900	3.42%
Le Sueur	569,267	19,025,300	2.99%	586,303	19,025,300	3.08%
Lincoln	1,176,324	48,982,800	2.40%	1,138,372	48,982,800	2.32%
Lyon	1,530,235	62,131,400	2.46%	1,543,652	62,159,400	2.48%
Martin	201,362	7,855,000	2.56%	200,611	7,855,000	2.55%
McLeod	436,304	13,271,400	3.29%	406,567	12,344,600	3.29%
Meeker	176,238	5,191,900	3.39%	211,152	5,922,500	3.57%
Morrison	8,984	309,300	2.90%	9,016	309,300	2.91%
Mower	336,269	12,350,800	2.72%	350,026	12,350,800	2.83%
Murray	772,460	39,704,100	1.95%	784,318	39,704,100	1.98%
Nicollet	499,606	16,544,100	3.02%	503,262	16,544,100	3.04%
Nobles	1,337,379	60,127,300	2.22%	1,318,104	60,127,800	2.19%
Norman	12,934	600,500	2.15%	12,676	600,500	2.11%
Olmstead	818,034	26,748,200	3.06%	840,832	27,090,800	3.10%
Ottertail	352,688	13,727,600	2.57%	355,064	13,727,600	2.59%
Pine	243,096	7,648,800	3.18%	247,356	7,648,800	3.23%
Pipestone	508,896	16,910,700	3.01%	510,800	16,962,900	3.01%
Polk	64,310	3,678,000	1.75%	64,284	3,678,000	1.75%
Pope	301,033	9,633,800	3.12%	302,588	9,633,800	3.14%
Ramsey	22,943,220	618,590,000	3.71%	23,431,790	618,590,000	3.79%
Redwood	701,170	29,025,900	2.42%	732,032	29,025,900	2.52%
Renville	1,153,600	41,347,000	2.79%	1,193,696	41,347,000	2.89%
Rice	2,221,052	69,274,100	3.21%	2,043,574	63,082,200	3.24%
Rock	38,517	1,814,800	2.12%	38,766	1,814,800	2.14%
Roseau	602,891	18,665,400	3.23%	604,904	18,662,400	3.24%
St. Louis	967,908	30,849,600	3.14%	974,288	30,849,600	3.16%
Scott	3,974,038	121,550,600	3.27%	4,019,826	121,550,600	3.31%
Sherburne	14,973,422	553,748,700	2.70%	14,186,516	513,470,700	2.76%
Sibley	1,359,700	47,623,300	2.86%	1,375,044	47,623,300	2.89%
Stearns	5,146,751	154,962,900	3.32%	5,176,246	154,962,900	3.34%
Steele	57,452	1,749,700	3.28%	57,110	1,749,700	3.26%
Swift	1,022,716	24,512,600	4.17%	1,029,574	24,512,600	4.20%
Todd	195,147	5,887,100	3.31%	194,364	5,887,100	3.30%
Wabasha	851,117	28,665,100	2.97%	871,860	28,665,100	3.04%
Waseca	732,624	18,034,900	4.06%	581,276	15,770,200	3.69%
Washington	17,251,940	566,319,100	3.05%	15,987,510	519,284,700	3.08%
Watsonwan	307,204	10,533,700	2.92%	311,976	10,533,700	2.96%
Wilkin	113,199	4,692,900	2.41%	114,710	4,696,100	2.44%
Winona	983,446	33,098,600	2.97%	1,041,363	33,098,600	3.15%
Wright	20,602,130	871,960,400	2.36%	20,786,412	874,686,600	2.38%
Yellow Medicine	526,983	20,789,900	2.53%	527,706	20,789,900	2.54%
Subtotal	201,386,100	6,595,309,800	3.05%	201,900,326	6,486,496,500	3.11%
Wind Tax				2,014,461		
Total MN Tax				203,914,786		
North & South Dakota Property Tax				9,955,642		
Total NSPM Property Tax				213,870,429		

