

## Electric Utility Property Taxation

### *Types of electric utilities in Minnesota*

There are four types of electric utilities in Minnesota: each is briefly discussed below. In general, all are subject to property taxation, with the exceptions of municipal utilities (who often make in lieu payments), most property owned by distribution co-ops, and the personal property of electric generation facilities.

### *Investor-owned (IOUs)*

**Investor-owned (IOUs)** are private, for-profit corporations whose rates are regulated by the Minnesota Public Utilities Commission (PUC). There are five IOUs that serve Minnesota. They generate, transmit, and distribute their own electricity to their retail customers.

### *Rural electric association (co-ops)*

**Rural electric associations (co-ops)** are nonprofit organizations whose rates are overseen by a board composed of co-op members. The two basic types are:

- **Distribution cooperatives** provide distribution electric service to Minnesota consumers. There are 45 distribution co-ops. The distribution co-ops pay a fee of 10 cents per customer in lieu of the property tax on their distribution lines located outside of incorporated areas. Substations and any property within incorporated areas are subject to property tax.
- **Generation and transmission cooperatives** generate and transmit electricity to distribution co-ops. There are six generation and transmission cooperatives that serve Minnesota distribution co-ops.

### *Municipal utilities (Munis)*

**Municipal utilities (Munis)** are public, nonprofit utilities overseen by local public utilities commissions or city councils. As with co-ops, there are two kinds of municipal utilities.

- **Distribution Munis** provide distribution electric services to retail customers. There are 126 distribution Munis in Minnesota.
- **Municipal power agencies (MPAs)** provide distribution Munis with generation and transmission services. There are six MPAs.

Both distribution Munis and MPAs are generally exempt from property tax, but an MPA pays in lieu payments to each taxing authority within whose taxing jurisdiction its property is situated.

### *Independent power producers (IPPs)*

**Independent power producers (IPPs)** are nonutility power producers that generate electricity solely for sale at wholesale (e.g., NRG). IPPs are generally private corporations.

***New generation facilities personal property tax exempt***

In addition to the real property (lands and buildings) owned by a utility, a utility's attached machinery and other personal property is taxable (i.e., transformers, turbines, etc.) in Minnesota. However, since 1994, the legislature has passed 16 laws exempting new electric generation facilities from personal property taxation. All facilities built in Minnesota since that date have had their attached machinery and other personal property exempted from property tax.

***What is the market value and taxes of the utilities?***

<b>Statewide Utility Market Value and Property Taxes by Type of Property Taxes Payable in 2002</b> (all figures in millions)				
Type of Property	Market Value Amount	Market Value % of Total	Net Tax Amount	Net Tax % of Total
Land and buildings	\$645	10.0%	\$24.2	10.9%
Electric generation machinery	1,546	24.1	41.5	18.7
Other machinery	1,126	17.5	40.7	18.4
Transmission lines	1,372	21.4	52.1	23.6
Distribution lines	172	2.7	6.7	3.0
Pipelines	1,558	24.3	56.0	25.3
<b>Total</b>	<b>\$6,419</b>	<b>100.0%</b>	<b>\$221.2</b>	<b>100.0%</b>

House Research Department

***Wind production tax***

The 2002 Legislature replaced the property tax on wind energy conversion systems installed after January 1, 1991, with a tax on the production of electricity from these facilities. Rates of tax are based on the size of the system.

- A large-scale system (nameplate capacity of more than 12 megawatts) will pay 0.12 cents per kilowatt-hour.
- A medium-scale system (nameplate capacity between two and 12 megawatts) will pay 0.036 cents per kilowatt-hour.
- A small-scale system (nameplate capacity of two megawatts or less) will pay 0.012 cents per kilowatt-hour.
- Conversion systems (nameplate capacity of 0.25 megawatts or less) and small-scale systems owned by a political subdivision are exempt from tax.

The revenues are distributed to the local governments in the same manner as property taxes. The new tax is effective beginning in 2004.

**For more information:** Contact legislative analysts Karen Baker, 651-296-8959 or Mike Bull at 651-296-8961. Also see the House Research publication *Primer on Minnesota's Property Taxation of Electric Utilities*, October 2002.

The Research Department of the Minnesota House of Representatives is a nonpartisan office providing legislative, legal, and information services to the entire House.