

**CALIFORNIA STATE BOARD OF EQUALIZATION SUMMARY DECISION UNDER
REVENUE AND TAXATION CODE SECTION 40**

In the Matter of the Petition for
Reassessment of the 2025 Unitary Value for:

PIO PICO ENERGY CENTER, LLC (1164)

Petitioner

Appeal No.: SAU 25-015
Nonappearance hearing date:
November 19, 2025¹

Representing the Parties:

For the Petitioners: Peter Michaels, Attorney

Antreas E. Ghazarossian, Authorized Representative
Cost Containment Advisors, Inc.

For the Respondent: Jason Fricano, Attorney III
Attorney for State-Assessed Properties Division

Michelle Cruz
Principal Property Tax Appraiser
State-Assessed Properties Division

Appeals Attorney: Sarah Wilkman, Attorney IV

VALUES AT ISSUE

	<u>Value</u>	<u>Penalty</u>	<u>Total</u>
2025 Board-Adopted Unitary Value	\$341,700,000	\$0	\$341,700,000
Petitioner's Requested Unitary Value	\$193,200,000	\$0	\$193,200,000
Respondent's Appeal Recommendation	\$341,700,000	\$0	\$341,700,000
Board Determined Value	\$341,700,000	\$0	\$341,700,000

¹ At the nonappearance hearing, the Board denied the petition by a unanimous vote of the Members present, with Chairman Gaines, Vice-Chair Lieber, Member Schaefer, Member Vazquez, and Controller Cohen voting aye.

Factual Background

Pio Pico Energy Center, LLC (Pio Pico or Petitioner) is a 300-Megawatt (MW) simple-cycle (or peaker²) electric generation facility located on a ten-acre site in San Diego County, California. The site consists of three General Electric LMS 100 combustion turbines. After project certification by the California Electric Commission in 2012, the facility began operations in 2016.³ Petitioner has a 25-year Power Purchase Tolling Agreement (PPTA) with San Diego Gas & Electric (SDG&E), which commenced on June 1, 2017.

The 2025 Board-adopted unitary value of \$341,700,000 was based on 50 percent reliance on the Capitalized Earnings Ability (CEA or Income Approach) and 50 percent reliance on the Replacement Cost Less Depreciation (ReplCLD or Cost Approach) value indicators.

On appeal, Pio Pico is requesting a reduction of its Board-adopted unitary value, asserting that the Cost approach, specifically the Replacement Cost New (RCN) per megawatt, and the Income Approach are overstated. SAPD maintains its valuation is appropriate and was completed in accordance with relevant legal and appraisal authority.

Legal Issue 1: Whether Petitioner has shown that SAPD erred in the development of the Replacement Cost Less Depreciation (ReplCLD) value indicator.

Findings of Fact and Related Contentions

Petitioner analyzed publicly available information on similar electric power generation facilities assessed by the Board and has attempted to estimate the average Replacement Cost New (RCN) per Megawatt (MW) of other similar facilities; based on this analysis, Petitioner is asserting that the SAPD calculated RCN per MW (\$1,420,000) not only exceeds the average adjusted assessed value of similar assesses but is “grossly inflated”. Specifically, Petitioner asserts that its RCN per MW should be reduced to \$801,760, consistent with its estimated average RCN.⁴, resulting in a ReplCLD of \$194,827,584 instead. Petitioner further asserts that because it is not privy to proprietary and confidential business trade secret information, it can only point to discrepancies based on publicly available information.

² A peaker facility generally only operates during the hours of highest daily, weekly, or seasonal demand.

³ See <https://www.energy.ca.gov/powerplant/simple-cycle/pio-pico-energy-center> <accessed October 13, 2025>

⁴ Petitioner took the RCN per MW average of “similarly situated” assesses with similar turbines, backing into an “average” RCN \$ per MW.

1 SAPD maintains that the ReplCLD indicator was properly calculated in accordance with
2 Property Tax Rule⁵ 6 and sound appraisal practice, while Petitioner’s cost analysis is fundamentally
3 flawed. Specifically, Petitioner’s cost approach begins with each comparable plant’s Board-adopted
4 value (BAV) and divides by a percent-good factor to impute a cost figure, ignoring that BAV often
5 reflects a reconciliation of multiple approaches (cost, income, etc.) and failing to account for critical
6 differences in age, size, contract terms, and remaining life amongst the purportedly comparable
7 facilities. In fact, Petitioner’s actual construction costs were substantially higher than Petitioner’s
8 calculated \$801k/MW figure, underscoring the unreasonableness of Petitioner’s request. Accordingly,
9 Petitioner’s approach fails to follow Property Tax Rule 6 and instead relies upon averaging other
10 properties in the same industry, while failing to account for degrees of similarity or difference between
11 Petitioner’s property and those comparables. In contrast, SAPD’s cost approach considers market-
12 derived indicators from industry publications, relevant cost indices, and actual project costs to develop
13 Petitioner’s RCN. As SAPD’s ReplCLD indicator was based on current cost evidence specific to
14 California power plants, adjusted for Petitioner’s particular attributes, and is compliant with Rule 6,
15 Respondent maintains Petitioner has not demonstrated any error or illegality in SAPD’s calculation.