Northern States Power Company
Total Company Property Taxes

	2018		2019 Forecast		2018 vs. 2019		
	Electric	Gas	Electric	Gas	Electric	Gas	
System Unit Value Calculation							
Plant In Service, 12/31	17,908,692,706	1,432,701,717	18,785,885,144	1,553,069,391	877,192,438	120,367,674	
CWIP, 12/31	646,162,033	29,970,731	646,162,033	29,970,731	0	0	
Depreciation, 12/31	(7,141,933,801)	(626,397,006)	(7,580,685,435)	(664,745,428)	(438,751,634)	(38,348,422)	
Cost Indicator of Value	A	\$11,412,920,938	\$836,275,442	\$11,851,361,742	\$918,294,694	\$438,440,804	\$82,019,252
Income Indicator							
Year 1 NOI x 25%	145,235,552	9,568,490	161,225,521	7,679,098	15,989,969	(1,889,393)	
Year 2 NOI x 35%	225,715,729	10,750,737	222,009,901	14,514,825	(3,705,828)	3,764,089	
Year 3 NOI x 40%	253,725,602	16,588,372	251,826,272	19,796,144	(1,899,330)	3,207,772	
NOI to Capitalize	\$624,676,883	\$36,907,598	\$635,061,694	\$41,990,066	\$10,384,812	\$5,082,468	
Capitalization Rate	6.92%	7.01%	7.20%	7.37%	0.28%	0.36%	
Income Indicator of Value	B	\$9,027,122,583	\$526,499,263	\$8,820,301,312	\$569,743,097	-\$206,821,271	\$43,243,834
Apply Weightings	17.6% / 82.4%	14.1% / 85.9%	17.5% / 82.5%	17.5% / 82.5%			
Cost Indicator	\$2,008,674,100	\$117,914,800	\$2,073,988,300	\$160,701,600	\$65,314,200	\$42,786,800	
Income Indicator	\$7,438,349,000	\$452,262,900	\$7,276,748,600	\$470,038,100	-\$161,600,400	\$17,775,200	
Total System Unit Value	C	\$9,447,023,100	\$570,177,700	\$9,350,736,900	\$630,739,700	-\$96,286,200	\$60,562,000
Allocation of System Value							
MN Plant in Service	16,748,966,876	1,333,010,948	17,338,963,372	1,443,743,214	589,996,496	110,732,266	
System Plant in Service	18,554,854,739	1,462,672,448	19,432,047,177	1,583,040,122	877,192,438	120,367,674	
Plant Ratio x 90%-Elec / x 75%-Gas	81.24%	68.36%	80.31%	68.40%	-0.93%	0.04%	
MN Gross Revenue	3,896,590,411	459,203,224	3,972,407,981	515,183,890	75,817,569	55,980,666	
System Gross Revenue	4,430,077,743	521,668,646	4,495,459,910	585,546,154	65,382,167	63,877,508	
Revenue Ratio x 10%-Elec / x 25%-Gas	8.80%	22.01%	8.84%	22.00%	0.04%	-0.01%	
MN Allocated Value Percentage	90.04%	90.37%	89.15%	90.40%	-0.89%	0.03%	
MN Allocated Value	D	\$8,506,099,600	\$515,269,600	\$8,336,181,900	\$570,188,700	-\$169,917,700	\$54,919,100
Depreciable Excludables - Other	2,426,855,592	62,001,764	2,485,708,281	79,483,774	58,852,690	17,482,009	
Land	202,360,514	3,308,815	204,030,610	3,334,390	1,670,096	25,575	
CWIP	519,066,464	15,695,869	474,771,637	10,576,779	(44,294,827)	(5,119,090)	
Other - Held for Future Use	0	0	0	0	0	0	
Subtotal	3,148,282,570	81,006,448	3,164,510,528	93,394,943	16,227,958	12,388,494	
Ratio - System Unit Value / Cost Indicator	82.77%	68.18%	78.90%	68.69%	-3.87%	0.51%	
Deductions to MN Allocated Value	E	\$2,605,833,500	\$55,230,200	\$2,496,798,800	\$64,153,000	-\$109,034,700	\$8,922,800
Sliding Scale Market Value Exclusion	262,685,124	0	198,328,370	0	(64,356,754)	0	
Deduct/Excl to MN Allocated Value	\$2,868,518,624	\$55,230,200	\$2,695,127,170	\$64,153,000	-\$173,391,454	\$8,922,800	
Apportionable Market Value	\$5,637,580,976	\$460,039,400	\$5,641,054,730	\$506,035,700	\$3,473,754	\$45,996,300	
Effective Tax Rate	3.11%	3.11%	3.11%	3.11%	0.00%	0.00%	
Forecasted Property Tax - Elec & Gas	\$175,103,265	\$14,288,824	\$175,436,802	\$15,737,710	\$333,537	\$1,448,887	
Rounded	\$175,080,000	\$14,280,000	\$175,440,000	\$15,720,000	\$360,000	\$1,440,000	
Locally Assessed	11,400,000	960,000	11,280,000	960,000	(120,000)	0	
Wind Production	2,160,000		2,160,000		0		
Total Property Tax	\$188,640,000	\$15,240,000	\$188,880,000	\$16,680,000	\$240,000	\$1,440,000	
Total MN Property Tax		203,880,000		205,560,000		1,680,000	
North Dakota & South Dakota Property Tax		\$9,978,000		\$11,562,000		\$1,584,000	
Total NSPM Forecasted Property Tax		\$213,858,000		\$217,122,000		\$3,264,000	

Support for the Calculation of Minnesota Apportionable Market Value

- 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;*
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 - 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.*
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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.
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"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.
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 - C. rights-of-way*
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Northern States Power Company
Total Company Property Taxes

	2019 Forecast		2020 Budget		2019 vs. 2020		
	Electric	Gas	Electric	Gas	Electric	Gas	
System Unit Value Calculation							
Plant In Service, 12/31	18,785,885,144	1,553,069,391	20,638,456,814	1,662,065,962	1,852,571,669	108,996,572	
CWIP, 12/31	646,162,033	29,970,731	646,162,033	29,970,731	0	0	
Depreciation, 12/31	(7,580,685,435)	(664,745,428)	(8,162,832,674)	(696,688,817)	(582,147,239)	(31,943,389)	
Cost Indicator of Value	A	\$11,851,361,742	\$918,294,694	\$13,121,786,172	\$995,347,877	\$1,270,424,430	\$77,053,183
Income Indicator							
Year 1 NOI x 25%	161,225,521	7,679,098	158,578,501	10,367,732	(2,647,020)	2,688,635	
Year 2 NOI x 35%	222,009,901	14,514,825	220,347,988	17,321,626	(1,661,913)	2,806,801	
Year 3 NOI x 40%	251,826,272	19,796,144	275,556,400	20,740,800	23,730,128	944,656	
NOI to Capitalize	\$635,061,694	\$41,990,066	\$654,482,889	\$48,430,158	\$19,421,195	\$6,440,092	
Capitalization Rate	7.20%	7.37%	7.20%	7.37%	0.00%	0.00%	
Income Indicator of Value	B	\$8,820,301,312	\$569,743,097	\$9,090,040,126	\$657,125,616	\$269,738,814	\$87,382,519
Apply Weightings							
Cost Indicator	17.5% / 82.5%	17.5% / 82.5%	17.5% / 82.5%	17.5% / 82.5%	\$222,324,300	\$13,484,300	
Income Indicator	\$2,073,988,300	\$160,701,600	\$2,296,312,600	\$174,185,900	\$222,534,500	\$72,090,500	
Total System Unit Value	C	\$9,350,736,900	\$630,739,700	\$9,795,595,700	\$716,314,500	\$444,858,800	\$85,574,800
Allocation of System Value							
MN Plant in Service	17,338,963,372	1,443,743,214	18,996,684,184	1,542,890,849	1,657,720,812	99,147,635	