16 At the October 13, 2025 appeals conference, Petitioner and Respondent renewed their
17 contentions. Petitioner acknowledged it could not receive the confidential information of other
18 assesseses. Without divulging confidential information, SAPD explained its general approach to
19 valuation for this industry, noting there may be any number of adjustments, which would not be able to
20 be described in publicly available information. Further, SAPD discussed that Petitioner’s methodology
21 was not reliable for a variety of reasons, including site specific adjustments or differing reliance on the
22 valuation approaches. Petitioner generally acknowledged SAPD’s critique but reasserted that they
23 could only access publicly available information.

24 **Applicable Law and Appraisal Principles**

25 **Burden of Proof**

26 Assessing officers are presumed to have properly performed their duties. (Evid. Code, § 664.)
27 Therefore, Petitioner has the burden of showing that the assessment is incorrect or illegal. (*ITT World*
28

⁵ All subsequent references to “Rules” are to the Property Tax Rules promulgated under title 18 of the California Code of Regulations.

1 *Communications v. Santa Clara* (1980) 101 Cal.App.3d 246; see also Cal. Code Regs., tit. 18, § 5541,
2 subd. (a).)

3 **ReplCLD Value Indicator—Cost Approach to Value**

4 Property Tax Rule 6, subdivision (a), provides, in part: “The reproduction or replacement cost
5 approach to value . . . is preferred when neither reliable sales data . . . nor reliable income data are
6 available . . .” In general, the ReplCLD valuation indicator methodology is a two-step process: 1)
7 Replacement Cost New (ReplCN) is calculated by applying an index factor to the historical
8 acquisition cost of the property, segregated by year of acquisition; and 2) the ReplCN is adjusted for
9 depreciation by the application of a percent good factor to the ReplCN. (Property Tax Rule 6, subd.
10 (d); Cal. Bd. of Equaliz., [Unitary Valuation Methods](#), (2003), p. 23.) Step two includes the ReplCN
11 being “reduced by the amount that such cost is estimated to exceed the current value of the
12 reproducible property by reason of physical deterioration, misplacement, over- or under-improvement,
13 and other forms of depreciation or obsolescence.” (Property Tax Rule 6, subd. (e); Cal. Bd. of
14 Equaliz., [Unitary Valuation Methods](#), (2003), pp. 23-24.)

15 **Depreciation and the Cost Approach**

16 In general, the cost approach recognizes three types of depreciation: physical deterioration,
17 functional obsolescence, and external, or economic, obsolescence, through the application of the
18 Board’s replacement cost new trend factors and “percent” good factors. Obsolescence may occur when
19 property is outmoded (functional obsolescence) or when some event has substantially diminished the
20 future earning power of the property (economic obsolescence). (See Assessors’ Handbook section 501,
21 [Basic Appraisal](#) (January 2002), pp. 80-83.) Functional obsolescence is the loss of value in a property
22 caused by the property’s loss of capacity to perform the function for which it was intended. (*Id.* at p.
23 81.) Economic obsolescence is the diminished utility of a property due to adverse factors external to
24 the property being appraised and is incurable by the property owner. (*Id.* at p. 82.) The existence of any
25 additional or extraordinary obsolescence must be supported with verifiable documentation and
26 evidence, consistent with Board Guidelines. (See Property Tax Rule 6, subds. (d) & (e); Assessors’
27 Handbook section 502, [Advanced Appraisal](#) (Reprinted January 2015) (AH 502), pp. 20-21; [Unitary](#)
28 [Valuation Methods](#), (2003), p. 30; and Cal. Bd. of Equaliz., [Guidelines for Substantiating Additional](#)
[Obsolescence](#), at p. 1.)