System Plant in Service	19,432,047,177	1,583,040,122	21,284,618,846	1,692,036,694	1,852,571,669	108,996,572	
Plant Ratio x 90%-Elec / x 75%-Gas	80.31%	68.40%	80.33%	68.39%	0.02%	-0.01%	
MN Gross Revenue	3,972,407,981	515,183,890	3,972,407,981	515,183,890	0	0	
System Gross Revenue	4,495,459,910	585,546,154	4,495,459,910	585,546,154	0	0	
Revenue Ratio x 10%-Elec / x 25%-Gas	8.84%	22.00%	8.84%	22.00%	0.00%	0.00%	
MN Allocated Value Percentage	89.15%	90.40%	89.17%	90.39%	0.02%	-0.01%	
MN Allocated Value	D	\$8,336,181,900	\$570,188,700	\$8,734,732,700	\$647,476,700	\$398,550,800	\$77,288,000
Depreciable Excludables - Other	2,485,708,281	79,483,774	3,258,966,472	83,108,663	773,258,191	3,624,890	
Land	204,030,610	3,334,390	204,030,610	3,334,390	0	0	
CWIP	474,771,637	10,576,779	353,708,246	7,910,772	(121,063,391)	(2,666,007)	
Other - Held for Future Use	0	0	0	0	0	0	
Subtotal	3,164,510,528	93,394,943	3,816,705,328	94,353,825	652,194,800	958,883	
Ratio - System Unit Value / Cost Indicator	78.90%	68.69%	74.65%	71.97%	-4.25%	3.28%	
Deductions to MN Allocated Value	E	\$2,496,798,800	\$64,153,000	\$2,849,170,500	\$67,906,400	\$352,371,700	\$3,753,400
Sliding Scale Market Value Exclusion	198,328,370	0	200,000,000	0	1,671,630	0	
Deduct/Excl to MN Allocated Value	\$2,695,127,170	\$64,153,000	\$3,049,170,500	\$67,906,400	\$354,043,330	\$3,753,400	
Apportionable Market Value	\$5,641,054,730	\$506,035,700	\$5,685,562,200	\$579,570,300	\$44,507,470	\$73,534,600	
Effective Tax Rate	3.11%	3.11%	3.11%	3.11%	0.00%	0.00%	
Forecasted Property Tax - Elec & Gas	\$175,436,802	\$15,737,710	\$176,820,984	\$18,024,636	\$1,384,182	\$2,286,926	
Rounded	\$175,440,000	\$15,720,000	\$176,880,000	\$18,000,000	\$1,440,000	\$2,280,000	
Locally Assessed	11,280,000	960,000	11,160,000	1,080,000	(120,000)	120,000	
Wind Production	2,160,000		3,720,000		1,560,000		
Total Property Tax	\$188,880,000	\$16,680,000	\$191,760,000	\$19,080,000	\$2,880,000	\$2,400,000	
Total MN Property Tax		205,560,000		210,840,000		5,280,000	
North Dakota & South Dakota Property Tax		\$11,562,000		\$11,562,000		\$0	
Total NSPM Forecasted Property Tax		\$217,122,000		\$222,402,000		\$5,280,000	

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Northern States Power Company
Total Company Property Taxes

	2020 Budget		2021 Budget		2020 vs. 2021		
	Electric	Gas	Electric	Gas	Electric	Gas	
System Unit Value Calculation							
Plant In Service, 12/31	20,638,456,814	1,662,065,962	21,839,438,317	1,760,473,890	1,200,981,503	98,407,928	
CWIP, 12/31	646,162,033	29,970,731	1,212,858,215	42,750,482	566,696,182	12,779,751	
Depreciation, 12/31	(8,162,832,674)	(696,688,817)	(8,871,194,221)	(736,130,706)	(708,361,546)	(39,441,889)	
Cost Indicator of Value	A	\$13,121,786,172	\$995,347,877	\$14,181,102,311	\$1,067,093,666	\$1,059,316,139	\$71,745,789
Income Indicator							
Year 1 NOI x 25%	158,578,501	10,367,732	157,391,420	12,372,590	(1,187,081)	2,004,858	
Year 2 NOI x 35%	220,347,988	17,321,626	241,111,850	18,148,200	20,763,862	826,574	
Year 3 NOI x 40%	275,556,400	20,740,800	307,862,400	23,172,400	32,306,000	2,431,600	
NOI to Capitalize	\$654,482,889	\$48,430,158	\$706,365,670	\$53,693,190	\$51,882,781	\$5,263,032	
Capitalization Rate	7.20%	7.37%	7.20%	7.37%	0.00%	0.00%	
Income Indicator of Value	B	\$9,090,040,126	\$657,125,616	\$9,810,634,306	\$728,537,174	\$720,594,180	\$71,411,558
Apply Weightings							
Cost Indicator	17.5% / 82.5%	17.5% / 82.5%	17.5% / 82.5%	17.5% / 82.5%	\$185,380,300	\$12,555,500	
Income Indicator	\$2,296,312,600	\$174,185,900	\$2,481,692,900	\$186,741,400	\$594,490,200	\$58,914,600	
Total System Unit Value	C	\$9,795,595,700	\$716,314,500	\$10,575,466,200	\$787,784,600	\$779,870,500	\$71,470,100
Allocation of System Value							
MN Plant in Service	18,996,684,184	1,542,890,849	20,384,599,351	1,646,494,663	1,387,915,167	103,603,815	
System Plant in Service	21,284,618,846	1,692,036,694	23,052,296,532	1,803,224,372	1,767,677,686	111,187,678	
Plant Ratio x 90%-Elec / x 75%-Gas	80.33%	68.39%	79.59%	68.48%	-0.74%	0.09%	
MN Gross Revenue	3,972,407,981	515,183,890	3,972,407,981	515,183,890	0	0	
System Gross Revenue	4,495,459,910	585,546,154	4,495,459,910	585,546,154	0	0	
Revenue Ratio x 10%-Elec / x 25%-Gas	8.84%	22.00%	8.84%	22.00%	0.00%	0.00%	
MN Allocated Value Percentage	89.17%	90.39%	88.43%	90.48%	-0.74%	0.09%	
MN Allocated Value	D	\$8,734,732,700	\$647,476,700	\$9,351,884,800	\$712,787,500	\$617,152,100	\$65,310,800
Depreciable Excludables - Other	3,258,966,472	83,108,663	3,870,424,758	89,807,065	611,458,285	6,698,402	
Land	204,030,610	3,334,390	204,030,610	3,334,390	0	0	
CWIP	353,708,246	7,910,772	312,900,052	6,360,320	(40,808,194)	(1,550,452)	
Other - Held for Future Use	0	0	0	0	0	0	
Subtotal	3,816,705,328	94,353,825	4,387,355,419	99,501,776	570,650,091	5,147,951	
Ratio - System Unit Value / Cost Indicator	74.65%	71.97%	74.57%	73.83%	-0.08%	1.86%	
Deductions to MN Allocated Value	E	\$2,849,170,500	\$67,906,400	\$3,271,650,900	\$73,462,200	\$422,480,400	\$5,555,800
Sliding Scale Market Value Exclusion	200,000,000	0	200,000,000	0	0	0	
Deduct/Excl to MN Allocated Value	\$3,049,170,500	\$67,906,400	\$3,471,650,900	\$73,462,200	\$422,480,400	\$5,555,800	
Apportionable Market Value	\$5,685,562,200	\$579,570,300	\$5,880,233,900	\$639,325,300	\$194,671,700	\$59,755,000	
Effective Tax Rate	3.11%	3.11%	3.11%	3.11%	0.00%	0.00%	
Forecasted Property Tax - Elec & Gas	\$176,820,984	\$18,024,636	\$182,875,274	\$19,883,017	\$6,054,290	\$1,858,381	
Rounded	\$176,880,000	\$18,000,000	\$182,880,000	\$19,920,000	\$6,000,000	\$1,920,000	
Locally Assessed	11,160,000	1,080,000	11,040,000	1,200,000	(120,000)	120,000	
Wind Production	3,720,000		6,000,000		2,280,000		
Total Property Tax	\$191,760,000	\$19,080,000	\$199,920,000	\$21,120,000	\$8,160,000	\$2,040,000	
Total MN Property Tax		210,840,000		221,040,000		10,200,000	
North Dakota & South Dakota Property Tax		\$11,562,000		\$12,162,000		\$600,000	
Total NSPM Forecasted Property Tax		\$222,402,000		\$233,202,000		\$10,800,000	