Reconciliation of Value Indicators

Property Tax Rule 3 requires that, in estimating value, the assessor shall consider one or more of the approaches to value “as may be appropriate for the property being appraised,” which includes the comparative sales approach, the replacement or reproduction cost approach (e.g., ReplCLD valuation methodology), or the income approach (CEA valuation methodology). The appropriateness of an approach is often related to the type of property being appraised and the available data. (Assessors’ Handbook section 502, *Advanced Appraisal* (December 1998) (AH 502), p. 109.) In addition, the validity of a value indicator will depend upon the accuracy of data and adjustments made to the approach. That is, the accuracy of a value indicator depends on the amount of available comparable data, the number and type of adjustments, and the dollar amount of adjustments. Finally, if a large amount of comparable data is available for a given approach, the appraiser may have more confidence in that approach. For example, if income, expense, and capitalization rate data can be obtained from many properties comparable to the subject, the appraiser may attribute significant accuracy to the income approach. The greatest reliance should be placed on that approach or combination of approaches that best measures the type of benefits the subject property yields. The final value estimate reflects the relative weight that the appraiser assigned, either implicitly or explicitly, to each approach. (AH 502, p. 112.)

Analysis and Decision

Respondent is presumed to have correctly determined the value of the property at issue, and Petitioner bears the burden of proving otherwise. Here, Petitioner has not submitted any evidence or argument to show error in Respondent’s calculation of the cost approach and instead submits an alternative calculation of value based on a methodology that is not compliant with Property Tax Rule 6. Specifically, Rule 6 outlines the methodology for the ReplCLD approach, beginning with the specific property being appraised, either adjusting the property’s original cost by applying current prices to the property’s labor and material components; that cost is thereafter adjusted to account for depreciation, obsolescence, over- or underimprovement, etc. (Rule 6 (b) and (d).) As Petitioner’s submitted cost approach does not follow Rule 6, Petitioner’s calculations cannot be relied upon as a basis for reducing the Board-adopted unitary value. Further, SAPD cannot share the confidential

1 information of other assesses with Petitioner, as Petitioner acknowledges. Accordingly, Petitioner
2 has provided no evidence or argument that shows error or illegality in Respondent’s cost approach.
3 Therefore, the Board finds that the Petitioner has not met its burden of proof; further, we find no
4 adjustment is appropriate based on the evidence and argument submitted.

5
6 **Legal Issue 2: Whether Petitioner has shown that SAPD erred in the development of Capitalized**
7 **Earnings Approach (CEA or Income Approach) value indicator.**

8 **Findings of Fact and Related Contentions**

9 Petitioner asserts its income approach value of approximately \$191,590,000 is a better
10 representation of its value, which is based on “market-based” revenues and operating expenses over a
11 20-year forecast period, its cashflow projection are derived using S&P Capital IQ forecast data and
12 discounted at a rate of 13%. Petitioner’s calculations assume operations through 2042.

13 SAPD maintains that the income approach utilized in the Board-adopted valuation was
14 calculated in accordance with Rule 8 and relevant Board guidance, relying on Petitioner’s own
15 reported forecast within its annual property statement. Specifically, SAPD’s income approach uses a
16 discounted cash flow (DCF) model that incorporates cash flow projection spanning the entire expected
17 economic life of the plant, consistent with its Power Purchase Tolling Agreement, discounting each
18 year’s net operating income (before taxes) to present value and includes any appropriate terminal or
19 residual value (such as a salvage value for land at end of life) in the final year, without deducting
20 income taxes nor property taxes, in accordance with Rule 8(c). This net income reflects operating
21 revenues minus operating expenses, and to convert this cash flow to a value, SAPD applied a discount
22 rate of approximately 15%, including the base rate from the Board’s 2025 Capitalization Rate Study
23 and approximately 2% representing the Rule 8 (f) increments for income and property tax.

24 SAPD asserts that Petitioner’s income approach methodology deviates from Rule 8.
25 Specifically, SAPD points out that Petitioner’s valuation begins with after tax net cash flow, using
26 figures substantially lower than the cashflows Petitioner disclosed on its Schedule H, and imputes a tax
27 using an undisclosed calculation based on federal income tax depreciation. Petitioner also uses a 13
28 percent capitalization rate without explanation or support, citing to the Capitalization Rate Study

1 generally; however, SAPD asserts the reference does not comport to the rate SAPD determined for
2 Petitioner in its Capitalization Rate Study. SAPD also points out a number of unexplained or
3 unsubstantiated assumptions in Petitioner’s submitted income calculation. While Petitioner claims the
4 income approach includes “market-based” revenue and expense projections sourced from S&P Capital
5 IQ, SAPD contends there is no basis for such data being utilized over Petitioner’s actual data.
6 Similarly, SAPD points out Petitioner’s selected capitalization rate is also erroneous as it excludes a
7 tax load component or is otherwise unexplained how it was determined. Further, Petitioner’s DCF also
8 uses a different remaining expected life (REL) for income forecast data, utilizing 2044 instead of 2045.
9 Similarly, it is unclear why 2042 instead of 2045 is utilized for Petitioner’s submitted depreciation-
10 based tax calculation. As Petitioner fails to provide explanation or support for its own inputs in its
11 methodology, Respondent asserts Petitioner’s income approach is both unreliable and not compliant
12 with Rule 8.