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Northern States Power Company
Total Company Property Taxes

	2021 Budget		2022 Budget		2021 vs. 2022		
	Electric	Gas	Electric	Gas	Electric	Gas	
System Unit Value Calculation							
Plant In Service, 12/31	21,839,438,317	1,760,473,890	22,580,962,405	1,865,790,665	741,524,088	105,316,775	
CWIP, 12/31	1,212,858,215	42,750,482	1,720,017,681	62,426,555	507,159,466	19,676,072	
Depreciation, 12/31	(8,871,194,221)	(736,130,706)	(9,648,715,395)	(778,571,615)	(777,521,174)	(42,440,909)	
Cost Indicator of Value	A	\$14,181,102,311	\$1,067,093,666	\$14,652,264,691	\$1,149,645,604	\$471,162,380	\$82,551,938
Income Indicator							
Year 1 NOI x 25%	157,391,420	12,372,590	172,222,750	12,963,000	14,831,330	590,410	
Year 2 NOI x 35%	241,111,850	18,148,200	269,379,600	20,275,850	28,267,750	2,127,650	
Year 3 NOI x 40%	307,862,400	23,172,400	331,307,600	24,937,200	23,445,200	1,764,800	
NOI to Capitalize	\$706,365,670	\$53,693,190	\$772,909,950	\$58,176,050	\$66,544,280	\$4,482,860	
Capitalization Rate	7.20%	7.37%	7.20%	7.37%	0.00%	0.00%	
Income Indicator of Value	B	\$9,810,634,306	\$728,537,174	\$10,734,860,417	\$789,362,958	\$924,226,111	\$60,825,784
Apply Weightings							
	17.5% / 82.5%	17.5% / 82.5%	17.5% / 82.5%	17.5% / 82.5%			
Cost Indicator	\$2,481,692,900	\$186,741,400	\$2,564,146,300	\$201,188,000	\$82,453,400	\$14,446,600	
Income Indicator	\$8,093,773,300	\$601,043,200	\$8,856,259,800	\$651,224,400	\$762,486,500	\$50,181,200	
Total System Unit Value	C	\$10,575,466,200	\$787,784,600	\$11,420,406,100	\$852,412,400	\$844,939,900	\$64,627,800
Allocation of System Value							
MN Plant in Service	20,384,599,351	1,646,494,663	21,309,446,506	1,757,937,081	924,847,155	111,442,418	
System Plant in Service	23,052,296,532	1,803,224,372	24,300,980,086	1,928,217,219	1,248,683,554	124,992,847	
Plant Ratio x 90%-Elec / x 75%-Gas	79.59%	68.48%	78.92%	68.38%	-0.67%	-0.10%	
MN Gross Revenue	3,972,407,981	515,183,890	3,972,407,981	515,183,890	0	0	
System Gross Revenue	4,495,459,910	585,546,154	4,495,459,910	585,546,154	0	0	
Revenue Ratio x 10%-Elec / x 25%-Gas	8.84%	22.00%	8.84%	22.00%	0.00%	0.00%	
MN Allocated Value Percentage	88.43%	90.48%	87.76%	90.38%	-0.67%	-0.10%	
MN Allocated Value	D	\$9,351,884,800	\$712,787,500	\$10,022,548,400	\$770,410,300	\$670,663,600	\$57,622,800
Depreciable Excludables - Other	3,870,424,758	89,807,065	3,881,040,624	96,571,115	10,615,867	6,764,050	
Land	204,030,610	3,334,390	204,030,610	3,334,390	0	0	
CWIP	312,900,052	6,360,320	319,396,667	9,052,471	6,496,615	2,692,151	
Other - Held for Future Use	0	0	0	0	0	0	
Subtotal	4,387,355,419	99,501,776	4,404,467,901	108,957,976	17,112,482	9,456,200	
Ratio - System Unit Value / Cost Indicator	74.57%	73.83%	77.94%	74.15%	3.37%	0.32%	
Deductions to MN Allocated Value	E	\$3,271,650,900	\$73,462,200	\$3,432,842,300	\$80,792,300	\$161,191,400	\$7,330,100
Sliding Scale Market Value Exclusion	200,000,000	0	200,000,000	0	0	0	
Deduct/Excl to MN Allocated Value	\$3,471,650,900	\$73,462,200	\$3,632,842,300	\$80,792,300	\$161,191,400	\$7,330,100	
Apportionable Market Value	\$5,880,233,900	\$639,325,300	\$6,389,706,100	\$689,618,000	\$509,472,200	\$50,292,700	
Effective Tax Rate	3.11%	3.11%	3.11%	3.11%	0.00%	0.00%	
Forecasted Property Tax - Elec & Gas	\$182,875,274	\$19,883,017	\$198,719,860	\$21,447,120	\$15,844,585	\$1,564,103	
Rounded	\$182,880,000	\$19,920,000	\$198,720,000	\$21,480,000	\$15,840,000	\$1,560,000	
Locally Assessed	11,040,000	1,200,000	11,040,000	1,200,000	0	0	
Wind Production	6,000,000		6,000,000		0		
Total Property Tax	\$199,920,000	\$21,120,000	\$215,760,000	\$22,680,000	\$15,840,000	\$1,560,000	
Total MN Property Tax		221,040,000		238,440,000		17,400,000	
North Dakota & South Dakota Property Tax		\$12,162,000		\$13,542,000		\$1,380,000	
Total NSPM Forecasted Property Tax		\$233,202,000		\$251,982,000		\$18,780,000	