13 At the October 13, 2025 appeals conference, Petitioner and Respondent renewed their
14 contentions generally. Petitioner did not address the issues raised by SAPD with respect to the income
15 approach and instead focused the discussion on issue 1.

16 Applicable Law and Appraisal Principles

17 Burden of Proof

18 Assessing officers are presumed to have properly performed their duties. (Evid. Code, § 664.)
19 Therefore, petitioner has the burden of showing that the assessment is incorrect or illegal. (*ITT World*
20 *Communications v. Santa Clara* (1980) 101 Cal.App.3d 246; see also Cal. Code Regs., tit. 18, § 5541,
21 subd. (a).)

22 Value Standard

23 Property Tax Rule 2, subdivision (a) states that “in addition to the meaning ascribed to them in
24 the Revenue and Taxation Code, the words “full value,” “full cash value,” “cash value,” “actual
25 value,” and “fair market value” mean the price at which a property, if exposed for sale in the open
26 market with a reasonable time for the seller to find a purchaser, would transfer for cash or its
27 equivalent under prevailing market conditions between parties who have knowledge of the uses to
28 which the property may be put, both seeking to maximize their gains and neither being a position to
take advantage of the exigencies of the other.”

Income Approach to Value

Property Tax Rule 8, subdivision (a), states that “the income approach is used in conjunction with other approaches when the property under appraisal is typically purchased in anticipation of a money income and either has an established income stream or can be attributed a real or hypothetical income stream by comparison with other properties.” Subdivision (b) describes the income approach to value as the valuation method whereby, “an appraiser values an income property by computing the present worth of a future income stream. This present worth depends upon the size, shape, and duration of the estimated stream and upon the capitalization rate at which future income is discounted to its present worth.” Subdivision (c) provides that “the amount to be capitalized is the net return which a reasonably well-informed owner and reasonably well informed buyers may anticipate on the valuation date that the taxable property existing on that date will yield under prudent management and subject to legally enforceable restrictions as such persons may foresee as of that date.” Subdivision (f) states, “When the appraised value is to be used to arrive at an assessed value, the capitalization rate is to include a property tax component, where applicable, equal to the estimated future tax rate for the area times the assessment ratio.”

Analysis and Decision

Respondent is presumed to have correctly determined the value of the property at issue, and Petitioner bears the burden of proving otherwise. Here, Petitioner has not submitted any evidence or argument to show error in Respondent’s calculation of the income approach and instead submits an alternative income approach calculation. However, Petitioner’s income approach methodology is not compliant with Property Tax Rule 8. Specifically, Petitioner’s calculation utilizes S&P Capital IQ income projection data, rather than its own data without explanation, and an unexplained capitalization rate, purportedly based on the Board’s 2025 Capitalization Rate Study. But, as SAPD points out, it is unclear whether the capitalization rate utilized in Petitioner’s calculation was appropriately calculated to include the tax load, as Petitioner instead begins with after tax net cash flow (using figures that differ from what was reported on their Property Statement) and then imputes a tax, based on an unspecified calculation that purportedly relies upon federal income tax depreciation. (Property Tax Rule 8 (c) and (f).) Because Petitioner’s submitted calculations are not compliant with Rule 8,

1 Petitioner’s calculations cannot be relied upon as a basis for reducing the Board-adopted unitary value.
2 Accordingly, Petitioner has provided no data that shows error or illegality in Respondent’s income
3 approach. Therefore, we find that the Petitioner has not met its burden of proving that Respondent’s
4 income approach was flawed; further, we find that no adjustment is appropriate based on the evidence
5 and argument submitted.

6 **DECISION**

7 Accordingly, the 2025 petition for reassessment is denied as to all issues, thereby affirming the
8 2025 Board-adopted unitary value.*

9 Ted Gaines _____, Chairman

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11 Sally Lieber _____, Vice-Chair

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13 Antonio Vazquez _____, Member

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15 Mike Schaefer _____, Member

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17 Malia M. Cohen _____, Controller

18 *This decision was rendered in Sacramento, California on November 19, 2025. The summary
19 decision document memorializing this decision was approved on February 25, 2026, in Sacramento,
20 California.

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22 SAU25-020PioPico.Sec40.pdf
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