Support for the Calculation of Minnesota Apportionable Market Value

- 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.

Property Tax Expense									
(\$ millions)									
	A	B	C	A + B + C	D	E	F	G	E - F + G
Year	Minnesota	North Dakota	South Dakota	Total NSPM	NSPM Electric	Minnesota Electric Jurisdiction	Included in Base Rates	Recovered in Riders	True-up
2011	\$135	\$3	\$3	\$141	\$124	\$101	\$100	\$0	N/A
2012	\$162	\$3	\$3	\$168	\$152	\$125	\$101	\$1	N/A
2013	\$166	\$3	\$3	\$172	\$153	\$123	\$138	\$1	N/A
2014	\$180	\$3	\$3	\$186	\$167	\$134	\$133	\$1	N/A
2015	\$193	\$3	\$4	\$200	\$178	\$141	\$137	\$1	N/A
2016	\$200	\$5	\$4	\$209	\$194	\$153	\$137	\$11	N/A
2017	\$209	\$5	\$4	\$218	\$199	\$157	\$152	\$12	(\$7)
2018	\$204	\$6	\$4	\$214	\$198	\$156	\$152	\$13	(\$9)
2019E Initial Filing	\$206	\$7	\$4	\$217	\$199	\$156	\$152	\$15	(\$11)
2020E Initial Filing	\$211	\$7	\$5	\$223	\$202	\$158	\$157	\$1	\$0
2021E Initial Filing	\$221	\$7	\$5	\$233	\$211	\$165	\$162	\$3	\$0
2022E Initial Filing	\$238	\$8	\$6	\$252	\$228	\$179	\$174	\$5	\$0

* Property tax true-up started with the prior rate case for 2017-2019, 2016 was included with the rate case settlement